KAISER ALUMINUM CORP
Form 10-Q
November 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

Commission file number 0-52105

KAISER ALUMINUM CORPORATION
(Exact name of registrant as specified in its charter)

Delaware *(State of Incorporation)*	**94-3030279** *(I.R.S. Employer Identification No.)*
27422 PORTOLA PARKWAY, SUITE 350, FOOTHILL RANCH, CALIFORNIA *(Address of principal executive offices)*	**92610-2831** *(Zip Code)*

Registrant s telephone number, including area code:
(949) 614-1740

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes þ No o

In accordance with the registrant s plan of reorganization, all of the pre-emergence equity interests of the Company were cancelled without consideration upon the registrant s emergence from the Chapter 11 on July 6, 2006. As of October 31, 2006, there were 20,525,660 newly issued shares of the Common Stock of the registrant outstanding.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions of dollars)

	September 30, 2006	Predecessor December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 52.7	$ 49.5
Receivables:		
Trade, less allowance for doubtful receivables of $2.0 and $2.9	109.3	94.6
Other	6.9	6.9
Inventories	181.3	115.3
Prepaid expenses and other current assets	27.7	21.0
Total current assets	377.9	287.3
Investments in and advances to unconsolidated affiliate	13.3	12.6
Property, plant, and equipment net	148.4	223.4
Personal injury-related insurance recoveries receivable		965.5
Intangible assets including goodwill of $11.4 at December 31, 2005	9.6	11.4
Net assets in respect of VEBAs	32.9	
Other assets	39.0	38.7
Total	$ 621.1	$ 1,538.9
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities not subject to compromise		
Current liabilities:		
Accounts payable	$ 61.7	$ 51.4
Accrued interest	.1	1.0
Accrued salaries, wages, and related expenses	33.6	42.0
Other accrued liabilities	50.9	55.2
Payable to affiliate	19.5	14.8
Long-term debt current portion		1.1
Discontinued operations current liabilities		2.1
Total current liabilities	165.8	167.6
Long-term liabilities	59.4	42.0
Long-term debt	50.0	1.2

Discontinued operations liabilities (liabilities subject to compromise)				68.5
		275.2		279.3
Liabilities subject to compromise				4,400.1
Minority interests				.7
Commitments and contingencies				
Stockholders equity:				
Common stock, par value $.01, authorized 45,000,000 shares; issued and outstanding shares 20,525,660 at September 30, 2006		.2		.8
Additional capital		482.5		538.0
Retained earnings (deficit)		14.3		(3,671.2)
Common stock owned by Union VEBA subject to transfer restrictions, at reorganization value, 6,291,945 shares at September 30, 2006		(151.1)		
Accumulated other comprehensive income (loss)				(8.8)
Total stockholders equity		345.9		(3,141.2)
Total	$	621.1	$	1,538.9

The accompanying notes to consolidated financial statements are an integral part of these statements.

1

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)
(In millions of dollars except share and per share amounts)

	Three Months Ended September 30, 2006		
	Period from July 1, 2006 through September 30, 2006	Predecessor July 1, 2006	Predecessor Three Months Ended September 30, 2005 (Restated)
Net sales	$ 331.4	$	$ 271.6
Costs and expenses:			
Cost of products sold	291.8		233.5
Depreciation and amortization	2.8		4.9
Selling, administrative, research and development, and general	18.0		13.2
Other operating charges (credits), net	(2.9)		.3
Total costs and expenses	309.7		251.9
Operating income	21.7		19.7
Other income (expense):			
Interest expense (excluding unrecorded contractual interest expense of $23.7 for the three months ended September 30, 2005)			(1.0)
Reorganization items		3,108.1	(8.2)
Other net	.9		(.5)
Income before income taxes and discontinued operations	22.6	3,108.1	10.0
Provision for income taxes	(8.3)		(1.4)
Income from continuing operations	14.3	3,108.1	8.6
Income from discontinued operations, net of income taxes			8.0
Net income	$ 14.3	$ 3,108.1	$ 16.6
Earnings per share Basic:			
Income from continuing operations	$ .72	$ 39.02	$ .11
Income from discontinued operations	$	$	$ .10
Net income per share	$ .72	$ 39.02	$ .21

Earnings per share Diluted (same as basic for Predecessor):				
Income from continuing operations	$	.72		
Income from discontinued operations	$			
Net income per share	$	.72		
Weighted average number of common shares outstanding (000):				
Basic		20,002	79,672	79,672
Diluted		20,029	79,672	79,672

The accompanying notes to consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)
(In millions of dollars except share and per share amounts)

	Nine Months Ended September 30, 2006		
	Period from July 1, 2006 through September 30, 2006	Predecessor Period from January 1, 2006 to July 1, 2006	Predecessor Nine Months Ended September 30, 2005 (Restated)
Net sales	$ 331.4	$ 689.8	$ 815.9
Costs and expenses:			
Cost of products sold	291.8	596.4	710.9
Depreciation and amortization	2.8	9.8	15.0
Selling, administrative, research and development, and general	18.0	30.3	38.0
Other operating charges (credits), net	(2.9)	.9	6.5
Total costs and expenses	309.7	637.4	770.4
Operating income	21.7	52.4	45.5
Other income (expense):			
Interest expense (excluding unrecorded contractual interest expense of $47.4 for the period from January 1, 2006 to July 1, 2006 and $71.2 for the nine months ended September 30, 2005)		(.8)	(4.2)
Reorganization items		3,093.1	(25.3)
Other net	.9	1.2	(1.5)
Income before income taxes and discontinued operations	22.6	3,145.9	14.5
Provision for income taxes	(8.3)	(6.2)	(6.0)
Income from continuing operations	14.3	3,139.7	8.5
Discontinued operations:			
Income from discontinued operations, net of income taxes		4.3	21.3
Gain from sale of commodity interests, net of income taxes of $8.5 in 2005			365.6
Income from discontinued operations		4.3	386.9
			(4.7)

Cumulative effect on years prior to 2005 of adopting accounting for conditional asset retirement obligations						
Net income per share	$	14.3	$	3,144.0	$	390.7
Earnings per share Basic:						
Income from continuing operations	$	.72	$	39.42	$	.11
Income from discontinued operations	$		$	.05	$	4.85
Loss from cumulative effect on years prior to 2005 of adopting accounting for conditional asset retirement obligations	$		$		$	(.06)
Net income per share	$	.72	$	39.47	$	4.90
Earnings per share Diluted (same as basic for Predecessor):						
Income from continuing operations	$	.72				
Income from discontinued operations	$					
Loss from cumulative effect on years prior to 2005 of adopting accounting for conditional asset retirement obligations	$					
Net income	$	.72				
Weighted average number of common shares outstanding (000):						
Basic		20,002		79,672		79,676
Diluted		20,029		79,672		79,676

The accompanying notes to consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In millions of dollars)

For the Nine Months Ended September 30, 2006

	Common Stock	Additional Capital	Retained Earnings (Deficit)	Common Stock Owned by Union VEBA Subject to Transfer Restrictions	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2005- Predecessor	$ .8	$ 538.0	$ (3,671.2)	$	$ (8.8)	$ (3,141.2)
Net income (same as Comprehensive income) Predecessor			35.9			35.9
BALANCE, June 30, 2006-Predecessor	.8	538.0	(3,635.3)		(8.8)	(3,105.3)
Cancellation of Predecessor common stock	(.8)	.8				
Issuance of Successor common stock (20,000,000 shares) to creditors	.2	480.2				480.4
Common stock owned by Union VEBA subject to transfer restrictions, at reorganization value, 6,291,945 shares				(151.1)		(151.1)
Plan and fresh start adjustments		(538.8)	3,635.3		8.8	3,105.3
BALANCE, July 1, 2006	.2	480.2		(151.1)		329.3
Net income (same as Comprehensive income)			14.3			14.3
Issuance of 4,273 shares of common stock to directors in lieu of annual retainer fees		.2				.2
Amortization of unearned equity compensation		2.1				2.1
BALANCE, September 30, 2006	$ .2	$ 482.5	$ 14.3	$ (151.1)	$	$ 345.9

For the Nine Months Ended September 30, 2005
(Restated)
(Predecessor)

