KAISER ALUMINUM CORP
Form 10-K
February 20, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008
Commission file number 0-52105
KAISER ALUMINUM CORPORATION
(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code:
(949) 614-1740
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

Large Accelerated Filer þ	Accelerated Filer o	Non-accelerated Filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter (June 30, 2008) was approximately

$.8 billion.

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

As of January 30, 2009, there were 20,044,515 shares of common stock of the registrant outstanding.

Documents Incorporated By Reference. Certain portions of the registrant s definitive proxy statement related to the registrant s 2009 annual meeting of stockholders are incorporated by reference into Part III of this Report on Form 10-K.

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

PART I

Item 1. *Business*

Forward-Looking Statements

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

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

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

Availability of Information

We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, free of charge through our Internet website at www.kaiseraluminum.com under the heading Investor Relations as soon as reasonably practicable after we electronically file such material with or furnish it to the Securities and Exchange Commission (SEC). The public also may read and copy any of these materials at the SEC s Public Reference Room, 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-732-0330. The SEC also maintains an Internet site that contains the Company s filings; the address of that site is http://www.sec.gov.

Business Overview

Kaiser Aluminum Corporation is an independent fabricated aluminum products manufacturing company with net sales of approximately $1.5 billion in 2008. We were founded in 1946 and operated nine production facilities in the United States and one in Canada at December 31, 2008. We manufacture rolled, extruded, drawn and forged aluminum products within three end use categories consisting of aerospace and high strength products (which we refer to as Aero/HS products), general engineering products (which we refer to as GE products) and custom automotive and industrial products (which we refer to as Custom products).

We produced and shipped approximately 559 million pounds of fabricated aluminum products in 2008 which comprised 89% of our total net sales. We have long-standing relationships with our customers, which include leading aerospace companies, automotive suppliers and metal distributors. We strive to tightly integrate the management of the operations within our Fabricated Products segment across multiple production facilities, product lines and target markets in order to maximize the efficiency of product flow to our customers. In our served markets, we seek to be the supplier of choice by pursuing Best in Class customer satisfaction and offering a broad product portfolio.

In order to capitalize on the significant growth in demand for high quality heat treat aluminum plate products in the market for Aero/HS products, in the third quarter of 2005 we began a major expansion at our Trentwood facility in Spokane, Washington. The three phase expansion amounted to approximately $139 million in capital investment and the final phase of the expansion was completed in the fourth quarter of 2008. The Trentwood expansion significantly increased our aluminum plate production capacity and enabled us to produce thicker gauge aluminum plate.

In 2007, we announced a $91 million investment program in our rod, bar and tube value stream including a facility to be located in Kalamazoo, Michigan, as well as improvements at three existing extrusion and drawing facilities. This investment program is expected to significantly improve the capabilities and efficiencies of our rod and bar and seamless extruded and drawn tube operations and enhance the market position of such products. We expect the facility in Kalamazoo, Michigan to be equipped with two extrusion presses and a remelt operation. Completion of these investments is expected to occur by early 2010.

In December 2008, we announced plans to close operations at our Tulsa, Oklahoma extrusion facility and significantly reduce operations at our Bellwood, Virginia facility. The Tulsa and Bellwood facilities primarily produce extruded seamless tube and rod and bar products sold principally to service centers for general engineering applications. The operations and workforce reductions were a result of deteriorating economic and market conditions. Approximately 45 employees at the Tulsa, Oklahoma facility and 125 employees at the Bellwood, Virginia facility were affected. The Tulsa, Oklahoma plant was closed in late December 2008 and we expect to complete the curtailment at the Bellwood, Virginia plant by early 2009.

In addition to our core Fabricated Products operations, we have a 49% ownership interest in Anglesey Aluminium Limited (which we refer to as Anglesey), a company that owns an aluminum smelter based in Holyhead, Wales. Anglesey produced in excess of 300 million pounds of primary aluminum in each of 2006 and 2007 and approximately 260 million pounds of primary aluminum in 2008, with 49% of such production being made available to us. During 2008, sales of our portion of Anglesey s output represented 11% of our total net sales.

