KAISER ALUMINUM CORP
Form 10-K
March 29, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on Which Registered
Common Stock, par value $0.01 par value	Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 Act). Yes o No þ

As of June 30, 2006, there were 79,671,531 shares of the common stock of the registrant outstanding and the aggregate market value of the registrant s common stock held by non-affiliates, based upon the average bid and asked price of the Common Stock as reported by the OTC Bulletin Board maintained by the National Association of Securities Dealers, Inc. for June 30, 2006 (which was the last day of the registrant s most recently completed second fiscal quarter), was less than $1 million. Pursuant to the registrant s plan of reorganization, upon the registrant s emergence from chapter 11 on July 6, 2006, all of the shares of common stock outstanding immediately prior thereto were cancelled without consideration and the registrant issued 20,000,000 shares of new common stock.

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

As of February 28, 2007, there were 20,524,904 shares of new Common Stock of the registrant outstanding.

Documents Incorporated By Reference. Certain portions of the registrant s definitive proxy statement related to the registrant s 2007 annual meeting of stockholders to be filed not later than 120 days after the close of the registrant s fiscal year are incorporated by reference into Part III of this Report on Form 10-K.

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In this Report, all references to Kaiser, we, us, the Company and our refer to Kaiser Aluminum Corporation and subsidiaries, unless the context otherwise requires or where otherwise indicated.

PART I

Item 1. *Business*

Forward-Looking Statements

This Annual Report on Form 10-K contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this Report, including this Item 1. Business Business Operations, Item 1A. Risk Factors, and Item 7. Management s Discussion and Analysis of Financial Conditions and Results of Operations. These forward-looking statements can be identified by the use of forward-looking terminology such as believes, expects, may, estimates, will, should, plans, c anticipates, or the negative of the foregoing or other variations or comparable terminology, or by discussions of strategy.

Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary from those in the forward-looking statements as a result of various factors. These factors include: the effectiveness of management s strategies and decisions; general economic and business conditions, including cyclicality and other conditions in the aerospace and other end markets we serve; developments in technology; new or modified statutory or regulatory requirements; changing prices and market conditions; and other factors discussed in Item 1A. Risk Factors and elsewhere in this Report.

Readers are urged to consider these factors carefully in evaluating any forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included herein are made only as of the date of this Report, and we undertake no obligation to update any information contained in this Report or to publicly release any revisions to any forward-looking statements that may be made to reflect events or circumstances that occur, or that we become aware of, after the date of this Report.

Availability of Information

We will make available our Annual Reports on From 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, free of charge through our Internet website at www.kaiseraluminum.com under the heading Investor Relations as soon as reasonably practicable after we electronically file such material with or furnish it to the Securities and Exchange Commission.

Business Overview

We are an independent fabricated aluminum products manufacturing company with 2006 net sales of approximately $1.4 billion. We were founded in 1946 and operate 10 production facilities in the United States and one in Canada. We manufacture rolled, extruded, drawn and forged aluminum products within three end use categories consisting of aerospace and high strength products (which we refer to as Aero/HS products), general engineering products (which we refer to as GE products) and custom automotive and industrial products (which we refer to as Custom products).

We produced and shipped approximately 523 million pounds of fabricated aluminum products in 2006 which comprised 85% of our total net sales. We have long-standing relationships with our customers, which include leading aerospace companies, automotive suppliers and metal distributors. We strive to tightly integrate the management of our fabricated products operations across multiple production facilities, product lines and target markets in order to maximize the efficiency of product flow to our customers. In our served markets, we seek to be the supplier of choice by pursuing best-in-class customer satisfaction and offering a broad product portfolio.

In order to capitalize on the significant growth in demand for high quality heat treat aluminum plate products in the market for Aero/HS products, in the third quarter of 2005 we began a major expansion at our Trentwood facility in Spokane, Washington. We anticipate that the Trentwood expansion will significantly increase our aluminum plate production capacity and enable us to produce thicker gauge aluminum plate. The $105 million expansion is being completed in phases. One new heat treat furnace became fully operational in the fourth quarter of 2006. A second such furnace is expected to become fully operational during the first quarter of 2007 and a third such furnace is expected to become operational in early 2008. A new heavy gauge stretcher, which will enable us to produce thicker gauge aluminum plate, is also expected to become operational in early 2008.

In addition to our core fabricated products operations, we have a 49% ownership interest in Anglesey Aluminium Limited (which we refer to as Anglesey), a company that owns an aluminum smelter based in Holyhead, Wales. Anglesey has produced in excess of 300 million pounds of primary aluminum for each of the last three fiscal years, of which 49% is available to us. During 2006, sales of our portion of Anglesey s output represented 15% of our total net sales. Because we also purchase primary aluminum for our fabricated products at market prices, Anglesey s production acts as a natural hedge for our fabricated products operations. See Item 1A. Risk Factors The expiration of the power agreement for Anglesey may adversely affect our cash flows and affect our hedging programs for a discussion regarding the potential closure of Anglesey, which could occur as soon as 2009.

Between the first quarter of 2002 and the first quarter of 2003, Kaiser and 25 of our then-existing subsidiaries filed voluntary petitions for relief in the United States Bankruptcy Court for the District of Delaware (which we refer to as the Bankruptcy Court) under chapter 11 of the United States Bankruptcy Code (which we refer to as the Bankruptcy Code). Pursuant to our Second Amended Plan of Reorganization (which we refer to as our Plan), we emerged from chapter 11 bankruptcy on July 6, 2006 (which we refer to as the Effective Date). Our Plan allowed us to shed significant legacy liabilities, including long-term indebtedness, pension obligations, retiree medical obligations and liabilities relating to asbestos and other personal injury claims. In addition, prior to our emergence from chapter 11 bankruptcy, we sold all of our interests in bauxite mining operations, alumina refineries and aluminum smelters, other than our interest in Anglesey, in order to focus on our fabricated aluminum products business, which we believe has a stronger competitive position and presents greater opportunities for growth.

Business Operations

Fabricated Products Business Unit

Overview. Our fabricated products business unit produces rolled, extruded, drawn, and forged aluminum products used principally for aerospace and defense, automotive, consumer durables, electronics, electrical, and machinery and equipment end-use applications. In general, the fabricated products business unit manufactures products in one of three broad categories: Aero/HS products; GE products; and Custom products. During 2004, 2005 and 2006, our eleven North American fabricated products manufacturing facilities produced and shipped approximately 459, 482 and 523 million pounds of fabricated aluminum products, respectively, which accounted for approximately 86%, 86% and 85% of our total net sales for 2004, 2005 and 2006, respectively.

Types of Products Produced

The aluminum fabricated products market is broadly defined as the markets for flat-rolled, extruded, drawn, forged and cast aluminum products, which are used in a variety of end-use applications. We participate in certain portions of the markets for flat-rolled, extruded/drawn and forged products focusing on highly engineered products for aerospace and high strength, general engineering and custom automotive and industrial applications. The portions of markets in which we participate accounted for approximately 20% of total North American shipments of aluminum fabricated products in 2006.

Aerospace and High Strength Products. Our Aero/HS products include high quality heat treat plate and sheet, as well as cold finish bar, seamless drawn tube and billet that are manufactured to demanding specifications for the global aerospace and defense industries. These industries use our products in applications that demand high tensile strength, superior fatigue resistance properties and exceptional durability even in harsh environments. For instance, aerospace manufacturers use high-strength alloys for a variety of structures that must perform consistently under extreme variations in temperature and altitude. Our Aero/HS products are used for a wide variety of end uses. We make aluminum plate and tube for aerospace applications, and we manufacture a variety of specialized rod and bar products that are incorporated in goods as diverse as baseball bats and racecars. The aerospace and defense market s consumption of fabricated aluminum products is driven by overall levels of industrial production, cyclical airframe build rates and defense spending, as well as the potential availability of competing materials such as composites. Demand growth is expected to increase for thick plate with growth in monolithic construction of commercial and other aircraft. In monolithic construction, aluminum plate is heavily machined to form the desired part from a single piece of metal (as opposed to creating parts using aluminum sheet, extrusions or forgings that are affixed to one another using rivets, bolts or welds). In addition to commercial aviation demand, military applications for heat treat plate and sheet include aircraft frames and skins and armor plating to protect ground vehicles from explosive devices. Products sold for Aero/HS applications represented 31% of our 2006 fabricated products shipments. Aero/HS net sales in 2006 were approximately 38% of our 2006 fabricated products net sales.

General Engineering Products. GE products consist primarily of standard catalog items sold to large metal distributors. These products have a wide range of uses, many of which involve further fabrication of these products for numerous transportation and industrial end-use applications where machining of plate, rod and bar is intensive. Our GE products consist of 6000-series alloy rod, bar, tube, sheet, plate and standard extrusions. The 6000-series alloy is an extrudable medium-strength alloy that is heat treatable and extremely versatile. Our GE products have a wide range of uses and applications, many of which involve further fabrication of these products for numerous transportation and other industrial end uses. For example, our products are used in the specialized manufacturing process for liquid crystal display screens, and we produce aluminum sheet and plate that are used in the vacuum chambers in which semiconductors are made. We also produce aluminum plate that is used to further enhance military vehicle protection. Our rod and bar products are manufactured into rivets, nails, screws, bolts and parts of machinery and equipment. Demand growth and cyclicality for GE products tend to mirror broad economic patterns and industrial activity in North America. Demand is also impacted by the destocking and restocking of inventory in the full supply chain. Products sold for GE applications represented 43% of our 2006 fabricated products shipments. GE net sales in 2006 were approximately 39% of our 2006 fabricated products net sales.

Custom Automotive and Industrial Products. Our Custom products consist of extruded/drawn and forged aluminum products for many North American automotive and industrial end uses, including consumer durables, electrical, machinery and equipment, automobile, light truck, heavy truck and truck trailer applications. Examples of the wide variety of custom products that we supply to the automotive industry are extruded products for anti-lock braking systems, drawn tube for drive shafts and forgings for suspension control arms and drive train yokes. A significant portion of our other Custom product sales in recent years has been for water heater anodes, truck trailers and electrical/electronic exchangers. For some custom products, we perform limited fabrication, including sawing and cutting to length. Demand growth and cyclicality tend to mirror broad economic patterns and industrial activity in North America, with specific individual market segments such as automotive, heavy truck and truck trailer applications tracking their respective build rates. Products sold for custom automotive and industrial applications represented 26% of our 2006 fabricated products shipments. Custom automotive and industrial net sales in 2006 were approximately 23% of our 2006 fabricated products net sales.

End Markets In Which We Do Not Participate. We have elected not to participate in certain end markets for fabricated aluminum products, including beverage and food cans, building and construction materials, and foil used for packaging. We believe our chosen end markets present better opportunities for sales growth and premium pricing of differentiated products. The markets we have elected to participate in represented approximately 5% of the North American flat rolled products market and 55% of the North American extrusion market in 2006.

Types of Manufacturing Processes Employed

We utilize the following manufacturing processes to produce our fabricated products:

Flat rolling. The traditional manufacturing process for aluminum flat-rolled products uses ingot, a large rectangular slab of aluminum, as the starter material. The ingot is processed through a series of rolling operations, both hot and cold. Finishing steps may include heat treatment, annealing, coating, stretching, leveling or slitting to achieve the desired metallurgical, dimensional and performance characteristics. Aluminum flat-rolled products are manufactured using a variety of alloy mixtures, a range of tempers (hardness), gauges (thickness) and widths, and various coatings and finishes. Flat-rolled aluminum semi-finished products are generally either sheet (under 0.25 inches in thickness) or plate (up to 15 inches in thickness). The vast majority of the North American market for aluminum flat-rolled products uses common alloy material for construction and other applications and beverage/food can sheet. However, these are products and markets in which we have chosen not to participate. Rather, we have focused our efforts on heat treat products. Heat treat products are distinguished from common alloy products by higher strength and other desired product attributes. The primary end use of heat treat flat-rolled sheet and plate is for Aero/HS and GE products.

Extrusion. The extrusion process typically starts with a cast billet, which is an aluminum cylinder of varying length and diameter. The first step in the process is to heat the billet to an elevated temperature whereby the metal is malleable. The billet is put into an extrusion press and pushed, or extruded, through a die that gives the material the desired two-dimensional cross section. The material is either quenched as it leaves the press, or subjected to a post-extrusion heat treatment cycle, to control the material s physical properties. The extrusion is then straightened by stretching and cut to length before being hardened in aging ovens. The largest end uses of extruded products are in the construction, general engineering and custom markets. Building and construction products represents the single largest end-use market for extrusions by a significant amount. However, we have chosen to focus our efforts on GE and Custom products because we believe we have strong production capability, well-developed technical expertise and high product quality with respect to these products.

Drawing. Drawing is a fabrication operation in which extruded tubes and rods are pulled through a die, or drawn. The purpose of drawing is to reduce the diameter and wall thickness while improving physical properties and dimensions. Material may go through multiple drawing steps to achieve the final dimensional specifications. Aero/HS products is a primary end-use market and is our focus.

Forging. Forging is a manufacturing process in which metal is pressed, pounded or squeezed under great pressure into high-strength parts known as forgings. Forged parts are heat treated before final shipment to the customer. The end-use applications are primarily in transportation, where high strength-to-weight ratios in products are valued. We focus our production on certain types of automotive applications.

A description of the manufacturing processes and category of products at each of our 11 production facilities is shown below:

Location	**Manufacturing Process**	**Types of Products**
Chandler, Arizona	Drawing	Aero/HS
Greenwood, South Carolina	Forging	Custom
Jackson, Tennessee	Extrusion/Drawing	Aero/HS, GE
London, Ontario	Extrusion	Custom
Los Angeles, California	Extrusion	GE, Custom
Newark, Ohio	Extrusion/Rod Rolling	Aero/HS, GE
Richland, Washington	Extrusion	Aero/HS, GE
Richmond, Virginia	Extrusion/Drawing	GE, Custom
Sherman, Texas	Extrusion	Custom
Spokane, Washington	Flat Rolling	Aero/HS, GE
Tulsa, Oklahoma	Extrusion	GE

As can be seen in the table above, many of the facilities employ the same basic manufacturing process and produce the same type of end use products. Over the past several years, given the similar economic and other characteristics at each location, we have made a significant effort to more tightly integrate the management of our fabricated products business unit across multiple manufacturing locations, product lines, and target markets to maximize the efficiency of product flow to customers. Purchasing is centralized for a substantial portion of the fabricated products business unit s primary aluminum requirements in order to try to maximize price, credit and other benefits. Because many customers purchase a number of different products that are produced at different plants, there has also been substantial integration of the sales force and its management. The Company believes that integration of its operations will allow the Company to capture efficiencies while allowing the plant locations to remain highly focused.

Raw Materials

We purchase substantially all of the primary aluminum and recycled and scrap aluminum used to make our fabricated products from third-party suppliers. In a majority of the cases, we purchase primary aluminum ingot and recycled and scrap aluminum in varying percentages depending on various market factors including price and availability. The price for primary aluminum purchased for the fabricated products business unit is typically based on the Average Midwest Transaction Price (or Midwest Price), which typically ranges between $.03 to $.075 per pound above the price traded on the London Metal Exchange (or LME) depending on primary aluminum supply/demand dynamics in North America. Recycled and scrap aluminum are typically purchased at a modest discount to ingot prices but can require additional processing. In addition to producing fabricated aluminum products for sale to third parties, certain of our production facilities provide one another with billet, log or other intermediate material in lieu of purchasing such items from third party suppliers. For example, a substantial majority of the product from the Richland, Washington facility is used as base input at the Chandler, Arizona facility; the Sherman, Texas facility is currently supplying billet and logs to the Tulsa, Oklahoma facility; the Richmond, Virginia facility typically receives some portion of its metal supply from either (or both of) the London, Ontario or Newark, Ohio facilities; and the Newark, Ohio facility also supplies billet and log to the Jackson, Tennessee facility and extruded forge stock to the Greenwood, South Carolina facility.

Pricing

The price we pay for primary aluminum, the principal raw material for our fabricated aluminum products business, consists of two components: the price quoted for primary aluminum ingot on the LME, and the Midwest Transaction Premium, a premium to LME reflecting domestic market dynamics as well as the cost of shipping and warehousing. Because aluminum prices are volatile, we manage the risk of fluctuations in the price of primary aluminum through a combination of pricing policies, internal hedging and financial derivatives. Our three principal pricing mechanisms are as follows:

Spot price. Some of our customers pay a product price that incorporates the spot price of primary aluminum in effect at the time of shipment to a customer. This pricing mechanism typically allows us to pass commodity price risk to the customer.

Index-based price. Some of our customers pay a product price that incorporates an index-based price for primary aluminum such as Platt s Midwest price for primary aluminum. This pricing mechanism also typically allows us to pass commodity price risk to the customer.

Firm price. Some of our customers pay a firm price. We bear commodity price risk on firm-price contracts, which we normally hedge though a combination of financial derivatives and production from Anglesey. For internal reporting purposes, whenever the fabricated products business unit enters into a firm price contract, it also enters into an internal hedge with the primary aluminum business unit, so that all the metal price risk resides in the primary aluminum business unit. Results from internal hedging activities between the two business units are eliminated in consolidation.

Sales, Marketing and Distribution

Industry sales margins for fabricated products fluctuate in response to competitive and market dynamics. Sales are made directly to customers by our sales personnel located in the United States, Canada and Europe, and by independent sales agents in Asia, Mexico and the Middle East. Our sales and marketing efforts are focused on the markets for Aero/HS, GE, and Custom products.