	Common Stock	Additional Capital	Retained Earnings (Deficit)	Common Stock Owned by Union VEBA Subject to Transfer Restrictions	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2004	$ .8	$ 538.0	$ (2,917.5)	$	$ (5.5)	$ (2,384.2)
Net income			390.7			390.7
Unrealized net increase in value of derivative instruments arising during the period					(.2)	(.2)
Reclassification adjustment for net realized losses on derivative instruments included in net income					.2	.2
Comprehensive income (loss)						390.7
BALANCE, September 30, 2005	$ .8	$ 538.0	$ (2,526.8)	$	$ (5.5)	$ (1,993.5)

The accompanying notes to consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)
(In millions of dollars)

	Nine Months Ended September 30, 2006		
	Period from July 1, 2006 through September 30, 2006	Predecessor Period from January 1, 2006 to July 1, 2006	Predecessor Nine Months Ended September 30, 2005
Cash flows from operating activities:			
Net income	$ 14.3	$ 3,144.0	$ 390.7
Less net income from discontinued operations		4.3	386.9
Net income from continuing operations	14.3	3,139.7	3.8
Adjustments to reconcile net income (loss) from continuing operations to net cash provided (used) by operating activities:			
Depreciation and amortization (including deferred financing costs of $.1, $.9 and $3.5, respectively)	2.9	10.7	18.5
Non-cash equity compensation	2.3		
Gain on discharge of pre-petition obligations and fresh start adjustments		(3,113.1)	
Payments pursuant to plan of reorganization		(25.3)	
Loss from cumulative effect on years prior to 2005 of adopting accounting for conditional asset retirement obligations			4.7
Gain on sale of real estate		(1.6)	(.2)
Equity in (income) loss of unconsolidated affiliate, net of distributions	(2.1)	(10.1)	.7
Decrease (increase) in trade and other receivables	4.3	(18.3)	(2.1)
(Increase) decrease in inventories	(9.3)	(7.8)	4.5
Decrease (increase) in prepaid expenses and other current assets	6.0	(14.5)	7.1
Increase (decrease) in accounts payable and accrued interest	7.4	4.7	(10.2)
(Decrease) increase in other accrued liabilities	(8.7)	5.7	(11.8)
(Decrease) increase in payable to affiliate	(13.6)	18.2	(2.7)
Increase (decrease) in accrued and deferred income taxes	6.3	(.5)	.8
Net cash impact of changes in long-term assets and liabilities	(6.9)	(8.0)	(14.9)
Net cash provided by discontinued operations		8.5	13.4
Other			3.5
Net cash provided (used) by operating activities	2.9	(11.7)	15.1
Cash flows from investing activities:			

Capital expenditures, net of accounts payable of $1.6 in both the period from July 1, 2006 to September 30, 2006 and the period from January 1, 2006 to July 1, 2006	(11.6)	(28.1)	(20.4)
Net proceeds from sale of real estate		1.0	.9
Net cash provided by discontinued operations; primarily proceeds from sale of QAL in 2005			401.4
Net cash (used) provided by investing activities	(11.6)	(27.1)	381.9
Cash flows from financing activities:			
Borrowings under Term Loan Facility	50.0		
Borrowings under Revolving Credit Facility, net			
Financing costs	(.6)	(.2)	(3.6)
Repayment of debt			(1.6)
Decrease (increase) in restricted cash		1.5	(1.7)
Net cash used by discontinued operations; primarily increase in restricted cash			(402.2)
Net cash provided (used) by financing activities	49.4	1.3	(409.1)
Net increase (decrease) in cash and cash equivalents during the period	40.7	(37.5)	(12.1)
Cash and cash equivalents at beginning of period	12.0	49.5	55.4
Cash and cash equivalents at end of period	$ 52.7	$ 12.0	$ 43.3
Supplemental disclosure of cash flow information:			
Interest paid, net of capitalized interest of $.6, $1.0 and $.2	$	$	$ .7
Income taxes paid	$ .4	$ 1.2	$ 19.5
Less income taxes paid by discontinued operations			(16.9)
	$ .4	$ 1.2	$ 2.6

The accompanying notes to consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(In millions of dollars, except prices and per share amounts)
(Unaudited)

1. Emergence from Reorganization Proceedings

Summary. As more fully discussed in Note 13, during the past four years, Kaiser Aluminum Corporation (Kaiser , KAC or the Company), its wholly owned subsidiary, Kaiser Aluminum & Chemical Corporation (KACC), and 24 of KACC s subsidiaries operated under Chapter 11 of the United States Bankruptcy Code (the Code) under the supervision of the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court).

As also outlined in Note 13, Kaiser, KACC and their debtor subsidiaries which included all of the Company s core fabricated products facilities and a 49% interest in Anglesey Aluminium Limited (Anglesey), which owns a smelter in the United Kingdom, emerged from Chapter 11 on July 6, 2006 (hereinafter referred to as the Effective Date) pursuant to Kaiser s Second Amended Plan of Reorganization (the Plan). Four subsidiaries not related to the fabricated products operations were liquidated in December 2005. Pursuant to the Plan, all material pre-petition debt, pension and post-retirement medical obligations and asbestos and other tort liabilities, along with other pre-petition claims (which in total aggregated to approximately $4.4 billion in the June 30, 2006 consolidated financial statements) were addressed and resolved. Pursuant to the Plan, the equity interests of all of Kaiser s pre-emergence stockholders were cancelled without consideration. The equity of the newly emerged Kaiser was issued and delivered to a third-party disbursing agent for distribution to claimholders pursuant to the Plan.

Impacts on the Opening Balance Sheet After Emergence. As a result of the Company s emergence from Chapter 11, the Company applied fresh start accounting to its opening July 2006 consolidated financial statements as required by American Institute of Certified Professional Accountants (AICPA) Statement of Position 90-7 (SOP 90-7), *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code.* As such, the Company adjusted its stockholders equity to equal the reorganization value at the Effective Date. Items such as accumulated depreciation, accumulated deficit and accumulated other comprehensive income (loss) were reset to zero. The Company allocated the reorganization value to its individual assets and liabilities based on their estimated fair value. Items such as current liabilities, accounts receivable, and cash reflected values similar to those reported prior to emergence. Items such as inventory, property, plant and equipment, long-term assets and long-term liabilities were significantly adjusted from amounts previously reported. Because fresh start accounting was adopted at emergence and because of the significance of liabilities subject to compromise that were relieved upon emergence, comparisons between the historical financial statements and the financial statements from and after emergence are difficult to make.

The following balance sheet shows the impacts of the Plan and the adoption of fresh start accounting on the opening balance sheet of the new reporting entity.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Historical	Plan Adjustments(a)	Fresh Start Adjustments(b)	Adjusted Balance Sheet
ASSETS				
Current assets:				
Cash and cash equivalents	$ 37.3	$ (25.3)	$	$ 12.0
Receivables:				
Trade, less allowance for doubtful receivables	114.1		.7	114.8
Other	5.7			5.7
Inventories	123.1		48.9	172.0
Prepaid expenses and other current assets	34.0	(.3)		33.7
Total current assets	314.2	(25.6)	49.6	338.2
Investments in and advances to unconsolidated affiliate	22.7	(.3)	(11.3)	11.1
Property, plant, and equipment net	242.7	(4.1)	(98.9)	139.7
Personal injury-related insurance recoveries receivable	963.3	(963.3)		
Intangible assets	11.4	(11.7)	12.6	12.3
Net assets in respect of VEBAs		33.2(c)		33.2
Other assets	43.6	2.1	(.8)	44.9
Total	$ 1,597.9	$ (969.7)	$ (48.8)	$ 579.4
LIABILITIES AND STOCKHOLDERS EQUITY				
Liabilities not subject to compromise				
Current liabilities:				
Accounts payable	$ 56.1	$ (.5)	$ (1.8)	$ 53.8
Accrued interest	1.1	(1.1)		
Accrued salaries, wages, and related expenses	37.0	(4.1)	.7	33.6
Other accrued liabilities	61.0	(1.8)		59.2
Payable to affiliate	33.0			33.0
Long-term debt current portion	1.1	(1.1)		
Discontinued operations current liabilities	1.5			1.5
Total current liabilities	190.8	(8.6)	(1.1)	181.1
Long-term liabilities	49.0	17.5	2.5	69.0
Long-term debt	1.2	(1.2)		
Discontinued operations liabilities (liabilities subject to compromise)	73.5	(73.5)		
	314.5	(65.8)	1.4	250.1