Anglesey operates under a power agreement that provides sufficient power to sustain its aluminum reduction operations at full capacity through September 2009. The nuclear plant that supplies power to Anglesey is currently slated for decommissioning in late 2010. Anglesey has worked intensively with government authorities and agencies to find a sustainable alternative to the power supply needs of the smelter, but has been unable to reach a feasible solution. In January of 2009, we announced that we expect Anglesey to fully curtail its smelting operations at the end of September 2009, when its current power contract expires. Although Anglesey will continue to pursue alternative sources of affordable power, as of the date of filing of this Report, no sources have been identified that would allow the uninterrupted continuation of smelting operations. Additionally, Anglesey is expected to evaluate alternative operating activities in line with the needs of the local community and market opportunities, including the potential continuation of remelt and casting operations and the production of anodes for use by other smelting facilities. Taking into account Anglesey s inability to obtain affordable power, the resulting expected curtailment of smelting operations, the growing uncertainty with respect to the future of Anglesey s operations, and Anglesey s expected cash requirements for redundancy and pension payments, we do not expect to receive any dividends from Anglesey in the future and, as a result, we fully impaired our 49% equity investment in Anglesey in our 2008 fourth quarter results.

Business Operations

Fabricated Products Business Unit

Overview

Our Fabricated Products business unit produces rolled, extruded, drawn, and forged aluminum products used principally for aerospace and defense, automotive, consumer durables, electronics, electrical, and machinery and equipment end-use applications. In general, the Fabricated Products business unit manufactures products in one of three broad categories: Aero/HS products; GE products; and Custom products. During 2008, 2007, the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, our North American fabricated products manufacturing facilities produced and shipped approximately 559, 548, 250, and 273 million pounds of fabricated aluminum products, respectively, which accounted for approximately 89%, 86%, 85% and 86% of our total net sales for 2008, 2007, the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, respectively.

Types of Products Produced

The aluminum fabricated mill products market is broadly defined to include the markets for flat-rolled, extruded, drawn, forged and cast aluminum products, used in a variety of end-use applications. We participate in certain portions of the markets for flat-rolled, extruded/drawn and forged products focusing on highly engineered products for Aero/HS products, GE products, and Custom products. The portions of the markets in which we participate accounted for approximately 20% of total North American shipments of aluminum fabricated mill products in 2008.

Aerospace and High Strength Products. Our Aero/HS products include high quality heat treat plate and sheet, as well as cold finish bar, seamless drawn tube and billet that are manufactured to demanding specifications for the global aerospace and defense industries. These industries use our products in applications that demand high tensile strength, superior fatigue resistance properties and exceptional durability even in harsh environments. For instance, aerospace manufacturers use high-strength alloys for a variety of structures that must perform consistently under extreme variations in temperature and altitude. Our Aero/HS products are used for a wide variety of end uses. We make aluminum plate and tube for aerospace applications, and we manufacture a variety of specialized rod and bar products that are incorporated in diverse applications. The aerospace and defense market s consumption of fabricated aluminum products is driven by overall levels of industrial production, airframe build rates, which are cyclical in nature, and defense spending, as well as the potential availability of competing materials such as composites. Demand growth has increased for thick plate with growth in monolithic construction of commercial and other aircraft. In monolithic construction, aluminum plate is heavily machined to form the desired part from a single piece of metal (as opposed to creating parts using aluminum sheet, extrusions or forgings that are affixed to one another using rivets, bolts or welds). Military applications for heat treat plate and sheet include aircraft frames for military use and skins and armor plating to protect ground vehicles from explosive devices. Products sold for Aero/HS applications represented 28% of our 2008 fabricated products shipments. Aero/HS products net sales in 2008 were approximately 38% of our 2008 fabricated products net sales.

General Engineering Products. GE products consist primarily of standard catalog items sold to large metal distributors. Our GE products consist of 6000-series alloy rod, bar, tube, sheet, plate and standard extrusions. The 6000-series alloy is an extrudable medium-strength alloy that is heat treatable and extremely versatile. Our GE products have a wide range of uses and applications, many of which involve further fabrication of these products for numerous transportation and other industrial end-use applications where machining of plate, rod and bar is intensive. For example, our products are used in the enhancement of military vehicles, in the specialized manufacturing process for liquid crystal display screens, and in the vacuum chambers in which semiconductors are made. Our rod and bar products are manufactured into rivets, nails, screws, bolts and parts of machinery and equipment. Demand growth and cyclicality for GE products tend to mirror broad economic patterns and industrial activity in North America. Demand is also impacted by the destocking and restocking of inventory in the full supply chain. Products sold for GE applications represented 46% of our 2008 fabricated products shipments. GE products net sales in 2008 were approximately 41% of our 2008 fabricated products net sales.

