SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001

Commission file number 1-9447

KAISER ALUMINUM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**94-3030279**
(State of incorporation)	(I.R.S. Employer Identification No.)

5847 San Felipe, Suite 2600, Houston, Texas 77057-3268
(Address of principal executive offices) (Zip Code)

(713) 267-3777
(Registrant's telephone number, including area code)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes _x_ No ___

At October 31, 2001, the registrant had 80,706,694 shares of Common Stock outstanding.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(In millions of dollars)

	September 30, 2001	December 31, 2000
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 212.1	$ 23.4
Receivables:		
Trade, net	145.5	188.7
Other	151.0	241.1
Inventories	333.1	396.2
Prepaid expenses and other current assets	148.8	162.7
Total current assets	990.5	1,012.1
Investments in and advances to unconsolidated affiliates	59.1	77.8
Property, plant, and equipment – net	1,228.5	1,176.1
Deferred income taxes	385.3	454.2
Other assets	700.9	622.9
Total	$ 3,364.3	$ 3,343.1
Liabilities & Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 166.2	$ 236.8
Accrued interest	24.3	37.5
Accrued salaries, wages, and related expenses	89.3	110.3
Accrued postretirement medical benefit obligation – current portion	58.0	58.0
Other accrued liabilities	257.0	288.9
Payable to affiliates	59.2	78.3
Long-term debt – current portion	206.4	31.6
Total current liabilities	860.4	841.4
Long-term liabilities	805.1	703.7
Accrued postretirement medical benefit obligation	649.2	656.9
Long-term debt	698.7	957.8
Minority interests	116.0	101.1
Commitments and contingencies		
Stockholders' equity:		
Common stock	.8	.8
Additional capital	538.7	537.5
Accumulated deficit	(330.4)	(454.3)
Accumulated other comprehensive income (loss)	25.8	(1.8)
Total stockholders' equity	234.9	82.2
Total	$ 3,364.3	$ 3,343.1

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

STATEMENTS OF CONSOLIDATED INCOME (LOSS)
(Unaudited)
(In millions of dollars, except share amounts)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Net sales	$ 430.3	$ 545.2	$1,357.4	$ 1,673.7
Costs and expenses:				
Cost of products sold	397.3	469.7	1,260.6	1,429.9
Depreciation and amortization	23.1	19.8	66.6	59.0
Selling, administrative, research and development, and general	24.7	25.3	77.4	77.6
Labor settlement charge	–	38.5	–	38.5
Non-recurring operating items	21.3	(10.9)	(198.9)	(22.5)
Total costs and expenses	466.4	542.4	1,205.7	1,582.5
Operating income (loss)	(36.1)	2.8	151.7	91.2
Other income (expense):				
Interest expense	(27.2)	(27.0)	(82.2)	(83.6)
Gain on sale of interest in QAL	163.6	–	163.6	–
Other – net	16.3	(4.9)	(28.1)	(1.3)
Income (loss) before income taxes and minority interests	116.6	(29.1)	205.0	6.3
(Provision) benefit for income taxes	(49.4)	11.2	(83.9)	(2.5)
Minority interests	1.2	1.1	2.8	2.1
Net income (loss)	$ 68.4	$ (16.8)	$ 123.9	$ 5.9
Earnings (loss) per share:				
Basic/Diluted	$ .85	$ (.21)	$ 1.55	$ .07
Weighted average shares outstanding (000):				
Basic	80,839	79,556	80,081	79,502
Diluted	80,840	79,556	80,082	79,505

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

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)
(In millions of dollars)

For the Nine Months Ended September 30, 2000

	Common Stock	Additional Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 1999	$ .8	$ 536.8	$ (471.1)	$ (1.2)	$ 65.3
Net income/comprehensive income	–	–	5.9	–	5.9
Incentive plan accretion	–	.7	–	–	.7
BALANCE, SEPTEMBER 30, 2000	$ .8	$ 537.5	$ (465.2)	$ (1.2)	$ 71.9

For the Nine Months Ended September 30, 2001

	Common Stock	Additional Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2000	$ .8	$ 537.5	$ (454.3)	$ (1.8)	$ 82.2
Net income	–	–	123.9	–	123.9
Cumulative effect of accounting change, net of income tax provision of $.5	–	–	–	1.8	1.8
Unrealized net gain on derivative instruments arising during the period, net of income tax provision of $16.8 (including unrealized net gain of $36.2, net of tax, for the quarter ended September 30, 2001)	–	–	–	28.8	28.8
Less reclassification adjustment for realized net gain on derivative instruments included in net income, net of income tax provision of $1.0 (including realized net gain of $.3, net of tax, for the quarter ended September 30, 2001)	–	–	–	(3.0)	(3.0)
Comprehensive income	–	–	–	–	151.5
Incentive plan and restricted stock accretion	–	1.2	–	–	1.2
BALANCE, SEPTEMBER 30, 2001	$ .8	$ 538.7	$ (330.4)	$ 25.8	$ 234.9

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

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

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Cash flows from operating activities:		
Net income	$ 123.9	$ 5.9
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization (including deferred financing costs of $4.3 and $3.3)	70.9	62.3
Non-cash restructuring and impairment charges	20.7	17.4
Gains - sale of QAL interest and real estate (2001); real estate (2000)	(169.3)	(39.0)
Equity in (income) loss of unconsolidated affiliates, net of distributions	5.4	17.2
Minority interests	(2.8)	(2.1)
Decrease (increase) in trade and other receivables	135.9	(109.8)
Decrease in inventories	50.2	103.8
Decrease in prepaid expenses and other current assets	10.1	21.6
(Decrease) in accounts payable (associated with operating activities) and accrued interest	(56.1)	(29.1)
(Decrease) increase in payable to affiliates and other accrued liabilities	(9.6)	29.1
Increase (decrease) in accrued and deferred income taxes	41.3	(8.7)
Net cash impact of changes in long-term assets and liabilities	18.7	(27.2)
Other	6.4	12.6
Net cash provided by operating activities	245.7	54.0
Cash flows from investing activities:		
Capital expenditures (including $70.6 and $159.0 related to Gramercy facility)	(120.1)	(196.5)
(Decrease) increase in accounts payable - Gramercy-related capital expenditures	(29.9)	42.9
Gramercy-related property damage insurance recoveries	–	73.0
Net proceeds from disposition of QAL interest, real estate and other	170.1	67.8
Net cash provided (used) by investing activities	20.1	(12.8)
Cash flows from financing activities:		
Repayments under revolving credit facility, net	(30.4)	(10.4)
Repayments of other debt	(41.2)	(2.9)
Redemption of minority interests' preference stock	(5.5)	(2.6)
Net cash used by financing activities	(77.1)	(15.9)
Net increase in cash and cash equivalents during the period	188.7	25.3
Cash and cash equivalents at beginning of period	23.4	21.2
Cash and cash equivalents at end of period	$ 212.1	$ 46.5
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalized interest of $3.3 and $3.7	$ 91.1	$ 93.2
Income taxes paid	41.6	9.6

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

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

1. General

Kaiser Aluminum Corporation (the "Company") is a subsidiary of MAXXAM Inc. ("MAXXAM"). MAXXAM and one of its wholly owned subsidiaries together own approximately 62% of the Company's Common Stock with the remaining approximately 38% publicly held. The Company operates through its subsidiary, Kaiser Aluminum & Chemical Corporation ("KACC").

The foregoing unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2000. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods presented.

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

Operating results for the quarter and nine-month periods ended September 30, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

Liquidity.
Near-Term Debt Maturities. KACC has significant near-term debt maturities, including $177.4 (remaining principal amount outstanding as of October 31, 2001) of its 9⅞% Senior Notes due February 2002 (the "9⅞% Senior Notes") and $400.0 of 12¾% Senior Subordinated Notes due February 2003 (the "12¾% Senior Subordinated Notes"). KACC's credit agreement, as amended (the "Credit Agreement"), will expire December 15, 2001 unless it is extended, replaced or renewed. As of October 31, 2001, KACC had approximately $190.0 of cash and cash equivalents. See Note 5 for a discussion of the Company's and KACC's plans with respect to such near-term debt maturities.

Cash Flow, Other than Near-Term Debt Maturities. KACC's ability to make payments on, retire or refinance its debt depends on its ability to generate cash in the future. In addition to being impacted by normal operating items, the Company's and KACC's near-term liquidity and cash flows will be negatively affected by the restart of the Gramercy facility, until it reaches its full production level and full efficiency, and net payments for asbestos-related liabilities. For a discussion of these matters, see Notes 2 and 7.

Absent an improvement in the markets in which KACC operates or faster than expected improvement in the operating performance of the Gramercy refinery (as a result of its completion) and other facilities (as a result of the Company's performance improvement initiative), KACC's operations and working capital and other commitments (before considering near-term debt maturities), including interest and expected tax payments, the funding of pension, post-retirement medical and net asbestos-related liabilities, capital spending and other previously accrued obligations, may cause near-term cash flows to be negative. The Company expects KACC's cash flow in mid-2002 to improve substantially over expected near-term cash flows as a result of the Gramercy alumina refinery reaching its full operating rate and full efficiency, operating improvements resulting from KACC's performance improvement initiative and as certain of its other previously accrued, non-recurring, near-term obligations are satisfied. However, such changes are subject to prevailing market and economic conditions and, as such, no assurances can be given in this regard.

Possible Year-End Financial Statement Item. The assets of the KACC sponsored pension plans, like numerous other companies' plans, are, to a substantial degree, invested in the capital markets and managed by a third party. Given the year-to-date performance of the stock market, it is likely that, barring a material improvement in the stock market during the fourth quarter of 2001, the Company will be required to reflect a significant additional minimum pension liability in its year-end financial statements as a result of a decline in the value of the assets held by KACC's pension plans. Minimum pension liability adjustments are non-cash adjustments that are reflected as an increase in pension liability and an offsetting charge to stockholders' equity (net of income tax) through comprehensive income (rather than net income). The ultimate amount of such additional adjustment cannot be determined until year-end 2001. However, based on stock market performance through September 30, 2001, the Company estimates that such amount could be in the $25.0 to $50.0 range. The Company also anticipates that the decline in the value of the pension plans' assets will unfavorably impact pension costs reflected in its 2002 operating results. However, absent a decision by the Company to increase its contributions to the pension plans as a result of the recent asset performance, such asset performance is not expected to have a material impact on the Company's near-term liquidity as pension funding requirements generally allow for such impacts to be spread over multiple years. Increases in post-2002 pension funding requirements could occur, however, if capital market performance in future periods does not more closely approximate the long-term rate of return assumed by the Company, and the amount of such increases could be material.

Earnings per Share.
Basic. Earnings per share is computed by dividing net income by the weighted average number of shares of Common Stock outstanding during the period.

Diluted. The impact of outstanding stock options was excluded from the computation of Diluted loss per share for the quarter ended September 30, 2000, as its effect would be antidilutive. Diluted earnings per share for the quarter ended September 30, 2001 and the nine-month periods ended September 30, 2001 and 2000 include the dilutive effect of outstanding stock options (21,000, 20,000 and 35,000 shares, respectively).

Restricted Common Stock. During June and July 2001, KACC completed an exchange with certain employees who held stock options to purchase the Company's common stock whereby a total of approximately 3,617,000 options were exchanged (on a fair value basis) for approximately 1,086,000 restricted shares of the Company's common stock. The fair value of the restricted shares issued is being amortized to expense over the three-year period during which the restrictions lapse.

Derivative Financial Instruments. Hedging transactions using derivative financial instruments are primarily designed to mitigate KACC's exposure to changes in prices for certain of the products which KACC sells and consumes and, to a lesser extent, to mitigate KACC's exposure to changes in foreign currency exchange rates. KACC does not utilize derivative financial instruments for trading or other speculative purposes. KACC's derivative activities are initiated within guidelines established by management and approved by KACC's and the Company's boards of directors. Hedging transactions are executed centrally on behalf of all of KACC's business segments to minimize transaction costs, monitor consolidated net exposures and allow for increased responsiveness to changes in market factors.