Liabilities subject to compromise	4,388.0	(4,388.0)		
Minority interests	.7	(.7)		
Commitments and contingencies				
Stockholders equity:				
Common stock	.8	.2(d)	(.8)	.2
Additional capital	538.0	480.2(d)	(538.0)	480.2
Common stock owned by Union VEBA subject to transfer restrictions		(151.1)(c)		(151.1)
Accumulated deficit	(3,635.3)	3,155.5(e)	479.8(f)	
Accumulated other comprehensive income (loss)	(8.8)		8.8	
Total stockholders equity (deficit)	(3,105.3)	3,484.8	(50.2)	329.3
Total	$ 1,597.9	$ (969.7)	$ (48.8)	$ 579.4

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(a) Reflects impacts on the Effective Date of implementing the Plan, including the settlement of liabilities subject to compromise and related payments, distributions of cash and new shares of common stock and the cancellation of predecessor common stock (see Note 13). Includes the reclassification of approximately $21.0 from Liabilities subject to compromise to Long-term liabilities in respect of certain pension and benefit plans retained by the Company pending the outcome of the litigation with the Pension Benefit Guaranty Corporation (PBGC) as more fully discussed in Note 8.

(b) Reflects the adjustments to reflect fresh start accounting. These include the write up of Inventories (see Note 2) and Property, plant and equipment to their appraised values and the elimination of Accumulated deficit and Additional paid in capital. The fresh start adjustments for intangible assets and stockholders equity are based on a third party appraisal report.

In accordance with generally accepted accounting principles (GAAP), the reorganization value is allocated to individual assets and liabilities by first allocating value to current assets, current liabilities, monetary and similar long term items for which specific market values are determinable. The remainder is allocated to long term assets such as property, plant and equipment, equity investments, identified intangibles and unidentified intangibles (e.g. goodwill). To the extent that there is insufficient value to allocate to long term assets after first allocating to the current, monetary and similar items, such shortfall is first used to reduce unidentified intangibles to zero and then to proportionately reduce the amount allocated to property, plant and equipment, equity investments and identified intangibles based on the initial (pre-reorganization value allocation) assessed fair value. In allocating the reorganization value, the Company determined that the value of the long term assets exceeded the amount of reorganization value available to be allocated to such items by approximately $187.2. Such excess value was allocated to Property, plant and equipment, Investment in unconsolidated affiliate and Identified intangibles in the following amounts based on initial fair value assessments determined by a third party appraisal:

	Appraised Value Based on Third Party Appraisal	Allocation of Reorganization Value Shortfall	Opening Balance Sheet Amount at July 1, 2006
Property, plant and equipment	$ 299.8	$ (160.1)	$ 139.7
Investment in and advances to unconsolidated affiliate	24.0	(12.9)	11.1
Identified intangibles	26.5	(14.2)	12.3

(c) As more fully discussed in Note 7, after discussions with the Securities and Exchange Commission, the Company concluded that, while the Company s only obligations in respect of two voluntary employee beneficiary associations (the VEBAs) is an annual variable contribution obligation based primarily on earnings and capital spending, the Company should account for the VEBAs as defined benefit postretirement plans with a cap. Note 8 provides information regarding the opening balance sheet amounts in respect of the VEBAs and key assumptions used to derive such amounts.

(d) Reflects the issuance of new common stock to pre-petition creditors.

(e) Reflects gain extinguishment of obligations from implementation of the Plan.

(f) Reflects fresh start loss of $47.4 and elimination of retained deficit.

The Company s emergence from Chapter 11 and adoption of fresh start accounting resulted in a new reporting entity for accounting purposes. Although the Company emerged from Chapter 11 on July 6, 2006, the Company adopted fresh start accounting under the provisions of SOP 90-7 effective as of the beginning of business on July 1, 2006. As such, it was assumed that the emergence was completed instantaneously at the beginning of business on July 1, 2006 such that all operating activities during the three months ended September 30, 2006 are reported as

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

applying to the new reporting entity. The Company believes that this is a reasonable presentation as there were no material non-Plan-related transactions between July 1, 2006 and July 6, 2006.

The Predecessor Statement of Consolidated Cash Flows for the period January 1, 2006 to July 1, 2006 includes plan-related payments of $25.3 made between July 1, 2006 and July 6, 2006.

The accompanying financial statements include the financial statements of Kaiser both before and after emergence. Financial information related to the newly emerged Kaiser is generally referred to throughout this Report as Successor information. Information of Kaiser before emergence is generally referred to as Predecessor information. The financial information of the Successor entity is not comparable to that of the Predecessor given the impacts of the Plan, implementation of fresh start reporting and other factors.

The Notes to Interim Consolidated Financial Statements are grouped into two categories: (1) those primarily affecting the Successor entity (Notes 2 through 11) and (2)those primarily affecting the Predecessor entity (Notes 12 through 19).

SUCCESSOR

2. Summary of Significant Accounting Policies

This Report should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

This is the first public report under the Securities Exchange Act of 1934 reflecting Successor financial information and, as discussed in Note 1, reflects the terms of the Plan and certain related actions and the application of fresh start reporting. In accordance with GAAP, while the Predecessor financial information will continue to be presented, Predecessor and Successor financial statement information for 2006 is reported separately and not combined.

As stated in Note 1, due to the implementation of the Plan, the application of fresh start accounting and due to changes in accounting policies and procedures, the financial statements of the Successor are not comparable to those of the Predecessor. Additionally, results for interim periods are not necessarily indicative of anticipated results for the entire year.

Principles of Consolidation and Basis of Presentation. The consolidated financial statements include the statements of the Company and its majority owned subsidiaries.

In connection with the Plan, Kaiser also restructured and simplified its corporate structure. The result of the simplified corporate structure is summarized as follows:

- the Company directly owns 100% of the issued and outstanding shares of capital stock of Kaiser Aluminum Investments Company, a newly formed Delaware corporation (KAIC), which is intended to function as an intermediate holding company.

KAIC owns 49% of the ownership interests of Anglesey Aluminium Limited (Anglesey) and 100% of the ownership interests of each of:

Kaiser Aluminum Fabricated Products, LLC, a newly formed Delaware limited liability company (KAFP), which holds the assets and liabilities associated with the Company s fabricated products business unit (excluding those assets and liabilities associated with the London, Ontario facility);

Kaiser Aluminum Canada Limited, a newly formed Ontario corporation (KACL), which holds the assets and liabilities of the London, Ontario operations and certain former KACC Canadian subsidiaries that were largely inactive;

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Kaiser Aluminum & Chemical Corporation, LLC, a newly formed Delaware limited liability company (KACC, LLC), which, as a successor by merger, holds the remaining non-operating assets and liabilities of KACC not assumed by KAFP;

Kaiser Aluminium International, Inc., Trochus Insurance Co., Ltd., and Kaiser Bauxite Company

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, these financial statements do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include all adjustments, all of which are of normal recurring nature unless otherwise noted, necessary for a fair statement of the results for the interim periods presented.

The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties, with respect to such estimates and assumptions, are inherent in the preparation of the Company s consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of the Company s consolidated financial position and results of operation.

Investments in 50%-or-less-owned entities are accounted for primarily by the equity method. Intercompany balances and transactions are eliminated.

Recognition of Sales. Sales are recognized when title, ownership and risk of loss pass to the buyer and collectibility is reasonably assured. A provision for estimated sales returns from and allowances to customers is made in the same period as the related revenues are recognized, based on historical experience or the specific identification of an event necessitating a reserve.

Earnings per Share. Basic earnings per share is computed by dividing earnings by the weighted average number of common shares outstanding during the period. The shares owned by a VEBA for the benefit of certain union retirees, their surviving spouses and eligible dependents (the Union VEBA) that are subject to transfer restrictions, while being treated similar to treasury stock (i.e. as a reduction) in Stockholders equity, are included in the computation of basic shares outstanding as such shares were irrevocably issued and are subject to full dividend and voting rights.