Aerospace and High Strength Products. Approximately 50% of our Aero/HS product shipments are sold to distributors with the remainder sold directly to customers. Sales are made either under contracts (with terms spanning from one year to several years) or on an order-by-order basis. We serve this market with a North American sales force focused on Aero/HS and GE products and direct sales representatives in Western Europe. Key competitive dynamics for Aero/HS products include the level of commercial aircraft construction spending (which in turn is often subject to broader economic cycles) and defense spending.

General Engineering Products. A substantial majority of our GE products are sold to large distributors in North America, with orders primarily consisting of standard catalog items shipped with a relatively short lead-time. We service this market with a North American sales force focused on GE and Aero/HS products. Key competitive dynamics for GE products include product price, product-line breadth, product quality, delivery performance and customer service.

Custom Automotive and Industrial Products. Our Custom products are sold primarily to first tier automotive suppliers and industrial end users. Sales contracts are typically medium to long term in length. Almost all sales of Custom products occur through direct channels using a North American direct sales force that works closely with our technical sales organization. Key demand drivers for our automotive products include the level of North American light vehicle manufacturing and increased use of aluminum in vehicles in response to increasingly strict governmental standards for fuel efficiency. Demand for industrial products is directly linked to the strength of the U.S. industrial economy.

Customers

In 2006, our fabricated products business unit had approximately 600 customers. The largest, Reliance Steel & Aluminum, and the five largest customers for fabricated products accounted for approximately 18% and 41%, respectively, of our net sales in 2006. The loss of Reliance, as a customer, would have a material adverse effect us. However, we believe that our relationship with Reliance is good and the risk of loss of Reliance, as a customer, is remote.

Research and Development

We operate three research and development centers. Our Rolling and Heat Treat Center and our Metallurgical Analysis Center are both located at our Trentwood facility in Spokane, Washington. The Rolling and Heat Treat Center has complete hot rolling, cold rolling and heat treat capabilities to simulate, in small lots, processing of flat-rolled products for process and product development on an experimental scale. The Metallurgical Analysis Center consists of a full metallographic laboratory and a scanning electron microscope to support research development programs as well as respond to plant technical service requests. The third center, our Solidification and Casting Center, is located in Newark, Ohio and has a short stroke experimental caster with ingot cast rolling capabilities for the experimental rolling mill and for extrusion billet used in plant extrusion trials. Due to our research and development efforts, we have been able to introduce products such as our unique T-Form® sheet which provides aerospace customers with high formability as well as requisite strength characteristics.

Primary Aluminum Business Unit

Our primary aluminum business unit, after excluding discontinued operations, contains two primary elements: (a) activities related to our interests in and related to Anglesey and (b) primary aluminum hedging-related activities. Our primary aluminum business unit accounted for approximately 14%, 14% and 15% of our total net sales for 2004, 2005 and 2006, respectively.

Anglesey. We own a 49% interest in Anglesey, which owns an aluminum smelter at Holyhead, Wales. Rio Tinto Plc owns the remaining 51% ownership interest in Anglesey and has day-to-day operating responsibilities for Anglesey, although certain decisions require unanimous approval of both shareholders. Anglesey has produced in excess of 300 million pounds for each of the last three fiscal years. We supply 49% of Anglesey s alumina requirements and purchase 49% of Anglesey s aluminum output, in each case based on a market-related pricing formula. Anglesey produces billet, rolling ingot and sow for the United Kingdom and European marketplace. We sell our share of Anglesey s output to a single third party at market prices. The price received for sales of production from Anglesey typically approximates the LME price. We also realize a premium (historically between $.05 and $.12 per pound above LME price depending on the product) for sales of value- added products such as billet and rolling ingot.

To meet our obligation to sell alumina to Anglesey in proportion to our ownership percentage, we purchase alumina under contracts that extend through 2007 at prices that are tied to market prices for primary aluminum. We will need to secure a new alumina contract for the period after 2007. We can give no assurance regarding our ability to secure a source of alumina on comparable terms. If we are unable to do so, the results of our primary aluminum operations will be affected.

Anglesey operates under a power agreement that provides sufficient power to sustain its operations at full capacity through September 2009. The nuclear facility which supplies power to Anglesey is scheduled to close operations in late 2010. Anglesey s ability to operate past September 2009 is dependent upon finding adequate power at an acceptable purchase price. We can give no assurance that Anglesey will be able to do so. If Anglesey cannot obtain sufficient power, Anglesey s operations will likely be shut down. Given the potential for future shutdown and related costs, dividends from Anglesey have been suspended while Anglesey studies future cash requirements. The shutdown process may involve significant costs to Anglesey which would decrease or eliminate its ability to pay future dividends. The process of shutting down operations may involve transition complications which may prevent Anglesey from operating at full capacity until the expiration of the power agreement.

Hedging. Our pricing of fabricated aluminum products, as discussed above, is generally intended to lock-in a conversion margin (representing the value added from the fabrication process(es)) and to pass metal price risk on to our customers. However, in certain instances we do enter into firm price arrangements. In such instances, we do have price risk on our anticipated primary aluminum purchase in respect of the customer s order. Total fabricated products shipments during 2004, 2005 and 2006 for which the Company had price risk were (in millions of pounds) 119, 155, and 200 respectively.

For internal reporting purposes, whenever our fabricated products business unit enters into a firm price contract, our primary aluminum business unit and fabricated products business unit segments enter into an internal hedge so that all the metal price risk resides in our primary aluminum business unit. Results from internal hedging activities between the two segments eliminate in consolidation. As more fully discussed in Item 7A. Quantitative and Qualitative Disclosures About Market Risk , during the last three years, our net exposure to primary aluminum price risk at Anglesey substantially offset the volume of fabricated products shipments with underlying primary aluminum price risk. As such, we consider our access to Anglesey production overall to be a natural hedge against any fabricated products firm metal-price risk. However, since the volume of fabricated products shipped under firm prices may not match up on a month-to-month basis with expected Anglesey-related primary aluminum shipments, we may use third party hedging instruments to eliminate any net remaining primary aluminum price exposure existing at any time.

Primary aluminum-related hedging activities are managed centrally on behalf of our business segments to minimize transaction costs, to monitor consolidated net exposures and to allow for increased responsiveness to changes in market factors. Hedging activities are conducted in compliance with a policy approved by our board of directors, and hedging transactions are only entered into after appropriate approvals are obtained from our hedging committee (which includes our chief executive officer and key financial officers).

Discontinued Operations

Prior to 2004, we were a more significant producer of primary aluminum and sold significant amounts of our alumina and primary aluminum production in domestic and international markets. Our strategy was to sell a substantial portion of the alumina and primary aluminum available to us in excess of our internal requirements to third parties. As part of our reorganization, we made a strategic decision to sell all of our commodity-related interests, other than our interests in and related to Anglesey, as summarized below.

Entity/Facility	Location	Product	Period of Disposition
Queensland Alumina Limited	Australia	Alumina	Second Quarter 2005

Gramercy refinery	Louisiana	Alumina	Fourth Quarter 2004
Kaiser Jamaica Bauxite Company	Jamaica	Bauxite	Fourth Quarter 2004
Volta Aluminium Company Limited	Ghana	Primary Aluminum	Fourth Quarter 2004
Alumina Partners of Jamaica	Jamaica	Alumina	Third Quarter 2004
Mead Smelter	Washington	Primary Aluminum	Second Quarter 2004

We refer to Queensland Alumina Limited and Alumina Partners of Jamaica herein as QAL and Alpart, respectively.

Segment and Geographical Area Financial Information

The information set forth in Note 11 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data regarding our segments and geographical areas in which we operate is incorporated herein by reference.

Competition

The fabricated aluminum industry is highly competitive. We concentrate our fabricating operations on selected products for which we believe we have production capability, technical expertise, high product quality, and geographic and other competitive advantages. Competition in the sale of fabricated aluminum products is driven by quality, availability, price and service, including delivery performance. Our primary competition in flat-rolled products is Alcoa, Inc. and Alcan Inc. In the extrusion market, we compete with many regional participants as well as larger firms with national reach such as the Sapa-Alcoa joint venture, Norsk Hydro ASA and Indalex. Many of our competitors are substantially larger, have greater financial resources, and may have other strategic advantages, including more efficient technologies or lower raw material and energy costs.

Our fabricated aluminum products facilities are located in North America. To the extent our competitors have production facilities located outside North America, they may be able to produce similar products at a lower cost. We may not be able to adequately reduce cost to compete with these products. Increased competition could cause a reduction in our shipment volume and profitability or increase our expenditures, any one of which could have a material adverse effect on our results of operations.

In addition, our fabricated aluminum products compete with products made from other materials, such as steel and composites, for various applications, including aircraft manufacturing. The willingness of customers to accept substitutions for aluminum and the ability of large customers to exert leverage in the marketplace to reduce the pricing for fabricated aluminum products could adversely affect our results of operations.

For the heat treat plate and sheet products, new competition is limited by technological expertise that only a few companies have developed through significant investment in research and development. Further, use of plate and sheet in safety critical applications make quality and product consistency critical factors. Suppliers must pass a rigorous qualification process to sell to airframe manufacturers. Additionally, significant investment in infrastructure and specialized equipment is required to supply heat treat plate and sheet.

Barriers to entry are lower for extruded and forged products, mostly due to the lower required investment in equipment. However, the products that we produce are somewhat differentiated from the majority of products sold by competitors. We maintain a competitive advantage by using application engineering and advanced process engineering to distinguish our company and our products. Our metallurgical expertise and controlled manufacturing processes enable superior product consistency and are difficult for competitors to offer, limiting their ability to effectively compete in many of our product niches.

Employees

At December 31, 2006, we employed approximately 2,425 persons, of which approximately 2,370 were employed in our fabricated products business unit and approximately 55 were employed in our corporate group, most of whom are located in our offices in Foothill Ranch, California.

The table below shows each manufacturing location, the primary union affiliation, if any, and the expiration date for the current union contract.

Location	Union	Contract Expiration Date
Chandler, AZ	Non-union	
Greenwood, SC	Non-union	
Jackson, TN	Non-union	
London, Ontario	USW Canada	Feb 2009
Los Angeles, CA	Teamsters	May 2009
Newark, OH	USW	Sept 2010
Richland, WA	Non-union	
Richmond, VA	USW/IAM	Nov 2010
Sherman, TX	IAM	Dec 2007
Spokane, WA	USW	Sept 2010
Tulsa, OK	USW	Nov 2010

As part of our chapter 11 reorganization, we entered into a settlement with the United Steelworkers, or USW, regarding, among other things, pension and retiree medical obligations. Under the terms of the settlement, we agreed to adopt a position of neutrality regarding the unionization of any of our employees.

Environmental Matters

We are subject to numerous environmental laws and regulations with respect to, among other things: air and water emissions and discharges; the generation, storage, treatment, transportation and disposal of solid and hazardous waste; and the release of hazardous or toxic substances, pollutants and contaminants into the environment. Compliance with these environmental laws is and will continue to be costly.

Our operations, including our operations conducted prior to our emergence from chapter 11 bankruptcy in July 2006, have subjected, and may in the future subject, us to fines or penalties for alleged breaches of environmental laws and to obligations to perform investigations or clean up of the environment. We may also be subject to claims from governmental authorities or third parties related to alleged injuries to the environment, human health or natural resources, including claims with respect to waste disposal sites, the clean up of sites currently or formerly used by us or exposure of individuals to hazardous materials. Any investigation, clean-up or other remediation costs, fines or penalties, or costs to resolve third-party claims may be costly and could have a material adverse effect on our financial position, results of operations and cash flows.

We have accrued, and will accrue as necessary, for costs relating to the above matters that are reasonably expected to be incurred based on available information. However, it is possible that actual costs may differ, perhaps significantly, from the amounts expected or accrued, and such differences could have a material adverse effect on our financial position, results of operations and cash flows. In addition, new laws or regulations or changes to existing laws and regulations may occur, and we cannot assure you as to the amount that we would have to spend to comply with such new or amended laws and regulations or the effects that they would have on our financial position, results of operations and cash flows.

Emergence From Reorganization Proceedings

Background. Between the first quarter of 2002 and the first quarter of 2003, Kaiser and 25 of our then existing subsidiaries filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code. While in chapter 11 bankruptcy, we continued to manage our business in the ordinary course as debtors-in-possession subject to the control and administration of the Bankruptcy Court.

We and 16 of our subsidiaries filed the chapter 11 bankruptcy in the first quarter of 2002 primarily because of our liquidity and cash flow problems that arose in late 2001 and early 2002. We were facing significant near-term debt maturities at a time of unusually weak aluminum industry business conditions, depressed aluminum prices and a broad economic slowdown that was further exacerbated by the events of September 11, 2001. In addition, we had become increasingly burdened by asbestos litigation and growing legacy obligations for retiree medical and pension costs. The confluence of these factors created the prospect of continuing operating losses and negative cash flows, resulting in lower credit ratings and an inability to access the capital markets.

In the first quarter of 2003, nine of our other subsidiaries filed chapter 11 bankruptcy in order to protect the assets held by those subsidiaries against possible statutory liens that might have otherwise arisen and been enforced by the Pension Benefit Guaranty Corporation (or the PBGC).

On December 20, 2005, the Bankruptcy Court entered an order confirming two separate joint plans of liquidation for four of our commodity-related subsidiaries. On December 22, 2005, these plans of liquidation became effective and all restricted cash and other assets held on behalf of or by the subsidiaries, consisting primarily of approximately $686.8 million of net cash proceeds from the sale of interests in and related to QAL and Alpart, were transferred to a trustee for subsequent distribution to holders of claims against the subsidiaries in accordance with the terms of the plans of liquidation. In connection with the plans of liquidation, these four subsidiaries were dissolved and their corporate existence was terminated.

On February 6, 2006, the Bankruptcy Court entered an order confirming the Plan for us and 21 of our subsidiaries that had filed chapter 11 bankruptcy. On May 11, 2006, the District Court for the District of Delaware entered an order affirming the confirmation order and adopting the Bankruptcy Court s findings of fact and conclusions of law regarding confirmation of our Plan. On July 6, 2006, our Plan became effective and was substantially consummated, whereupon we emerged from chapter 11 bankruptcy.

Pursuant to our Plan, on July 6 2006, the pre-petition ownership interests in Kaiser were cancelled without consideration and approximately $4.4 billion of pre-petition claims against us, including claims in respect of debt, pension and postretirement medical obligations and asbestos and other tort liabilities, were resolved as follows:

Claims in Respect of Retiree Medical Obligations. Pursuant to settlements reached with representatives of hourly and salaried retirees in early 2004:

an aggregate of 11,439,900 shares of our common stock were delivered to the voluntary employees beneficiary association trust, or VEBA, that provides benefits for certain eligible retirees represented by certain unions and their spouses and eligible dependants (which we refer to herein as the Union VEBA) and entities that prior to July 6, 2006 acquired from the Union VEBA rights to receive a portion of such shares; and

an aggregate of 1,940,100 shares of our common stock were delivered to the VEBA that provides benefits for certain other eligible retirees and their surviving spouses and eligible dependents (which we refer to herein as the Salaried VEBA) and entities that prior to July 6, 2006 acquired from the Salaried VEBA rights to receive a portion of such shares; and

we became obligated to make certain contingent annual cash payments of up to $20 million annually to the VEBAs that fluctuate based on earnings, adjusted for certain cash flow items (see Note 7 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data).

Priority Claims and Secured Claims. All pre-petition priority claims, pre-petition priority tax claims and pre-petition secured claims were paid in full in cash.

Unsecured Claims. With respect to pre-petition unsecured claims (other than the personal injury claims specified below):

all pre-petition unsecured claims of the PBGC against our Canadian subsidiaries were satisfied by the delivery of 2,160,000 shares of common stock and $2.5 million in cash; and

all pre-petition general unsecured claims against us, other than our Canadian subsidiaries, including claims of the PBGC and holders of our public debt, were satisfied by the issuance of 4,460,000 shares of our common stock to a third-party disbursing agent, with such shares to be delivered to the holders of such claims in accordance with the terms of our Plan (to the extent that such claims do not constitute convenience claims that have been or will be satisfied with cash payments). Of such 4,460,000 shares of common stock, approximately 197,000 shares are currently being held by the third-party disbursing agent as a reserve pending resolution of disputed claims. To the extent a holder of a disputed claim is not entitled to shares reserved in respect of such claim, such shares will be distributed to holders of allowed claims.

Personal Injury Claims. Certain trusts (which we refer to herein as the PI Trusts) were formed to receive distributions from us, assume responsibility from us for present and future asbestos personal injury claims, present and future silica personal injury claims, present and future coal tar pitch personal injury claims and present but not future noise-induced hearing personal injury claims, and to make payments in respect of such personal injury claims. We contributed to the PI Trusts:

the rights with respect to proceeds associated with personal injury-related insurance recoveries reflected on our consolidated financial statements at June 30, 2006 as a receivable having a value of $963.3 million;

$13 million in cash (less approximately $.3 million advanced prior to July 6, 2006);

the stock of a subsidiary whose primary asset was approximately 145 acres of real estate located in Louisiana and the rights as lessor under a lease agreement for such real property that produces modest rental income; and

75% of a pre-petition general unsecured claim against one of our subsidiaries in the amount of $1,106 million, entitling the PI Trusts to a share of the 4,460,000 shares of common stock distributed to unsecured claimholders.