Pre-2001 Accounting. Accounting guidelines in place through December 31, 2000, provided that any interim fluctuations in option prices prior to the settlement date were deferred until the settlement date of the underlying hedged transaction, at which time they were recorded in net sales or cost of products sold (as applicable) together with the related premium cost. No accounting recognition was accorded to interim fluctuations in prices of forward sales contracts. Hedge (deferral) accounting would have been terminated (resulting in the applicable derivative positions being marked-to-market) if the level of underlying physical transactions ever fell below the net exposure hedged. This did not occur in 2000.

Current Accounting. Effective January 1, 2001, the Company began reporting derivative activities pursuant to Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 requires companies to recognize all derivative instruments as assets or liabilities in the balance sheet and to measure those instruments at fair value by "marking-to-market" all of their hedging positions at each period-end (see Note 8). This contrasts with pre-2001 accounting principles, which generally only required certain "non-qualifying" hedging positions to be marked-to-market. Changes in the market value of the Company's open hedging positions resulting from the mark-to-market process represent unrealized gains or losses. Such unrealized gains or losses will fluctuate, based on prevailing market prices at each subsequent balance sheet date, until the transaction date occurs. Under SFAS No. 133, these changes are recorded as an increase or reduction in stockholders' equity through either other comprehensive income or net income, depending on the facts and circumstances with respect to the hedge and its documentation. To the extent that changes in market values of the Company's hedging positions are initially recorded in other comprehensive income, such changes reverse out of other comprehensive income (offset by any fluctuations in other "open" positions) and are recorded in net income (included in net sales or cost of products sold, as applicable) when the subsequent physical transactions occur. Additionally, under SFAS No. 133, if the level of physical transactions ever falls below the net exposure hedged, "hedge" accounting must be terminated for such "excess" hedges. In such an instance, the mark-to-market changes on such excess hedges would be recorded in the income statement rather than in other comprehensive income. This did not occur in the first nine months of 2001.

Differences between comprehensive income and net income, which have historically been small, may become significant in future periods as a result of SFAS No. 133. In general, SFAS No. 133 will result in material fluctuations in comprehensive income and stockholders' equity in periods of price volatility, despite the fact that the Company's cash flow and earnings will be "fixed" to the extent hedged. This result is contrary to the intent of the Company's hedging program, which is to "lock-in" a price (or range of prices) for products sold/used so that earnings and cash flows are subject to reduced risk of volatility.

SFAS No. 133 requires that, as of the date of the initial adoption, the difference between the market value of derivative instruments recorded on the Company's consolidated balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle. Based on authoritative accounting literature issued during the first quarter of 2001, it was determined that all of the cumulative impact of adopting SFAS No. 133 should be recorded in other comprehensive income. Based on the applicable prices and exchange rates in effect at the adoption date, a pre-tax charge of approximately $1.3 is expected to be reclassified from accumulated other comprehensive income to net income during 2001.

Future Accounting Requirements. The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, *Accounting For Asset Retirement Obligations* ("SFAS No. 143"), in 2001. SFAS No. 143 must be adopted by the Company effective January 1, 2003. The Company does not expect the adoption of SFAS No. 143 to have a material effect on its financial statements.

2. Incident at Gramercy Facility

Initial production at KACC's Gramercy, Louisiana alumina refinery, which had been curtailed since July 1999 as a result of an explosion in the digestion area of the plant, commenced during the middle of December 2000. Construction at the facility was substantially completed during the third quarter of 2001. The plant operated at approximately 78% of its newly-rated estimated annual capacity of 1,250,000 tons during the third quarter of 2001. Subsequent to September 30, 2001, the plant has regularly operated at a rate equal to or greater than 90% of its newly-rated estimated capacity. Based on current estimates, the facility is expected to reach its full operating rate and full efficiency by the end of 2001 or early 2002.

During the quarter and nine-month periods ended September 30, 2001, abnormal Gramercy-related start-up costs totaled approximately $13.9 and $54.9, respectively. These abnormal costs resulted from operating the plant in an interim mode pending the completion of construction. The Company's and KACC's future operating results will continue to be adversely affected until the Gramercy plant is operating at its intended production rate and at full efficiency.

As of September 30, 2001, KACC had collected $304.5 of insurance recoveries related to the property damage, business interruption and clean-up and site preparation aspects of the Gramercy incident. During July 2001, KACC and its insurers reached a global settlement agreement in respect of all of KACC's business interruption and property damage claims under which KACC: (a) received an additional $35.0 during the third quarter of 2001 related to losses/costs incurred prior to June 30, 2001; and (b) will receive an agreed allocation from any recoveries that may result from joint actions against certain third parties. As a result of the settlement, KACC recognized $15.2 of additional insurance benefit (as a reduction of Bauxite and alumina business unit's cost of products sold) in the second quarter of 2001. In October 2001, settlements were reached in certain (but not all) of the joint actions by KACC and its insurers. Under the terms of the joint action agreement, as well as the prior agreement between KACC and its insurers, KACC will receive an additional approximately $30.0, during the fourth quarter of 2001, in respect of its share of third quarter 2001 and prior period costs from the Gramercy incident. Accordingly, KACC recorded $21.4 of additional insurance benefit (as a reduction of Bauxite and alumina business unit's cost of products sold) during the third quarter of 2001 after deducting offsetting costs and receivable amounts. Additional recoveries may result from the remaining joint actions. However, KACC cannot predict the likelihood or timing of any such incremental recoveries.

The incident at the Gramercy facility resulted in a significant number of individual and class action lawsuits being filed against KACC and others, alleging, among other things, property damage, business interruption losses by other businesses and personal injury. The aggregate amount of damages sought in the lawsuits and other claims cannot be determined at this time; however, KACC does not currently believe the damages will exceed the amount of coverage under its liability policies.

See Note 2 of Notes to Consolidated Financial Statements in the Company's Form 10-K for the year ended December 31, 2000 for additional information regarding the Gramercy incident.

3. Inventories

The classification of inventories is as follows:

	September 30, 2001	December 31, 2000
Finished fabricated aluminum products	$ 47.3	$ 54.6
Primary aluminum and work in process	87.5	126.9
Bauxite and alumina	93.2	88.6
Operating supplies and repair and maintenance parts	105.1	126.1
Total	$ 333.1	$ 396.2

Substantially all product inventories are stated at last-in, first-out (LIFO) cost, not in excess of market. Replacement cost is not in excess of LIFO cost.

Inventories at September 30, 2001, have been reduced by (a) a $5.6 charge (in Other non-recurring operating items - see Note 10) to write-down certain excess operating supplies and repair and maintenance parts that will be sold, rather than used in production, as part of the Company's performance improvement initiative to generate one-time cash and (b) $5.0 LIFO inventory charges (in cost of products sold) as reductions of inventory volumes were in inventory layers with higher costs than current market prices. Additional LIFO charges in future periods are possible.

4. Pacific Northwest Power Sales and Operating Level

Power Sales. During the first six months of 2001, KACC, in a series of transactions, sold a substantial majority of the remaining power available for its Northwest smelters that it had under contract through September 2001 and recorded net pre-tax gains of approximately $222.7. The gains were net of approximately $33.0 of employee-related expenses and other fixed or incremental costs associated with the continuing curtailment of its Northwest smelters. During the third quarter of 2001, KACC sold the remaining Northwest power that it had under contract resulting in net pre-tax gains of approximately $6.5 which have been recorded in Other non-recurring operating items (see Note 10). Approximately $321.0 of power proceeds were received during the first nine months of 2001 ($88.0 related to 2000 power sales and the balance related to 2001 power sales). The balance of the power proceeds from sales of power (approximately $26.5) will be received during the fourth quarter of 2001.

Future Power Supply and its Impact on Future Operating Rate. During October 2000, KACC signed a new power contract with the Bonneville Power Administration ("BPA") under which the BPA, starting October 1, 2001, is to provide KACC's operations in the State of Washington with approximately 290 megawatts of power through September 2006. The contract will provide KACC with sufficient power to fully operate KACC's Trentwood facility (which requires up to an approximate 40 megawatts) as well as approximately 40% of the combined capacity of KACC's Mead and Tacoma aluminum smelting operations. The BPA has announced that it currently intends to set rates under the contract in six month increments. The rate for the initial period (from October 1, 2001 through March 31, 2002) was announced by the BPA in June 2001 and is approximately 46% higher than power costs under the prior contract. KACC cannot predict what rates will be charged in future periods. Such rates will be dependent on such factors as the availability of and demand for electrical power, which are largely dependent on weather, the price for alternative fuels, particularly natural gas, as well as general and regional economic and ecological factors. The contract also includes a take-or-pay requirement and clauses under which KACC's power allocation could be curtailed, or its costs increased, in certain instances. Under the contract, KACC can only remarket its power allocation to reduce or eliminate take-or-pay requirements. KACC is not entitled to receive any profits from any such remarketing efforts. During October 2001, KACC and the BPA reached an agreement whereby: (a) KACC retained its rights to restart its smelter operations at any time; (b) KACC would not be obligated to pay for potential take-or-pay obligations in the first year of the contract; and (c) in return for the foregoing, KACC granted the BPA certain limited power interruption rights in the first year of the contract if KACC is operating its Northwest smelters. The BPA and KACC separately agreed that capital spending in respect of the Gramercy refinery was consistent with the contractual provisions of the prior contract with respect to the use of power sale proceeds.

Subject to the limited interruption rights granted to the BPA (described above), KACC has sufficient power under contract, and retains the ability, to restart up to 40% (4.75 potlines) of its Northwest smelting capacity. Were KACC to want to restart additional capacity (in excess of 4.75 potlines), it would have to purchase additional power from the BPA or other suppliers. For KACC to make such a decision, it would have to be able to purchase such power at a reasonable price in relation to current and expected market conditions for a sufficient term to justify its restart costs. Given recent primary aluminum prices and the forward price of power in the Northwest, it is unlikely that KACC would operate more than a portion of its Northwest smelting capacity in the near future. Were KACC to restart all or a portion of its Northwest smelting capacity, it would take between three to six months to reach the full operating rate for such operations, depending upon the number of lines restarted. Even after achieving the full operating rate, operating only a portion of the Northwest capacity would result in production/cost inefficiencies such that operating results would, at best be breakeven to modestly negative at long-term primary aluminum prices. However, operating at such a reduced rate could, depending on prevailing economics, result in improved cash flows as opposed to remaining curtailed and incurring the Company's fixed and continuing labor and other costs. This is because KACC is contractually liable for certain severance, supplemental unemployment benefits and early retirement benefits for laid-off workers under KACC's contract with the United Steelworkers of America ("USWA") during periods of curtailment. As of September 30, 2001, all such contractual compensation costs have been accrued for all USWA workers in excess of those expected to be required to run the Northwest smelters at a rate up to the above stated 40% smelter operating rate. These costs are expected to be incurred periodically through September 2002. Costs associated with the USWA workers that KACC estimates would be required to operate the smelters at an operating rate of up to 40% have been accrued through December 31, 2001, as KACC does not currently expect to restart the Northwest smelters prior to that date given recent prices for primary aluminum. If KACC does not restart and begin operating the smelters at an operating rate of up to 40% beginning January 2002, it could become liable for additional supplemental unemployment benefits for these workers. Additionally, if such workers are not recalled prior to early 2003, KACC could become liable for additional early retirement costs. Such costs could be significant and would adversely impact the Company's operating results and liquidity.

5. Debt

Current Maturities and Liquidity. The Company and KACC have a Credit Agreement, which provides a secured, revolving line of credit. In October 2001, the expiration date of the Credit Agreement was extended from November 2, 2001 to December 15, 2001. The extension provides KACC with additional flexibility while it continues its ongoing work on a longer-term solution for near-term debt maturities.