Diluted earnings per share are computed by dividing earnings by the weighted average number of diluted common shares outstanding during the period. The weighted average number of diluted shares includes the dilutive effect of the non-vested stock granted during the period from the dates of grant (see Note 7).The impact of the non-vested shares on the number of dilutive common shares is calculated by reducing the total number of non-vested shares (521,387) by the theoretical number of shares that could be repurchased under the assumption that the hypothetical proceeds of such non-vested shares are the amount of unrecognized compensation expense together with any related income tax benefits (495,016). Based on the foregoing, a total 26,371 shares of common stock have been added to the diluted earnings per share computation.

Stock-Based Employee Compensation. The Company accounts for stock-based employee compensation plans at fair value. The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost of the award is recognized as an expense over the period that the employee provides service for the award. During the period from July 1, 2006 through September 30, 2006, $2.3 of compensation cost was recognized in connection with vested and non-vested stock issued to executive officers, other key employees and directors during the period (see Note 7). The Company has elected to amortize compensation expense for equity awards with grading vesting using the straight line method.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Income (Expense). Other income (expense), other than interest expense and reorganization items, included an adjustment of approximately $1.2 in the period from January 1, 2006 to July 1, 2006, to decrease the environmental liabilities for an amount that was no longer required because the related non-operating property had been sold. Other income (expense), other than interest expense and reorganization items, for the three and nine months ended September 30, 2005 included a loss of approximately $.7 from the sale of certain non-operating properties and an adjustment of approximately $.2 to increase the environmental liabilities.

Income Taxes. In accordance with SOP 90-7, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48) at emergence. In accordance with FIN 48, the Company uses a more likely than not threshold for recognition of tax attributes that are subject to uncertainties and measures any reserves in respect of such expected benefits based on their probability as prescribed by FIN 48. The Company does not consider this a change from the practice of the Predecessor. The adoption of FIN 48 did not have a material impact on the Company s financial statements.

Cash and Cash Equivalents. The Company considers only those short-term, highly liquid investments with original maturities of 90 days or less when purchased to be cash equivalents.

Inventories. Substantially all product inventories are stated at last-in, first-out (LIFO) cost, not in excess of market value. Replacement cost is not in excess of LIFO cost. Other inventories, principally operating supplies and repair and maintenance parts, are stated at the lower of average cost or market. Inventory costs consist of material, labor and manufacturing overhead, including depreciation. Abnormal costs, such as idle facility expenses, freight, handling costs and spoilage, are accounted for as current period charges.

Inventories consist of the following:

	September 30, 2006	Predecessor December 31, 2005
Fabricated products		
Finished products	$ 57.4	$ 34.7
Work in process	59.2	43.1
Raw materials	52.1	26.3
Operating supplies and repairs and maintenance parts	12.4	11.1
	181.1	115.2
Commodities Primary aluminum	.2	.1
	$ 181.3	$ 115.3

As stated above, the Company accounts for substantially all of its product inventories on a LIFO basis. All Predecessor LIFO layers were eliminated in fresh start accounting. The Company applies LIFO differently than the

Predecessor did in that it views each quarter on a standalone basis for computing LIFO; whereas the Predecessor recorded LIFO amounts with a view to the entire fiscal year which, with certain exceptions, tended to result in LIFO charges being recorded in the fourth quarter or the second half of the year. The Company recorded a non-cash LIFO benefit of approximately $3.3 at September 30, 2006 and a non-cash LIFO charge of approximately $21.7 at June 30, 2006. These amounts are primarily a result of changes in metal prices. There were no LIFO benefits or charges in the three or nine months ended September 30, 2005.

Pursuant to fresh start accounting, in the Company s opening July 2006 balance sheet, all inventory amounts were stated at fair market value. Raw materials and Operating supplies and repairs and maintenance parts were recorded at published market prices including any location premiums. Finished products and Work in progress (WIP) were recorded at selling price less cost to sell, cost to complete and a reasonable apportionment of the

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

profit margin associated with the selling and conversion efforts. As reported in Note 1, this resulted in increased inventories by approximately $48.9.

Given the recent strength in demand for many types of fabricated aluminum products and primary aluminum, the Company has a larger volume of raw materials, WIP and finished goods than is its historical average, and the price for such goods, given the application of fresh start accounting, is higher than long term historical averages. As such, with the inevitable ebb and flow of business cycles, non-cash LIFO charges will result when inventory levels drop and/or margins compress. Such adjustments could be material to results in future periods.

Depreciation. Depreciation is computed principally using the straight-line method at rates based on the estimated useful lives of the various classes of assets. The principal estimated useful lives, which were determined based on a third party appraisal, are as follows:

	Useful Life
Land improvements	3-7
Buildings	15-35
Machinery and equipment	2-22

As more fully discussed in Note 1, upon emergence from reorganization, the Company applied fresh start accounting to its consolidated financial statements as required by SOP 90-7. As a result, accumulated depreciation was reset to zero. The new lives assigned to the individual assets and the application of fresh start accounting (see Notes 1 and 4) will cause future depreciation to be different than historical depreciation of the Predecessor.

Deferred Financing Costs. Costs incurred to obtain debt financing are deferred and amortized over the estimated term of the related borrowing. Such amortization is included in Interest expense.

Intangible Assets. Pursuant to fresh start accounting, the Company allocated the reorganization value to its assets and liabilities, including intangible assets, based on a third party appraisal. The appraisal indicated that certain intangible assets existed. The values assigned as part of the allocation of the reorganization value, the balance at September 30, 2006, and useful lives assigned to each type of identified intangible asset is set forth below:

	September 30, 2006	July 1, 2006	Useful Life
Customer relationships	$ 6.3	$ 8.1	15-18
Trade name	2.9	3.7	Indefinite
Patents	.4	.5	10
	$ 9.6	$ 12.3	

Intangible assets were reduced proportionately during the quarter ended September 30, 2006 by approximately $2.7 in respect of the resolution of certain pre-emergence income tax attributes recognized during the three months ended September 30, 2006.

The Company reviews intangibles for impairment at least annually in the fourth quarter of each year or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Foreign Currency. The Company uses the United States dollar as the functional currency for its foreign operations.

Derivative Financial Instruments. Hedging transactions using derivative financial instruments are primarily designed to mitigate the Company s exposure to changes in prices for certain of the products which the Company sells and consumes and, to a lesser extent, to mitigate the Company s exposure to changes in foreign currency exchange rates. The Company does not utilize derivative financial instruments for trading or other speculative purposes. The Company s derivative activities are initiated within guidelines established by management and approved by the Company s board of directors. Hedging transactions are executed centrally on behalf of all of the

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company s business segments to minimize transaction costs, monitor consolidated net exposures and allow for increased responsiveness to changes in market factors.

The Company recognizes all derivative instruments as assets or liabilities in its balance sheet and measures those instruments at fair value by marking-to-market all of its hedging positions at each period-end (see Note 9). Changes in the market value of the Company s open hedging positions resulting from the mark-to-market process represent unrealized gains or losses. Such unrealized gains or losses will fluctuate, based on prevailing market prices at each subsequent balance sheet date, until the settlement date occurs. These changes are recorded as an increase or reduction in stockholders equity through either other comprehensive income (OCI) or net income, depending on the facts and circumstances with respect to the transaction and its documentation. If the derivative transaction qualifies for hedge (deferral) treatment under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), the changes are recorded initially in OCI. Such changes reverse out of OCI (offset by any fluctuations in other open positions) and are recorded in net income (included in Net sales or Cost of products sold, as applicable) when the subsequent settlement transactions occur. If derivative transactions do not qualify for hedge accounting treatment, the changes in market value are recorded in net income. To qualify for hedge accounting treatment, the derivative transaction must meet criteria established by SFAS No. 133. Even if the derivative transaction meets the SFAS No. 133 criteria, the Company must also comply with a number of complex documentation requirements, which, if not met, result in the derivative transaction being precluded from being treated as a hedge (i.e., it must then be marked-to-market with period to period changes in market value being recorded in quarterly results) unless and until such documentation is modified and determined to be in accordance with SFAS No. 133. Additionally, if the level of physical transactions falls below the net exposure hedged, hedge accounting must be terminated for such excess hedges and the mark-to-market changes on such excess hedges would be recorded in the income statement rather than in OCI.