The PI Trusts assumed all liability and responsibility for present and future asbestos personal injury claims, present and future silica personal injury claims, present and future coal tar pitch personal injury claims and present but not future noise-induced hearing personal injury claims. As of July 6, 2006, injunctions were entered prohibiting any person from pursuing any claims against us or any of our affiliates in respect of such matters.

In general, the rights afforded under our Plan and the treatment of claims under our Plan are in complete satisfaction of and discharge all claims arising on or before July 6, 2006. However, our Plan does not limit any rights that the United States of America or the individual states may have under environmental laws to seek to enforce equitable remedies against us, though we may raise any and all available defenses in any action to enforce such equitable remedies. Further, with regard to certain non-owned sites specified in the environmental settlement agreement entered into in connection with our Plan as to which we and the United States of America had not reached settlement by the confirmation date, all our rights and defenses and those of the United States of America are preserved and not affected by our Plan. With respect to sites owned by us after the confirmation date, specified categories of claims of the United States of America and the individual states party to the environmental settlement agreement are not discharged, impaired or affected in any way by our Plan, and we maintain any and all defenses to any such claims except for any defense alleging such claims were discharged under our Plan.

Cash payments made on July 6, 2006 for priority and secured claims, payments to the PI Trusts, bank and professional fees totaled approximately $29 million and were funded using existing cash resources.

Legal Structure

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

We directly own 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 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 our 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 our London, Ontario operations and certain former KACC Canadian subsidiaries that were largely inactive;

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

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

Item 1A. ***Risk Factors***

This Item may contain statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See Item 1. Business Forward Looking Statements for cautionary information with respect to such forward-looking statements. Such cautionary information should be read as applying to all forward-looking statements wherever they appear in this Report. Forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties. Actual results may vary from those in forward-looking statements as a result of a number of factors including those we discuss in this Item and elsewhere in this Report.

In evaluating us or our common stock, you should carefully consider the following risks. The risks described below are those which we believe are the material risks we face. The occurrence of any of the events discussed below could significantly and adversely affect our business, prospects, financial condition, results of operations and cash flows as well as the trading price of our common stock.

We recently emerged from chapter 11 bankruptcy, have sustained losses in the past and may not be able to maintain profitability.

Because we recently emerged from chapter 11 bankruptcy and have in the past sustained losses, we cannot assure you that we will be able to maintain profitability in the future. We sought protection under chapter 11 of the Bankruptcy Code in February 2002. We emerged from bankruptcy as a reorganized entity on July 6, 2006. Prior to and during this reorganization, we incurred substantial net losses, including net losses of $788.3 million, $746.8 million and $753.7 million in the fiscal years ended December 31, 2003, 2004 and 2005, respectively. If we cannot maintain profitability, the value of an investment in Kaiser may decline.

A reader may not be able to compare our historical financial information to our future financial information, which will make it more difficult to evaluate an investment in our company.

As a result of the effectiveness of our chapter 11 plan of reorganization, our Plan, on July 6, 2006, we are operating our business under a new capital structure. In addition, we adopted fresh start reporting in accordance with American Institute of Certified Public Accountants Statement of Position 90-7, or SOP 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* as of July 1, 2006. Because SOP 90-7 requires us to account for our assets and liabilities at their fair values as of the effectiveness of our Plan, our financial condition and results of operations from and after July 1, 2006 will not be comparable in some material respects to the financial condition or results of operations reflected in our historical financial statements at dates or for periods prior to July 1, 2006. This may make it difficult to assess our future prospects based on historical performance.

We operate in a highly competitive industry which could adversely affect our profitability.

The fabricated products segment of the aluminum industry is highly competitive. Competition in the sale of fabricated aluminum products is based upon quality, availability, price and service, including delivery performance. Many of our competitors are substantially larger than we are and have greater financial resources than we do, and may have other strategic advantages, including more efficient technologies or lower raw material and energy costs. Our facilities are primarily located in North America. To the extent that our competitors have production facilities located outside North America, they may be able to produce similar products at a lower cost. We may not be able to adequately reduce costs to compete with these products. Increased competition could cause a reduction in our shipment volumes and profitability or increase our expenditures, any one of which could have a material adverse effect on our financial position, results of operations and cash flows.

We depend on a core group of significant customers.

In 2006, our largest fabricated products customer, Reliance Steel & Aluminum, accounted for approximately 18% of our fabricated products net sales, and our five largest customers accounted for approximately 41% of our fabricated products net sales. If our existing relationships with significant customers materially deteriorate or are terminated and we are not successful in replacing lost business, our financial position, results of operations and cash flows could be materially and adversely affected. The loss of Reliance as a customer could have a material adverse effect on our financial position, results of operations and cash flows. In addition, a significant downturn in the business or financial condition of any of our significant customers could materially and adversely affect our financial position, results of operations and cash flows.

Some of our current and former international customers, particularly automobile manufacturers in Europe and Japan, were reluctant to do business with us while we underwent chapter 11 bankruptcy reorganization, presumably because of their unfamiliarity with U.S. bankruptcy laws and the uncertainty about the strength of our business. Although we believe our emergence from chapter 11 bankruptcy should mitigate such reluctance, we can give no assurance that this will be the case.

Our industry is very sensitive to foreign economic, regulatory and political factors that may adversely affect our business.

We import primary aluminum from, and manufacture fabricated products used in, foreign countries. We also own 49% of Anglesey, which owns and operates an aluminum smelter in the United Kingdom. We purchase alumina to supply to Anglesey and we purchase aluminum from Anglesey for sale to a third party in the United Kingdom. Factors in the politically and economically diverse countries in which we operate or have customers or suppliers, including inflation, fluctuations in currency and interest rates, competitive factors, civil unrest and labor problems, could affect our financial position, results of operations and cash flows. Our financial position, results of operations and cash flows could also be adversely affected by:

- acts of war or terrorism or the threat of war or terrorism;
- government regulation in the countries in which we operate, service customers or purchase raw materials;
- the implementation of controls on imports, exports or prices;
- the adoption of new forms of taxation;
- the imposition of currency restrictions;
- the nationalization or appropriation of rights or other assets; and
- trade disputes involving countries in which we operate, service customers or purchase raw materials.

The aerospace industry is cyclical and downturns in the aerospace industry, including downturns resulting from acts of terrorism, could adversely affect our revenues and profitability.

We derive a significant portion of our revenue from products sold to the aerospace industry, which is highly cyclical and tends to decline in response to overall declines in industrial production. As a result, our business is affected by overall levels of industrial production and fluctuations in the aerospace industry. The commercial aerospace industry is historically driven by the demand from commercial airlines for new aircraft. Demand for commercial aircraft is influenced by airline industry profitability, trends in airline passenger traffic, by the state of the U.S. and world economies and numerous other factors, including the effects of terrorism. The military aerospace cycle is highly dependent on U.S. and foreign government funding; however, it is also driven by the effects of terrorism, a changing global political environment, U.S. foreign policy, regulatory changes, the retirement of older aircraft and technological improvements to new aircraft engines that increase reliability. The timing, duration and severity of cyclical upturns and downturns cannot be predicted with certainty. A future downturn or reduction in demand could have a material adverse effect on our financial position, results of operations and cash flows.

In addition, because we and other suppliers are expanding production capacity to alleviate the current supply shortage for heat treat aluminum plate, heat treat plate prices may eventually begin to decrease as production capacity increases. Although we have implemented cost reduction and sales growth initiatives to minimize the impact on our results of operations as heat treat plate prices return to more typical historical levels, these initiatives may not be adequate and our financial position, results of operations and cash flows may be adversely affected.

A number of major airlines have also recently undergone or are undergoing chapter 11 bankruptcy and continue to experience financial strain from high fuel prices. Continued financial instability in the industry may lead to reduced demand for new aircraft that utilize our products, which could adversely affect our financial position, results of operations and cash flows.

The aerospace industry suffered significantly in the wake of the events of September 11, 2001, resulting in a sharp decrease globally in new commercial aircraft deliveries and order cancellations or deferrals by the major airlines. This decrease reduced the demand for our Aero/HS products. While there has been a recovery since 2001, the threat of terrorism and fears of future terrorist acts could negatively affect the aerospace industry and our financial position, results of operations and cash flows.

Our customers may reduce their demand for aluminum products in favor of alternative materials.

Our fabricated aluminum products compete with products made from other materials, such as steel and composites, for various applications. For instance, the commercial aerospace industry has used and continues to evaluate the further use of alternative materials to aluminum, such as composites, in order to reduce the weight and increase the fuel efficiency of aircraft. The willingness of customers to accept substitutions for aluminum or the ability of large customers to exert leverage in the marketplace to reduce the pricing for fabricated aluminum products could adversely affect the demand for our products, particularly our aerospace and high strength products, and thus adversely affect our financial position, results of operations and cash flows.

Downturns in the automotive industry could adversely affect our net sales and profitability.

The demand for many of our general engineering and custom products is dependent on the production of automobiles, light trucks and heavy duty vehicles in North America. The automotive industry is highly cyclical, as new vehicle demand is dependent on consumer spending and is tied closely to the overall strength of the North American economy. The North American automotive industry is facing costly inventory corrections which could adversely affect our net sales and profitability. Recent production cuts announced by General Motors Corporation, Ford Motor Company and DaimlerChrysler AG, as well as cutbacks in heavy duty truck production, may adversely affect the demand for our products. If the financial condition of these auto manufacturers continues to be unsteady or if any of the three seek restructuring or relief through bankruptcy proceedings, the demand for our products may decline, adversely affecting our net sales and profitability. Any decline in the demand for new automobiles, particularly in the United States, could have a material adverse effect on our financial position, results of operations and cash flows. Seasonality experienced by the automotive industry in the third and fourth quarters of the calendar year also affects our financial position, results of operations and cash flows.

Because our products are often components of our customers products, reductions in demand for our products may be more severe than, and may occur prior to reductions in demand for, our customers products.

Our products are often components of the end-products of our customers. Customers purchasing our fabricated aluminum products, such as those in the cyclical automotive and aerospace industries, generally require significant lead time in the production of their own products. Therefore, demand for our products may increase prior to demand for our customers   products. Conversely, demand for our products may decrease as our customers anticipate a downturn in their respective businesses. As demand for our customers   products begins to soften, our customers typically reduce or eliminate their demand for our products and meet the reduced demand for their products using their own inventory without replenishing that inventory, which results in a reduction in demand for our products that is greater than the reduction in demand for their products. This amplified reduction in demand for our products in the event of a downswing in our customers respective businesses may adversely affect our financial position, results of operations and cash flows.

Our business is subject to unplanned business interruptions which may adversely affect our performance.

The production of fabricated aluminum products is subject to unplanned events such as explosions, fires, inclement weather, natural disasters, accidents, transportation interruptions and supply interruptions. Operational interruptions at one or more of our production facilities, particularly interruptions at our Trentwood facility in Spokane, Washington where our production of plate and sheet is concentrated, could cause substantial losses in our production capacity. Furthermore, because customers may be dependent on planned deliveries from us, customers that have to reschedule their own production due to our delivery delays may be able to pursue financial claims against us, and we may incur costs to correct such problems in addition to any liability resulting from such claims. Such interruptions may also harm our reputation among actual and potential customers, potentially resulting in a loss of business. To the extent these losses are not covered by insurance, our financial position, results of operations and cash flows may be adversely affected by such events.

Covenants and events of default in our debt instruments could limit our ability to undertake certain types of transactions and adversely affect our liquidity.

Our revolving credit facility and term loan facility contain negative and financial covenants and events of default that may limit our financial flexibility and ability to undertake certain types of transactions. For instance, we are subject to negative covenants that restrict our activities, including restrictions on creating liens, engaging in mergers, consolidations and sales of assets, incurring additional indebtedness, providing guaranties, engaging in different businesses, making loans and investments, making certain dividends, debt and other restricted payments, making certain prepayments of indebtedness, engaging in certain transactions with affiliates and entering into certain restrictive agreements. If we fail to satisfy the covenants set forth in our revolving credit facility and term loan facility or another event of default occurs under these facilities, the maturity of the loans could be accelerated or, in the case of the revolving credit facility, we could be prohibited from borrowing for our working capital needs. If the loans are accelerated and we do not have sufficient cash on hand to pay all amounts due, we could be required to sell assets, to refinance all or a portion of our indebtedness or to obtain additional financing. Refinancing may not be possible and additional financing may not be available on commercially acceptable terms, or at all. If we cannot borrow under the revolving credit facility to meet our working capital needs, we would need to seek additional financing, if available, or curtail our operations.

We depend on our subsidiaries for cash to meet our obligations and pay any dividends.

We are a holding company. Our subsidiaries conduct all of our operations and own substantially all of our assets. Consequently, our cash flow and our ability to meet our obligations or pay dividends to our stockholders depend upon the cash flow of our subsidiaries and the payment of funds by our subsidiaries to us in the form of dividends, tax sharing payments or otherwise. Our subsidiaries ability to make any payment will depend on their earnings, the terms of their indebtedness (including the revolving credit facility and term loan facility), tax considerations and legal restrictions.

We may not be able to successfully implement our productivity and cost reduction initiatives.

We have undertaken and may continue to undertake productivity and cost reduction initiatives to improve performance, including deployment of company-wide business improvement methodologies, such as our production system, the Kaiser Production System, which involves the integrated utilization of application and advanced process engineering and business improvement methodologies such as lean enterprise, total productive maintenance and six sigma. We cannot assure you that these initiatives will be completed or beneficial to us or that any estimated cost saving from such activities will be realized. Even if we are able to generate new efficiencies successfully in the short to medium term, we may not be able to continue to reduce cost and increase productivity over the long term.

Our profitability could be adversely affected by increases in the cost of raw materials.

The price of primary aluminum has historically been subject to significant cyclical price fluctuations, and the timing of changes in the market price of aluminum is largely unpredictable. Although our pricing of fabricated aluminum products is generally intended to pass the risk of price fluctuations on to our customers, we may not be able to pass on the entire cost of such increases to our customers or offset fully the effects of higher costs for other raw materials, which may cause our profitability to decline. There will also be a potential time lag between increases in prices for raw materials under our purchase contracts and the point when we can implement a corresponding increase in price under our sales contracts with our customers. As a result, we may be exposed to fluctuations in raw materials prices, including aluminum, since, during the time lag, we may have to bear the additional cost of the price increase under our purchase contracts. If these events were to occur, they could have a material adverse effect on our financial position, results of operations and cash flows. Furthermore, we are party to arrangements based on fixed prices that include the primary aluminum price component, so that we bear the entire risk of rising aluminum prices, which may cause our profitability to decline. In addition, an increase in raw materials prices may cause some of our customers to substitute other materials for our products, adversely affecting our results of operations due to both a decrease in the sales of fabricated aluminum products and a decrease in demand for the primary aluminum produced at Anglesey.

We are responsible for selling alumina to Anglesey in proportion to our ownership percentage at a predetermined price. Such alumina currently is purchased under contracts that extend through 2007 at prices that are tied to primary aluminum prices. We will need to secure a new alumina contract for the period after 2007. We cannot assure you that we will be able to secure a source of alumina at comparable prices. If we are unable to do so, our financial position, results of operations and cash flows associated with our primary aluminum business segment may be adversely affected.

The price volatility of energy costs may adversely affect our profitability.

Our income and cash flows depend on the margin above fixed and variable expenses (including energy costs) at which we are able to sell our fabricated aluminum products. The volatility in costs of fuel, principally natural gas, and other utility services, principally electricity, used by our production facilities affect operating costs. Fuel and utility prices have been, and will continue to be, affected by factors outside our control, such as supply and demand for fuel and utility services in both local and regional markets. The daily closing price of the front-month futures contract for natural gas per million British thermal units as reported on NYMEX ranged between $4.57 and $8.75 in 2004, between $5.79 and $15.38 in 2005 and between $4.20 and $10.63 in 2006. Typically, electricity prices fluctuate with natural gas prices which increases our exposure to energy costs. Future increases in fuel and utility prices may have an adverse effect on our financial position, results of operations and cash flows.

Our hedging programs may limit the income and cash flows we would otherwise expect to receive if our hedging program were not in place.

From time to time in the ordinary course of business, we may enter into hedging transactions to limit our exposure to price risks relating to primary aluminum prices, energy prices and foreign currency. To the extent that these hedging transactions fix prices or exchange rates and the prices for primary aluminum exceed the fixed or ceiling prices established by these hedging transactions or energy costs or foreign exchange rates are below the fixed prices, our income and cash flows will be lower than they otherwise would have been.

The expiration of the power agreement for Anglesey may adversely affect our cash flows and affect our hedging programs.

The agreement under which Anglesey receives power expires in September 2009, and the nuclear facility which supplies such power is scheduled to cease operations in late 2010. As of the date of this Report, Anglesey has not identified a source from which to obtain sufficient power to sustain its operations on reasonably acceptable terms thereafter, and we cannot assure you that Anglesey will be able to do so. If, as a result, Anglesey s aluminum production is curtailed or its costs are increased, our cash flows may be adversely affected. In addition, any decrease in Anglesey s production would reduce or eliminate the natural hedge against rising primary aluminum prices created by our participation in the primary aluminum market and, accordingly, we may deem it appropriate to increase our hedging activity to limit exposure to such price risks, potentially adversely affecting our financial position, results of operations and cash flows.