KACC is able to utilize the Credit Agreement by means of revolving credit advances or letters of credit (up to $125.0) in an aggregate amount equal to the lesser of $300.0 or a borrowing base relating to eligible accounts receivable and eligible inventory. At September 30, 2001, $184.8 (of which $95.4 could have been used for letters of credit) was available to KACC under the Credit Agreement and no amounts were outstanding under the revolving credit facility. Interest on any outstanding amounts bear a spread (which varies based on the results of a financial test) over either a base rate or LIBOR, at KACC's option. KACC typically chooses base rate based borrowings for shorter term Credit Agreement uses and LIBOR based loans for more extended Credit Agreement uses. The average interest rate on loans outstanding under the Credit Agreement during the first nine months of 2001 was approximately 10.0% per annum. As of October 31, 2001, there were no revolving credit borrowings outstanding under the Credit Agreement. At October 31, 2001, outstanding letters of credit were approximately $28.4.

The Company and KACC intend to extend, replace or renew the Credit Agreement prior to its expiration. However, in order for the Credit Agreement to be extended, on a short-term basis, beyond December 2001, KACC will have to have a demonstrable way to retire the maturity of the remaining amount of 9⅞% Senior Notes ($177.4 principal amount as of October 31, 2001). For the Credit Agreement to be extended past February 2003, both the 9⅞% Senior Notes and the $400.0 of 12¾% Senior Subordinated Notes will have to be retired and/or refinanced. It is possible that KACC may use a portion of the availability under the Credit Agreement (or any extension, replacement or renewal thereof) together with other cash resources to retire the 9⅞% Senior Notes. As of September 30, 2001, KACC had purchased $18.8 of the 9⅞% Senior Notes. The net gain from the purchase of the notes was less than $.1 and has been included in Other income (expense). As of October 31, 2001, KACC had purchased $47.6 of the 9⅞% Senior Notes at a modest net gain. As of October 31, 2001, KACC had approval from the Credit Agreement lenders to spend up to an aggregate of $100.0 to purchase the 9⅞% Senior Notes.

As previously announced, the Company is working with financial advisors to review its options for addressing its near-term debt maturities and its overall capital structure. The Company expects to provide additional information with respect to its plan to deal with its near-term maturities before the expiration of the Credit Agreement term. While the Company believes it will be successful in addressing its near-term debt maturities and overall capital structure, no assurances in this regard can be given. While the Company continues to consider potential asset transactions (beyond the September 2001 sale of an 8.3% interest in QAL), the Company intends to pursue only those transactions that would create long-term value through strategic positioning and/or the generation of acceptable levels of earnings or cash. The Company cannot predict if any such transactions will materialize.

In connection with the above-mentioned extension of the Credit Agreement, KACC has agreed to hold half (approximately $79.5) of the proceeds received from the sale of an 8.3% interest in Queensland Alumina Limited ("QAL") (see Note 9) in a separate bank account until the earlier of (1) lender approval, (2) December 15, 2001, or (3) renewal or further extension of the Credit Agreement.

Alpart CARIFA Loans. During the first quarter of 2001, Alumina Partners of Jamaica ("Alpart"; of which KACC owns 65%) redeemed $34.0 principal amount of the Caribbean Basin Projects Financing Authority loans. KACC and its partner in Alpart both funded their respective share of the redemption. The redemption had a modest beneficial effect on the unused availability remaining under the Credit Agreement as the additional Credit Agreement borrowings of $22.1 required for KACC's share of the redemption were more than offset by a reduction in the amount of letters of credit outstanding that supported the loan.

6. Cumulative Preference Stock

In connection with the settlement of the labor dispute with the USWA, during March 2001, KACC redeemed all of its outstanding Cumulative (1985 Series A) Preference Stock and Cumulative (1985 Series B) Preference Stock ($17.5 at December 31, 2000). The net cash impact of the redemption on KACC was only approximately $5.5 because approximately $12.0 of the redemption amount had previously been funded into redemption funds.

7. Contingencies

Environmental Contingencies. The Company and KACC are subject to a number of environmental laws, to fines or penalties assessed for alleged breaches of such environmental laws, and to claims and litigation based upon such laws. KACC currently is 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 ("CERCLA"), and, along with certain other entities, has been named as a potentially responsible party for remedial costs at certain third-party sites listed on the National Priorities List under CERCLA.

Based on the Company's evaluation of these and other environmental matters, the Company has established environmental accruals, primarily related to potential solid waste disposal and soil and groundwater remediation matters. During the quarter and nine-month periods ended September 30, 2001, KACC's ongoing assessment process resulted in KACC recording charges of $1.0 and $9.0, respectively, to increase its environmental accrual. Additionally, KACC's environmental accruals were increased during the nine-month period ended September 30, 2001 by approximately $6.0 in connection with the purchase of certain property. At September 30, 2001, the balance of the Company's accruals for these and other matters, which are primarily included in Long-term liabilities, totaled $58.7. These environmental accruals represent the Company's estimate of costs reasonably expected to be incurred based on presently enacted laws and regulations, currently available facts, existing technology, and the Company's assessment of the likely remediation actions to be taken. The Company expects that these remediation actions will be taken over the next several years and estimates that annual expenditures to be charged to these environmental accruals will be approximately $4.0 to $13.0 for the years 2001 through 2005 and an aggregate of approximately $24.0 thereafter.

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. The Company believes that it is reasonably possible that costs associated with these environmental matters may exceed current accruals by amounts that could range, in the aggregate, up to an estimated $20.0. As the resolution of these matters is subject to further regulatory review and approval, no specific assurance can be given as to when the factors upon which a substantial portion of this estimate is based can be expected to be resolved. However, the Company is currently working to resolve certain of these matters.

The Company believes that KACC has insurance coverage available to recover certain incurred and future environmental costs and is actively pursuing claims in this regard. No assurances can be given that KACC will be successful in its attempts to recover incurred or future costs from insurers or that the amount of recoveries received will ultimately be adequate to cover costs incurred.

While uncertainties are inherent in the final outcome of these environmental matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, management currently believes that the resolution of such uncertainties should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

Asbestos Contingencies. KACC is a defendant in a number of lawsuits, some of which involve claims of multiple persons, in which the plaintiffs allege that certain of their injuries were caused by, among other things, exposure to asbestos during, and as a result of, their employment or association with KACC or exposure to products containing asbestos produced or sold by KACC. The lawsuits generally relate to products KACC has not sold for more than 20 years.

The following table presents the changes in the number of such claims pending for the nine months ended September 30, 2001 and the year ended December 31, 2000.

	Nine Months Ended September 30, 2001	Year Ended December 31, 2000
Number of claims at beginning of period	110,800	100,000
Claims received	27,300	30,600
Claims settled or dismissed	(25,700)	(19,800)
Number of claims at end of period	112,400	110,800
Number of claims at end of period (included above) covered by agreements under which KACC expects to settle over an extended period	72,900	66,900

The Company maintains a liability for estimated asbestos-related costs for claims filed to date and an estimate of claims to be filed over a 10 year period (i.e., through the comparable period in 2011). The Company's estimate is based on the Company's view, at each balance sheet date, of the current and an anticipated number of asbestos-related claims, the timing and amounts of asbestos-related payments, the status of ongoing litigation and settlement initiatives, and the advice of Wharton Levin Ehrmantraut Klein & Nash, P.A., with respect to the current state of the law related to asbestos claims. However, there are inherent uncertainties involved in estimating asbestos-related costs and the Company's actual costs could exceed the Company's estimates due to changes in facts and circumstances after the date of each estimate. Further, while the Company does not presently believe there is a reasonable basis for estimating asbestos-related costs beyond 2011 and, accordingly, no accrual has been recorded for any costs which may be incurred beyond 2011, the Company expects that such costs are likely to continue beyond 2011, and that such costs could be substantial.

The Company believes that KACC has insurance coverage available to recover a substantial portion of its asbestos-related costs. Although the Company has settled asbestos-related coverage matters with certain of its insurance carriers, other carriers have not yet agreed to settlements and disputes with certain carriers exist. The timing and amount of future recoveries from these and other insurance carriers will depend on the pace of claims review and processing by such carriers and on the resolution of any disputes regarding coverage under such policies. The Company believes that substantial recoveries from the insurance carriers are probable. The Company reached this conclusion after considering its prior insurance-related recoveries in respect of asbestos-related claims, existing insurance policies, and the advice of Heller Ehrman White & McAuliffe LLP with respect to applicable insurance coverage law relating to the terms and conditions of those policies. During 2000, KACC filed suit against a group of its insurers, after negotiations with certain of the insurers regarding an agreement covering both reimbursement amounts and the timing of reimbursement payments were unsuccessful. During October 2001, the court ruled favorably on a number of issues. The rulings did not result in any change to the Company's estimates of its current or future asbestos-related insurance recoveries. Additional issues may be heard by the court from time to time. Given the significance of expected asbestos-related payments in 2001 and 2002 based on settlement agreements in place at September 30, 2001, the receipt of timely and appropriate reimbursements from such insurers is critical to KACC's liquidity.

The following tables present historical information regarding KACC's asbestos-related balances and cash flows:

	September 30, 2001	December 31, 2000
Liability (current portion of $130.0 in both periods)	$ 633.1	$ 492.4
Receivable (included in Other assets)[1]	501.1	406.3
	$ 132.0	$ 86.1

[1] The asbestos-related receivable was determined on the same basis as the asbestos-related cost accrual. As of September 30, 2001 and December 31, 2000, $25.6 and $36.9, respectively, of the receivable amounts relate to costs paid by KACC. The remaining receivable amounts relate to costs that are expected to be paid by KACC in the future. No assurances can be given that KACC will be able to project similar recovery percentages for additional asbestos-related liabilities recognized in future periods or that the amounts related to any such additional asbestos-related liabilities will not ultimately exceed KACC's aggregate insurance coverage.

	Nine Months Ended September 30, 2001	Inception To Date
Payments made, including related legal costs	$ 86.9	$ 307.4
Insurance recoveries	77.3	208.6
	$ 9.6	$ 98.8

	As of September 30, 2001		
	2001 and 2002	2003 to 2005	Thereafter
Expected annual payment amounts, before considering insurance recoveries	$125.0 - $150.0	$50.0 - $75.0	$290.0

Management continues to monitor claims activity, the status of lawsuits (including settlement initiatives), legislative developments, and costs incurred in order to ascertain whether an adjustment to the existing accruals should be made to the extent that historical experience may differ significantly from the Company's underlying assumptions. This process resulted in the Company recording charges of $53.3 (included in Other income (expense) - see Note 10) in the nine-month period ended September 30, 2001, respectively, for asbestos-related claims, net of expected insurance recoveries, based on recent cost and other trends experienced by KACC and other companies. While uncertainties are inherent in the final outcome of these asbestos matters and it is presently impossible to determine the actual costs that ultimately may be incurred and insurance recoveries that will be received, management currently believes that, based on the factors discussed in the preceding paragraphs, the resolution of asbestos-related uncertainties and the incurrence of asbestos-related costs net of related insurance recoveries should not have a material adverse effect on the Company's consolidated financial position or liquidity. However, as the Company's estimates are periodically re-evaluated, additional charges may be necessary and such charges could be material to the results of the period in which they are recorded.

Labor Matters. In connection with the USWA strike and subsequent lock-out by KACC, which was settled in September 2000, certain allegations of unfair labor practices ("ULPs") were filed with the National Labor Relations Board ("NLRB") by the USWA. As previously disclosed, KACC responded to all such allegations and believes that they were without merit. Twenty-two of twenty-four allegations of ULPs previously brought against KACC by the USWA have been dismissed. A trial before an administrative law judge for the two remaining allegations concluded in September 2001. Legal briefs must still be filed by all parties. A decision is not expected until sometime after the first quarter of 2002. Any outcome from the trial before the administrative law judge would be subject to additional appeals by the general counsel of the NLRB, the USWA or KACC. This process could take months or years. If these proceedings eventually result in a final ruling against KACC with respect to either allegation, it could be obligated to provide back pay to USWA members at the five plants for an approximate twenty-month period (plus interest and minus any wages the USWA workers earned during the twenty-month period). Such amounts could be material. However, the Company continues to believe that the charges are without merit. While uncertainties are inherent in matters such as this and it is presently impossible to determine the actual costs, if any, that may ultimately arise in connection with this matter, the Company does not believe that the ultimate outcome of this matter will have a material adverse impact on the Company's liquidity or financial position. However, amounts paid, if any, in satisfaction of this matter could be significant to the results of the period in which they are recorded.