As more fully discussed in Note 15, in connection with the Company s preparation of its December 31, 2005 financial statements, the Company concluded that its derivative financial instruments did not meet certain specific documentation criteria in SFAS No. 133. Accordingly, the Company restated its prior results for the quarters ended March 31, June 30 and September 2005 and marked all of its derivatives to market in 2005. The change in accounting for derivative contracts was related to the form of the Company s documentation. The Company determined that its hedging documentation did not meet the strict documentation standards established by SFAS No. 133. More specifically, the Company s documentation did not comply with SFAS No. 133 in respect to the Company s methods for testing and supporting that changes in the market value of the hedging transactions would correlate with fluctuations in the value of the forecasted transaction to which they relate. The Company had documented that the derivatives it was using would qualify for the short cut method whereby regular assessments of correlation would not be required. However, it ultimately concluded that, while the terms of the derivatives were essentially the same as the forecasted transaction, they were not identical and, therefore, the Company should have done certain mathematical computations to prove the ongoing correlation of changes in value of the hedge and the forecasted transaction. As a result, under SFAS No. 133, the Company de-designated its open derivative transactions and reflected fluctuations in the market value of such derivative transactions in its results each period rather than deferring the effects until the forecasted transactions (to which the hedges relate) occur. The effect on the first three quarters of 2005 of marking the derivatives to market rather than deferring gains/losses was to increase Cost of products sold and decrease Operating income by $2.0, $1.5 and $1.0, respectively.

The rules provide that, once de-designation has occurred, the Company can modify its documentation and re-designate the derivative transactions as hedges and, if appropriately documented, re-qualify the transactions for prospectively deferring changes in market fluctuations after such corrections are made. The Company is working to modify its documentation and to re-qualify open and post 2005 hedging transactions for treatment as hedges. However, no assurances can be provided in this regard.

In general, when hedge (deferral) accounting is being applied, material fluctuations in OCI and Stockholders equity will occur in periods of price volatility, despite the fact that the Company s cash flow and earnings will be

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

fixed to the extent hedged. This result is contrary to the intent of the Company s hedging program, which is to lock-in a price (or range of prices) for products sold/used so that earnings and cash flows are subject to a reduced risk of volatility.

Conditional Asset Retirement Obligations. Effective December 31, 2005, the Company adopted FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (SFAS No. 143)* retroactive to the beginning of 2005. Pursuant to SFAS No. 143 and FIN 47, companies are required to estimate incremental costs for special handling, removal and disposal costs of materials that may or will give rise to conditional asset retirement obligations (CAROs) and then discount the expected costs back to the current year using a credit adjusted risk free rate. Under the guidelines clarified in FIN 47, liabilities and costs for CAROs must be recognized in a company s financial statements even if it is unclear when or if the CARO may/will be triggered. If it is unclear when or if a CARO will be triggered, companies are required to use probability weighting for possible timing scenarios to determine the probability weighted amounts that should be recognized in the company s financial statements. The Company evaluated FIN 47 and determined that it has CAROs at several of its fabricated products facilities. The vast majority of such CAROs consist of incremental costs that would be associated with the removal and disposal of asbestos (all of which is believed to be fully contained and encapsulated within walls, floors, ceilings or piping) of certain of the older plants if such plants were to undergo major renovation or be demolished. No plans currently exist for any such renovation or demolition of such facilities and the Company s current assessment is that the most probable scenarios are that no such CARO would be triggered for 20 or more years, if at all. Nonetheless, the retroactive application of FIN 47 resulted in the Company recognizing retroactive to the beginning of 2005, the following in the fourth quarter of 2005: (i) a charge of approximately $2.0 reflecting the cumulative earnings impact of adopting FIN 47, (ii) an increase in Property, plant and equipment of $.5 and (iii) offsetting the amounts in (i) and (ii), an increase in Long term liabilities of approximately $2.5. In addition, pursuant to FIN 47 there was an immaterial amount of incremental depreciation expense recorded (in Depreciation and amortization) for the year ended December 31, 2005 as a result of the retroactive increase in Property, plant and equipment (discussed in (ii) above) and there was an incremental $.2 of non-cash charges (in Cost of products sold) to reflect the accretion of the liability recognized at January 1, 2005 (discussed in (iii) above) to the estimated fair value of the CARO of $2.7 at December 31, 2005.

Anglesey, a 49% owned unconsolidated aluminum investment, also recorded a CARO liability of approximately $15.0 in its financial statements at December 31, 2005. The treatment applied by Anglesey was not consistent with the principles of SFAS No. 143 or FIN 47. Accordingly, the Company adjusted Anglesey s recording of the CARO to comply with US GAAP treatment. The Company determined that application of US GAAP would have resulted in (a) a non-cash cumulative adjustment of $2.7 reducing the Company s investment retroactive to the beginning of 2005 and (b) a decrease in the Company s share of Anglesey s earnings totaling approximately $.1 for 2005 (representing additional depreciation, accretion and foreign exchange charges).

See Notes 2 and 4 of Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 for additional information regarding the CAROs.

The Company s estimates and judgments that affect the probability weighted estimated future contingent cost amounts did not change during the first nine months of 2006. The following amounts have been reflected in the Company s results for the three and nine months ended September 30, 2006 and 2005: (i) an immaterial incremental amount of depreciation expense and (ii) an immaterial amount of incremental accretion of the estimated liability for the three months and incremental accretion of the estimated liability of $.1 for the nine months ended September 30, 2006 (included in Cost of products sold).

New Accounting Pronouncements. Statement of Financial Accounting Standards No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158) was issued in September 2006. SFAS No. 158 requires a company to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan(s) as an asset or liability in its statement of financial position and to recognize changes in that funded status in

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

comprehensive income in the year in which the changes occur. Prior standards only required the overfunded or underfunded status of a plan to be disclosed in the notes to the financial statements. In addition, SFAS No. 158 requires that a company disclose in the notes to the financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The Company must adopt SFAS No. 158 in its year-end 2006 financial statements. Given the application of fresh start reporting in the third quarter of 2006, the funded status of the Company s defined benefit pension plans is fully reflected in the Company s September 30, 2006 balance sheet and therefore the Company expects SFAS No. 158 to have no material impact on the Company s balance sheet reporting for these plans. However, the Company has not yet completed its review of the possible impacts of SFAS No. 158 in respect of a VEBA that provides benefits for certain eligible retirees of the Company and their surviving spouses and eligible dependents (the Salaried VEBA) and the Union VEBA net assets or obligations and cannot, therefore, predict what, if any, impacts adoption of SFAS No. 158 will have on the balance sheet in regard to the VEBAs.

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157) was issued in September 2006 to increase consistency and comparability in fair value measurements and to expand their disclosures. The new standard includes a definition of fair value as well as a framework for measuring fair value. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. The standard is effective for fiscal periods beginning after November 15, 2007 and should be applied prospectively, except for certain financial instruments where it must be applied retrospectively as a cumulative-effect adjustment to the balance of opening retained earnings in the year of adoption. The Company is still evaluating SFAS No. 157 but does not currently anticipate that the adoption of this standard will have a material impact on its financial statements.

Staff Accounting Bulletin No. 108, *Guidance for Quantifying Financial Statement Misstatements* (SAB No. 108) was issued by the Securities and Exchange Commission (SEC) staff in September 2006. SAB 108 establishes a specific approach for the quantification of financial statement errors based on the effects of the error on each of the Company s financial statements and the related financial statement disclosures. The provisions of SAB 108 are effective for the Company s December 31, 2006 annual financial statements. The Company does not anticipate that the adoption of this bulletin will have a material impact on its financial statements.

Significant accounting policies of the Predecessor are discussed in Note 12.

3. Investment In and Advances To Unconsolidated Affiliate

See Note 3 of Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 for summary financial information for Anglesey, which owns an aluminum smelter at Holyhead, Wales. The Company s equity in income before income taxes of Anglesey is treated as a reduction (increase) in Cost of products sold. The income tax effects of the Company s equity in income are included in the Company s income tax provision.