Custom Automotive and Industrial Products. Our Custom products consist of extruded/drawn and forged aluminum products for many North American automotive and industrial end uses, including consumer durables, electrical/electronic, machinery and equipment, automobile, light truck, heavy truck and truck trailer applications. Examples of the wide variety of custom products that we supply to the automotive industry include extruded products for bumpers and anti-lock braking systems, drawn tube for drive shafts and forgings for suspension control arms and drive train yokes. Other Custom product sales include extruded products for water heater anodes, truck trailers and electrical/electronic markets. For some Custom products, we perform limited fabrication, including sawing and cutting to length. Demand growth and cyclicality for Custom products tend to mirror broad economic patterns and industrial activity in North America, with specific individual market segments such as automotive, heavy truck and truck trailer applications tracking their respective build rates. Products sold for Custom applications represented 26% of our 2008 fabricated products shipments. Custom products net sales in 2008 were approximately 21% of our 2008 fabricated products net sales.

End Markets In Which We Do Not Participate. We have elected not to participate in certain end markets for fabricated aluminum products, including beverage and food cans, building and construction materials, and foil used for packaging. We believe our chosen end markets present better opportunities for sales growth and premium pricing of differentiated products. The markets we have elected to participate in represented approximately 7% of the North American flat rolled products market and 55% of the North American extrusion market in 2008.

Types of Manufacturing Processes Employed

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

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

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

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

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

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

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

Richmond, Virginia	Extrusion/Drawing	GE, Custom
Sherman, Texas	Extrusion	Custom,GE
Spokane, Washington	Flat Rolling	Aero/HS, GE
Tulsa, Oklahoma (1)	Extrusion	GE

(1) We closed our Tulsa, Oklahoma facility in December 2008.

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

Raw Materials

We purchase substantially all of the primary aluminum and recycled and scrap aluminum used to make our fabricated products from third-party suppliers. In a majority of the cases, we purchase primary aluminum ingot and recycled and scrap aluminum in varying percentages depending on various market factors including price and availability. The price for primary aluminum purchased for the Fabricated Products business unit is typically based on the Average Midwest Transaction Price (or Midwest Price), which from 2002 to 2008, has ranged between approximately $.02 to $.08 per pound above the price traded on the London Metal Exchange (or LME) depending on primary aluminum supply/demand dynamics in North America. Recycled and scrap aluminum are typically purchased at a modest discount to ingot prices but can require additional processing. In addition to producing fabricated aluminum products for sale to third parties, certain of our production facilities provide one another with billet, log or other intermediate material in lieu of purchasing such items from third party suppliers. For example, the Richmond, Virginia facility typically receives some portion of its metal supply from either (or both of) the London, Ontario or Newark, Ohio facilities; and the Newark, Ohio facility also supplies billet and log to the Jackson, Tennessee facility and extruded forge stock to the Greenwood, South Carolina facility.

Pricing

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

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

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

Firm price. Some of our customers pay a firm price. We bear commodity price risk on firm-price contracts, which we hedge with financial derivatives. For internal reporting purposes, whenever the Fabricated Products business unit enters into a firm price contract, it also enters into an internal hedge with the Primary Aluminum business unit, so that all the metal price risk resides in the Primary Aluminum business unit. Results from internal hedging activities between the two business units are eliminated in consolidation.

We introduced an energy surcharge for new orders and new contracts placed beginning July 1, 2008. The surcharge is intended to pass through increases over the 2007 average prices for natural gas, electricity and diesel fuel costs. While we intend to maintain the surcharge as part of our routine pricing mechanism to pass on higher energy costs in the future, at current energy prices, which are below the 2007 average prices, the surcharge has no effect.

Sales, Marketing and Distribution

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

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

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

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

Customers

In 2008, our Fabricated Products business unit had approximately 600 customers. The largest, Reliance Steel & Aluminum, and the five largest customers for fabricated products accounted for approximately 18% and 39%, respectively, of our net sales in 2008. The loss of Reliance, as a customer, would have a material adverse effect on us. However, we believe that our relationship with Reliance is good and the risk of loss of Reliance as a customer is remote.