Other Contingencies. The Company or KACC is involved in various other claims, lawsuits, and other proceedings relating to a wide variety of matters. While uncertainties are inherent in the final outcome of such matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, management currently believes that the resolution of such uncertainties and the incurrence of such costs should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

See Note 12 of Notes to Consolidated Financial Statements in the Company's Form 10-K for the year ended December 31, 2000.

8. Derivative Financial Instruments and Related Hedging Programs

In conducting its business, KACC uses various instruments to manage the risks arising from fluctuations in aluminum prices, energy prices and exchange rates. KACC enters into hedging transactions to limit its exposure resulting from (1) its anticipated sales of alumina, primary aluminum, and fabricated aluminum products, net of expected purchase costs for items that fluctuate with aluminum prices, (2) the energy price risk from fluctuating prices for natural gas, fuel oil and diesel oil used in its production process, and (3) foreign currency requirements with respect to its cash commitments to foreign subsidiaries and affiliates.

As KACC's hedging activities are generally designed to lock-in a specified price or range of prices, realized gains or losses on the derivative contracts utilized in these hedging activities (except the impact of those contracts discussed below which have been marked-to-market) will generally offset at least a portion of any losses or gains, respectively, on the transactions being hedged. See Note 1 for a discussion of the effects of the new accounting requirements under SFAS No. 133, which is being used for reporting results beginning with the first quarter of 2001. The following table summarizes KACC's material derivative hedging positions at September 30, 2001:

Commodity	Period	Notional Amount of Contracts	Estimated % of Annual Sales/Purchases Hedged	Carrying/ Market Value
Aluminum (in tons[*]) -				
Option contracts and swaps	10/01 to 12/01	115,000	94%	$ 15.0
Option contracts and swaps	2002	333,000	68%	54.7
Option contracts	2003	90,000	17%	15.3
Energy -				
Natural gas (in MMBtus per day):				
Option contracts and swaps	10/01 to 3/02	23,000	57%	(2.8)
Fuel Oil (in barrels per month):				
Option contracts and swaps	10/01 to 12/01	150,000	65%	.6
Australian dollars (average A$ per month) -				
Forwards and option contracts	10/01 to 12/01	A$ 11.4	100%	(.3)
Option contracts	2002 to 2005	A$ 7.5	70%	3.6

During the first quarter of 2001, market value changes in derivative hedging positions included in the above table resulted in benefits to earnings (included in Other income (expense)) of $6.8 (see Note 10). Based on new accounting literature released in April 2001, starting in the second quarter of 2001, the income statement impact of mark-to-market changes was essentially eliminated as unrealized gains or losses resulting from changes in the value of these hedges are now recorded in other comprehensive income (see Note 1).

During late 1999 and early 2000, KACC contracted with a counterparty to receive certain fixed prices on 4,000 tons of primary aluminum per month over a three year period commencing October 2001, unless market prices declined below a stipulated "floor" price, in which case the fixed price sales portion of the transactions terminate. These transactions do not qualify for treatment as a "hedge" under previous or current accounting guidelines. During September 2001, as a result of prevailing primary aluminum prices, approximately 40% of the volumes attributable to periods after December 2001 terminated. The mark-to-market impacts of the terminated and continuing portions of these transactions, together with the $6.8 discussed above, are recorded in Other income (expense) in the Company's statements of consolidated income (loss) (see Note 10). In October 2001, KACC reached an agreement with the counterparty terminating the transaction. This will result in the recognition of approximately $3.0 of mark-to-market income during the fourth quarter of 2001.

As of September 30, 2001, KACC had sold forward substantially all of the alumina available to it in excess of its projected internal smelting requirements for the balance of 2001 and for 2002 and 2003 at prices indexed to future prices of primary aluminum.

9. Sale of 8.3% Interest in QAL

In September 2001, KACC sold an approximate 8.3% interest in QAL and recorded a pre-tax gain of approximately $163.6 (included in Other income/(expense) in the accompanying condensed consolidated statements of income (loss)). The total value of the transaction was approximately $189.0, consisting of a cash payment of approximately $159.0 plus the purchaser's assumption of approximately $30.0 of off-balance sheet QAL indebtedness currently guaranteed by KACC. As a result of the transaction, KACC now owns a 20% interest in QAL.

QAL, which is located in Queensland, Australia, owns one of the largest and most competitive alumina refineries in the world. KACC's share of QAL's production for the first eight months of 2001 and for the year 2000 was approximately 668,000 tons and 1,064,000 tons, respectively. Had the sale of the QAL interest been effective as of the beginning of 2000, KACC's share of QAL's production for the first nine months of 2001 and for the year 2000 would have been reduced by approximately 196,000 tons and 312,000 tons, respectively. Historically, KACC has sold about half of its

[*] All references to tons in this report refer to metric tons of 2,204.6 pounds.

share of QAL's production to third parties and has used the remainder to supply its Northwest smelters, which are temporarily curtailed (see Note 4). The reduction in KACC's alumina supply associated with this transaction is expected to be substantially offset by the expected return of its Gramercy alumina refinery to full operations by the end of 2001 or early 2002 at a higher capacity and, as recently announced, by planned increases in capacity at its Alpart alumina refinery in Jamaica. The QAL transaction is not expected to have an adverse impact on KACC's ability to satisfy existing third-party alumina customer contracts.

10. Non-Recurring Items

Non-Recurring Operating Items. The income (loss) impact associated with non-recurring operating items for the quarter and nine-month periods ended September 30, 2001 and 2000, was as follows (the business segment to which the item is applicable is indicated):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Net gains from power sales (Primary Aluminum) (Note 4)	$ 6.5	$ 40.5	$ 229.2	$ 56.3
Restructuring charges -				
Bauxite & Alumina	(7.9)	–	(9.9)	–
Primary Aluminum	(5.4)	(3.1)	(5.4)	(3.1)
Flat-Rolled Products	(10.7)	–	(10.7)	–
Corporate	(.5)	(2.0)	(1.0)	(5.5)
Contractual labor costs related to smelter curtailment (Primary Aluminum) (Note 4)	(3.3)	–	(3.3)	–
Incremental maintenance spending (Bauxite & Alumina)	–	(11.5)	–	(11.5)
Impairment charge associated with product line exit -				
Flat-Rolled Products	–	(9.0)	–	(9.0)
Engineered Products	–	(4.0)	–	(4.7)
	$ (21.3)	$ 10.9	$ 198.9	$ 22.5

In May 2001, the Company announced that it had launched a performance improvement initiative (the "program") designed to increase operating cash flow, generate benefits and improve the Company's financial flexibility. During the third quarter of 2001, these initiatives resulted in restructuring charges totaling $14.1 for employee benefit and related costs for a group of approximately 125 salaried job eliminations. As of September 30, 2001, approximately half of the positions had been eliminated. It is anticipated that the remaining job eliminations will occur during the fourth quarter of 2001 or the first quarter of 2002. Approximately $4.0 of the costs are cash costs to be incurred over the next several quarters. The balance are benefit costs that will be funded over longer periods. The program also resulted in a third quarter 2001 inventory charge of $5.6 (see Note 3). In addition, third party costs of $7.3 (of which $4.8 was recorded in the third quarter) were incurred in connection with the program. Additional cash and non-cash charges may be required in the future as the program continues. Such additional charges could be material.

As of September 30, 2001, substantially all of the previous job eliminations associated with the 2000 Primary aluminum and Corporate segments' efficiency initiatives have occurred.

See Note 6 of Notes to Consolidated Financial Statements in the Company's Form 10-K for the year ended December 31, 2000 for discussions of incremental maintenance spending and impairment charges associated with line exits in 2000.

Other Income (Expense). Amounts included in other income (expense), other than interest expense, for the quarter and nine-month periods ended September 30, 2001 and 2000, included the following pre-tax gains (losses):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Mark-to-market gains (Note 8)	$ 13.9	$ .9	$ 32.3	$ 9.6
Asbestos-related charges (Note 7)	–	(43.0)	(53.3)	(43.0)
Gains on sale of real estate	5.7	22.0	5.7	22.0
Adjustment to environmental liabilities	(1.0)	–	(9.0)	–
MetalSpectrum investment write-off	–	–	(2.8)	–
Lease obligation adjustment	–	17.0	–	17.0
Special items, net	18.6	(3.1)	(27.1)	5.6
All other, net	(2.3)	(1.8)	(1.0)	(6.9)
	$ 16.3	$ (4.9)	$ (28.1)	$ (1.3)

As part of its ongoing initiatives to generate cash benefits, KACC sold certain non-operating real estate during the third quarter of 2001 for net proceeds totaling approximately $6.7, resulting in a gain of $5.7.

During the quarter and nine-month periods ended September 30, 2001, KACC recorded adjustments to environmental liabilities of $1.0 and $9.0, respectively, as a result of its ongoing assessment of the estimated costs reasonably expected to be incurred to remediate non-operating properties. See Note 7 for additional information regarding environmental contingencies.

In June 2001, the Company wrote-off its investment of $2.8 in MetalSpectrum LLC, a start-up, e-commerce entity in which the Company was a partner. MetalSpectrum ceased operations and was dissolved during the second quarter of 2001.

See Note 1 of Notes to Consolidated Financial Statements in the Company's Form 10-K for the year ended December 31, 2000, for discussions of gains on sale of real estate and the lease obligation adjustment in 2000.

11. Interim Operating Segment Information

The Company uses a portion of its bauxite, alumina and primary aluminum production for additional processing at its downstream facilities. Transfers between business units are made at estimated market prices. The accounting policies of the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements in the Company's Form 10-K for the year ended December 31, 2000. Business unit results are evaluated internally by management before any allocation of corporate overhead and without any charge for income taxes or interest expense. See Note 14 of Notes to Consolidated Financial Statements in the Company's Form 10-K for the year ended December 31, 2000.

Financial information by operating segment for the quarter and nine-month periods ended September 30, 2001 and 2000 is as follows:

	Quarter Ended September 30, 2001	Quarter Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Net Sales:				
Bauxite and Alumina: (1)				
Net sales to unaffiliated customers	$ 132.0	$ 108.3	$ 402.3	$ 338.1
Intersegment sales	9.1	29.0	55.0	115.3
	141.1	137.3	457.3	453.4
Primary Aluminum:(2)				
Net sales to unaffiliated customers	83.0	156.7	282.1	430.0
Intersegment sales	.5	56.5	3.8	196.1
	83.5	213.2	285.9	626.1
Flat-Rolled Products	75.5	118.5	248.3	401.8
Engineered Products	101.4	137.8	337.9	450.2
Commodities Marketing	9.5	(3.2)	5.9	(23.4)
Minority Interests	28.9	27.1	80.9	77.0
Eliminations	(9.6)	(85.5)	(58.8)	(311.4)
	$ 430.3	$ 545.2	$ 1,357.4	$ 1,673.7
Operating income (loss):				
Bauxite and Alumina (3)	$ .4	$ 9.3	$ (12.4)	$ 53.0
Primary Aluminum	(.3)	25.9	8.1	90.6
Flat-Rolled Products	.2	5.6	6.5	15.9
Engineered Products	–	7.3	5.1	33.2
Commodities Marketing	3.2	(7.6)	(5.8)	(42.0)
Eliminations	(.4)	4.1	5.1	1.2
Corporate and Other	(17.9)	(14.2)	(53.8)	(44.7)
Labor Settlement Charge(4)	–	(38.5)	–	(38.5)
Other Non-Recurring Operating Items (Note 10)	(21.3)	10.9	198.9	22.5
	$ (36.1)	$ 2.8	$ 151.7	$ 91.2
Depreciation and amortization:				
Bauxite and Alumina (3)	$ 9.6	$ 6.1	$ 27.2	$ 18.1
Primary Aluminum	5.3	6.2	16.3	18.6
Flat-Rolled Products	4.9	4.1	12.9	12.3
Engineered Products	3.0	3.0	9.3	8.6
Corporate and Other	.3	.4	.9	1.4
	$ 23.1	$ 19.8	$ 66.6	$ 59.0

(1) Net sales for the quarter and nine-month periods ended September 30, 2001, included approximately 25,000 tons and 91,100 tons, respectively, of alumina purchased from third parties. Net sales for the quarter and nine-month periods ended September 30, 2000, included approximately 50,000 tons and 249,000 tons, respectively, of alumina purchased from third parties.