The nuclear plant that supplies power to Anglesey is currently slated for decommissioning in late 2010. For Anglesey to be able to operate past September 2009 when its current power contract expires, Anglesey will have to secure a new or alternative power contract at prices that make its operation viable. No assurances can be provided that Anglesey will be successful in this regard. In addition, given the potential for future shutdown and related costs, the Company expects that dividends from Anglesey may be suspended or curtailed either temporarily or permanently while

Anglesey studies future cash requirements. Dividends over the past five years have fluctuated substantially depending on various operational and market factors. During the nine months ended September 30, 2006 and the last five years, cash dividends received were as follows: 2006 $11.7, 2005 $9.0, 2004 $4.5, 2003 $4.3, 2002 $6.0 and 2001 $2.8.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company and Anglesey have interrelated operations. The Company is responsible for selling Anglesey alumina in respect of its ownership percentage. Such alumina is purchased at prices that are tied to primary aluminum prices under a contract that expires in 2007. The Company is responsible for purchasing from Anglesey primary aluminum in respect to its ownership percentage at prices tied to primary aluminum prices.

Purchases from and sales to Anglesey were as follows:

	Period from July 1, 2006 through September 30, 2006	Predecessor Three Months Ended September 30, 2005	Predecessor Period from January 1, 2006 to July 1, 2006	Predecessor Nine Months Ended September 30, 2005
Purchases	$ 50.1	$ 30.3	$ 82.4	$ 94.8
Sales	8.6	6.9	24.9	27.7

There were no receivables due from Anglesey at either September 30, 2006 or December 31, 2005.

As a result of fresh start accounting, the Company decreased its investment in Anglesey at the Effective Date by $11.6 (see Note 1). The $11.6 difference between the Company s share of Anglesey equity and the investment amount reflected in the Company s balance sheet is being amortized (included in Cost of products sold) over the period from July 2006 to September 2009, the end of the current power contract. The noncash amortization was approximately $.9 for the three months ended September 30, 2006.

4. Property, Plant, and Equipment

The major classes of property, plant, and equipment are as follows:

	September 30, 2006	Predecessor December 31, 2005
Land and improvements	$ 12.8	$ 7.7
Buildings	15.7	62.4
Machinery and equipment	73.0	460.4
Construction in progress	49.7	25.0
	151.2	555.5
Accumulated depreciation	(2.8)	(332.1)
Property, plant, and equipment, net	$ 148.4	$ 223.4

Pursuant to fresh start accounting, as more fully discussed in Note 1, the Company adjusted its Property, plant and equipment to its fair value as adjusted for the allocation of the reorganization value and reset Accumulated depreciation to zero. The fair value of most of the Company s Property, plant and equipment was based on an independent appraisal. The balance was based on management s estimates. As reported in Note 1, this resulted in a net decrease in Property, plant and equipment of $103.0. The amount of depreciation to be recognized by the Company will be lower than the amount historically recognized by the Predecessor.

Approximately $39.5 of the Construction in progress at September 30, 2006, relates to the Company s Spokane, Washington facility (see *Commitments* Note 8).

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Secured Debt and Credit Facilities

Long-term debt consisted of the following:

	September 30, 2006	Predecessor December 31, 2005
Revolving Credit Facility	$	$
Term Loan Facility	50.0	
Pre-Emergence Credit Agreement		
Other borrowings (fixed rate)		2.3
Total	50.0	2.3
Less Current portion		(1.1)
Long-term debt	$ 50.0	$ 1.2

On the Effective Date, the Company and certain subsidiaries of the Company entered into a new Senior Secured Revolving Credit Agreement with a group of lenders providing for a $200.0 revolving credit facility (the Revolving Credit Facility), of which up to a maximum of $60.0 may be utilized for letters of credit. Under the Revolving Credit Facility, the Company is able to borrow (or obtain letters of credit) from time to time in an aggregate amount equal to the lesser of $200.0 and a borrowing base comprised of eligible accounts receivable, eligible inventory and certain eligible machinery, equipment and real estate, reduced by certain reserves, all as specified in the Revolving Credit Facility. The Revolving Credit Facility has a five-year term and matures in July 2011, at which time all principal amounts outstanding thereunder will be due and payable. Borrowings under the Revolving Credit Facility bear interest at a rate equal to either a base prime rate or LIBOR, at the Company s option, plus a specified variable percentage determined by reference to the then remaining borrowing availability under the Revolving Credit Facility. The Revolving Credit Facility may, subject to certain conditions and the agreement of lenders thereunder, be increased up to $275.0 at the request of the Company.

Concurrent with the execution of the Revolving Credit Facility, the Company also entered into a Term Loan and Guaranty Agreement with a group of lenders (the Term Loan Facility). The Term Loan Facility provides for a $50.0 term loan and is guaranteed by the Company and certain of its domestic operating subsidiaries. The Term Loan Facility was fully drawn on August 4, 2006. The Term Loan Facility has a five-year term and matures in July 2011, at which time all principal amounts outstanding thereunder will be due and payable. Borrowings under the Term Loan Facility bear interest at a rate equal to either a premium over a base prime rate or LIBOR, at the Company s option.

Amounts owed under each of the Revolving Credit Facility and the Term Loan Facility may be accelerated upon the occurrence of various events of default set forth in each such agreement, including, without limitation, the failure to make principal or interest payments when due, and breaches of covenants, representations and warranties.

The Revolving Credit Facility is secured by a first priority lien on substantially all of the assets of the Company and certain of its domestic operating subsidiaries that are also borrowers thereunder. The Term Loan Facility is secured by a second lien on substantially all of the assets of the Company and the Company s domestic operating subsidiaries that are the borrowers or guarantors thereof.

Both credit facilities place restrictions on the ability of the Company and certain of its subsidiaries to, among other things, incur debt, create liens, make investments, pay dividends, sell assets, undertake transactions with affiliates and enter into unrelated lines of business.

During July 2006, the Company borrowed and repaid $8.6 under the Revolving Credit Facility. At September 30, 2006, there were no borrowings outstanding under the Revolving Credit Facility, there were approximately $17.7 of outstanding letters of credit and there was $50.0 outstanding under the Term Loan Facility.

The debt and credit facilities of the Predecessor are discussed in Note 16.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Income Tax Matters

Tax Provisions. Tax provisions for the three and nine months ended September 30, 2006 and 2005 consist of:

Three Months Ended September 30, 2006 and 2005

	Three Months Ended September 30, 2006		
	Period from July 1, 2006 through September 30, 2006	Predecessor July 1, 2006	Predecessor Three Months Ended September 30, 2005
Domestic	$ 2.7	$	$
Foreign	5.6		1.4
	$ 8.3	$	$ 1.4

Nine Months Ended September 30, 2006 and 2005

	Nine Months Ended September 30, 2006		
	Period from July 1, 2006 through September 30, 2006	Predecessor Period from January 1, 2006 to July 1, 2006	Predecessor Nine Months Ended September 30, 2005
Domestic	$ 2.7	$ (.8)	$
Foreign	5.6	7.0	6.0
	$ 8.3	$ 6.2	$ 6.0

Foreign taxes primarily represent Canadian income taxes and United Kingdom income taxes in respect of the Company s ownership interest in Anglesey.

The provision (benefit) for income tax is based on an assumed effective rate for each applicable period.

Results of operations for discontinued operations are net of an income tax provision (benefit) of $(.7) and $12.0 for the three and nine months ended September 30, 2005, respectively.

For the three and nine months ended September 30, 2006 and 2005, as a result of the Chapter 11 proceedings, the Company did not recognize any U.S. income tax benefit for the losses incurred from its domestic operations (including temporary differences) or any U.S. income tax benefit for foreign income taxes. Instead, the increases in federal and state deferred tax assets as a result of additional net operating losses and foreign tax credits generated in 2006 and 2005 were fully offset by increases in valuation allowances.