If Anglesey cannot obtain sufficient power, Anglesey s operations will likely be shut down. Given the potential for future shut down and related costs, dividends from Anglesey have been suspended temporarily while Anglesey studies future cash requirements. The shut down may involve significant costs to Anglesey which would decrease or eliminate its ability to pay dividends. The process of shutting down operations may involve transition complications which may prevent Anglesey from operating at full capacity until the expiration of the power contract. As a result, our financial position, results of operations and cash flows may be negatively affected even before the September 2009 expiration of the power contract.

Our ability to keep key management and other personnel in place and our ability to attract management and other personnel may affect our performance.

We depend on our senior executive officers and other key personnel to run our business. The loss of any of these officers or other key personnel could materially and adversely affect our operations. Competition for qualified employees among companies that rely heavily on engineering and technology is intense, and the loss of qualified employees or an inability to attract, retain and motivate additional highly skilled employees required for the operation and expansion of our business could hinder our ability to improve manufacturing operations, conduct research activities successfully or develop marketable products.

Our production costs may increase and we may not sustain our sales and earnings if we fail to maintain satisfactory labor relations.

A significant number of our employees are represented by labor unions under labor contracts with varying durations and expiration dates. We may not be able to renegotiate our labor contracts when they expire on satisfactory terms or at all. A failure to do so may increase our costs or cause us to limit or halt operations before a new agreement is reached. In addition, our existing labor agreements may not prevent a strike or work stoppage, and any work stoppage could have a material adverse effect on our financial position, results of operations and cash flows.

Our business is regulated by a wide variety of health and safety laws and regulations and compliance may be costly and may adversely affect our results of operations.

Our operations are regulated by a wide variety of health and safety laws and regulations. Compliance with these laws and regulations may be costly and could have a material adverse effect on our results of operations. In addition, these laws and regulations are subject to change at any time, and we can give you no assurance as to the effect that any such changes would have on our operations or the amount that we would have to spend to comply with such laws and regulations as so changed.

Environmental compliance, clean up and damage claims may decrease our cash flow and adversely affect our results of operations.

We are subject to numerous environmental laws and regulations with respect to, among other things: air and water emissions and discharges; the generation, storage, treatment, transportation and disposal of solid and hazardous waste; and the release of hazardous or toxic substances, pollutants and contaminants into the environment. Compliance with these environmental laws is and will continue to be costly.

Our operations, including our operations conducted prior to our emergence from chapter 11 bankruptcy, have subjected, and may in the future subject, us to fines or penalties for alleged breaches of environmental laws and to obligations to perform investigations or clean up of the environment. We may also be subject to claims from governmental authorities or third parties related to alleged injuries to the environment, human health or natural resources, including claims with respect to waste disposal sites, the clean up of sites currently or formerly used by us or exposure of individuals to hazardous materials. Any investigation, clean-up or other remediation costs, fines or penalties, or costs to resolve third-party claims may be costly and could have a material adverse effect on our financial position, results of operations and cash flows.

We have accrued, and will accrue, for costs relating to the above matters that are reasonably expected to be incurred based on available information. However, it is possible that actual costs may differ, perhaps significantly, from the amounts expected or accrued, and such differences could have a material adverse effect on our financial position, results of operations and cash flows. In addition, new laws or regulations or changes to existing laws and regulations may occur, and we cannot assure you as to the amount that we would have to spend to comply with such new or amended laws and regulations or the effects that they would have on our financial position, results of operations and cash flows.

Other legal proceedings or investigations or changes in the laws and regulations to which we are subject may adversely affect our results of operations.

In addition to the environmental matters described above, we may from time to time be involved in, or be the subject of, disputes, proceedings and investigations with respect to a variety of matters, including matters related to health and safety, personal injury, employees, taxes and contracts, as well as other disputes and proceedings that arise in the ordinary course of business. It could be costly to defend against these claims or any investigations involving them, whether meritorious or not, and legal proceedings and investigations could divert management s attention as well as operational resources, negatively affecting our financial position, results of operations and cash flows. It could also be costly to make payments on account of any such claims.

Additionally, as with the environmental laws and regulations to which we are subject, the other laws and regulations which govern our business are subject to change at any time, and we cannot assure you as to the amount that we would have to spend to comply with such laws and regulations as so changed or otherwise as to the effect that any such changes would have on our operations.

Product liability claims against us could result in significant costs or negatively affect our reputation and could adversely affect our results of operations.

We are sometimes exposed to warranty and product liability claims. We cannot assure you that we will not experience material product liability losses arising from such claims in the future. We generally maintain insurance against many product liability risks but we cannot assure you that our coverage will be adequate for liabilities ultimately incurred. In addition, we cannot assure you that insurance will continue to be available to us on terms acceptable to us. A successful claim that exceeds our available insurance coverage could have a material adverse effect on our financial position, results of operations and cash flows.

Our Trentwood expansion project may not be completed as scheduled.

We are currently in the process of a $105 million expansion of production capacity and gauge capability at our Trentwood facility. While the project is currently on schedule to be completed in 2008, with substantially all costs being incurred in 2006 and 2007, our ability to fully complete this project, and the timing and costs of doing so, are subject to various risks associated with all major construction projects, many of which are beyond our control, including technical or mechanical problems. If we are unable to fully complete this project or if the actual costs for this project exceed our current expectations, our financial position, results of operations and cash flows would be adversely affected. In addition, we have contracts currently in place expected to be fulfilled with production from the expanded facility. If completion of the expansion is significantly delayed or the expansion is not fully completed, we may not be able to meet shipping deadlines on time or at all, which would adversely affect our results of operations, may lead to litigation and may damage our relationships with these customers and our reputation generally.

We may not be able to successfully execute our strategy of growth through acquisitions.

A component of our growth strategy is to acquire fabricated products assets in order to complement our product portfolio. Our ability to do so will be dependent upon a number of factors, including our ability to identify acceptable acquisition candidates, consummate acquisitions on favorable terms, successfully integrate acquired assets, obtain financing to fund acquisitions and support our growth and many other factors beyond our control. Risks associated with acquisitions include those relating to:

- diversion of management s time and attention from our existing business;
- challenges in managing the increased scope, geographic diversity and complexity of operations;
- difficulties in integrating the financial, technological and management standards, processes, procedures and controls of the acquired business with those of our existing operations;
- liability for known or unknown environmental conditions or other contingent liabilities not covered by indemnification or insurance;
- greater than anticipated expenditures required for compliance with environmental or other regulatory standards or for investments to improve operating results;
- difficulties in achieving anticipated operational improvements;
- incurrence of additional indebtedness to finance acquisitions or capital expenditures relating to acquired assets; and
- issuance of additional equity, which could result in further dilution of the ownership interests of existing stockholders.

We may not be successful in acquiring additional assets, and any acquisitions that we do consummate may not produce the anticipated benefits or may have adverse effects on our financial position, results of operations and cash flows.

In our 2005 Form 10-K, we have reported one material weakness relating to hedge accounting in our internal control over financial reporting, which resulted in the restatement of our financial statements, and one significant deficiency.

During the first quarter of 2006 as part of the reporting and closing process relating to the preparation of our December 31, 2005 financial statements, we concluded that our controls and procedures were not effective as of December 31, 2005 because due to a material weakness in internal control over financial reporting existed relating to our accounting for derivative financial instruments. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statements would not be prevented or detected. We concluded that our procedures relating to hedging transactions were not designed effectively and that our documentation did not comply with certain accounting rules, thus requiring us to account for our derivatives on a mark-to-market basis. While we are working to modify our documentation and requalify certain derivative transactions for treatment as hedges, and have engaged outside experts to perform periodic reviews, we cannot assure you that such improved controls will prevent any or all instances of non-compliance. As a result of the material weakness, we restated our financial statements for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005, to reflect mark-to-market accounting. See Part II, Item 9A, Controls and Procedures in this Report for more information. Until we requalify our derivatives for hedge accounting treatment, we will not consider this matter to be fully remediated.

We also concluded that the appropriate post-emergence accounting treatment for payments made in 2005 to the voluntary employees beneficiary association trusts, or VEBAs, created in connection with our chapter 11 reorganization required presentation of VEBA payments as a reduction of pre-petition retiree medical obligations rather than as a period expense, as we had concluded in prior quarters. Our prior treatment of VEBA payments was identified as a significant deficiency in our internal control over financial reporting at December 31, 2005. We corrected this deficiency during the preparation of our December 31, 2005 financial statements and, accordingly, such deficiency did not exist at the end of the subsequent periods.

Although we believe we have or will address these issues with the remedial measures that we have implemented or plan to implement, the measures we have taken to date and any future measures may not be effective, and we may not be able to implement and maintain effective internal control over financial reporting in the future. In addition, other deficiencies in our internal controls may be discovered in the future.

Any failure to correct the material weakness or to implement new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure also could affect the ability of our management to certify that our internal controls are effective when it provides an assessment of our internal control over financial reporting, and could affect the results of our independent registered public accounting firm s attestation report regarding our management s assessment. Inferior internal controls and further related restatements could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

We will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 by no later than December 31, 2007. We are in the process of evaluating our internal controls systems to allow management to report on, and our independent auditors to audit, our internal controls over financial reporting. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404. However, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations. Furthermore, upon completion of this process, we may identify control deficiencies of varying degrees of severity under applicable Securities and Exchange Commission, or SEC, and Public Company Accounting Oversight Board rules and regulations that remain unremediated. We will be required to report, among other things, control deficiencies that constitute a material weakness or changes in internal controls that, or are reasonably likely to, materially affect internal controls over financial reporting. A material weakness is a control deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. If we fail to implement the requirements of Section 404 in a timely manner, we might be subject to sanctions or investigation by regulatory authorities such as the SEC or by NASDAQ. Additionally, failure to comply with Section 404 or the report by us of a material weakness may cause investors to lose confidence in our financial statements and our stock price may be adversely affected. If we fail to remedy any material weakness, our financial statements may be inaccurate, we may not have access to the capital markets, and our stock price may be adversely affected.

We may not be able to adequately protect proprietary rights to our technology.

Our success will depend in part upon our proprietary technology and processes. Although we attempt to protect our intellectual property through patents, trademarks, trade secrets, copyrights, confidentiality and nondisclosure agreements and other measures, these measures may not be adequate to protect such intellectual property, particularly in foreign countries where the laws may offer significantly less intellectual property protection than is offered by the laws of the United States. In addition, any attempts to enforce our intellectual property rights, even if successful, could result in costly and prolonged litigation, divert management s attention and adversely affect income and cash flows. Failure to adequately protect our intellectual property may adversely affect our results of operations as our competitors would be able to utilize such property without having had to incur the costs of developing it, thus potentially reducing our relative profitability. Furthermore, we may be subject to claims that our technology infringes the intellectual property rights of another. Even if without merit, those claims could result in costly and prolonged litigation, divert management s attention and adversely affect our income and cash flows. In addition, we may be required to enter into licensing agreements in order to continue using technology that is important to our business. However, we may be unable to obtain license agreements on acceptable terms, which could negatively affect our financial position, results of operations and cash flows.

We may not be able to utilize all of our net operating loss carry-forwards.

We have net operating loss carry-forwards and other significant U.S. tax attributes that we believe could offset otherwise taxable income in the United States. We believe that these tax attributes could together offset in the range of $975 to $1,050 million of otherwise taxable income. This matter will, however, not be better determinable until the completion of our 2006 income tax return analysis during mid/late 2007. The amount of net operating loss carry-forwards available in any year to offset our net taxable income will be reduced or eliminated if we experience a change of ownership as defined in the Internal Revenue Code. We have entered into a stock transfer restriction agreement with our largest stockholder, a VEBA that provides benefits for certain eligible retirees represented by certain unions and their spouses and eligible dependents (which we refer to as the Union VEBA) and our certificate of incorporation prohibits and voids certain transfers of our common stock in order to reduce the risk that a change of ownership will jeopardize our net operating loss carry-forwards. Because U.S. tax law limits the time during which carry-forwards may be applied against future taxes, we may not be able to take full advantage of the carry-forwards for federal income tax purposes. In addition, the tax laws pertaining to net operating loss carry-forwards may be changed from time to time such that the net operating loss carry-forwards may be reduced or eliminated. If the net operating loss carry-forwards become unavailable to us or are fully utilized, our future income will not be shielded from federal income taxation, thereby reducing funds otherwise available for general corporate purposes.

Our current common stock has a limited trading history and a small public float which may limit development of a market for our common stock and increase the likelihood of significant volatility in the market for our common stock.

In order to reduce the risk that any change in our ownership would jeopardize the preservation of our U.S. federal income tax attributes, including net operating loss carry-forwards, for purposes of Sections 382 and 383 of the Internal Revenue Code, upon emergence from chapter 11 bankruptcy, we entered into a stock transfer restriction agreement with our largest stockholder, the Union VEBA, and amended and restated our certificate of incorporation to include restrictions on transfers involving 5% ownership. These transfer restrictions could hinder development of an active market for our common stock. In addition, the market price of our common stock may be subject to significant fluctuations in response to numerous factors, including variations in our annual or quarterly financial results or those of our competitors, changes by financial analysts in their estimates of our future earnings, substantial amounts of our common stock being sold into the public markets upon the expiration of share transfer restrictions, which expire in July 2016, or upon the occurrence of certain events relating to U.S. tax benefits available under section 382 of the Internal Revenue Code, conditions in the economy in general or in the fabricated aluminum products industry in particular or unfavorable publicity.

Our net sales, operating results and profitability may vary from period to period, which may lead to volatility in the trading price of our stock.

Our financial and operating results may be significantly below the expectations of public market analysts and investors and the price of our common stock may decline due to the following factors:

- volatility in the spot market for primary aluminum and energy costs;
- our annual accruals for variable payment obligations to the Union VEBA and another VEBA that provides benefits for certain other eligible retirees and their surviving spouses and eligible dependents (which we refer to as the Salaried VEBA);
- non-cash charges including last-in, first-out, or LIFO, inventory charges and impairments;
- global economic conditions;
- unanticipated interruptions of our operations for any reason;
- variations in the maintenance needs for our facilities;

unanticipated changes in our labor relations; and

cyclical aspects impacting demand for our products.

Our annual variable payment obligation to the Union VEBA and Salaried VEBA are linked with our profitability, which means that not all of our earnings will be available to our stockholders.

We are obligated to make annual payments to the Union VEBA and Salaried VEBA calculated based on our profitability and therefore not all of our earnings will be available to our stockholders. The aggregate amount of our annual payments to these VEBAs is capped, however, at $20 million and is subject to other limitations. As a result of these payment obligations, our earnings and cash flows may be reduced.

A significant percentage of our stock is held by the Union VEBA which may exert significant influence over us.

The Union VEBA currently owns 26.7% of our common stock. As a result, the Union VEBA has significant influence over matters requiring stockholder approval, including the composition of our board of directors. Further, to the extent that the Union VEBA and other substantial stockholders were to act in concert, they could potentially control any action taken by our stockholders. This concentration of ownership could also facilitate or hinder proxy contests, tender offers, open market purchase programs, mergers or other purchases of our common stock that might otherwise give stockholders the opportunity to realize a premium over the then prevailing market price of our common stock or cause the market price of our common stock to decline. We cannot assure you that the interests of our major stockholders will not conflict with our interests or the interests of our other investors.

The USW has director nomination rights through which it may influence us, and USW interests may not align with our interests or the interests of our other investors.

Pursuant to an agreement, the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC, or USW, has been granted rights to nominate 40% of the candidates to be submitted to our stockholders for election to our board of directors. As a result, the directors nominated by the USW may have a significant voice in the decisions of our board of directors.

We do not currently anticipate paying any dividends, and our payment of dividends and stock repurchases are subject to restriction.

We have not declared or paid any cash dividends on our common stock since we filed chapter 11 bankruptcy in 2002. We currently intend to retain all earnings for the operation and expansion of our business and do not currently anticipate paying any dividends on our common stock. The declaration and payment of dividends, if any, in the future will be at the discretion of the board of directors and will be dependent upon our results of operations, financial condition, cash requirements, future prospects and other factors. Accordingly, from time to time, the board may declare dividends, though we can give you no assurance in this regard. Moreover, our revolving credit facility and our term loan facility restrict our ability to declare or pay dividends or repurchase any shares of our common stock. In addition, significant repurchases of our shares of common stock may jeopardize the preservation of our federal income tax attributes, including our net operating loss carry-forwards.

Our certificate of incorporation includes transfer restrictions that may void transactions in our common stock effected by 5% stockholders.

Our certificate of incorporation places restrictions on transfer of our equity securities if either (1) the transferor holds 5% or more of the fair market value of all of our issued and outstanding equity securities or (2) as a result of the transfer, either any person would become such a 5% stockholder or the percentage stock ownership of any such 5% stockholder would be increased. These restrictions are subject to exceptions set forth in our certificate of incorporation. Any transfer that violates these restrictions will be unwound as provided in our certificate of incorporation. Moreover, as indicated below, these provisions may make our stock less attractive to large institutional holders, and may also discourage potential acquirers from attempting to take over our company. As a result, these transfer restrictions may have the effect of delaying or deterring a change of control of our company and may limit the price that investors might be willing to pay in the future for shares of our common stock.

Delaware law, our governing documents and the stock transfer restriction agreement we entered into as part of our Plan may impede or discourage a takeover, which could adversely affect the value of our common stock.