(2) Beginning in the first quarter of 2001, as a result of the continuing curtailment of KACC's Northwest smelters, the Flat-rolled products business unit began purchasing its own primary aluminum rather than relying on the Primary aluminum business unit to supply its aluminum requirements through production or third party purchases. The Engineered products business unit was already responsible for purchasing the majority of its primary aluminum requirements. During the quarter and nine-month periods ended September 30, 2001, the Primary aluminum business unit purchased approximately 2,300 tons and 27,300 tons, respectively, of primary aluminum from third parties to meet existing third party commitments.

(3) During the quarter and nine-month periods ended September 30, 2001, approximately $13.9 and $54.9, respectively, of abnormal Gramercy start-up costs were incurred. Operating income (loss) for the quarter and nine-month periods ended September 30, 2001, also included additional accrued business interruption recoveries related to the Gramercy facility of $21.4 and $36.6, respectively, based on a July 2001 agreement with KACC's insurers. Depreciation was suspended for the Gramercy facility during the first nine months of 2000 as a result of the July 1999 incident. Depreciation expense for the Gramercy facility for the first six months of 1999 was $6.0. See Note 2 for additional information.

(4) The allocation of the 2000 labor settlement charge to the Company's business units was as follows: Bauxite and alumina - $2.1, Primary aluminum - $15.9, Flat-rolled products - $18.2 and Engineered products - $2.3.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section should be read in conjunction with the response to Item 1, Part I, of this Report.

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this section (see, for example, "Recent Events and Developments," "Results of Operations," "Possible Fourth Quarter 2001 Trends as Compared to Actual Third Quarter 2001 Results," and "Liquidity and Capital Resources"). Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or the negative thereof or other variations thereon 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 materially 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, developments in technology, new or modified statutory or regulatory requirements, and changing prices and market conditions. This section and Part I, Item 1. "*Business – Factors Affecting Future Performance*" in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, each identify other factors that could cause actual results to vary. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward-looking statements.

Recent Events and Developments

Liquidity.
Near-Term Debt Maturities. KACC has significant near-term debt maturities, including $177.4 million (remaining principal amount outstanding as of October 31, 2001) of its 9⅞% Senior Notes due February 2002 (the "9⅞% Senior Notes") and $400.0 of 12¾% Senior Subordinated Notes due February 2003 (the "12¾% Senior Subordinated Notes"). KACC's credit agreement, as amended (the "Credit Agreement"), will expire December 15, 2001 unless it is extended, replaced or renewed. As of October 31, 2001, KACC had approximately $190.0 million of cash and cash equivalents. See Note 5 of Notes to Interim Consolidated Financial Statements for a discussion of the Company's and KACC's plans with respect to such near-term debt maturities.

Cash Flow, Other than Near-Term Debt Maturities. KACC's ability to make payments on, retire or refinance its debt depends on its ability to generate cash in the future. In addition to being impacted by normal operating items, the Company's and KACC's near-term liquidity and cash flows will be negatively affected by the restart of the Gramercy facility, until it reaches its full production level and full efficiency, and net payments for asbestos-related liabilities. See "Liquidity and Capital Resources — *Financing Activities and Liquidity*" for a discussion of these matters.

As previously announced, the Company is working with financial advisors to review its options for addressing its near-term debt maturities and its overall capital structure. The Company intends to provide additional information with respect to its plan to deal with its near-term maturities before the expiration of the Credit Agreement term. While the Company believes it will be successful in addressing its near-term debt maturities and overall capital structure, as the Company's operating and non-recurring cash flows are subject to inherent uncertainties, no assurances in this regard can be given. While the Company continues to consider potential asset transactions (beyond the September 2001 sale of an 8.3% interest in Queensland Alumina Limited ("QAL") - see *Sale of 8.3% Interest in QAL* below), the Company intends to pursue only those transactions that would create long-term value through strategic positioning and/or the generation of acceptable levels of earnings or cash. The Company cannot predict if any such transactions will materialize.

Absent an improvement in the markets in which KACC operates or faster than expected improvement in the operating performance of the Gramercy refinery (as a result of its completion) and other facilities (as a result of the Company's performance improvement initiative), KACC's operations and working capital and other commitments (before considering near-term debt maturities), including interest and expected tax payments, the funding of pension, post-retirement medical and net asbestos-related liabilities, capital spending and other previously accrued obligations, may cause near-term cash flows to be negative. The Company expects KACC's cash flow in mid-2002 to improve substantially over expected near-term cash flows as a result of the Gramercy alumina refinery reaching its full operating rate and full efficiency, operating improvements resulting from KACC's performance improvement initiative and as certain of its other previously accrued, non-recurring, near-term obligations are satisfied. However, such changes are subject to prevailing market and economic conditions and, as such, no assurances can be given in this regard.

Possible Year-End Financial Statement Item. The assets of the KACC sponsored pension plans, like numerous other companies' plans, are, to a substantial degree, invested in the capital markets and managed by a third party. Given the year-to-date performance of the stock market, it is likely that, barring a material improvement in the stock market during the fourth quarter of 2001, the Company will be required to reflect a significant additional minimum pension liability in its year-end financial statements as a result of a decline in the value of the assets held by KACC's pension plans. Minimum pension liability adjustments are non-cash adjustments that are reflected as an increase in pension liability and an offsetting charge to stockholders' equity (net of income tax) through comprehensive income (rather than net income). The ultimate amount of such additional adjustment cannot be determined until year-end 2001. However, based on stock market performance through September 30, 2001, the Company estimates that such amount could be in the $25.0 million to $50.0 million range. The Company also anticipates that the decline in the value of the pension plans' assets will unfavorably impact pension costs reflected in its 2002 operating results. However, absent a decision by the Company to increase its contributions to the pension plans as a result of the recent asset performance, such asset performance is not expected to have a material impact on the Company's near-term liquidity as pension funding requirements generally allow for such impacts to be spread over multiple years. Increases in post-2002 pension funding requirements could occur, however, if capital market performance in future periods does not more closely approximate the long-term rate of return assumed by the Company, and the amount of such increases could be material.

Sale of 8.3% Interest in QAL. In September 2001, KACC sold an approximate 8.3% interest in QAL and recorded a pre-tax gain of approximately $163.6 million (included in Other income/(expense) in the Condensed Consolidated Statements of Income (Loss)). As a result of the transaction, KACC now owns a 20% interest in QAL. See Note 9 of Notes to Interim Consolidated Financial Statements for additional discussion of the September 2001 sale.

Incident at Gramercy Facility. Initial production at KACC's Gramercy, Louisiana, alumina refinery, which had been curtailed since July 1999 as a result of an explosion in the digestion area of the plant, commenced during the middle of December 2000. Construction of the facility was substantially completed during the third quarter of 2001. The plant operated at approximately 78% of its newly-rated estimated capacity of 1,250,000 tons during the third quarter of 2001. Subsequent to September 30, 2001, the plant has regularly operated at a rate equal to or greater than 90% of its newly-rated capacity. Based on current estimates, the facility is expected to reach its full operating rate and full efficiency by the end of 2001 or early 2002.

See Note 2 of Notes to Interim Consolidated Financial Statements for additional discussion of the incident at the Gramercy facility and the financial statement impact of Gramercy-related insurance recoveries.

Labor Matters. Although the United Steelworkers of America ("USWA") dispute has been settled and the workers have returned to the facilities, two allegations of unfair labor practices ("ULPs") in connection with the USWA strike and subsequent lock-out by KACC remain to be resolved. The Company believes that the remaining charges made against KACC by the USWA are without merit. See Note 7 of Notes to Interim Consolidated Financial Statements for additional discussion on the ULP charges.

Pacific Northwest Power Sales and Operating Level. During the first nine months of 2001, KACC kept its Northwest smelters curtailed and sold the remaining power available that it had under contract through September 2001. KACC has the right to purchase power under a contract with the Bonneville Power Administration ("BPA") that provides sufficient power to operate KACC's Trentwood facility as well as approximately 40% of the capacity of its Northwest aluminum smelting operations. The rate for power for the initial period of the contract (from October 1, 2001 through March 31, 2002) will be approximately 46% higher than power costs under the prior contract. KACC cannot predict what rates will be charged in future periods. There are terms of the contract which are less favorable than the prior BPA contract, including the fact that KACC is not entitled to receive any profits from its limited remarketing rights under the contract.

Given recent primary aluminum prices and the forward price of power in the Northwest, it is unlikely that KACC would operate more than a portion of its Northwest smelting capacity in the near future. Operating only a portion of the

Northwest capacity would result in production/cost inefficiencies such that operating results would, at best be breakeven to modestly negative at long-term primary aluminum prices. However, operating at such a reduced rate could, depending on prevailing economics, result in improved cash flows as opposed to remaining curtailed and incurring the Company's fixed and continuing labor and other costs. This is because KACC is liable for certain severance, supplemental unemployment and early retirement benefits for the USWA workers at the curtailed smelters. A substantial portion of such costs have been accrued through December 31, 2001. However, additional accruals may be required depending on when the USWA workers are recalled and when the smelting operations are restarted. Such amounts could be material.

See Note 4 of Notes to Interim Consolidated Financial Statements for additional information on the power sales, the contract and additional detail regarding accrued liabilities with respect to the USWA workers.

Strategic Initiatives. KACC's strategy is to improve its financial results by: increasing the competitiveness of its existing plants; continuing its cost reduction initiatives; adding assets to businesses it expects to grow; pursuing divestitures of its non-core businesses; and strengthening its financial position by divesting of part or all of its interests in certain operating assets.

In May 2001, the Company announced that it had launched a performance improvement initiative (the "program") designed to increase operating cash flow, generate cash from inventory reduction and improve the Company's financial flexibility. The program aims to generate a sustainable annual operating EBITDA (operating income plus depreciation) run rate of approximately $225.0 million to $235.0 million by the first quarter of 2003 assuming similar market conditions to those experienced at the time the program was initiated. This represents a substantial improvement compared to the Company's adjusted first quarter 2001 annualized operating EBITDA run rate of approximately $135.0 million.

The program aims to achieve the following five specific objectives:

- Significant and systemic reductions in unit production costs through the expanded use of lean manufacturing initiatives at Company-managed facilities. The Company expects to see the biggest incremental improvements at the 65%-owned Alumina Partners of Jamaica ("Alpart") alumina refinery in Jamaica and the 90%-owned Volta Aluminium Company Limited ("Valco") primary aluminum smelter in Ghana;

- Additional efficiencies at the Gramercy facility that are incremental to those efficiencies already included in the Company's adjusted first quarter 2001 annual operating cash flow run rate;

- Increased production at the Alpart alumina refinery through improved efficiency and de-bottlenecking. Alpart's production is expected to reach an annualized run rate of more than 1.7 million tons by the end of 2002 or early 2003, up from the facility's current annual rated capacity of 1.45 million tons. As a result, KACC's share of Alpart's annual production would increase by more than 160,000 tons. This would substantially offset the impact of the September 2001 sale of an 8.3% interest in QAL on alumina available to KACC for internal use or third party sales;

- A sustained reduction in annualized overhead-related expenses or related cash outflows at the Corporate office and in the commodities businesses through redesign of work and consolidation of functions primarily in the Corporate office; and

- A one-time cash benefit from reduction in inventories, primarily at the Company's majority-owned, non-U.S. commodity operations, and through disposition of non-operating properties and equipment.

In connection with the program, the Company recorded charges of $27.0 million (see Note 10 of Notes to Interim Consolidated Financial Statements). Additional cash and non-cash charges may be required in the future as the program continues. Such additional charges could be material.

See Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview, *Strategic Initiatives* in the Company's Annual Report on Form 10-K for the year ended December 31, 2000, for additional information regarding strategic initiatives.