Tax Attributes. The Company is in the process of calculating the additional deductions, cancellation of indebtedness incomes and other impacts of the Plan and ongoing operations on an entity-by-entity basis to determine the tax attributes available. Based on preliminary estimates, the Company believes that it will have net operating loss carryforwards in the $500 $800 range that will be available to reduce future cash payments for income taxes in the United States (other than alternative minimum tax AMT) and that additional deductions for amounts capitalized into the tax basis of inventories (totaling an estimated $55-$100) will become available (likely over the next two or three years). Given the complexity of the entity-by-entity analysis, unique tax regulations regarding Chapter 11 proceedings and other uncertainties, these estimates remain subject to revision and such revisions could be significant.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

While the Company will have substantial tax attributes available to offset the impact of future income taxes, for a year or more after the emergence, the Company did not meet the more likely than not criteria for recognition of such attributes at the Effective Date primarily because the Company does not have sufficient history of paying taxes. As such, the Company recorded a full valuation allowance against the amount of tax attributes available and no deferred tax asset was recognized. The benefit associated with any future recognition of tax attributes will be first utilized to reduce intangible assets with any excess being recorded as an adjustment to Stockholders equity rather than as a reduction of income tax expense. Therefore, despite the existence of such tax attributes, the Company expects to record a full statutory tax provision in future periods and, therefore, the benefit of any tax attributes realized will only affect future balance sheets and statements of cash flows. If the Company ultimately determines that it meets the more likely than not recognition criteria, the amount of net operating loss carryforwards would be recorded on the balance sheet and would reduce the amount of intangible assets recognized in fresh start accounting, until such assets are exhausted and any excess remaining would be recorded as an adjustment to stockholders equity.

Pursuant to the Plan, to preserve the net operating loss carryforwards that may be available to the Company after emergence, on the Effective Date, the Company s certificate of incorporation was amended and restated to, among other things, include certain restrictions on the transfer of Common Stock and the Company and the Union VEBA, the Company s largest stockholder, entered into a stock transfer restriction agreement.

As more fully discussed in Note 17, it is possible that the Company may recoup from the trustee for the liquidating trust for Kaiser Aluminum Australia Corporation (KAAC) and Kaiser Finance Corporation (KFC) joint plan of liquidation (the KAAC/KFC Plan) all or some portion of approximately $6.9 of U.S. AMT payments made during 2005. Such recovery is not reflected in the Company s financial statements as of September 30, 2006.

In connection with fresh start accounting, the Company recognized deferred tax liabilities of approximately $4.6. Such liabilities primarily relate to an excess of financial statement basis over the U.S. tax basis that is not expected to turn-around in the 20-year U.S. net operating loss (NOL) carry-forward period.

Other. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Certain past years are still subject to examination by taxing authorities. The last year examined by major jurisdiction is as follows: U.S. Federal- 1996; Canada- 1997; State and local- generally 1996. However, use of NOLs in future periods could trigger review of attributes and other tax matters in years that are not otherwise subject to examination.

In accordance with the requirements of SOP 90-7, the Company adopted the provisions of FIN 48 on July 1, 2006. The Company was not required to recognize any liability for unrecognized tax benefits as a result of the implementation of FIN 48. From July 1, 2006 to September 30, 2006, the Company did not recognize any additional liabilities for unrecognized tax benefits.

The Company recognizes interest accrued for unrecognized tax benefits in interest expense and penalties in the income tax provision. During the three months ended September 30, 2006, the Company recognized approximately $.5 in interest and penalties. The Company had approximately $4.0 and $4.5 accrued at July 1, 2006 and September 30, 2006, respectively, for interest and penalties.

Income tax matters of the Predecessor are discussed in Note 17.

7. Employee Benefit and Incentive Plans

Emergence Related Compensation.

On the Effective Date:

The Company issued 515,150 shares of non-vested Common Stock to executive officers and other key employees. Of the 515,150 shares issued, 480,904 shares are subject to a three year cliff vesting requirement that lapses on July 6, 2009. The remainder vest ratably over a three year period. The fair value of the shares

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

issued, after assuming a 5% forfeiture rate of $20.7 is being amortized to expense over a three year period on a roughly ratable basis.

The Company s board of directors terminated the Company s supplemental employee retirement plan (the SERP more fully described in Note 18) and funded payments totaling approximately $2.3. Such amounts had been fully accrued by the Predecessor and were included in the Company s opening balance sheet. The SERP has been replaced by a non-qualified defined contribution plan (the Restoration Plan) and will restore certain benefits for key employees who would otherwise suffer a loss of benefits under the Company s defined contribution plan as a result of the limitations imposed by the Internal Revenue Code.

The Company paid $.5 in July 2006 to certain officers in respect of deferred retention payments previously accrued by the Predecessor. During August 2006, the Company paid $5.1 in respect of the pre-emergence long term incentive plan (LTI). Another $3.4 of LTI payments is due in July 2007 and approximately $.5 was determined to have been resolved pursuant to the Plan. The LTI amounts had been fully accrued by the Predecessor.

Certain employment agreements between the Company and members of management became effective. Additionally, other members of management continue to retain certain pre-emergence contractual arrangements. In particular, the terms of the severance and change in control agreements implemented as a part of the key employee retention plan (the KERP) survive after the Effective Date for a period of one year and for a period ending two years following a change in control, respectively, in each case unless superseded by another agreement (see Note 18).

Incentive Plans and Certain Other Plans.

Incentive plans for management and key employees include the following:

A short term incentive compensation plan for management payable in cash and which is based primarily on earnings, adjusted for certain safety and performance factors. Most of the Company s locations also have similar programs for both hourly and salaried employees.

A stock based long term incentive plan for key managers. As more fully discussed in *Emergence Related Compensation* above, an initial, emergence-related award was made under this plan. Additional awards are expected to be made in future years.

In early August 2006, the Company granted approximately 6,237 non-vested shares of Common Stock to its non-employee directors. The shares vest in August 2007. The number of shares issued was based on the approximate $43.00 per share average closing price between July 18, 2006 and July 31, 2006. The fair value of the non-vested stock grant ($.3), based on the fair value of the shares at date of issuance, is being amortized to earnings on a ratable basis over the vesting period. An additional approximate 4,273 shares of vested Common Stock were issued to non-employee directors electing to receive shares of Common Stock in lieu of all or a portion of their annual retainer fee. The fair value of the shares ($.2), based on the fair value of the shares at date of issuance, was recognized in earnings in the quarter ended September 30, 2006 as a period expense.

Pension and Similar Plans.

Pensions and similar plans include:

A commitment to provide one or more defined contribution plan(s) as a replacement for the five defined benefit pension plans for hourly bargaining unit employees at four of the Company s production facilities and one inactive operation (the Hourly DB Plans). The Hourly DB Plans at the four production facilities will, as more fully discussed in Note 8, likely be terminated during the fourth quarter of 2006, effective as of October 10, 2006 pursuant to a court ruling received in July 2006. It is anticipated that the replacement defined contribution plans for the production facilities will provide for an annual contribution of one dollar

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

per hour worked by bargaining unit employee and, in certain instances, will provide for certain matching of contributions.

A defined contribution savings plan for hourly bargaining unit employees (the Hourly DC Plan) at all of the Company s other production facilities (not covered by the Hourly DB Plans). Pursuant to the terms of Hourly DC Plan, the Company will be required to make annual contributions to the Steelworkers Pension Trust on the basis of one dollar per United Steelworkers (USW) employee hour worked at two facilities. The Company will also be required to make contributions to a defined contribution savings plan for active USW employees that will range from eight hundred dollars to twenty-four hundred dollars per employee per year, depending on the employee s age. Similar defined contribution savings plans have been established for non-USW hourly employees subject to collective bargaining agreements. The Company currently estimates that contributions to all such plans will range from $3.0 to $6.0 per year.

A defined contribution savings plan for salaried and non-bargaining unit hourly employees (the Salaried DC Plan) providing for a match of certain contributions made by employees plus a contribution of between 2% and 10% of their salary depending on their age and years of service.

Postretirement Medical Obligations.

As a part of the Company s reorganization efforts, the Predecessor s postretirement medical plan was terminated in 2004. Participants were given the option of COBRA coverage or participation in the applicable (Union or Salaried) VEBA. All past and future bargaining unit employees are covered by the Union VEBA. The Salaried VEBA covers all other retirees including employees who retired prior to the 2004 termination of the prior plan or who retire with the required age and service requirements so long as their employment commenced prior to February 2002. The benefits being paid by the VEBAs are at the sole discretion of the respective VEBA trustees and are outside the Company s control.