Provisions of Delaware law, our certificate of incorporation and the stock transfer restriction agreement with the Union VEBA may have the effect of discouraging a change of control of our company or deterring tender offers for our common stock. We are currently subject to anti-takeover provisions under Delaware law. These anti-takeover provisions impose various impediments to the ability of a third party to acquire control of us, even if a change of control would be beneficial to our existing stockholders. Additionally, provisions of our certificate of incorporation and bylaws impose various procedural and other requirements, which could make it more difficult for stockholders to effect some corporate actions. For example, our certificate of incorporation authorizes our board of directors to determine the rights, preferences and privileges and restrictions of unissued shares of preferred stock without any vote or action by our stockholders. Thus, our board of directors can authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of common stock. Our certificate of incorporation also divides our board of directors into three classes of directors who serve for staggered terms. A significant effect of a classified board of directors may be to deter hostile takeover attempts because an acquirer could experience delays in replacing a majority of directors. Moreover, stockholders are not permitted to call a special meeting. As indicated above, our certificate of incorporation prohibits certain transactions in our common stock involving 5% stockholders or parties who would become 5% stockholders as a result of the transaction. In addition, we are party to a stock transfer restriction agreement with the Union VEBA which limits its ability to transfer our common stock. The general effect of the transfer restrictions in the stock transfer restriction agreement and our certificate of incorporation is to ensure that a change in ownership of more than 45% of our outstanding common stock cannot occur in any three-year period. These rights and provisions may have the effect of delaying or deterring a change of control of our company and may limit the price that investors might be willing to pay in the future for shares of our common stock.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

The locations and general character of the principal plants and other materially important physical properties relating to our operations are described in Item 1. Business Business Operations and those descriptions are incorporated herein by reference. We own in fee or lease all the real estate and facilities used in connection with our business. Plants and equipment and other facilities are generally in good condition and suitable for their intended uses.

All but three of our fabricated aluminum production facilities are owned by us and/or our subsidiaries. The Chandler, Arizona facility is subject to a lease with a primary lease term that expires in 2033. We have certain extension rights in respect of the Chandler lease. The Richland, Washington facility is subject to a lease with a 2011 expiration date, subject to certain extension rights held by us. The Los Angeles facility is subject to a lease with a 2014 expiration date.

Our corporate headquarters and primary place of business is located in Foothill Ranch, California and is leased.

Our obligations under the revolving credit facility and the term loan facility are secured by, among other things, liens on our U.S. production facilities. See Note 5 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for further discussion.

Item 3. ***Legal Proceedings***

This Item may contain statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See Item 1. Business Forward-Looking Statements of this Report for cautionary information with respect to such forward-looking statements. Such cautionary information should be read as applying to all forward-looking statements whenever they appear in this Report, including this Item.

Forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties. Actual results may vary from those in forward-looking statements as a result of a number of factors including those we discuss in this Item, in Item 1A. Risk Factors and elsewhere in this Report.

Reorganization Proceedings

The discussion in Item 1. Business Emergence from Reorganization Proceedings and Notes 2 and 14 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data are incorporated herein by reference. Pursuant to our Plan, on July 6, 2006, the pre-petition ownership interests of Kaiser were cancelled without consideration and approximately $4.4 billion of pre-petition claims against us, including claims in respect of debt, pension and postretirement medical obligations and asbestos and other tort liabilities were resolved on our emergence from chapter 11 bankruptcy.

Other Environmental Matters

We have been working with regulatory authorities and performing studies and remediation pursuant to several consent orders with the State of Washington relating to the historical use of oils containing polychlorinated byphenyls, or PCBs, at our Trentwood facility in Spokane, Washington before 1978. During April 2004, we were served with a subpoena for documents and notified by Federal authorities that they were investigating certain environmental compliance issues with respect to our Trentwood facility in the State of Washington. In early 2007, we received a letter from the regulatory authorities confirming that their investigation had been closed.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matter was submitted to a vote of our security holders during the fourth quarter of 2006.

PART II

Item 5. ***Market for Registrant s Common Equity and Related Stockholder Matters***

Market Information

Our outstanding common stock is traded on the Nasdaq Global Market under the ticker symbol KALU.

The following table sets forth the high and low sale prices of our common stock for each quarterly period since such common stock began trading on the Nasdaq Global Market on July 7, 2006.

	High	Low
Fiscal 2006		
Third quarter (from July 7, 2006)	$ 44.50	$ 37.50
Fourth quarter	$ 62.00	$ 43.50

Holders

As of February 28, 2007, there were 494 holders of record of our common stock.

Dividends

We have not paid any dividends on our common stock during the two most recent fiscal years. We currently intend to retain all earnings for the operation and expansion of our business and do not currently anticipate paying any dividends on our common stock. The declaration and payment of dividends, if any, in the future will be at the discretion of the board of directors and will be dependent upon our results of operations, financial condition, cash requirements, future prospects and other factors. Accordingly, from time to time, the board may declare dividends, though we can give no assurance in this regard. The revolving credit facility and the term loan facility currently restrict our ability to pay any dividends or purchase any of our stock. Under these credit arrangements, we may pay cash dividends only if we are not in default or would not be in default as a result of the dividends; and to an amount based on a portion of cumulative earnings, net of dividends, as adjusted for certain other cash inflows.

Stock Performance Graph

The following graph shows the change in our cumulative total shareholder return for the period from July 7, 2006 to December 31, 2006, based on the market price of our common stock, compared with: (1) the Dow-Jones Wilshire 5000 and (2) the S & P Smallcap 600. The graph assumes a total initial investment of $100 as of July 7, 2006, and shows a Total Return that assumes reinvestment of dividends, if any. The performance on the following graph is not necessarily indicative of future performance of our stock price.

COMPARISON OF 6 MONTH CUMULATIVE TOTAL RETURN*
Among Kaiser Aluminum Corporation, The Dow Jones Wilshire 5000 Index
And The S & P Smallcap 600 Index

* $100 invested on 7/7/06 in stock or on 6/30/06 in index-including reinvestment of dividends.
Fiscal year ending December 31.

Our performance graph reflects the cumulative return of (i) the Dow Jones Wilshire 5000, a broad equity market index that includes companies whose equity securities are traded on the Nasdaq Global Market and (ii) the S&P Smallcap 600. We elected to use the latter after determining that no published industry or line-of-business indexes where closely enough related to our industry or business to provide a reasonable basis for comparison. Similarly, we determined that we could not identify comparables to include in a peer group that would provide a reasonable basis for comparison and that, as a result, an index consisting of companies with similar market capitalizations was appropriate.

Item 6. ***Selected Financial Data***

The table at page 28 of Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 11 of Notes to Consolidated Financial Statements, and Five-Year Financial Data included in Item 8. Financial Statements and Supplementary Data are incorporated herein by reference.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

This Item may contain statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See Item 1 Business Forward-Looking Statements for *cautionary information with respect to such forward-looking statements. Such cautionary information should be read as applying to all forward-looking statements wherever they appear in this Report, including this Item. Forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties. Actual results may vary from those in the forward-looking statements as a result of a number of factors, including those we discuss in this Item, in Item 1A. Risk Factors and elsewhere in this Report.*

In the discussion of operating results below, certain items are referred to as non-run-rate items. For purposes of such discussion, non-run-rate items are items that, while they may recur from period to period, are (1) particularly material to results, (2) affect costs as a result of external market factors, and (3) may not recur in future periods if the same level of underlying performance were to occur. Non-run-rate items are part of our business and operating environment but are worthy of being highlighted for benefit of the users of the financial statements. Our intent is to allow users of the financial statements to consider our results both in light of and separately from fluctuations in underlying metal prices.

Emergence from Reorganization Proceedings

As more fully discussed in Note 14 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data during the past four years, Kaiser and 25 of its subsidiaries operated under chapter 11 of the United States Bankruptcy Code under the supervision of the United States Bankruptcy Court for the District of Delaware.

As outlined in Notes 2 and 14 of Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data, pursuant to our Second Amended Plan of Reorganization, or our Plan, we emerged from chapter 11 bankruptcy on July 6, 2006 with all of our fabricated products facilities and operations and a 49% interest in Anglesey, which owns a smelter in the United Kingdom. Pursuant to our Plan, all material pre-petition debt, pension and postretirement medical obligations and asbestos and other tort liabilities, along with other pre-petition claims (which in total aggregated at June 30, 2006 approximately $4.4 billion), were addressed and resolved. Pursuant to our Plan, all of the equity interests of Kaiser s pre-emergence stockholders were cancelled without consideration. Equity of the newly emerged Kaiser was issued and delivered to a third-party disbursing agent for distribution to claimholders pursuant to our Plan. See Note 14 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for additional information on the reorganization process and our Plan.

A balance sheet showing the effects from the implementation of our Plan, application of fresh start accounting, and certain related activities is included in Note 2 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data. It should be noted that all financial statement information as of June 30, 2006 and for all prior periods relates to Kaiser before emergence from chapter 11 bankruptcy. As a result, comparisons between financial statement information after the July 6, 2006 effective date of our Plan and historical financial statement information before such date are difficult to make.

Impacts of Emergence From Chapter 11 on Financial Statements

All financial statement information before July 1, 2006, relates to the Company before emergence from chapter 11 (sometimes referred to herein as the Predecessor). The Company after emergence is sometimes referred to herein as the Successor . As more fully discussed below, there will be a number of differences between the financial statements before and after emergence that will make comparisons of future and past financial information difficult which may make it more difficult to assess our future prospects based on historical performance.

As a result of our emergence from chapter 11, we applied fresh start accounting to our opening July 1, 2006 consolidated balance sheet as required by generally accepted accounting principles, or GAAP. As such:

We adjusted our balance sheet to equal the reorganization value of the Company;

We allocated the reorganization value to our individual assets and liabilities based on their estimated fair value. Such items as current liabilities, accounts receivable and cash reflect 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. As more fully discussed in the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data, these adjustments may adversely affect future results; and

We reset items such as accumulated depreciation, accumulated deficit and accumulated other comprehensive income (loss) to zero.

We also made some changes to our accounting policies and procedures as part of the fresh start and emergence process. In general, our accounting policies are the same as or similar to those historically used to prepare our financial statements. In certain cases, however, we adopted different accounting principles for, or applied methodologies differently to, our post-emergence financial statement information. For instance, we changed our accounting methodologies with respect to inventory accounting. While we still account for inventories on a last-in, first-out basis, or LIFO, after emergence, we are applying LIFO differently than we did in the past. Specifically, we will view each quarter on a standalone basis for computing LIFO; whereas, in the past, we 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 second half of the year.

Additionally, certain items such as earnings per share and Statement of Financial Accounting Standards No. 123-R, *Share-Based Payment* (see discussion in Note 1 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data), which had few, if any, implications while we were in chapter 11 bankruptcy, will have increased importance in our future financial statement information.

Results of Operations

Our main line of business is the production and sale of fabricated aluminum products. In addition, we own a 49% interest in Anglesey, which owns and operates an aluminum smelter in Holyhead, Wales.

Our emergence from chapter 11 bankruptcy and adoption of fresh start accounting resulted in a new reporting entity for accounting purposes. Although we emerged from chapter 11 bankruptcy on July 6, 2006, we adopted fresh start accounting under the provisions of 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*, 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 so that all operating activities during the period from July 1, 2006 through December 31, 2006 are reported as applying to the new reporting entity. We believe that this is a reasonable presentation as there were no material non-Plan-related transactions between July 1, 2006 and July 6, 2006.

The table below provides selected operational and financial information on a consolidated basis (in millions of dollars, except shipments and prices). The selected operational and financial information after July 6, 2006 are those of the Successor and are not comparable to those of the Predecessor. However, for purposes of this discussion (in the table below), the Successor s results for the period from July 1, 2006 through December 31, 2006 have been combined with the Predecessor s results for the period from January 1, 2006 to July 1, 2006 and are compared to the Predecessor s results for the years ended December 31, 2005 and 2004. Differences between periods due to fresh start accounting are explained when material.

The following data should be read in conjunction with our consolidated financial statements and the notes thereto included in Item 8. Financial and Supplementary Data . See Note 11 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for further information regarding segments.

	Year Ended December 31, 2006				
	July 1, 2006 through December 31, 2006	Predecessor January 1, 2006 to July 1, 2006	Combined	Predecessor Year Ended December 31, 2005	2004
Shipments (mm lbs):					
Fabricated Products	249.6	273.5	523.1	481.9	458.6
Primary Aluminum	77.3	77.1	154.4	155.6	156.6
	326.9	350.6	677.5	637.5	615.2
Average Realized Third Party Sales Price (per pound):					
Fabricated Products(1)	$ 2.27	$ 2.16	$ 2.21	$ 1.95	$ 1.76
Primary Aluminum(2)	$ 1.30	$ 1.28	$ 1.29	$ .95	$ .85
Net Sales:					
Fabricated Products	$ 567.2	$ 590.9	$ 1,158.1	$ 939.0	$ 809.3
Primary Aluminum	100.3	98.9	199.2	150.7	133.1
Total Net Sales	$ 667.5	$ 689.8	$ 1,357.3	$ 1,089.7	$ 942.4
Segment Operating Income (Loss):					
Fabricated Products(3)(4)	$ 60.8	$ 61.2	$ 122.0	$ 87.2	$ 33.0
Primary Aluminum(5)(6)	10.8	12.4	23.2	16.4	13.9
Corporate and Other	(25.5)	(20.3)	(45.8)	(35.8)	(71.3)
Other Operating Benefits (Charges), Net(7)	2.2	(.9)	1.3	(8.0)	(793.2)
Total Operating Income (Loss)	$ 48.3	$ 52.4	$ 100.7	$ 59.8	$ (817.6)
Discontinued Operations	$	$ 4.3	$ 4.3	$ 363.7	$ 121.3
Reorganization Items(8)	$	$ 3,090.3	$ 3,090.3	$ (1,162.1)	$ (39.0)
Loss from Cumulative Effect on Years Prior to 2005 of Adopting Accounting For Conditional Asset Retirement Obligations(9)	$	$	$	$ (4.7)	$
Net Income (Loss)	$ 26.2	$ 3,141.2	$ 3,167.4	$ (753.7)	$ (746.8)

Capital Expenditures (excluding discontinued operations)	$	30.1	$	28.1	$	58.2	$	31.0	$	7.6

(1) Average realized prices for our fabricated products business unit are subject to fluctuations due to changes in product mix as well as underlying primary aluminum prices and are not necessarily indicative of changes in underlying profitability. See Item 1. Business .

(2) Average realized prices for our primary aluminum business unit exclude hedging revenues.

(3) Fabricated products business unit operating results for 2006 combined, 2005 and 2004 include non-cash LIFO inventory charges of $25.0 million, $9.3 million and $12.1 million, respectively, and metal gains of approximately $20.8 million, $4.6 million, and $12.2 million, respectively.

(4) Fabricated products business unit operating results for 2006 combined include non-cash mark-to-market losses totaling $2.2 million. For further discussion regarding mark-to-market matters, see Note 9 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

(5) Primary aluminum business unit operating results for 2006 and 2005 combined, include non-cash mark-to-market gains (losses) totaling $17.3 million and $(4.1) million, respectively. Non-cash mark-to-market gains (losses) for 2004 were not material. For further discussion regarding mark-to-market matters, see Note 9 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

(6) Primary aluminum business unit operating results for 2005 include non-cash charges of approximately $4.1 million in respect of our decision to restate our accounting for derivative financial instruments as more fully discussed in Note 1 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

(7) See Note 10 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for a detailed summary of the components of Other operating benefits (charges), net and the business segment to which the items relate.

(8) See Notes 2 and 14 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for a discussion of Reorganization items.

(9) See Notes 1 and 3 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for a discussion of the changes in accounting for conditional asset retirement obligations.

Significant Items

Market-related Factors. Changes in global, regional, or country-specific economic conditions can have a significant impact on overall demand for aluminum-intensive fabricated products in the markets in which we participate. Such changes in demand can directly affect our earnings by impacting the overall volume and mix of such products sold. During 2005 and 2006, the markets for aerospace and high strength products in which we participate were strong, resulting in higher shipments and improved margins.

Changes in primary aluminum prices also affect our primary aluminum business unit and expected earnings under any firm price fabricated products contracts. However, the impacts of such changes are generally offset by each other or by primary aluminum hedges. Our operating results are also, albeit to a lesser degree, sensitive to changes in prices for power and natural gas and changes in certain foreign exchange rates. All of the foregoing have been subject to significant price fluctuations over recent years. For a discussion of the possible impacts of the reorganization on our sensitivity to changes in market conditions, see Item 7A. Quantitative and Qualitative Disclosures About Market Risks, Sensitivity.

During 2006, the average London Metal Exchange or LME, transaction price per pound of primary aluminum was $1.17. During 2005 and 2004, the average LME price per pound for primary aluminum was $.86 and $.78, respectively. At February 28, 2007, the LME price was approximately $1.31 per pound.

Results of Operations

Summary. The Company reported net income of $3,167.4 million in 2006, compared to a net loss of $753.7 million for 2005 and a net loss of $746.8 million for 2004. Net income for 2006 includes a non-cash gain of $3,110.3 million related to the implementation of our Plan and application of fresh start accounting. Net loss for 2005 includes a non-cash loss of $1,131.5 million related to the assignment of intercompany claims for the benefit of certain creditors offset by a gain of $365.6 million on the sale of QAL and favorable QAL operating results prior to its sale on April 1, 2005. Net loss for 2004 includes non-cash losses of $797.5 million related to the termination of pension plans, the termination of postretirement medical benefit plans and the settlement of unfair labor practices allegations by the United Steelworkers, or USW. All years include a number of non-run-rate items that are more fully explained in the sections below.