Results of Operations

As an integrated aluminum producer, the Company uses a portion of its bauxite, alumina, and primary aluminum production for additional processing at certain of its downstream facilities. Intersegment transfers are valued at estimated market prices. The following table provides selected operational and financial information on a consolidated basis with respect to the Company for the quarter and nine-month periods ended September 30, 2001 and 2000. The following data should be read in conjunction with the Company's interim consolidated financial statements and the notes thereto, contained elsewhere herein. See Note 14 of Notes to Consolidated Financial Statements in the Company's Form 10-K for the year ended December 31, 2000, for further information regarding segments.

Interim results are not necessarily indicative of those for a full year. Average realized prices for the Company's Flat-rolled products and Engineered products segments are not presented in the following table as such prices are subject to fluctuations due to changes in product mix.

SELECTED OPERATIONAL AND FINANCIAL INFORMATION

(Unaudited)

(In millions of dollars, except shipments and prices)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Shipments: (000 tons)				
Alumina [1]				
Third Party	680.2	484.0	2,009.1	1,460.4
Intersegment	51.2	149.8	286.0	584.1
Total Alumina	731.4	633.8	2,295.1	2,044.5
Primary Aluminum[2]				
Third Party	59.7	96.3	186.4	261.8
Intersegment	.3	34.0	2.3	119.4
Total Primary Aluminum	60.0	130.3	188.7	381.2
Flat-Rolled Products	17.0	34.9	59.8	125.7
Engineered Products	28.0	40.3	92.2	131.9
Average Realized Third Party Sales Price:				
Alumina (per ton)	$ 183	$ 207	$ 189	$ 211
Primary Aluminum (per pound)	$ .63	$ .74	$ .69	$ .75
Net Sales:				
Bauxite and Alumina [1]				
Third Party (includes net sales of bauxite)	$ 132.0	$ 108.3	$ 402.3	$ 338.1
Intersegment	9.1	29.0	55.0	115.3
Total Bauxite and Alumina	141.1	137.3	457.3	453.4
Primary Aluminum[2]				
Third Party	83.0	156.7	282.1	430.0
Intersegment	.5	56.5	3.8	196.1
Total Primary Aluminum	83.5	213.2	285.9	626.1
Flat-Rolled Products	75.5	118.5	248.3	401.8
Engineered Products	101.4	137.8	337.9	450.2
Commodities Marketing	9.5	(3.2)	5.9	(23.4)
Minority Interests	28.9	27.1	80.9	77.0
Eliminations	(9.6)	(85.5)	(58.8)	(311.4)
Total Net Sales	$ 430.3	$ 545.2	$ 1,357.4	$ 1,673.7
Operating Income (Loss):				
Bauxite and Alumina [3]	$ .4	$ 9.3	$ (12.4)	$ 53.0
Primary Aluminum	(.3)	25.9	8.1	90.6
Flat-Rolled Products	.2	5.6	6.5	15.9
Engineered Products	–	7.3	5.1	33.2
Commodities Marketing	3.2	(7.6)	(5.8)	(42.0)
Eliminations	(.4)	4.1	5.1	1.2
Corporate and Other	(17.9)	(14.2)	(53.8)	(44.7)
Labor Settlement Charge[4]	–	(38.5)	–	(38.5)
Other Non-Recurring Operating Items (Note 10)	(21.3)	10.9	198.9	22.5
Total Operating Income (Loss)	$ (36.1)	$ 2.8	$ 151.7	$ 91.2
Net Income (Loss)	$ 68.4	$ (16.8)	$ 123.9	$ 5.9
Capital Expenditures	$ 33.3	$ 110.7	$ 120.1	$ 196.5

(1) Net sales for the quarter and nine-month periods ended September 30, 2001, included approximately 25,000 tons and 91,100 tons, respectively, of alumina purchased from third parties. Net sales for the quarter and nine-month periods ended September 30, 2000, included approximately 50,000 tons and 249,000 tons, respectively, of alumina purchased from third parties.

(2) Beginning in the first quarter of 2001, as a result of the continuing curtailment of KACC's Northwest smelters, the Flat-rolled products business unit began purchasing its own primary aluminum rather than relying on the Primary aluminum business unit to supply its aluminum requirements through production or third party purchases. The Engineered products business unit was already responsible for purchasing the majority of its primary aluminum

requirements. During the quarter and nine-month periods ended September 30, 2001, the Primary aluminum business unit purchased approximately 2,300 tons and 27,300 tons, respectively, of primary aluminum from third parties to meet existing third party requirements.

(3) During the quarter and nine-month periods ended September 30, 2001 approximately $13.9 and $54.9, respectively, of abnormal Gramercy start-up costs were incurred. Operating income (loss) for the quarter and nine-month periods ended September 30, 2001, also included additional accrued business interruption recoveries related to the Gramercy facility of $21.4 and $36.6, respectively, based on a July 2001 agreement with KACC's insurers. Depreciation was suspended for the Gramercy facility during the first nine months of 2000 as a result of the July 1999 incident. Depreciation expense for the Gramercy facility for the first six months of 1999 was $6.0. See Note 2 of Notes to Interim Consolidated Financial Statements for additional information.

(4) The allocation of the 2000 labor settlement charge to the Company's business units was as follows: Bauxite and alumina - $2.1, Primary aluminum - $15.9, Flat-rolled products - $18.2 and Engineered products - $2.3.

Overview

The Company's operating results are sensitive to changes in prices of alumina, primary aluminum, and fabricated aluminum products, and also depend to a significant degree on the volume and mix of all products sold and on KACC's hedging strategies. Primary aluminum prices have historically been subject to significant cyclical price fluctuations. See Notes 1 and 8 of Notes to Interim Consolidated Financial Statements for a discussion of KACC's hedging activities.

Changes in global, regional, or country-specific economic conditions can have a significant impact on overall demand for aluminum-intensive fabricated products in the transportation, distribution, packaging, and other markets. Such changes in demand can directly affect the Company's earnings by impacting the overall volume and mix of such products sold. To the extent that these end-use markets weaken, demand can also diminish for what the Company sometimes refers to as the "upstream" products: alumina and primary aluminum.

During the nine months ended September 30, 2000, the Average Midwest United States transaction price ("AMT price") per pound of primary aluminum was $.76 per pound. During the nine months ended September 30, 2001, the average AMT price was $.71 per pound. The average AMT price for primary aluminum for the week ended October 26, 2001 was $.62 per pound.

Quarter and Nine Months Ended September 30, 2001, Compared to Quarter and Nine Months Ended September 30, 2000

Summary

The Company reported net income of $68.4 million, or $.85 of basic income per common share, for the third quarter of 2001, compared to a net loss of $16.8 million, or $.21 of basic loss per common share, for the same period of 2000. For the nine months ended September 30, 2001, the Company reported net income of $123.9 million or $1.55 of basic income per common share, compared to net income of $5.9 million, or $.07 of basic income per common share, for the nine-month period ended September 30, 2000. However, results for the quarter and nine-month periods ended September 30, 2001 and 2000 included material special items as summarized below:

	Quarter Ended September 30, 2001	Quarter Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
As reported, earnings (loss) per common share	$ .85	$ (.21)	$ 1.55	$ .07
Less material special (gains) losses:				
Gain on sale of QAL interest	(1.19)	–	(1.20)	–
Non-recurring operating charges (income), net	.16	(.08)	(1.52)	(.17)
Other (income) expense - special items, net	(.14)	.02	.21	(.04)
Abnormal Gramercy start-up costs	.10	–	.42	–
Gramercy business interruption recoveries	(.16)	–	(.28)	–
Excess overhead and other fixed costs associated with curtailed Northwest smelting operations	.03	–	.11	–
LIFO inventory adjustment	.04	–	.04	–
Labor settlement charge	–	.30	–	.30
	$ (.31)	$ .03	$ (.67)	$ .16

Net sales in the third quarter of 2001 totaled $430.3 million compared to $545.2 million in the third quarter of 2000. Net sales for the nine-month period ended September 30, 2001, totaled $1,357.4 million compared to $1,673.7 million for the nine-month period ended September 30, 2000.

Bauxite and Alumina. Third party net sales of alumina increased 22% for the quarter ended September 30, 2001, as compared to the same period in 2000. A 41% increase in third party shipments was partially offset by a 12% decrease in third party average realized prices. The increase in quarter-over-quarter shipments resulted primarily from (1) higher third party sales due to the curtailment of the Company's Washington smelters, (2) the restart of production at the Gramercy refinery in December 2000 and (3) the timing of shipments. The decrease in average realized prices was due to a decrease in primary aluminum market prices to which the Company's third-party alumina sales contracts are linked.

Intersegment net sales of alumina for the quarter ended September 30, 2001 decreased 69% as compared to the same period in 2000 as the result of a 66% decrease in intersegment shipments and an 8% decrease in intersegment average realized prices. The decrease in shipments was primarily due to the potline curtailments at the Company's Washington smelters. The decrease in the intersegment average realized prices is the result of a decrease in primary aluminum prices from period to period as intersegment transfers are made on the basis of primary aluminum market prices on a lagged basis of one month.

Net sales for the quarters ended September 30, 2001 and 2000 included approximately 25,000 tons and 50,000 tons, respectively, of alumina purchased from third parties to satisfy third party sales and transfers to the Company's Primary aluminum business unit.

For the nine-month period ended September 30, 2001, third party net sales of alumina were 19% higher than the comparable period in 2000 as a 38% increase in third party shipments was partially offset by a 10% decrease in third party average realized prices. The increase in third party shipments and decrease in average realized prices during the first nine months of 2001 as compared to 2000 was attributable to the same volume and price factors discussed above.

Intersegment net sales for the nine-month period ended September 30, 2001, decreased 52% as compared to the same period in 2000. The decrease was due to a 51% decrease in the intersegment shipments and a 3% decrease in intersegment average realized prices. The decreases in intersegment shipments and intersegment average realized prices were attributable to the same volume and price factors discussed above.

Net sales for the nine-month periods ended September 30, 2001 and 2000 included approximately 91,100 tons and 249,000 tons, respectively, of alumina purchased from third-parties to satisfy third party sales and transfers to the Primary aluminum business unit.

Segment operating results (excluding non-recurring items) for the quarter and nine-month periods ended September 30, 2001, were down from the comparable periods in 2000. Increased net shipments only partially offset the decrease in the average realized sales prices. Additionally, operating income for 2001 was adversely affected by abnormal Gramercy related start-up costs during the quarter and nine-month periods ended September 30, 2001 of approximately $13.9 million and $54.9 million, respectively, less than satisfactory bauxite mining cost performance at KJBC and a LIFO inventory charge of $2.0 million. These charges were offset in part in the quarter and nine-month periods by $21.4 million and $36.6 million, respectively, of additional insurance benefits related to the Gramercy incident.

Segment operating income for the quarter and nine-month periods ended September 30, 2001, discussed above, exclude non-recurring costs of $7.9 million and $9.9 million, respectively, incurred in connection with the Company's performance improvement program. Segment operating income for both the quarter and nine-month periods ended September 30, 2000, exclude labor settlement charges of $2.1 million and incremental maintenance spending of $11.5 million.

Primary Aluminum. Third party net sales of primary aluminum decreased 47% for the third quarter of 2001 as compared to the same period in 2000 as a result of a 38% decrease in third party shipments and a 15% decrease in average realized prices. The decrease in shipments was primarily due to the curtailment of the Washington smelters during the last half of 2000. The decrease in the average realized prices was primarily due to the decrease in primary aluminum market prices.

Intersegment net sales of primary aluminum for the quarter ended September 30, 2001 decreased significantly compared to the same period in 2000 primarily as a result of a substantial decrease in intersegment shipments. This change resulted primarily from a change in the Company's methodology for handling aluminum supply logistics for the Flat-rolled products business unit as a result of the continuing curtailment of KACC's Northwest smelters. Beginning in the first quarter of 2001, the Flat-rolled products business unit began purchasing its own primary aluminum rather than relying on the Primary aluminum business unit to supply its aluminum requirements through production or third party purchases. The Engineered products business unit was already responsible for purchasing the majority of its primary aluminum requirements.