Research and Development

We operate three research and development centers. Our Rolling and Heat Treat Center and our Metallurgical Analysis Center are both located at our Trentwood facility in Spokane, Washington. The Rolling and Heat Treat Center has complete hot rolling, cold rolling and heat treat capabilities to simulate, in small lots, processing of flat-rolled products for process and product development on an experimental scale. The Metallurgical Analysis Center consists of a full metallographic laboratory and a scanning electron microscope to support research development programs as well as respond to plant technical service requests. The third center, our Solidification and Casting Center, is located in Newark, Ohio and has a developmental casting unit capable of casting billets and ingots for extrusion and rolling experiments. The unit is also capable of casting full size billets and ingots for processing on the production extrusion presses and rolling mills.

The combination of this R&D work and concurrent product and process development with production operations has resulted in the creation and delivery of value added Kaiser Select® products.

Primary Aluminum Business Unit

Our Primary Aluminum business unit contains two primary elements: (a) activities related to our interests in and related to Anglesey and (b) primary aluminum hedging-related activities. Our Primary Aluminum business unit accounted for approximately 11%, 14%, 15% and 14% of our total net sales for 2008, 2007, the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, respectively.

Anglesey. We own a 49% interest in Anglesey, which owns an aluminum smelter at Holyhead, Wales. Rio Tinto Plc owns the remaining 51% ownership interest in Anglesey and has day-to-day operating responsibilities for Anglesey. Anglesey produced in excess of 300 million pounds of primary aluminum in each of 2006 and 2007 and approximately 260 million pounds of primary aluminum in 2008. We supply 49% of Anglesey s alumina requirements and purchase 49% of Anglesey s aluminum output, in each case based on a market-related pricing formula. Anglesey produces billet, rolling ingot and sow for the United Kingdom and European marketplace. We sell our share of Anglesey s output to a single third party at market prices. The price received for sales of production from Anglesey typically approximates the LME price. We also realize a premium (historically between $.05 and $.17 per pound above LME price depending on the product) for sales of value-added products such as billet and rolling ingot.

To meet our obligation to sell alumina to Anglesey in proportion to our ownership percentage, we purchase alumina under a contract that provides adequate alumina for operations through September 2009 at prices that are based on market prices for primary aluminum. We will need to secure a new alumina contract for the period after September 2009 in the event Anglesey s smelting operations continue beyond September 2009, although as discussed below, such operations are not expected to continue beyond September 2009. If, however such operations were to continue, we can give no assurance regarding our ability to secure a source of alumina on comparable terms, and, if we are unable to do so, the results of our Primary Aluminum operations will be affected.

Anglesey operates under a power agreement that provides sufficient power to sustain its aluminum reduction operations at full capacity through September 2009. The nuclear plant that supplies power to Anglesey is currently slated for decommissioning in late 2010. Anglesey has worked intensively with government authorities and agencies to find a sustainable alternative to the power supply needs of the smelter, but has been unable to reach a feasible solution. In January of 2009, we announced that we expect Anglesey to fully curtail its smelting operations at the end of September 2009, when its current power contract expires. Although Anglesey will continue to pursue alternative sources of affordable power, as of the date of filing of this Report, no sources have been identified that would allow the uninterrupted continuation of smelting operations. Additionally, Anglesey is expected to evaluate alternative operating activities in line with the needs of the local community and market opportunities, including the potential continuation of remelt and casting operations and the production of anodes for use by other smelting facilities. Taking into account Anglesey s inability to obtain affordable power, the resulting expected curtailment of smelting operations, the growing uncertainty with respect to the future of Anglesey s operations, and Anglesey s expected cash requirements for redundancy and pension payments, we do not expect to receive any dividends from Anglesey in the future and as a result, we fully impaired our 49% equity investment in Anglesey in our 2008 fourth quarter results.

Hedging. Our pricing of fabricated aluminum products, as discussed above, is generally intended to lock-in a conversion margin (representing the value added from the fabrication process(es)) and to pass metal price risk onto our customers. However, in certain instances we do enter into firm price arrangements. In such instances, we have price risk on our anticipated primary aluminum purchases in respect of the customer s order. Total fabricated products shipments for which we were subject to price risk were 228, 239, 96 and 104 (in millions of pounds) during 2008, 2007, the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, respectively.

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

As a result of the expected curtailment of Anglesey s production discussed above, the natural hedge against primary aluminum price fluctuation created by our participation in the primary aluminum market would be eliminated. Accordingly, we deemed it appropriate to increase our hedging activity to limit exposure to such price risks, which may have an adverse effect on our financial position, results of operations and cash flows.