Net sales in 2006 totaled $1,357.3 million compared to $1,089.7 million in 2005 and $942.4 million in 2004. As more fully discussed below, the increase in revenues is primarily the result of the increase in the market price for primary aluminum and such increases do not necessarily directly translate to increased profitability because (a) a substantial portion of the business conducted by the fabricated products business unit passes primary aluminum prices on directly to customers and (b) our hedging activities, while limiting our risk of losses, may limit our ability to participate in price increases.

2006 as Compared to 2005

Fabricated Aluminum Products. Net sales of fabricated products increased by 23% to $1,158.1 million for 2006 as compared to 2005, primarily due to a 13% increase in average realized prices and a 9% increase in shipments. The increase in the average realized prices primarily reflects higher underlying primary aluminum prices together with a richer product mix. The increase in volume in 2006 was led by Aero/HS and defense-related shipments, but shipments of Custom Automotive and Industrial Products and General Engineering Products were also higher in 2006. The increased aerospace and defense-related shipments reflect the strong demand for such products. Additionally, incremental heat treat furnace capacity, primarily resulting from the completion of the first phase of our $105 million Trentwood expansion project, contributed to increased shipments of heat treat plate.

Fourth quarter 2006 shipments were approximately 5% higher than the comparable period in 2005, reflecting the additional heat treat plate capacity at our Trentwood facility. One new heat treat plate furnace reached full capacity in the fourth quarter and a second furnace, which started producing in the fourth quarter of 2006, is expected to reach full capacity during the first quarter of 2007. Overall, we believe the mix of products will continue to benefit from increased heat treat plate shipments that will be made possible by incremental capacity as various phases of the Trentwood expansion are completed, including the new stretcher which will enable us to produce heavier gauge plate products and the third heat treat plate furnace, both of which are expected to be on-line by early 2008. The fourth quarter of 2006 reflected a richer product mix which continued into the first quarter of 2007. This trend may not continue beyond the first quarter. Recent trends in other parts of our business that affected the fourth quarter of 2006 and could affect 2007 included a general weakening of industrial demand, service center de-stocking of extrusion inventories, and reduced vehicle builds (especially larger vehicles that represent a significant portion of demand for our products).

Operating income for 2006 of $122.0 million was approximately $35 million higher than for the prior year. Operating income for 2006 included a favorable impact of approximately $33 million from higher shipments, favorable mix, stronger conversion prices (representing the value added from the fabrication process) and favorable scrap raw material costs as compared to the prior year. Energy costs and cost performance both slightly improved year over year, offset by slightly higher major maintenance. Depreciation and amortization in 2006 was approximately $5 million lower than 2005, primarily as a result of the adoption of fresh start accounting.

Both years include non-run-rate items. These items which are listed below had a combined approximate $6 million adverse impact on 2006 which is approximately $2 million worse than 2005:

Metal profits in 2006 (before considering LIFO implications) of approximately $20.8 million, which is approximately $16.2 million greater than in 2005.

A non-cash LIFO inventory charge of $25.0 million compared to a $9.3 LIFO charges in the 2005.

Mark-to-market charges on energy hedging in 2006 were approximately $2.2 million. During 2005, there were no such mark-to-market charges.

Segment operating results for 2006 and 2005 include gains on intercompany hedging activities with the primary aluminum business unit totaling $44.6 million for 2006 and $11.1 million for 2005. These amounts eliminate in consolidation. Segment operating results for 2006 and 2005, exclude defined contribution savings plan charges of approximately $.4 million and $6.3 million, respectively (see Note 10 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data).

Primary Aluminum. During 2006, third party net sales of primary aluminum increased 32% compared to 2005. The increase was almost entirely attributable to the increases in average realized primary aluminum prices.

The following table recaps (in millions of dollars) the major components of segment operating results for the current and prior year periods as well as the primary factors leading to such differences. Many of such factors indicated are subject to significant fluctuation from period to period and are largely impacted by items outside management s control. See Item 1A. Risk Factors.

Component	Operating Income	2006 vs. 2005 Better (Worse)	Primary Factor
Sales of production from Anglesey	$ 51	$ 19	Market price for primary aluminum
Internal hedging with Fabricated Products	(45)	(34)	Eliminates in consolidation
Derivative settlements		1	Impacted by positions and market prices
Mark-to-market on derivative instruments	17	21	Impacted by positions and market prices
	$ 23	$ 7	

The improvement in Anglesey-related results, as well as the offsetting adverse internal hedging results in 2006 over 2005 was driven primarily by increases in primary aluminum market prices. Approximately two-thirds of the cost of the Anglesey-related operations is alumina and power. Beginning in the second quarter of 2005, the Anglesey-related operating results were adversely affected by an approximate 20% increase in contractual alumina costs. However, contractual pricing for alumina is expected to improve approximately 20% (versus 2006) beginning in the second quarter of 2007. Also, Anglesey-related operating results were offset by an approximate 15% contractual increase in Anglesey s power costs in 2006 (an adverse change of approximately $5 million compared to 2005). Further, the nuclear plant that supplies Anglesey its power 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 makes its operation viable. No assurance can be provided that Anglesey will be successful in this regard.

In addition, given the potential for future shutdown and related costs, dividends from Anglesey have been suspended while Anglesey studies future cash requirements. Dividends over the past five years have fluctuated substantially depending on various operational and market factors. During the last five years, cash dividends received were as follows (in millions of dollars): 2006 $11.8, 2005 $9.0, 2004 $4.5, 2003 $4.3 and 2002 $6.0. Should the temporary suspension of dividends continue for a prolonged period or become permanent, we will have to consider whether it is appropriate to continue to recognize our equity share in Anglesey s earnings.

Corporate and Other. Corporate operating expenses represent corporate general and administrative expenses that are not allocated to our business segments.

Corporate operating expenses for 2006 were approximately $10.0 million higher than in 2005. Incentive compensation accruals were approximately $8.3 million higher in 2006 than in 2005, including the $4.0 million non-cash charge associated with the granting of vested and non-vested shares of our common stock at emergence as more fully discussed in Notes 1 and 7 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data . Additionally, we incurred certain costs we consider largely non-run-rate, including $1.9 million of preparation costs related to the Sarbanes-Oxley Act of 2002, or SOX and $1.3 million of costs associated with certain computer upgrades. The remaining change in 2006 primarily reflects lower salary and other costs related to the movement toward a post-emergence structure.

Once the activities associated with our emergence from chapter 11 bankruptcy (which will continue through early 2007) and incremental SOX adoption-related activities are complete, we expect there will be at least a modest decline in Corporate and other cash costs by the end of 2008.

Corporate operating results for 2006, discussed above, exclude non-cash pension benefits of approximately $4.2 million related to the terminated pension plans assumed by the PBGC and a credit of approximately $3.0 million related to the resolution of a pre-emergence contingency, offset by a charge of approximately

$4.5 million related to post emergence chapter 11-related items. Corporate operating results for 2005, exclude defined contribution savings plan charges of approximately $.5 million. See Note 10 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data .

Discontinued Operations. Operating results from discontinued operations for 2006 consist of a $7.5 million payment from an insurer for certain residual claims we had in respect of the 2000 incident at our Gramercy, Louisiana alumina facility, which was sold in 2004, and the $1.1 million surcharge refund related to certain energy surcharges, which have been pending for a number of years. These amounts were offset, in part, by a $5.0 million charge resulting from an agreement between us and the Bonneville Power Administration for a rejected electric power contract (see Note 15 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data). Operating results from discontinued operations for 2005 include the $365.6 million gain on the sale of our interests in and related to QAL and the favorable operating results of our interests in and related to QAL, which were sold as of April 1, 2005.

Reorganization Items. Reorganization items consist primarily of income, expenses (including professional fees) or losses that are realized or incurred by us due to our reorganization. Reorganization items in 2006 consisted primarily of a non-cash gain of approximately $3,110.3 million related to the implementation of our Plan and application of fresh start reporting. Reorganization items in 2005 consisted primarily of a non-cash charge of approximately $1,131.5 million that was recognized in connection with the consummation of two separate joint plans of liquidation of four subsidiaries as the value associated with an intercompany amount between two subsidiaries that was transferred for the benefit of certain third party creditors. See Notes 2 and 14 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data .

2005 as Compared to 2004

Fabricated Aluminum Products. Net sales of fabricated products increased by 16% during 2005 as compared to 2004 primarily due to a 10% increase in average realized prices and a 6% increase in shipments. The increase in the average realized prices reflects (in relatively equal proportions) higher conversion prices and higher underlying primary aluminum prices. The higher conversion prices are primarily attributable to continuing strength in fabricated aluminum product markets, particularly for aerospace and high strength products, as well as a favorable mix in the type of aerospace/high strength products in the early part of 2005. Current period shipments were higher than 2004 shipments due primarily to the aforementioned strength in aerospace and high strength product demand.

Segment operating results (before Other operating charges, net) for 2005 improved over 2004 by approximately $54.0 million. The improvement consisted of improved sales performance (primarily due to factors cited above) of approximately $64.0 million, offset, by higher operating costs, particularly for natural gas. Higher natural gas prices had a particularly significant impact on the fourth quarter of 2005. Lower 2005 charges for legacy pension and retiree medical-related costs (approximately $5.0 million; see Note 7 of Notes to Consolidated Financial Statements) were largely offset by other cost increases versus 2004 including approximately $6.0 million of higher non-cash LIFO inventory charges ($9.0 in 2005 versus $3.2 in 2004). Segment operating results for 2005 and 2004 include gains on intercompany hedging activities with the primary aluminum business unit total $11.1 million and $8.6 million, respectively. These amounts eliminate in consolidation.

Segment operating results for 2005, discussed above, exclude deferred contribution savings plan charges of approximately $6.3 million (see Note 10 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data).

Primary Aluminum. Third party net sales of primary aluminum in 2005 increased by approximately 13% as compared to 2004. The increase was almost entirely attributable to the increase in average realized primary aluminum prices.

Segment operating results for 2005 included approximately $32.0 million related to sale of primary aluminum resulting from our ownership interests in Anglesey offset by (a) losses on intercompany hedging activities with the Fabricated products business unit (which eliminate in consolidation) totaling approximately $11.1 million and (b) approximately $4.1 million of non-cash charges associated with the discontinuance of hedge accounting treatment of derivative instruments as more fully discussed in Notes 1 and 9 of Notes to Consolidated Financial

Statements included in Item 8. Financial Statements and Supplementary Data . Primary aluminum hedging transactions with third parties were essentially neutral in 2005. In 2004, segment operating results consisted of approximately $21.0 related to sales of primary aluminum resulting from the Company s ownership interests in Anglesey and approximately $2.0 million of gains from third party hedging activities offset by approximately $8.6 million of by losses on intercompany hedging activities with the Fabricated products business unit (which eliminate in consolidation). The improvement in Anglesey-related results in 2005 versus 2004 results primarily from the improvement in primary aluminum market prices discussed above. The primary aluminum market price driven improvement in Anglesey-related operating results were offset by an approximate 15% contractual increase in Anglesey s power costs during the fourth quarter of 2005 as well as an increase in major maintenance costs incurred in 2005 (over 2004).

Post 2005 results related to Anglesey will continue to be affected by the higher contractual power rate through the term of the existing power agreement, which ends in 2009, as well as an approximate 20% increase in contractual alumina costs during the remainder of the term of the Company s existing alumina purchase contract, which extends through 2007. Power and alumina costs, in general, represent approximately two-thirds of Anglesey s costs and, as such, future results will be adversely affected by these changes. Further, the nuclear plant that supplies Anglesey its power is slated for decommissioning in late 2009 or 2010, approximately the same time as when Anglesey s current power agreement expires. For Anglesey to be able to operate past 2009, the power plant will need to operate past its current decommissioning date and 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.

Corporate and Other. Corporate operating expenses represent corporate general and administrative expenses which are not allocated to our business segments. In 2005, corporate operating expenses were comprised of approximately $30.0 million of expenses related to ongoing operations and $5.0 million related to retiree medical expenses. In 2004, corporate operating expenses were comprised of approximately $21.0 million of expenses related to ongoing operations and approximately $50.0 million of retiree medical expenses.

The increase in expenses related to ongoing operations in 2005 compared to 2004 was due to an increase in professional expenses associated primarily with initiatives to comply with SOX and emergence-related activity, relocation of the corporate headquarters and transition costs, offset by the fact that key personnel ceased receiving retention payments as of the end of the first quarter of 2004 pursuant to our key employee retention program (see Note 19 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data). The decline in retiree-related expenses is primarily attributable to the termination of the Inactive Pension Plan in 2004 and the change in retiree medical payments (see Note 19 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data).

Corporate operating results for 2005, discussed above, exclude defined contribution savings plan charges of approximately $.5 million (see Note 10 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data).

Discontinued Operations. Discontinued operations in 2005 include the operating results of our interests in and related to QAL for the first quarter of 2005 and the gain that resulted from the sale of such interests on April 1, 2005. Discontinued operations in 2004 included a full year of operating results attributable to our interests in and related to QAL, as well as the operating results of the commodity interests that were sold at various times during 2004.

Income from discontinued operations for 2005 increased approximately $242.0 million over 2004. The primary factor for the improved results was the larger gain on the sale of the QAL-related interests (approximately $366.0 million) in 2005 compared to the gains from the sale of our interests in and related to Alumina Partners of Jamaica and the sale of the Mead Facility (approximately $127.0 million) in 2004. The adverse impacts in 2005 of the $42.0 million Kaiser

Bauxite Company non-cash contract rejection charge were largely offset by improved operating results in 2005 associated with QAL (approximately $12.0 million) and the avoidance of approximately $33.0 million net losses by other commodity-related interests in 2004.

Reorganization Items. Reorganization items increased substantially in 2005 over 2004 as a result a non-cash charge for approximately of $1,131.5 million in the fourth quarter of 2005. As more fully discussed in Note 14 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data , the non-cash charge was recognized in connection with the consummation of the plans of liquidation discussed above as the value associated with an intercompany amount between two subsidiaries that was transferred for the benefit of certain third party creditors.

Liquidity and Capital Resources

As a result of the filing of the chapter 11 bankruptcy proceedings, claims against Kaiser and it subsidiaries that filed such cases for principal and accrued interest on secured and unsecured indebtedness existing on their filing date were stayed while those entities continued business operations as debtors-in-possession, subject to the control and supervision of the Bankruptcy Court. See Notes 2 and 14 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for additional discussion of the chapter 11 bankruptcy cases.

Operating Activities. In 2006, fabricated products operating activities of the Successor provided approximately $62 million of cash and fabricated products operating activities of the Predecessor provided approximately $13 million of cash. These amounts compare with 2005 when fabricated operating activities of the Predecessor provided approximately $88 million of cash and with 2004 when fabricated products operating activities of the Predecessor provided approximately $35 million of cash. Cash provided in 2006 was primarily due to improved operating results offset in part by increased working capital. The increase in working capital in 2006 is primarily the result of the impact of higher primary aluminum prices and increased demand for fabricated aluminum products on inventories and accounts receivable, which is only partially offset by increases in accounts payable. Substantially all of the cash provided in 2005 was generated from operating results; working capital changes were modest. Operating results in 2004 generated approximately $70 million which was offset by increases in working capital of approximately $35 million. The increases in cash provided by fabricated products operating results in 2005 and 2004 were primarily due to improving demand for fabricated aluminum products. The foregoing analysis of fabricated products cash flow excludes consideration of pension and retiree cash payments made on behalf of current and former employees of the fabricated products facilities. Such amounts are part of the legacy costs that we internally categorize as a corporate cash outflow. See Corporate and Other Operating Activities below.

In 2006, operating activities of the Successor used approximately $7 million and operating activities of the Predecessor provided approximately $36 million of cash attributable to our interest in and related to Anglesey. In 2005 and 2004, the operating activities of the Predecessor provided approximately $20 million and $14 million, respectively, of cash attributable to our interests in and related to Anglesey. The increases in cash flows between 2006 and 2005 and between 2005 and 2004 is primarily attributable to increases in primary aluminum market prices.

Corporate and Other Operating Activities. Corporate and other operating activities of the Successor (including all legacy costs) used approximately $36 million and corporate and other operating activities of the Predecessor used approximately $70 million of cash during 2006. Corporate and other operating activities of the Predecessor used approximately $108 million and $150 million of cash in 2005 and 2004, respectively. Cash outflows from corporate and other operating activities in 2006, 2005 and 2004 included: (1) approximately $11 million, $37 million and $57 million, respectively, in respect of retiree medical obligations and VEBA funding for former and current operating units; (2) payments for reorganization costs of approximately $28 million, $39 million and $35 million, respectively; and (3) payments in respect of general and administrative costs totaling approximately $41 million, $29 million and $26 million, respectively. Cash outflows for corporate and other operating activities in 2006 also included payments pursuant to our Plan of approximately $25 million and in 2004 also included $27 million to settle certain multi-site environmental claims.

Discontinued Operations Activities. In 2006, discontinued operation activities of the Predecessor provided $9 million of cash. This compares with 2005 and 2004 when discontinued operation activities of the Predecessor provided $17 million and $64 million of cash, respectively. Cash provided by discontinued operations in 2006 consisted of the proceeds from an $8 million payment from an insurer and a $1 million refund from commodity interests energy vendors. The decrease in cash provided by discontinued operations in 2005 over 2004 resulted primarily from a decrease in favorable operating results due to the sale of substantially all of the commodity interests between the second half of 2004 and early 2005. The remaining commodity interests were sold as of April 1, 2005.