For the nine-month period ended September 30, 2001, third party sales of primary aluminum decreased approximately 34% from the comparable period in 2000, reflecting a 29% decrease in third party shipments and an 8% decrease in third-party average realized prices. The decreases in year-to-date 2001 shipments and prices compared to 2000 were attributable to the same factors described above. Intersegment net sales for the first nine months of 2001 decreased significantly compared to the same period in 2000. This decrease was attributable to the same factors described above.

Segment operating income (excluding non-recurring items) for the quarter and nine-month periods ended September 30, 2001, decreased significantly versus the comparable periods in 2000. The primary reasons for the decreases were the decreases in the average realized prices and shipments discussed above as well as overhead and other fixed costs associated with the curtailed Northwest smelting operations, which totaled approximately $9.0 million and $30.0 million during the quarter and nine-month periods ended September 30, 2001. The Company believes that approximately half of such costs incurred are "excess" to the run rate that can be achieved during a prolonged curtailment period. Management is in the process of determining the appropriate actions to minimize the excess outflows associated with the curtailed operations. Year-to-date 2001 results were also unfavorably impacted by higher energy costs at the 49%-owned Anglesey Aluminium Limited ("Anglesey") aluminum smelter, resulting from a new power contract entered into by Anglesey at the end of the first quarter of 2000.

Segment operating income for the quarter and the nine-month periods ended September 30, 2001, discussed above, exclude non-recurring net power sale gains of $6.5 million and $229.2 million, respectively. These gains were offset in both periods by costs of $5.4 million incurred in connection with the Company's performance improvement program and contractual labor costs related to the Northwest smelter curtailment of $3.3 million. Segment operating income for the quarter and nine-month periods ended September 30, 2000, exclude net power sale gains of $40.5 million and $56.3 million, respectively. These gains were offset in both periods by labor settlement charges of $15.9 million and costs related to staff reduction initiatives of $3.1 million.

Flat-Rolled Products. Net sales of flat-rolled products decreased approximately 36% during the third quarter 2001 as compared to 2000 as a 51% decrease in shipments was only partially offset by a 31% increase in average realized prices. The decrease in shipments was primarily due to reduced shipments of can body stock, as a part of the planned exit from this product line. Current period shipments were also adversely affected by reduced general engineering heat-treat products and reduced can lid and tab stock shipments, due to weak market demand. These decreases were modestly offset by firm aerospace demand. The increase in average realized prices primarily reflects the change in product mix from the can body stock to heat-treat products, particularly aerospace heat-treat (which have a higher price and operating margin as compared to other products).

For the nine-month period ended September 30, 2001, net sales of flat-rolled products decreased by approximately 38% as compared to the same period in 2000 as a 52% decrease in shipments was offset by a 30% increase in average realized prices. The decline in year-to-date 2001 shipments and increase in average realized prices were primarily attributable to the same factors described above.

Segment operating income (excluding non-recurring items) for the quarter and nine-month periods ended September 30, 2001, was down from the comparable periods in 2000. The primary reasons for the decreases were the decreases in shipments offset in part by the increases in prices described above. Operating results were also adversely impacted by increased operating costs, mainly due to product mix, a LIFO inventory charge of $2.0 million and higher metal sourcing costs.

Segment operating income for both the quarter and nine-month periods ended September 30, 2001, discussed above, exclude non-recurring costs of $10.7 million incurred in connection with the Company's performance improvement program. Segment operating income for both the quarter and nine-month periods ended September 30, 2000, exclude labor settlement charges of $18.2 million and an impairment charge associated with product line exit of $9.0 million.

Engineered Products. Net sales of engineered products decreased by approximately 26% during the third quarter 2001 as compared to 2000, as a 30% decrease in product shipments was offset by a 6% increase in average realized prices. The decrease in product shipments was the result of reduced transportation and electrical product shipments due to weak market demand. The increase in average realized prices reflects a shift in product mix to higher value-added products.

For the nine-month period ended September 30, 2001, net sales of engineered products decreased by approximately 25% as a 30% decrease in product shipments was offset by a 7% increase in average realized prices. The decrease in shipments and increase in sales prices is attributable to the same factors listed above.

Segment operating income (excluding non-recurring items) for the quarter and nine-month periods ended September 30, 2001, decreased as compared to the comparable periods in 2000 primarily due to the price and volume factors described above. The segment's operating results were also adversely impacted by a LIFO inventory charge of $1.0 million and because cost reductions lagged volume decline.

Segment operating income for the quarter ended September 30, 2000, discussed above, excludes non-recurring labor settlement charges of $2.3 million and an impairment charge associated with product line exit of $4.0 million. In addition to these items, segment operating income for the nine-month period ended September 30, 2000 excluded a $.7 million severance-related charge (reflected in the second quarter of 2000) with respect to the same product line exit.

Commodities Marketing. Net sales for this segment represent net settlements with third-party brokers for maturing derivative positions. Operating income represents the combined effect of such net settlements, any net premium costs associated with maturing options, as well as net results of internal hedging activities with KACC's fabricated products segments. The minimum (and maximum) price of the hedges in any given period is primarily the result of the timing of the execution of the hedging contracts.

Segment operating income for the quarter and nine-month periods ended September 30, 2001 increased compared to the comparable periods in 2000. This is primarily the result of 2001 hedging positions having higher minimum prices than the positions in 2000, combined with the fact that 2000 market prices were higher than those experienced in 2001.

Eliminations. Eliminations of intersegment profit vary from period to period depending on fluctuations in market prices as well as the amount and timing of the affected segments' production and sales.

Corporate and Other. Corporate operating expenses (excluding non-recurring items) represent corporate general and administrative expenses which are not allocated to the Company's business segments. The increase in corporate operating expenses in the quarter and nine-month periods ended September 30, 2001, as compared to the comparable periods in 2000 was primarily due to higher medical and pension cost accruals for active and retired employees.

Corporate operating results for the quarter and nine-month periods ended September 30, 2001, discussed above, exclude costs of $.5 million and $1.0 million, respectively, incurred in connection with the Company's performance improvement program. Corporate operating results for the quarter and nine-month periods ended September 30, 2000, exclude costs related to staff reduction and efficiency initiatives of $2.0 million and $5.5 million, respectively.

Possible Fourth Quarter 2001 Trends as Compared to Actual Third Quarter 2001 Results

This section contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions that such forward-looking statements are not guarantees of future results and involve significant risks and uncertainties, and that actual results may vary materially from those expressed or implied in the forward-looking statements as a result of various factors. The Company is under no obligation to update these forward-looking statements to reflect future events or circumstances.

Bauxite and Alumina. Total shipment volumes are expected to be flat. Increased Gramercy volumes, factored into the business unit's routine quarterly fluctuations in the timing of cargo vessel departures, will largely offset the impact of the QAL transaction. Third-party price realizations are contractually linked to LME aluminum prices generally on a one-to-three month lag. As a result, recent weakness in LME prices would tend to dampen alumina price realizations in the fourth quarter, although the Company's hedging program will offset a substantial portion of the impact. Costs are expected to be favorable as Gramercy's operating rate approaches 100%.

Primary Aluminum. Shipment volumes are likely to be flat, reflecting stable operating rates. Price realizations are reflective of commodity pricing as determined by LME and Midwest markets. The Company's hedging program will offset a substantial portion of the recent weakness in market prices. Costs are expected to be favorable as a result of a reduction in excess overhead in the Pacific Northwest.

Flat-Rolled Products. Shipment volumes may be down due to indications of slowing aerospace orders combined with seasonality and continued weakness in general engineering and lid and tab stock. Average price realizations may be flat/down as a result of possible lower aerospace shipments. Costs are likely to be favorable due to reductions in overhead costs.

Engineered Products. Shipment volumes are likely to be down, reflecting continued weakness in all markets, combined with seasonality. Average price realizations are likely to be flat due to a relatively stable product mix. Costs are expected to be favorable as the unit flexes costs to match lower operating levels.

Corporate. Corporate expenses are likely to be flat/favorable as the Company proceeds with implementation of corporate efficiency initiatives.

Liquidity and Capital Resources

See Note 8 of Notes to Consolidated Financial Statements in the Company's Form 10-K for the year ended December 31, 2000, for a listing of the Company's indebtedness and information concerning certain restrictive debt covenants.

Operating Activities. At September 30, 2001, KACC had cash and cash equivalents of $212.1 million as compared to $23.4 million of cash and cash equivalents at December 31, 2000. At September 30, 2001, excluding the cash and cash equivalents and the $206.2 million of maturities with respect to the 9⅞% Senior Notes, the Company had working capital of $124.4 million, compared with working capital of $147.3 million at December 31, 2000. In addition to normal operating changes, the decrease in working capital primarily resulted from:

- a decrease in other receivables primarily due to receipt of previously accrued power sales (see Note 4 of Notes to Interim Consolidated Financial Statements) and the collection of Gramercy-related insurance recoveries (see Note 2 of Notes to Interim Consolidated Financial Statements).

- a decrease in the current portion of long-term debt due to KACC's repayment of $30.4 million of outstanding borrowings under its Credit Agreement.

- a decrease in accrued salaries, wages and related expenses resulting primarily from the payment of previously accrued employee-related compensation applicable to job reductions as a part of the September 2000 labor settlement or associated with workers at the curtailed Northwest smelters, offset by employee benefits and other costs accrued in the third quarter of 2001 in connection with the Company's performance improvement program.

Investing Activities. Capital expenditures during the nine months ended September 30, 2001, were $120.1 million, including $70.6 million for the rebuilding of the Gramercy facility. The remainder of the year-to-date 2001 capital expenditures were incurred to improve production efficiency and reduce operating costs at the Company's other facilities. Total consolidated capital expenditures, excluding capital expenditures related to the Gramercy facility, are expected to be between $80.0 and $95.0 million per annum in each of 2001 and 2002 (of which approximately 15% is expected to be funded by the Company's minority partners in certain foreign joint ventures).

Management continues to evaluate numerous projects all of which would require substantial capital, both in the United States and overseas. The level of capital expenditures may be adjusted from time to time depending on the Company's price outlook for primary aluminum and other products, KACC's ability to assure future cash flows through hedging or other means, the Company's financial position and other factors.

Financing Activities and Liquidity: Short-Term. KACC uses its Credit Agreement to provide short-term liquidity requirements and for letters of credit to support operations. During the third quarter of 2001, there were no borrowings under the Credit Agreement. During the first six months of 2001, month-end borrowing amounts outstanding under the Credit Agreement were as high as approximately $94.0 million, which occurred in February 2001, primarily as a result of costs incurred and capital spending related to the Gramercy rebuild, net of insurance reimbursements. The average amount of borrowings outstanding under the Credit Agreement during the first six months of 2001 was approximately $23.8 million. Outstanding letters of credit at September 30, 2001, were approximately $29.6 million.

In October 2001, the expiration date of the Credit Agreement was extended from November 2, 2001 to December 15, 2001. The extension provides KACC with additional flexibility while it continues its ongoing work on a longer-term solution for near-term debt maturities. The Company and KACC intend to extend, replace or renew the Credit Agreement prior to its expiration. However, in order for the Credit Agreement to be extended, on a short-term basis, beyond December 2001, KACC will have to have a demonstrable way to retire the maturity of the remaining amount of 9⅞% Senior Notes ($177.4 million principal amount as of October 31, 2001). For the Credit Agreement to be extended past February 2003, both the 9⅞% Senior Notes and the $400.0 million of 12¾% Senior Subordinated Notes, due February 2003, will have to be retired and/or refinanced.

The Company currently expects limited, if any, borrowings for the balance of the Credit Agreement term, except it is possible that KACC may use a portion of the availability under the Credit Agreement (or any extension, replacement or renewal thereof) together with other cash resources to retire the 9⅞% Senior Notes. As of October 31, 2001, KACC had purchased $47.6 million of the 9⅞% Senior Notes at a modest gain. As of October 31, 2001, KACC had approval from the Credit Agreement lenders to spend up to an aggregate of $100.0 million to purchase the 9⅞% Senior Notes.