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

Segment and Geographical Area Financial Information

The information set forth in Note 16 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data regarding our segments and geographical areas in which we operate is incorporated herein by reference.

Competition

The fabricated aluminum industry is highly competitive. We concentrate our fabricating operations on highly engineered products for which we believe we have production capability, technical expertise, high product quality, and geographic and other competitive advantages. We differentiate ourselves from our competition by pursuing Best in Class customer satisfaction which is driven by quality, availability, price and service, including delivery performance. Our primary competition in the global heat treated flat-rolled products is Alcoa, Inc. and Rio Tinto Plc (through its ownership of Alcan s fabricated aluminum products business). In the extrusion market, we compete with many regional participants as well as larger companies with national reach such as SAPA, Norsk Hydro ASA and Indalex. Some of our competitors are substantially larger, have greater financial resources, and may have other strategic advantages, including more efficient technologies or lower raw material costs.

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

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

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

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

Employees

At December 31, 2008, we employed approximately 2,500 persons, of which approximately 2,440 were employed in our Fabricated Products business unit and approximately 60 were employed in our corporate group, most of whom are located in our offices in Foothill Ranch, California

The table below shows each manufacturing location, the primary union affiliation, if any, and the expiration date for the current union contract. As discussed below, union affiliations are with the United Steel, Paper and Foresting, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL CIO, CLC (USW) and International Association of Machinists (IAM).

Location	Union	Contract Expiration Date
Chandler, AZ	Non-union (1)	
Greenwood, SC	Non-union	
Jackson, TN	Non-union	
London, Ontario	USW Canada	Feb 2009
Los Angeles, CA	Teamsters	May 2009
Newark, OH	USW	Sept 2010
Richland, WA	Non-union	
Richmond, VA	USW/IAM	Nov 2010
Sherman, TX	IAM	Dec 2010
Spokane, WA	USW	Sept 2010
Tulsa, OK	USW (2)	Nov 2010

(1) In November 2008, certain employees at our Chandler, Arizona plant voted for affiliation with the USW. We had not completed negotiation with the union as of December 31, 2008. In January 2009, the employees of Chandler exercised their rights to contest the vote to

affiliate with the USW. The issue is under review with the National Labor Relations Board.

(2) In December 2008, we closed our Tulsa, Oklahoma plant and entered into a closure agreement with the USW. Pursuant to the closure agreement with the USW, in the event that we recall the employees at the Tulsa, Oklahoma plant prior to November 15, 2010, we will be subject to the union contract that was in place prior to the closure of our Tulsa, Oklahoma plant.

As part of our chapter 11 reorganization, in 2006 we entered into a settlement with the USW regarding, among other things, pension and retiree medical obligations. Under the terms of the settlement, we agreed to adopt a position of neutrality regarding the unionization of any of our employees.

Environmental Matters

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

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

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

Emergence From Reorganization Proceedings

From the first quarter of 2002 to June 30, 2006, Kaiser and 25 of its subsidiaries operated under chapter 11 of the United States Bankruptcy Code under the supervision of the United States Bankruptcy Court for the district of Delaware(the Bankruptcy Court). Pursuant to a plan of reorganization (the Plan), Kaiser and its subsidiaries, which included all of our then-existing fabricated products facilities and operations and a 49% interest in Anglesey, emerged from chapter 11 on July 6, 2006. Pursuant to the Plan, all material pre-petition debt, pension and post-retirement medical obligations and asbestos and other tort liabilities, along with other pre-petition claims (which in total aggregated at June 30, 2006 approximately \$4.4 billion) were addressed and resolved. Pursuant to the Plan, all of the equity interests of Kaiser s pre-emergence stockholders were cancelled without consideration. Equity of the newly emerged Kaiser was issued and delivered to a third-party disbursing agent for distribution to claimholders pursuant to the Plan.

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

We also made some changes to our accounting policies and procedures as part of the application of fresh start accounting as required by the American Institute of Certified Professional Accountants Statement of Position 90-7 (SOP 90-7), *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* and the emergence process. In general, our accounting policies are the same as or similar to those historically used to prepare our financial statements. In certain cases, however, we adopted different accounting principles for, or applied methodologies differently to, our post emergence financial statement information. For instance, we changed our accounting methodologies with respect to inventory accounting. While we still account for inventories on a last-in, first-out (LIFO) basis after emergence, we are applying LIFO differently than we did in the past. Specifically, we now view each quarter on a standalone basis for computing LIFO; in the past, we recorded LIFO amounts with a view to the entire fiscal year, which, with certain exceptions, tended to result in LIFO charges being recorded in the fourth quarter or second half of the year.