Investing Activities. Total capital expenditures for fabricated products were $56.9 million, $30.6 million, and $7.6 million in 2006, 2005 and 2004, respectively. Total capital expenditures for fabricated products are currently expected to be in the $60 million to $70 million range for 2007. The higher level of capital spending in 2006 and 2007 as compared to other periods reflects incremental investments, particularly at our Spokane, Washington facility. New equipment, furnaces and/or services will enable us to supply heavy gauge heat treat stretched plate to the aerospace and general engineering markets. The total capital spending for this project is expected to be approximately $105 million. Approximately $65 million of such cost was incurred in 2005 and 2006. The balance will be incurred primarily in 2007. Our remaining capital spending in 2007 will be spread among all manufacturing locations. A majority of the remaining capital spending is expected to reduce operating costs, improve product quality or increase capacity. However, no other individual project of significant size has been committed at this time.

In addition to the foregoing, as of March 2007, we are considering capital expenditures of approximately $20 million that would be for projects intended to generate incremental cost efficiencies or enhance commercial operations. Such costs would likely be incurred during 2007 and 2008 and would focus on one or more of our non-rolling facilities. However, no assurances can be provided as to the timing or success of any such expenditures.

The level of capital expenditures may be adjusted from time to time depending on our business plans, price outlook for metal and other products, our ability to maintain adequate liquidity and other factors.

Total capital expenditures for discontinued operations were $3.5 million in 2004 (of which $1.0 million was funded by the minority partners in certain foreign joint ventures).

Financing Activities. In 2006, financing activities of the Successor provided approximately $49 million of cash and financing activities of the Predecessor provided approximately $1 million of cash. These amounts compare with 2005 when financing activities of the Predecessor used approximately $394 million of cash and with 2004 when financing activities of the Predecessor used approximately $294 million of cash. Cash provided in 2006 was primarily due to approximately $50 million of borrowings under the Successor s term loan facility. Cash used in 2005 and 2004 primarily relates to net cash used by discontinued operations of approximately $387 million and $291 million, respectively.

Financing Facilities and Liquidity. On the July 6, 2006 effective date of our Plan, we entered into a new senior secured revolving credit agreement with a group of lenders providing for a $200 million revolving credit facility of which up to a maximum of $60 million may be utilized for letters of credit. Under the revolving credit facility, we are able to borrow (or obtain letters of credit) from time to time in an aggregate amount equal to the lesser of $200 million 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 facitility 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 our 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 million.

Concurrently with the execution of the revolving credit facility, we also entered into a term loan facility with a group of lenders that provides for a $50 million term loan and is guaranteed by certain of our 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 our 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 set forth in each agreement.

The revolving credit facility is secured by a first priority lien on substantially all of our assets and the assets of our U.S. operating subsidiaries that are also borrowers thereunder. The term loan facility is secured by a second lien on substantially all of our assets and the assets of our U.S. operating subsidiaries that are the borrowers or guarantors thereof.

Both credit facilities place restrictions on our ability 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.

We currently believe that the cash and cash equivalents, cash flows from operations and cash available under the revolving credit facility will provide sufficient working capital to allow us to meet our obligations for at least the next twelve months. During July 2006, we borrowed and repaid $8.6 million under the revolving credit facility. At February 28, 2007, there were no borrowings outstanding under the revolving credit facility, there were approximately $13.6 million of outstanding letters of credit under the revolving credit facility and there was $50 million outstanding under the term loan facility.

Commitments and Contingencies. We are subject to a number of environmental laws, to fines or penalties assessed for alleged breaches of the environmental laws, and to claims and litigation based upon such laws. Based on our evaluation of these and other environmental matters, we have established environmental accruals of $8.4 million at December 31, 2006. However, we believe that it is reasonably possible that changes in various factors could cause costs associated with these environmental matters to exceed current accruals by amounts that could be, in the aggregate, up to an estimated $15.2 million.

We are working with regulatory authorities and performing studies and remediation pursuant to several consent orders with the State of Washington relating to the historical use of oils containing polychlorinated biphenyls, or PCBs, at the Trentwood facility. In early 2007, we received a letter from the regulatory authorities confirming that their investigation had been closed.

Capital Structure.

Successor: On the July 6, 2006 effective date of our Plan, pursuant to the Plan, all equity interests in Kaiser outstanding immediately prior to such date were cancelled without consideration and issued 20,000,000 new shares of common stock to a third-party disbursing agent for distribution in accordance with our Plan. As we discussed in Note 6 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data , there are restrictions on the transfer of common stock. In addition, under the revolving credit facility and the term loan facility, there are restrictions on our purchase of common stock by the Company and limitations on our ability to pay dividends.

Predecessor: Prior to July 6, 2006, effective date of our Plan, MAXXAM Inc. and one of its wholly owned subsidiaries collectively owned approximately 63% of our common stock, with the remaining approximately 37% being publicly held. However, as discussed in Note 14 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data , pursuant to our Plan, all of the pre-emergence equity interests in Kaiser were cancelled without consideration upon our emergence from chapter 11 bankruptcy on July 6, 2006.

Other Matters

Income Tax Matters. Although we have substantial tax attributes available to offset the impact of future income taxes, we do not yet meet the more likely than not criteria for recognition of such attributes primarily because we do not have sufficient history of paying taxes. As such, we have recorded a full valuation allowance against the amount of tax attributes available and no deferred tax asset was recognized. See Note 6 of Notes to

Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for a discussion of these and other income tax matters.

New Accounting Pronouncements

The section New Accounting Pronouncements from Note 1 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data is incorporated herein by reference.

Critical Accounting Policies

Successor:

Critical accounting policies fall into two broad categories. The first type of critical accounting policies includes those that are relatively straightforward in their application, but which can have a significant impact on the reported balances and operating results (such as revenue recognition policies, inventory accounting methods, etc.). The first type of critical accounting policies is outlined in Note 1 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data and is not addressed below. The second type of critical accounting policies includes those that are both very important to the portrayal of our financial condition and results, and require management s most difficult, subjective and/or complex judgments. Typically, the circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies after emergence from chapter 11 bankruptcy will, in some cases, be different from those before emergence (as many of the significant judgments affecting the financial statements related to matters/items directly a result of the chapter 11 bankruptcy or related to liabilities that were resolved pursuant to our Plan). See the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for discussion of possible differences.

While we believe that all aspects of its financial statements should be studied and understood in assessing its current (and expected future) financial condition and results, we believe that the accounting policies that warrant additional attention include:

1. Application of fresh start accounting.

Upon emergence from chapter 11 bankruptcy, we applied fresh start accounting to our consolidated financial statements as required by SOP 90-7. As such, in July 2006, we adjusted stockholders equity to equal the reorganization value of the entity at emergence. Additionally, items such as accumulated depreciation, accumulated deficit and accumulated other comprehensive income (loss) were reset to zero. We allocated the reorganization value to our individual assets and liabilities based on their estimated fair value at the emergence date based, in part, on information from a third party appraiser. Such items 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, meaningful comparisons between the historical financial statements and the financial statements from and after emergence are difficult to make.

2. Our judgments and estimates with respect to commitments and contingencies.

Valuation of legal and other contingent claims is subject to a great deal of judgment and substantial uncertainty. Under GAAP, companies are required to accrue for contingent matters in their financial statements only if the amount of any potential loss is both probable and the amount (or a range) of possible loss is estimatable. In reaching a determination of the probability of an adverse ruling in respect of a matter, we typically consult outside experts. However, any such judgments reached regarding probability are subject to significant uncertainty. We may, in fact, obtain an adverse ruling in a matter that we did not consider a probable loss and which, therefore, was not accrued for in our financial statements. Additionally, facts and circumstances in respect of a matter can change causing key assumptions that were used in previous assessments of a matter to change. It is possible that amounts at risk in respect of one matter may be traded off against amounts under negotiations in a separate matter. Further, in estimating the amount of any loss, in many instances a single estimation of the loss may not be possible. Rather, we may only be able to estimate a range for possible losses. In such event, GAAP requires that a liability be established for at least the minimum end of the range assuming that there is no other amount which is more likely to occur.

3. Our judgments and estimates in respect of our employee defined benefit plans.

Defined benefit pension and postretirement medical obligations included in our consolidated financial statements at June 30, 2006 and at prior dates are based on assumptions that were subject to variation from year-to-year. Such variations could have caused our estimate of such obligations to vary significantly. Restructuring actions relating to our exit from most of our commodities businesses (such as the indefinite curtailment of the Mead smelter) also had a significant impact on such amounts.

The most significant assumptions used in determining the estimated year-end obligations were the assumed discount rate, long-term rate of return (LTRR) and the assumptions regarding future medical cost increases. Since recorded obligations represent the present value of expected pension and postretirement benefit payments over the life of the plans, decreases in the discount rate (used to compute the present value of the payments) would cause the estimated obligations to increase. Conversely, an increase in the discount rate would cause the estimated present value of the obligations to decline. The LTRR on plan assets reflects an assumption regarding what the amount of earnings would be on existing plan assets (before considering any future contributions to the plans). Increases in the assumed LTRR would cause the projected value of plan assets available to satisfy pension and postretirement obligations to increase, yielding a reduced net expense in respect of these obligations. A reduction in the LTRR would reduce the amount of projected net assets available to satisfy pension and postretirement obligations and, thus, cause the net expense in respect of these obligations to increase. As the assumed rate of increase in medical costs went up, so did the net projected obligation. Conversely, if the rate of increase was assumed to be smaller, the projected obligation declined.

4. Our judgments and estimates in respect to environmental commitments and contingencies.

We are subject to a number of environmental laws and regulations, to fines or penalties assessed for alleged breaches of such laws and regulations and to claims and litigation based upon such laws and regulations. Based on our evaluation of environmental matters, we have established environmental accruals, primarily related to potential solid waste disposal and soil and groundwater remediation matters. These environmental accruals represent our estimate of costs reasonably expected to be incurred on a going concern basis in the ordinary course of business based on presently enacted laws and regulations, currently available facts, existing technology and our assessment of the likely remediation action to be taken. However, making estimates of possible environmental remediation costs is subject to inherent uncertainties. As additional facts are developed and definitive remediation plans and necessary regulatory approvals for implementation of remediation are established or alternative technologies are developed, changes in these and other factors may result in actual costs exceeding the current environmental accruals.

See Note 8 of Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for additional information in respect of environmental contingencies.

5. Our judgments and estimates in respect of conditional asset retirement obligations.

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 current accounting guidelines, liabilities and costs for CAROs must be recognized in a company s financial statements even if it is unclear when or if the CARO 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. As more fully discussed in Note 1 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data , we have evaluated our exposures to CAROs and determined that we have CAROs at several of our 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 facilities if such facilities 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, we recorded an estimated CARO liability of approximately $2.7 million at December 31, 2005 and such amount will increase substantially over time.

The estimation of CAROs is subject to a number of inherent uncertainties including: (1) the timing of when any such CARO may be incurred, (2) the ability to accurately identify all materials that may require special handling or treatment, (3) the ability to reasonably estimate the total incremental special handling and other costs, (4) the ability to assess the relative probability of different scenarios which could give rise to a CARO, and (5) other factors outside a company s control including changes in regulations, costs and interest rates. As such, actual costs and the timing of such costs may vary significantly from the estimates, judgments and probable scenarios we considered, which could, in turn, have a material impact on our future financial statements.

6. Recoverability of recorded asset values.

Under GAAP, assets to be held and used are evaluated for recoverability differently than assets to be sold or disposed of. Assets to be held and used are evaluated based on their expected undiscounted future net cash flows. So long as we reasonably expect that such undiscounted future net cash flows for each asset will exceed the recorded value of the asset being evaluated, no impairment is required. However, if plans to sell or dispose of an asset or group of assets meet a number of specific criteria, then, under GAAP, such assets should be considered held for sale/disposition and their recoverability should be evaluated, based on expected consideration to be received upon disposition. Sales or dispositions at a particular time will be affected by, among other things, the existing industry and general economic circumstances as well as our own circumstances, including whether or not assets will (or must) be sold on an accelerated or more extended timetable. Such circumstances may cause the expected value in a sale or disposition scenario to differ materially from the realizable value over the normal operating life of assets, which would likely be evaluated on long-term industry trends.

7. Income Tax Provision.

Although we have substantial tax attributes available to offset the impact of future income taxes, we do not meet the more likely than not criteria for recognition of such attributes primarily because we do not have sufficient history of paying taxes. As such, we recorded a full valuation allowance against the amount of tax attributes available and no deferred tax asset was recognized. The benefit associated with any reduction of the valuation allowance is 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, we expect 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 we ultimately determine that we meet the more likely than not recognition criteria, the amount of net operating loss carryforwards and other defined tax assets would be recorded on the balance sheet and would be recorded as an adjustment to Stockholders equity.

In accordance with GAAP, financial statements for interim periods include an income tax provision based on the effective tax rate expected to be incurred in the current year. Accordingly, estimates and judgments are made (by taxable jurisdiction) as to the amount of taxable income that may be generated, the availability of deductions and credits expected and the availability of net operating loss carry forwards or other tax attributes to offset taxable income. Making such estimates and judgments is subject to inherent uncertainties given the difficulty predicting such factors as future market conditions, customer requirements, the cost for key inputs such as energy and primary aluminum, overall operating efficiency and many other items. However, if among other things, (1) actual results vary from our forecasts due to one or more of the factors cited above or elsewhere in this Report, (2) income is distributed differently than expected among tax jurisdictions, (3) one or more material events or transactions occur which were not contemplated, (4) other uncontemplated transactions occur, or (5) certain expected deductions, credits or carry forwards are not be available, it is possible that the effective tax rate for a year could vary materially from the assessments used to prepare the interim consolidated financial statements. See Note 6 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for additional discussion of these matters.

Predecessor:

Our critical accounting policies after emergence from chapter 11 bankruptcy will, in some cases, be different from those before emergence. Many of the significant judgments affecting our financial statements relate to matters related to chapter 11 bankruptcy proceedings or liabilities that were resolved pursuant to our Plan. Where critical accounting policies before emergence were the same as current policies and/or no unique circumstances existed, the policies are not repeated below.

1. Predecessor Reporting While in Reorganization.

Our consolidated financial statements as of and for dates and periods prior to July 1, 2006, were prepared on a going concern basis in accordance with SOP 90-7 and did not include the impacts of our Plan including adjustments relating to recorded asset amounts, the resolution of liabilities subject to compromise and the cancellation of the interests of our pre-emergence stockholders. Adjustments related to the Plan materially affected the consolidated financial statements included in Item 8. Financial Statements and Supplementary Data as more fully shown in the opening July 1, 2006 balance sheet presented in Note 2 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data .

In addition, during the course of the chapter 11 bankruptcy proceedings, there were material impacts including:

- Additional filing date claims were identified through the proof of claim reconciliation process and arose in connection with actions taken by us in the chapter 11 bankruptcy proceedings. For example, while we considered rejection of the Bonneville Power Administration, or BPA, contract to be in our best long-term interests, the rejection resulted in an approximate $75 million claim by the BPA. In the second quarter of 2006, an agreement with the BPA was approved by the Bankruptcy Court under which the claim was settled for a pre-petition claim of $6.1 million.

- The amount of pre-filing date claims ultimately allowed by the Bankruptcy Court in respect of contingent claims and benefit obligations was materially different from the amounts reflected in our consolidated financial statements.

- As more fully discussed below, changes in business plans precipitated by the chapter 11 bankruptcy proceedings resulted in significant charges associated with the disposition of assets.

2. Our judgments and estimates with respect to commitments and contingencies.

Valuation of legal and other contingent claims is subject to judgment and substantial uncertainty. Under GAAP, companies are required to accrue for contingent matters in their financial statements only if the amount of any potential loss is both probable and the amount or range of possible loss is estimatable. In reaching a determination of the probability of adverse rulings, we typically consult outside experts. However, any judgments reached regarding probability are subject to significant uncertainty. We may, in fact, obtain an adverse ruling in a matter that it did not consider a probable loss and which was not accrued for in our financial statements. Additionally, facts and circumstances causing key assumptions that were used in previous assessments are subject to change. It is possible that amounts at risk in one matter may be traded off against amounts under negotiation in a separate matter. Further, in many instances a single estimation of a loss may not be possible. Rather, we may only be able to estimate a range for possible losses. In such event, GAAP requires that a liability be established for at least the minimum end of the range assuming that there is no other amount which is more likely to occur.

Prior to our emergence from chapter 11 bankruptcy, we had two potentially material contingent obligations that were subject to significant uncertainty and variability in their outcome: (1) the USW unfair labor practice claim and (2) the net obligation in respect of personal injury-related matters.

As more fully discussed in Note 21 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data , we accrued an amount in the fourth quarter of 2004 for the USW unfair labor practice matter. We did not accrue any amount prior to the fourth quarter of 2004 because we did not consider the loss to be probable. Our assessment had been that the possible range of loss in this matter ranged from zero to $250 million based on the proof of claims filed (and other information provided) by the National Labor Relations Board, or NLRB, and the USW in connection with our chapter 11 bankruptcy proceedings. While we continued to believe that the unfair labor practice charges were without merit, during January 2004, we agreed to allow a claim in favor of the USW in the amount of the $175 million as a compromise and in return for the USW agreeing to substantially reduce or eliminate certain benefit payments as more fully discussed in Note 21 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data . However, this settlement was not recorded at that time because it was still subject to Bankruptcy Court approval. The settlement was ultimately approved by the Bankruptcy Court in February 2005 and, as a result of the contingency being removed with respect to this item (which arose prior to the December 31, 2004 balance sheet date), a non-cash charge of $175 million was reflected in our consolidated financial statements at December 31, 2004.