As previously announced, the Company is working with financial advisors to review its options for addressing its near-term debt maturities and its overall capital structure. The Company expects to provide additional information with respect to its plan to deal with its near-term maturities before the expiration of the Credit Agreement term. While the Company continues to consider potential asset transactions (beyond the September 2001 sale of an 8.3% interest in QAL), the Company intends to pursue only those transactions that would create long-term value through strategic positioning and/or the generation of acceptable levels of earnings or cash. The Company cannot predict if any such transactions will materialize.

In addition to being impacted by normal operating items, the Company's and KACC's near-term liquidity and cash flow will be affected by the restart of the Gramercy facility and the amount of net payments for asbestos-related liabilities.

KACC will continue to incur abnormal start-up costs until full production volume and efficiency is restored. The Company expects the Gramercy facility to reach its full production rate and full efficiency by the end of 2001 or early 2002.

During the nine months ended September 30, 2001, KACC paid $86.9 million of asbestos-related settlement and defense costs and received insurance reimbursement of $77.3 million for asbestos-related matters. KACC's 2001 and 2002 cash payments, prior to insurance recoveries, for asbestos-related costs are estimated to be between $125.0 million and $150.0 million per year. The Company believes that KACC will continue to recover a substantial portion of asbestos payments from insurance. However, insurance reimbursements have historically lagged KACC's payments. Delays in receiving future insurance repayments would have an adverse impact on KACC's liquidity. During 2000, KACC filed suit against a group of its insurers, after negotiations with certain of the insurers regarding an agreement covering both reimbursement amounts and the timing of reimbursement payments were unsuccessful. During October 2001, the court ruled favorably on a number of issues. The rulings did not result in any change to the Company's estimates of its current and future asbestos-related insurance recoveries. Additional issues may be heard by the court from time to time. Given the significance of expected asbestos-related payments in 2001 and 2002 based on settlement agreements in place at September 30, 2001, the receipt of timely and appropriate reimbursements from such insurers is critical to KACC's liquidity.

Absent an improvement in the markets in which KACC operates or faster than expected improvement in the operating performance of the Gramercy refinery (as a result of its completion) and other facilities (as a result of the Company's performance improvement initiative), KACC's operations and working capital and other commitments (before considering near-term debt maturities), including interest and expected tax payments, the funding of pension, post-retirement medical and net asbestos-related liabilities, capital spending and other previously accrued obligations, may cause near-term cash flows to be negative. The Company expects KACC's cash flow in mid-2002 to improve substantially over expected near-term cash flows as a result of the Gramercy alumina refinery reaching its full operating rate and full efficiency, operating improvements resulting from KACC's performance improvement initiative and as certain of its other previously accrued, non-recurring, near-term obligations are satisfied. However, such changes are subject to prevailing market and economic conditions and, as such, no assurances can be given in this regard.

Management believes that the Company's existing cash resources, together with cash flows from operations, as well as borrowings under the Credit Agreement (which the Company intends to extend, replace or renew as discussed above), will be sufficient to satisfy its working capital, debt maturities and capital expenditure requirements for the next year. However, no assurance can be given that existing and anticipated cash sources will be sufficient to meet the Company's short-term liquidity requirements or that additional sources of cash will not be required.

Long-Term. As of September 30, 2001, the Company's total consolidated indebtedness was $905.1 million. KACC's ability to make payments on and to refinance its debt on a long-term basis depends on its ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors beyond KACC's control. With respect to long-term liquidity, management believes that operating cash flow, together with the ability to obtain both short and long-term financing, should provide sufficient funds to meet KACC's and the Company's working capital, financing and capital expenditure requirements. However, no assurance can be given that KACC will be able to refinance its debt on acceptable terms.

Capital Structure

MAXXAM Inc. ("MAXXAM") and one of its wholly owned subsidiaries collectively own approximately 62% of the Company's Common Stock, with the remaining approximately 38% of the Company's Common Stock being publicly held. Certain of the shares of the Company's Common Stock beneficially owned by MAXXAM are subject to a pledge agreement by MAXXAM and its subsidiary.

The Credit Agreement does not permit the Company, and significantly restricts KACC's ability, to pay any dividends on their common stocks.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This section contains forward-looking statements that involve risk and uncertainties. Actual results could differ materially from those projected in these forward-looking statements.

The Company's 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 8 of Notes to Interim Consolidated Financial Statements, KACC utilizes hedging transactions to lock-in a specified price or range of prices for certain products which it sells or consumes in its production process and to mitigate KACC's exposure to changes in foreign currency exchange rates. The following sets forth the impact on future earnings of adverse market changes related to KACC's hedging positions with respect to commodity, foreign exchange and energy contracts described more fully in Note 8 of Notes to Interim Consolidated Financial Statements.

The hypothetical amounts and impacts discussed below are versus what the Company's results would have been without the derivative or fixed price customer contracts. It should be noted however, that, since the hedging positions and fixed price customer contracts lock-in a specific price, a range of prices or specific rates, increases or decreases in earnings attributable to KACC's hedging positions, fixed price customer contracts or hedging instruments would be significantly offset by a corresponding decrease or increase in the proceeds to be realized on the underlying physical transactions or in the value of the hedged commitments.

Alumina and Primary Aluminum. Alumina and primary aluminum production in excess of internal requirements is sold in domestic and international markets, exposing the Company to commodity price opportunities and risks. KACC's hedging transactions are intended to provide price risk management in respect of the net exposure of earnings resulting from (i) anticipated sales of alumina, primary aluminum and fabricated aluminum products, less (ii) expected purchases of certain items, such as aluminum scrap, rolling ingot, and bauxite, whose prices fluctuate with the price of primary aluminum. On average, before consideration of hedging activities, any fixed price contracts with fabricated aluminum products customers, variations in production and shipment levels, and timing issues related to price changes, the Company estimates that each $.01 increase (decrease) in the market price per price-equivalent pound of primary aluminum increases (decreases) the Company's annual pre-tax earnings by approximately $10.0 - $15.0 million, based on recent fluctuations in operating levels.

Based on the average September 2001 London Metal Exchange ("LME") cash price for primary aluminum of approximately $.61 per pound, the Company estimates that it would realize approximately $61.0 million of net aggregate pre-tax benefits from its hedging positions and fixed price customer contracts during the remainder of 2001 and the period 2002 through 2003. The Company estimates that a hypothetical $.10 increase from the above stated September 2001 price would result in a net aggregate pre-tax reduction in operating income of approximately $38.0 million being realized during the remainder of 2001 and the period 2002 through 2003 from KACC's hedging positions and fixed price customer contracts. Conversely, the Company estimates that a hypothetical $.10 decrease from the above stated September 2001 price level would result in an aggregate pre-tax increase in operating income of approximately $192.0 million being realized during the remainder of 2001 and the period 2002 through 2003 from KACC's hedging positions and fixed price customer contracts.

As stated in Note 8 of Notes to Interim Consolidated Financial Statements, KACC has certain hedging positions which do not qualify for treatment as a "hedge" under current accounting guidelines and thus must be marked-to-market each period. Fluctuations in forward market prices for primary aluminum would likely result in additional earnings volatility as a result of these positions. The Company estimates that a hypothetical $.10 change in spot market prices from the September 30, 2001, LME cash price of $.60 per pound would, depending on the shape of the forward curve, result in additional aggregate mark-to-market impacts of between $5.0 - $20.0 million during any period through 2003.

In addition to having an impact on the Company's earnings, a hypothetical $.10-per-pound change in primary aluminum prices would also impact the Company's cash flows and liquidity through changes in possible margin advance requirements. At September 30, 2001, KACC had received margin advances of $42.7 million. Increases in primary aluminum prices subsequent to September 30, 2001, could result in KACC having to refund and, depending on the amount of the increase, make margin advances and such amounts could be significant. If primary aluminum prices increased by $.10 per pound (from the September 30, 2001 price) by December 31, 2001 and the forward curve were as described above, it is estimated that KACC could be required to pay in the range of $40.0 to $60.0 million in respect of both refunds of margin advances from brokers and to make margin advances to the brokers. Management considers credit risk related to possible failure of the counterparties to perform their obligations pursuant to the derivative contracts to be minimal.

Foreign Currency. KACC enters into forward exchange contracts to hedge material cash commitments for foreign currencies. KACC's primary foreign exchange exposure is related to KACC's Australian Dollar (A$) commitments in respect of activities associated with its 20.0%-owned affiliate, Queensland Alumina Limited. The Company estimates that, before consideration of any hedging activities, a US $0.01 increase (decrease) in the value of the A$ results in an approximate $1.0 - $2.0 million (decrease) increase in the Company's annual pre-tax operating income.

Based on the September 30, 2001 US$ to A$ exchange rate of $.49, KACC's foreign currency hedges would result in a net aggregate pre-tax reduction of operating income of approximately $9.7 million for the remainder of 2001 and for the period 2002 through 2005. The Company estimates that a hypothetical 10% decrease in the A$ exchange rate would result in the Company recognizing a net aggregate pre-tax reduction of operating income of approximately $10.4 million for the remainder of 2001 and for the period 2002 through 2005 from KACC's foreign currency hedging positions. Conversely, the Company estimates that a hypothetical 10% increase in the A$ exchange rate (from $.49) would result in the Company realizing a net pre-tax aggregate reduction of operating income of approximately $8.7 million during the remainder of 2001 and for the period 2002 through 2005.

Energy. KACC is exposed to energy price risk from fluctuating prices for natural gas, fuel oil and diesel oil consumed in the production process. The Company estimates that each $1.00 change in natural gas prices (per mcf) impacts the Company's pre-tax operating results by approximately $20.0 million. Further, the Company estimates that each $1.00 change in fuel oil prices (per barrel) impacts the Company's pre-tax operating results by approximately $3.0 million.

KACC from time to time in the ordinary course of business enters into hedging transactions with major suppliers of energy and energy related financial instruments. Based on an average September 2001 price (per mcf) of approximately $2.53, the Company expects to realize a pre-tax reduction of operating income of approximately $5.0 million for the period from October 2001 through March 2002 associated with these hedging positions. The Company estimates that a hypothetical $1.00 decrease from an average September 2001 price would result in the Company recognizing a net aggregate pre-tax reduction of operating income of $8.0 million. Conversely, the Company estimates that a hypothetical $1.00 increase from the average September 2001 price would result in the Company realizing a net pre-tax aggregate reduction of operating income of approximately $2.0 million during the same period.

Based on the average September 2001 fuel oil price (per barrel) of approximately $19.79, the Company estimates the hedges would result in a net aggregate pre-tax increase to its operating income of approximately $1.3 million in the fourth quarter of 2001.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to Part I, Item 3. "LEGAL PROCEEDINGS" in the Company's Form 10-K for the year ended December 31, 2000 for information concerning material legal proceedings with respect to the Company and Part II, Item 3. "LEGAL PROCEEDINGS" in the Company's Form 10-Q for the quarterly period ended March 31, 2001, for information related to certain legal proceedings with respect to the Company's Mead, Washington aluminum smelter.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

*10.1 Twenty-Second Amendment to Credit Agreement, dated as of October 16, 2001, amending the Credit Agreement, dated as of February 15, 1994, as amended, among Kaiser Aluminum & Chemical Corporation, Kaiser Aluminum Corporation, the financial institutions party thereto, and Bank of America, N.A. (successor to BankAmerica Business Credit, Inc.), as Agent.

*10.2 Twenty-Third Amendment to Credit Agreement, dated as of October 24, 2001, amending the Credit Agreement, dated as of February 15, 1994, as amended, among Kaiser Aluminum & Chemical Corporation, Kaiser Aluminum Corporation, the financial institutions party thereto, and Bank of America, N.A. (successor to BankAmerica Business Credit, Inc.), as Agent.

(b) Reports on Form 8-K.

No Report on Form 8-K was filed by the Company during the quarter ended September 30, 2001.

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* Filed herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, who have signed this report on behalf of the registrant as the principal financial officer and principal accounting officer of the registrant, respectively.

KAISER ALUMINUM CORPORATION

/s/ John T. La Duc
By: ____
John T. La Duc
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

KAISER ALUMINUM CORPORATION

/s/ Daniel D. Maddox
By: ____
Daniel D. Maddox
Vice President and Controller
(Principal Accounting Officer)

Dated: November 14, 2001