Legal Structure

In connection with our Plan, we restructured and simplified our corporate structure. Our current corporate structure is summarized as follows:

We directly own 100% of the issued and outstanding shares of capital stock of Kaiser Aluminum Investments Company, a Delaware corporation (KAIC), which functions as an intermediate holding company.

KAIC owns 49% of the ownership interests of Anglesey and 100% of the ownership interests of each of:

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

Kaiser Aluminum Canada Limited, an Ontario corporation, which holds the assets and liabilities associated with our London, Ontario facility and certain former Canadian subsidiaries that were largely inactive;

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

Kaiser Aluminium International, Inc., a Delaware corporation, which functions primarily as the seller of our products delivered outside the United States;

Trochus Insurance Co., Ltd., a corporation formed in Bermuda, which has historically functioned as a captive insurance company; and

Kaiser Aluminum France, SAS, a corporation formed in France for the primary purpose of engaging in market development and commercialization and distribution of our products in Western Europe.

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

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

In addition to the factors discussed elsewhere in this Report, the risks described below are those which we believe are the material risks we face. The occurrence of any of the events discussed below could significantly and adversely affect our business, prospects, financial condition, results of operations and cash flows as well as the trading price of our common stock.

Recent economic factors.

The United States and global economies are currently experiencing a period of substantial economic uncertainty with wide-ranging effects, including:

disruption in global financial markets that has reduced the liquidity available to us, our customers, our suppliers and the purchasers of products that materially affect demand for our materials, including commercial airlines;

a substantially weakened banking and financial system with increasing risk and exposure to the impact of non-performance by banks committed to provide financing, hedging counterparties, insurers, customers and suppliers;

extreme volatility in commodity prices reflected most recently by broad and unprecedented declines that materially impact the results of our hedging strategies, increase near term cash margin requirements, reduce the value of our inventories and borrowing base under our revolving credit facility and result in substantial non-cash charges as we adjust inventory values and mark-to-market our hedge positions;

- substantial reductions in consumer spending that reduce the demand for applications that use our products, including commercial aircraft, automobiles, trucks and trailers;
- the rapid destocking of inventory levels throughout the supply chain in response to reduced demand and increasing uncertainty;
- reduced customer demand under existing contracts resulting in customers limiting purchases to contractual minimum volumes or seeking relief from contractual obligations;
- increasing risk that customers and suppliers may liquidate or seek protection under federal bankruptcy laws and reject existing contractual commitments;
- difficulty successfully executing our strategy of growth through acquisitions;
- the possibility of additional plant closures or reductions in response to a prolonged or increased reduction in demand for our products;
- pressure to reduce defense spending and demand for our products used in defense applications as the new United States government administration is faced with competing national priorities; and
- the inability to predict with any certainty the effectiveness and long term impact of economic stimulus plans.

We are unable to predict the impact, severity and duration of these events, any of which could have a material adverse impact on our financial position, results of operations and cash flows.

A reader may not be able to compare our historical financial information to our financial information relating to periods after our emergence from chapter 11 bankruptcy.

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

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

The fabricated products segment of the aluminum industry is highly competitive. Competition in the sale of fabricated aluminum products is based upon quality, availability, price and service, including delivery performance. Many of our competitors are substantially larger than we are and have greater financial resources than we do, and may have other strategic advantages, including aluminum reduction capacity providing a long term natural hedge that facilitates the offering of fixed price contracts without margin exposure, more efficient technologies or lower raw material costs. Our facilities are primarily located in North America. To the extent that our competitors have production facilities located outside North America, they may be able to produce similar products at a lower cost or sell those products at a lower price during periods when the currency exchange rates favor foreign competition. We may not be able to adequately reduce our costs or prices to compete with these products. Increased competition could cause a reduction in our shipment volumes and profitability or increase our expenditures, any one of which could have a material adverse effect on our financial position, results of operations and cash flows.

We depend on a core group of significant customers.