During the course of the reorganization process, $49.7 of contributions were made to the VEBAs, of which $12.7 is available to reduce post emergence payments that may become due pursuant to an annual variable cash requirement discussed below.

At emergence the Salaried VEBA received rights to 1,940,100 shares of the Company s newly issued Common Stock. However, prior to the Company s emergence, the Salaried VEBA sold its rights to approximately 940,200 shares and received net proceeds of approximately $31. The remaining approximately 999,900 shares of the Company s Common Stock held by the Salaried VEBA at July 1, 2006 are unrestricted. At emergence, the Union VEBA received rights to 11,439,900 shares of the Company s newly issued Common Stock. However, prior the Company s emergence, the Union VEBA sold its rights to approximately 2,630,000 shares and received net proceeds of approximately $81. The Union VEBA is subject to an agreement that limits its ability to sell or otherwise transfer more than approximately 2,518,000 shares of the Company s Common Stock owned at July 1, 2006 during the two years following the emergence date.

Going forward, the Company s only obligation to the VEBAs is an annual variable cash contribution. The amount to be contributed to the VEBAs will be 10% of the first $20.0 of annual cash flow (as defined; in general terms, the principal elements of cash flow are earnings before interest expense, provision for income taxes and depreciation and amortization less cash payments for, among other things, interest, income taxes and capital expenditures), plus 20% of annual cash flow, as defined, in excess of $20.0. Such annual payments will not exceed $20.0 and will also be limited (with no carryover to future years) to the extent that the payments would cause the Company s liquidity to be less than $50.0. Such amounts will be determined on an annual basis and payable no later than March 31st of the following year. However, the Company has the ability to offset amounts that would otherwise be due to the VEBAs with approximately $12.7 of excess contributions made to the VEBAs prior to the Effective Date.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For accounting purposes, after discussions with the Securities and Exchange Commission, the Company has concluded that the postretirement medical benefits to be paid by the VEBAs and the Company s related annual variable contribution obligations should be treated as defined benefit post-retirement plan with the current VEBA assets and future variable contributions described above, and earnings thereon, operate as a cap on the benefits to be paid. As such, while the Company s only obligation to the VEBAs is to pay the annual variable contribution amount, the Company must account for net periodic postretirement benefit costs in accordance with Statement of Financial Accounting Standards No 106*, Employers Accounting for Postretirement Benefits other than Pensions* (SFAS No. 106) and record any difference between the assets of each VEBA and its accumulated postretirement benefit obligation (APBO) in the Company s financial statements. Such information will have to be obtained from the Salaried VEBA and Union VEBA on a periodic basis. In general, as more fully described below, given the significance of the assets currently and expected to be available to the VEBAs in the future and the current level of benefits, the cap does not impact the computation of the APBO. However, should the benefit formulas being used by the VEBAs increase and/or if the assets were to substantially decrease, it is possible that existing assets may be insufficient alone to fund such benefits and that the benefits to be paid in future periods could be reduced to the amount of annual variable contributions reasonably expected to be paid by the Company in those years. Any such limitations would also have to consider any remaining amount of excess pre-emergence VEBA contributions made.

Key assumptions made in computing the net obligation of each VEBA and in total include:

With respect to VEBA assets:

The 6,291,945 shares of the Company s Common Stock held by the Union VEBA that are not currently transferable, have been excluded from assets used to compute the net asset or liability of the Union VEBA, and will continue to be excluded until the restrictions lapse. Such shares are being accounted for similar to treasury stock in the interim.

The unrestricted shares of stock held by each VEBA have been valued at the fresh-start date at the fair value of $43.68 per share.

The Company has assumed that each VEBA will achieve a long term rate of return of approximately 5.5% on its assets. The long-term rate of return assumption is based on the Company s expectation of the investment strategies to be utilized by the VEBAs trustees.

The annual variable payment obligation has been treated as a funding/contribution policy and not counted as a VEBA asset.

With respect to VEBA obligations:

The APBO for each VEBA has been computed based on the level of benefits being provided by each VEBA at July 1, 2006.

The present value has been computed using a discount rate of return of 6.25%

Since the Salaried VEBA is currently paying a fixed annual amount to its constituents, no future cost trend rate increase has been assumed in computing the APBO for the Salaried VEBA.

For the Union VEBA, which is currently paying certain prescription drug benefits, an initial cost trend rate of 12% has been assumed and the trend rate is assumed to decline to 5% by 2013. The trend rate used by the Company is based on information provided by the Union VEBA.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following recaps the net assets of each VEBA as of July 1, 2006:

	Union VEBA	Salaried VEBA	Total
APBO	$ (211.2)	$ (50.8)	$ (262.0)
Plan Assets	213.3	81.9	295.2
Net asset	$ 2.1	$ 31.1	$ 33.2

The Company s results of operations will include the following impacts associated with the VEBAs: (a) charges for service rendered by employees; (b) a charge for accretion of interest; (c) a benefit for the return on plan assets; and (d) amortization of net gains or losses on assets, prior service costs associated with plan amendments and actuarial differences. The VEBA-related amounts included in the results of operations are shown in the tables below.

Future payments of annual variable contributions will first be applied to reduce any individual VEBA obligations recorded in the Company s balance sheet at that time. Any remaining amount of annual variable contributions in excess of recorded obligations will be recorded as a VEBA asset in the balance sheet. No accounting recognition has been accorded to the $12.7 of excess pre-emergence VEBA contributions at this time.

Components of Net Periodic Benefit Cost and Cash Flow and Charges. The following tables present the components of net periodic pension benefits cost for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30, 2006		
	Period from July 1, 2006 through September 30, 2006	Predecessor July 1, 2006	Predecessor Three Months Ended September 30, 2005
VEBA:			
Service cost	$ .3	$	$
Interest cost	4.0		
Expected return on plan assets	(4.0)		
	.3		
Defined benefit pension plans (including service costs of $.2, $ and $.3)	.2		.3

Defined contributions plans		1.7				1.8
Retroactive impact of 401(k) adoption included in other operating charges						.3
	$	2.2	$		$	2.4

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Nine Months Ended September 30, 2006 Period from July 1, 2006 through September 30, 2006	Predecessor Period from January 1, 2006 to July 1, 2006	Predecessor Nine Months Ended September 30, 2005
VEBA:			
Service cost	$ .3	$	$
Interest cost	4.0		
Expected return on plan assets	(4.0)		
	.3		
Defined benefit pension plans (including service costs of $.2, $.6 and $.8)	.2	.8	1.1
Defined contributions plans	1.7	4.1	5.2
Retroactive impact of 401(k) adoption included in other operating charges			5.9
	$ 2.2	$ 4.9	$ 12.2

See Note 9 of Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 for key assumptions with respect to the Company s pension plans and post-retirement benefit plans.

The following tables present the allocation of these charges:

	Three Months Ended September 30, 2006 Period from July 1, 2006 through September 30, 2006	Predecessor July 1, 2006	Predecessor Three Months Ended September 30, 2005
Fabricated products segment	$ 1.8	$	$ 2.1
Corporate segment	.4		
Other operating charges (Note 10)			.3

	$ 2.2	$	$ 2.4

	Nine Months Ended September 30, 2006		
	Period from July 1, 2006 through September 30, 2006	Predecessor Period from January 1, 2006 to July 1, 2006	Predecessor Nine Months Ended September 30, 2005
Fabricated products segment	$ 1.8	$ 4.5	$ 6.1
Corporate segment	.4	.4	.2
Other operating charges (Note 10)			5.9
	$ 2.2	$ 4.9	$ 12.2

For all periods presented, substantially all of the Fabricated products segment s related charges are in Cost of products sold with the balance being in Selling, administrative, research and development and general expense.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amount related to the retroactive implementation of the Salaried DC Plan was paid in July 2005. In September 2005, the Company and the USW amended a prior agreement to provide, among other things, for the Company to contribute per employee amounts to the Steelworkers Pension Trust totaling approximately $.9. The amended agreement was approved by the Bankruptcy Court and such amount was recorded in the fourth quarter of 2005.