Also, as more fully discussed in Note 21 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data , we were one of many defendants in personal injury claims by a large number of persons who assert that their injuries were caused by, among other things, exposure to asbestos during, or as a result of, their employment or association with us or by exposure to products containing asbestos last produced or sold by us more than 20 years ago. We have also previously disclosed that certain other personal injury claims had been filed in respect of alleged pre-filing date exposure to silica and coal tar pitch volatiles. Due to the chapter 11 bankruptcy proceedings, existing lawsuits in respect of all such personal injury claims were stayed and new lawsuits could not be commenced against us. Our June 30, 2006 financial statements included a liability for estimated asbestos-related costs of $1,115 million, which represents our estimate of the minimum end of a range of costs. The upper end of our estimate of costs was approximately $2,400 million and we were aware that certain constituents had asserted that they believed that actual costs could exceed the top end of our estimated range, by a potentially material amount. No estimation of our liabilities in respect of such matters occurred as a part of our Plan. However, given that our Plan was implemented in July 2006, all such obligations in respect of personal injury claims have been resolved and will not have a continuing effect on our financial condition after emergence.

Our June 30, 2006 financial statements included a long-term receivable of $963.3 million for estimated insurance recoveries in respect of personal injury claims. We believed that, prior to the implementation of our Plan, recovery of this amount was probable (if our Plan was not approved) and additional amounts were recoverable in the future if additional liability was ultimately determined to exist. However, we could not provide assurance that all such amounts would be collected. However, as our Plan was implemented in July 2006, the rights to the proceeds from these policies have been transferred (along with the applicable liabilities) to certain personal injury trusts set up as a part of our Plan and we have no continuing interests in such policies.

3. Our judgments and estimates related to employee benefit plans.

Pension and postretirement medical obligations included in the consolidated financial statements at June 30, 2006 and at prior dates were based on assumptions that were subject to variation from year to year. Such variations can cause our estimate of such obligations to vary significantly. Restructuring actions relating to our exit from most of our commodities businesses also had a significant impact on the amount of these obligations.

For pension obligations, the most significant assumptions used in determining the estimated year-end obligation were the assumed discount rate and LTRR on pension assets. Since recorded pension obligations represent the present value of expected pension payments over the life of the plans, decreases in the discount rate used to compute the present value of the payments cause the estimated obligations to increase. Conversely, an increase in the discount rate would cause the estimated present value of the obligations to decline. The LTRR on pension assets reflected our assumption regarding what the amount of earnings would be on existing plan assets before considering any future contributions to the plans. Increases in the assumed LTRR would cause the projected value of plan assets available to satisfy pension obligations to increase, yielding a reduced net pension obligation. A reduction in the LTRR would reduce the amount of projected net assets available to satisfy pension obligations and, thus, caused the net pension obligation to increase.

For postretirement obligations, the key assumptions used to estimate the year-end obligations were the discount rate and the assumptions regarding future medical costs increases. The discount rate affected the postretirement obligations in a similar fashion to that described above for pension obligations. As the assumed rate of increase in medical costs went up, so did the net projected obligation. Conversely, as the rate of increase was assumed to be smaller, the projected obligation declined.

Since our largest pension plans and the post retirement medical plans were terminated in 2003 and 2004, the amount of variability in respect of such plans was substantially reduced. However, there were five remaining defined benefit pension plans that were still ongoing pending the resolution of certain litigation with the PBGC. We prevailed in the litigation against the PBGC in August 2006, and four of these remaining plans were terminated in December 2006.

Given that all of our significant benefit plans after the emergence date are defined contribution plans or have limits on the amounts to be paid, our future financial statements will not be subject to the same volatility as our financial statements prior to emergence and the termination of the plans.

4. Our judgments and estimates related to environmental commitments and contingencies.

We are subject to a number of environmental laws and regulations, to fines or penalties that may be assessed for alleged breaches of such laws and regulations, and to clean-up obligations and other claims and litigation based upon such laws and regulations. We have in the past been and may in the future be subject to a number of claims under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments Reauthorization Act of 1986, or CERCLA.

Based on our evaluation of these and other environmental matters, we have established environmental accruals, primarily related to investigations and potential remediation of the soil, groundwater and equipment at our current operating facilities that may have been adversely impacted by hazardous materials, including PCBs. These environmental accruals represent our estimate of costs reasonably expected to be incurred on a going concern basis in the ordinary course of business based on presently enacted laws and regulations, currently available facts, existing technology and our assessment of the likely remedial action to be taken. However, making estimates of possible environmental costs is subject to inherent uncertainties. As additional facts are developed and definitive remediation plans and necessary regulatory approvals for implementation of remediation are established or alternative technologies are developed, actual costs may exceed the current environmental accruals.

Contractual Obligations and Commercial Commitments

The following summarizes our significant contractual obligations at December 31, 2006 (dollars in millions):

		Payments Due by Period			
Contractual Obligations	**Total**	**Less Than 1 Year**	**2-3 Years**	**4-5 Years**	**More Than 5 Years**
Long-term debt	$ 50.0	$	$	$ 50.0	$
Operating leases	9.3	3.0	4.5	1.7	.1
Total cash contractual obligations(1)	$ 59.3	$ 3.0	$ 4.5	$ 51.7	$ .1

(1) Total contractual obligations exclude future annual variable cash contributions to the VEBAs, which cannot be determined at this time. See Off Balance Sheet and Other Arrangements below for a summary of possible

annual variable cash contribution amounts at various levels of earnings and cash expenditures.

Off-Balance Sheet and Other Arrangements

As of December 31, 2006, outstanding letters of credit under our revolving credit facility were approximately $14.1 million, substantially all of which expire within approximately twelve months. The letters of credit relate primarily to insurance, environmental and other activities.

We have agreements to supply alumina to and to purchase aluminum from Anglesey. Both the alumina sales agreement and primary aluminum purchase agreement are tied to primary aluminum prices.

Our employee benefit plans include the following:

We are obligated to make monthly contribution of one dollar per hour worked by each bargaining unit employee to the appropriate multi-employee pension plans sponsored by the USW and certain other unions at six of our production facilities. This obligation came into existence in December 2006 for three of our production facilities upon the termination of four defined benefit plans (see Note 7 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data). The arrangement for the other three locations came into existence during the first quarter of 2005. We currently estimate contributions will range from $1 million to $3 million per year.

We have a defined contribution 401(k) savings plan for hourly bargaining unit employees at five of our production facilities. We will be required to make contributions to this plan for active bargaining unit employees at these production facilities that will range from $800 to $2,400 per employee per year, depending on the employee s age. This arrangement came into existence in December 2004 for three production facilities upon the termination of three defined benefit plans (see Note 19 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data). The arrangement for the other two locations came into existence during December 2006. We currently estimate that contributions to such plans will range from $1 million to $3 million per year.

We have a defined benefit plan for our salaried employees at our production facility in London, Ontario with annual contributions based on each salaried employee s age and years of service. In addition, we have a defined benefit pension plan for one inactive operation with three remaining former employees covered by that plan.

We have a defined contribution savings plan for salaried and non-bargaining unit hourly employees providing for a match of certain contributions made by employees plus a contribution of between 2% and 10% of their compensation depending on their age and years of service. We currently estimate that contributions to such plans will range from $1 million to $3 million per year.

We have a non-qualified defined contribution restoration plan for key employees who would otherwise suffer a loss of benefits under our defined contribution savings plan as a result of the limitations by the Internal Revenue Code.

We have an annual variable cash contribution to the VEBAs. The amount to be contributed to the VEBAs will be 10% of the first $20 million of annual cash flow (as defined; in general terms, the principal element 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 million. Such annual payments will not exceed $20 million and will also be limited (with no carryover to future years) to the extent that the payments would cause our liquidity to be less than $50 million. Such amounts will be determined on an annual basis and payable no later than March 31 of the following year. However, we have the ability to offset amounts that would otherwise be due to the VEBAs with approximately $12.7 million of excess contributions made to the VEBAs prior to the July 6, 2006 effective date of our Plan. We do not anticipate any annual variable cash contribution payments will be required with respect to 2006, however, we have not yet determined how much, if any, of the excess contribution payments of $12.7 million will be utilized to offset annual variable contributions that would otherwise have been due in respect of 2006.

The following table shows (in millions of dollars) the estimated amount of variable VEBA payments that would occur at differing levels of earnings before depreciation, interest, income taxes (EBITDA) and cash payments in respect of, among other items, interest, income taxes and capital expenditures. The table below does not consider the liquidity limitation, the $12.7 million of advances available to offset VEBA obligations as they become due and certain other factors that could impact the amount of variable VEBA payments due and, therefore, should be considered only for illustrative purposes.

	Cash Payments for Capital Expenditures, Income Taxes, Interest Expense, etc.			
EBITDA	**$25.0**	**$50.0**	**$75.0**	**$100.0**
$20.0	$	$	$	$
40.0	1.5			
60.0	5.0	1.0		
80.0	9.0	4.0	.5	
100.0	13.0	8.0	3.0	
120.0	17.0	12.0	7.0	2.0
140.0	20.0	16.0	11.0	6.0
160.0	20.0	20.0	15.0	10.0
180.0	20.0	20.0	19.0	14.0
200.0	20.0	20.0	20.0	18.0

We have a short term incentive compensation plan for management payable in cash which is based primarily on earnings, adjusted for certain safety and performance factors. Most of our production facilities have similar programs for both hourly and salaried employees.

We have a stock-based long-term incentive plan for key managers. As more fully discussed in Note 7 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data , an initial, emergence-related award was made under this program. Additional awards are expected to be made in future years.

In connection with the sale of our interests in and related to the Gramercy, Louisiana facility and Kaiser Jamaica Bauxite Company, we indemnified the buyers for up to $5 million of losses suffered by the buyers that result from any failure of our seller representations and warranties to be true. Upon the closing of the transaction, such amount was recorded in long-term liabilities in our financial statements. A claim for the full amount of the indemnity was made initially. In October 2006, the claimant filed a revised report to indicate that its claim was approximately $2 million and separately filed for summary judgment in respect to its claim. In early 2007, this matter was resolved for a cash payment by the Company of approximately $.1 million. The indemnity expired with respect to additional claims in October 2006.

During the third quarter of 2005 and August 2006, we placed orders for certain equipment and/or services intended to augment our heat treat and aerospace capabilities at our Trentwood facility in Spokane, Washington and we expect to become obligated for costs related to these orders of approximately $105 million. Of such amount, approximately $65 million was incurred in 2005 and 2006. The balance is expected to be incurred primarily in 2007.

At December 31, 2006, there was still approximately $2 million of accrued, but unpaid professional fees that have been approved for payment by the Bankruptcy Court. Additionally, certain professionals had success fees due upon our emergence from chapter 11 bankruptcy. Approximately $5 million of such amounts were recorded in connection with emergence and fresh start accounting and were paid by us in early 2007.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Our operating results are sensitive to changes in the prices of alumina, primary aluminum and fabricated aluminum products, and also depend to a significant degree upon the volume and mix of all products sold. As discussed more fully in Notes 1 and 9 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data , we historically have utilized hedging transactions to lock-in a specified price or range of prices for certain products which we sell or consume in our production process and to mitigate our exposure to changes in foreign currency exchange rates.

Sensitivity

Primary Aluminum. Our share of primary aluminum production from Anglesey is approximately 150 million pounds annually. Because we purchase alumina for Anglesey at prices linked to primary aluminum prices, only a portion of our net revenues associated with Anglesey are exposed to price risk. We estimate the net portion of our share of Anglesey production exposed to primary aluminum price risk to be approximately 100 million pounds annually (before considering income tax effects).

Our pricing of fabricated aluminum products is generally intended to lock-in a conversion margin (representing the value added from the fabrication process(es)) and to pass metal price risk on to its customers. However, in certain instances we do enter into firm price arrangements. In such instances, we do have price risk on anticipated primary aluminum purchase in respect of the customer s order. Total fabricated products shipments during 2004, 2005, the period from January 1, 2006 to July 1, 2006 and the period from July 1, 2006 through December 31, 2006 for which we had price risk were (in millions of pounds) 119.6, 155.0, 103.9 and 96.0, respectively.

During the last three years, the volume of fabricated products shipments with underlying primary aluminum price risk were at least as much as our net exposure to primary aluminum price risk at Anglesey. As such, we consider our access to Anglesey production overall to be a natural hedge against any fabricated products firm metal-price risk. However, since the volume of fabricated products shipped under firm prices may not match up on a month-to-month basis with expected Anglesey-related primary aluminum shipments, we may use third party hedging instruments to eliminate any net remaining primary aluminum price exposure existing at any time.

At December 31, 2006, the fabricated products business held contracts for the delivery of fabricated aluminum products that have the effect of creating price risk on anticipated primary aluminum purchases for 2007 through 2011 totaling approximately (in millions of pounds): 2007, 149; 2008, 111; 2009, 83; 2010, 83; and 2011, 77.

Foreign Currency. We from time to time will enter into forward exchange contracts to hedge material cash commitments for foreign currencies. After considering the completed sales of our commodity interests, our primary foreign exchange exposure is the Anglesey-related commitment that we fund in Great Britain Pound Sterling, or GBP. We estimate that, before consideration of any hedging activities, a US $0.01 increase (decrease) in the value of the GBP results in an approximate $.5 million (decrease) increase in our annual pre-tax operating income.

Energy. We are exposed to energy price risk from fluctuating prices for natural gas. We estimate that, before consideration of any hedging activities, each $1.00 change in natural gas prices (per mcf) impacts our annual pre-tax operating results by approximately $4.0 million.

We from time to time in the ordinary course of business enter into hedging transactions with major suppliers of energy and energy-related financial investments. As of December 31, 2006, we had fixed price purchase contracts which limit our exposure to increases in natural gas prices for approximately 81% of the natural gas purchases from January 2007 through March 2007, 27% of natural gas purchases from April 2007 through June 2007 and 14% of natural gas purchases from July 2007 through September 2007.

Item 8. ***Financial Statements and Supplementary Data***

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of
Kaiser Aluminum Corporation:

We have audited the accompanying consolidated balance sheets of Kaiser Aluminum Corporation and subsidiaries (the Company) as of December 31, 2006 (Successor Company balance sheet) and 2005 (Predecessor Company balance sheet), and the related consolidated statements of income (loss), stockholders equity (deficit) and comprehensive income (loss) and cash flows for the period from July 1, 2006 to December 31, 2006 (Successor Company operations), the period from January 1, 2006 to July 1, 2006 and for each of the two years in the period ended December 31, 2005 (Predecessor Company operations). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company emerged from bankruptcy on July 6, 2006. In connection with its emergence, the Company adopted fresh-start reporting pursuant to American Institute of Certified Public Accountants Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code*, as of July 1, 2006. As a result, the consolidated financial statements of the Successor Company are presented on a different basis than those of the Predecessor Company and, therefore, are not comparable.

In our opinion, the Successor Company consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006, and the results of its operations and its cash flows for the period from July 1, 2006 to December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the Predecessor Company consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Predecessor as of December 31, 2005, and the results of its operations and its cash flows for the period from January 1, 2006 to July 1, 2006 and for each of the two years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
March 29, 2007

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2006	Predecessor December 31, 2005
	(In millions of dollars, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50.0	$ 49.5
Receivables:		
Trade, less allowance for doubtful receivables of $2.0 and $2.9	98.4	94.6
Due from affiliate	1.3	
Other	6.3	6.9
Inventories	188.1	115.3
Prepaid expenses and other current assets	40.8	21.0
Total current assets	384.9	287.3
Investments in and advances to unconsolidated affiliate	18.6	12.6
Property, plant, and equipment net	170.3	223.4
Personal injury-related insurance recoveries receivable		965.5
Intangible assets- net, including goodwill of $11.4 at December 31, 2005		11.4
Net assets in respect of VEBAs	40.7	
Other assets	40.9	38.7
Total	$ 655.4	$ 1,538.9
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Liabilities not subject to compromise		
Current liabilities:		
Accounts payable	$ 73.2	$ 51.4
Accrued interest	.7	1.0
Accrued salaries, wages, and related expenses	39.4	42.0
Other accrued liabilities	46.9	55.2
Payable to affiliate	16.2	14.8
Long-term debt current portion		1.1
Discontinued operations current liabilities		2.1
Total current liabilities	176.4	167.6
Long-term liabilities	58.3	42.0
Long-term debt	50.0	1.2
Discontinued operations liabilities (liabilities subject to compromise)		68.5
	284.7	279.3
Liabilities subject to compromise		4,400.1

Minority interests				.7
Commitments and contingencies				
Stockholders equity (deficit):				
Common stock, par value $.01, authorized 45,000,000 shares; issued and outstanding 20,525,660 shares at December 31, 2006		.2		.8
Additional capital		487.5		538.0
Retained earnings (deficit)		26.2		(3,671.2)
Common stock owned by Union VEBA subject to transfer restrictions, at reorganization value, 6,291,945 shares at December 31, 2006		(151.1)		
Accumulated other comprehensive income (loss)		7.9		(8.8)
Total stockholders equity (deficit)		370.7		(3141.2)
Total	$	655.4	$	1,538.9

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED INCOME (LOSS)

		Predecessor
	Year Ended December 31, 2006	
	July 1, 2006	