In 2008, our largest fabricated products customer, Reliance, accounted for approximately 18% of our fabricated products net sales, and our five largest customers accounted for approximately 39% of our fabricated products net sales. If our existing relationships with significant customers materially deteriorate or are terminated and we are not successful in replacing lost business, our financial position, results of operations and cash flows could be materially and adversely affected. In addition, a prolonged or increasing downturn in the business or financial condition of any of our significant customers could materially and adversely affect our financial position, results of operations and cash flows.

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

We import primary aluminum from, and manufacture fabricated products used in, foreign countries. We also own 49% of Anglesey, and, at least through September 2009, we will purchase alumina to supply to Anglesey, and we purchase aluminum from Anglesey for sale to a third party in the United Kingdom. Factors in the politically and economically diverse countries in which we operate or have customers or suppliers, including inflation, fluctuations in currency and interest rates, competitive factors, civil unrest and labor problems, could affect our financial position, results of operations and cash flows. Our financial position, results of operations and cash flows could also be adversely affected by:

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

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

We derive a significant portion of our revenue from products sold to the aerospace industry, which is highly cyclical and tends to decline in response to overall declines in industrial production. The commercial aerospace industry is historically driven by the demand from commercial airlines for new aircraft. Demand for commercial aircraft is influenced by airline industry profitability, trends in airline passenger traffic, by the state of the U.S. and world economies and numerous other factors, including the effects of terrorism. In recent years, a number of major airlines have also undergone chapter 11 bankruptcy and experienced financial strain from volatile fuel prices. The aerospace industry also suffered significantly in the wake of the events of September 11, 2001, resulting in a sharp decrease globally in new commercial aircraft deliveries and order cancellations or deferrals by the major airlines. Continued financial instability in the industry, terrorist acts or the increased threat of terrorism may lead to reduced demand for new aircraft that utilize our products, which could adversely affect our financial position, results of operations and cash flows. The military aerospace industry is highly dependent on U.S. and foreign government funding; however, it is also driven by the effects of terrorism, a changing global political environment, U.S. foreign policy, regulatory changes, the retirement of older aircraft and technological improvements to new aircraft engines that increase reliability. The timing, duration and severity of upturns and downturns cannot be predicted with certainty. A future downturn or reduction in defense spending could have a material adverse effect on our financial position, results of operations and cash flows.

Reductions in defense spending for aerospace and non-aerospace military applications could substantially reduce demand for our products.

Our products are used in a wide variety of military applications, including military jets, armored vehicles and ordinance. The funding of U.S. government programs is subject to congressional appropriations. Many of the programs in which we participate may extend several years; however these programs are normally funded annually. Changes in military strategy and priorities may affect current and future programs. Similarly there may be significant pressure to reduce defense spending as the new administration and governments around the world are faced with competing national priorities. Reductions in defense spending will reduce the demand for our products and could adversely affect our financial position, results of operations and cash flows.

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

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

Further downturns in the automotive and heavy duty truck and trailer industries could adversely affect our net sales and profitability.

The demand for many of our general engineering and custom products is dependent on the production of automobiles, light trucks, SUVs, and heavy duty vehicles and trailers in North America. The automotive industry is highly cyclical, as new vehicle demand is dependent on consumer spending and is tied closely to the overall strength of the North American economy. The North American automotive and heavy truck and trailer industries have experienced severe downturns in sales. Multiple production cuts by United States manufacturers may continue to adversely affect the demand for our products. The North American automotive manufacturers are also burdened with substantial structural costs, including pension and healthcare costs that impact their profitability and labor relations and may ultimately result in severe financial difficulty, including bankruptcy. More recently, the three major automobile manufacturers in the United States have encountered serious financial difficulties as automotive sales and production have substantially declined, and two of them have received financial assistance from the federal government. A worsening of these companies financial condition or their bankruptcy could have further serious effects on the Unites States and global economies which, in turn, could worsen the conditions of the markets which directly affect the demand of our products. Similarly, a prolonged decline in the demand for new automobiles and heavy duty trucks and trailers, particularly in the United States, could have a material adverse effect on our financial position, results of operations and cash flows.

Changes in consumer demand may adversely affect our operations which supply automotive end users.

Increases in energy costs have resulted in shifts in consumer demand away from motor vehicles that typically have a higher content of the products we currently supply, such as light trucks and SUVs. The loss of business with respect to, or a lack of commercial success of, one or more particular vehicle models for which we are a significant supplier could have an adverse impact on our financial position, results of operations and cash flows.

We face tremendous pressure from our automotive customers on pricing.

Cost cutting initiatives that our automotive customers have adopted generally result in increased downward pressure on pricing and our automotive customers typically seek agreements requiring reductions in pricing over the period of production. Pricing pressure may further intensify, particularly in North America, as North American automobile manufacturers pursue cost cutting initiatives. If we are unable to generate sufficient production cost savings in the future to offset any required price reductions, our financial position, results of operations and cash flows could be adversely impacted.

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

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

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

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

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

Our revolving credit facility contains negative and financial covenants and events of default that may limit our financial flexibility and ability to undertake certain types of transactions. For instance, we are subject to negative covenants that restrict our activities, including restrictions on our ability to grant liens, engage in mergers, sell assets, incur debt, engage in different businesses, make investments, pay dividends, and repurchase shares. If we fail to satisfy the covenants set forth in our revolving credit facility or another event of default occurs under the revolving credit facility, we could be prohibited from borrowing. If we cannot borrow under the revolving credit facility, we could be required to seek additional financing, if available, or curtail our operations. Additional financing may not be available on commercially acceptable terms, or at all. If the revolving credit facility is terminated and we do not have sufficient cash on hand to pay any amounts outstanding under the facility, we could be required to sell assets or to obtain additional financing.

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

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

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

As the economy and markets for our products move through economic downturns or supply otherwise begins to exceed demand through increases in capacity or reduced demand, it is increasingly important for us to be a low cost producer. Although we have undertaken and expect to continue to undertake productivity and cost reduction initiatives to improve performance, including deployment of company-wide business improvement methodologies, such as our production system, the Kaiser Production System, which involves the integrated utilization of application and advanced process engineering and business improvement methodologies such as Lean Enterprise, Total Productive Maintenance and Six Sigma, we cannot assure you that all of these initiatives will be completed or beneficial to us or that any estimated cost saving from such activities will be fully realized. Even when we are able to generate new efficiencies successfully in the short to medium term, we may not be able to continue to reduce cost and increase productivity over the long term.

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

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

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

Our income and cash flows depend on the margin above fixed and variable expenses (including energy costs) at which we are able to sell our fabricated aluminum products. The volatility in costs of fuel, principally natural gas, and other utility services, principally electricity, used by our production facilities affect operating costs. Fuel and utility prices have been, and will continue to be, affected by factors outside our control, such as supply and demand for fuel and utility services in both local and regional markets. Future increases in fuel and utility prices may have a material adverse effect on our financial position, results of operations and cash flows.

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

From time to time in the ordinary course of business, we enter into hedging transactions to limit our exposure to price risks relating to primary aluminum prices, energy prices and foreign currency. To the extent that these hedging transactions fix prices or exchange rates and primary aluminum prices, energy costs or foreign exchange rates are below the fixed prices or rates established by these hedging transactions, our income and cash flows will be lower than they otherwise would have been. Additionally, to the extent that primary aluminum prices, energy prices and/or foreign currency exchange rates deviate materially and adversely from fixed, floor or ceiling prices or rates established by outstanding hedging transactions, we could incur margin calls that could adversely impact our liquidity and result in a material adverse effect on our financial position, results of operations and cash flows. Conversely, we are exposed to risks associated with the credit worthiness of our hedging counterparties. Non-performance by a counterparty could have a material adverse effect on our financial position, results of operations and cash flows.

Uncertainty of Anglesey is expected to preclude recognition of future operating results and distribution of dividends.

The agreement under which Anglesey receives power expires in September 2009, and the nuclear facility which supplies such power is scheduled to cease operations in 2010. We fully impaired our 49% equity investment in Anglesey in its 2008 fourth quarter results after considering Anglesey s inability to obtain affordable power, the resulting expected curtailment of smelting operations and the growing uncertainty with respect to the future of Anglesey s operations. While we expect Anglesey to continue to pursue alternative sources of affordable power, no sources have been identified that would enable the uninterrupted continuation of smelting operations. Similarly, although we expect Anglesey to continue to evaluate alternative operating activities, including the potential continuation of remelt and casting operations and the production of anodes for use by other smelting facilities, the economic feasibility of alternative operating activities at Anglesey is highly uncertain in the context of current economic conditions, Anglesey s increasing exposure to higher pension contributions following recent declines in the value of the assets held by the Rio Tinto pension plan in which Anglesey participates and uncertainty with respect to future costs and expenses Anglesey may incur in connection with the curtailment of smelting operations. Unless we can determine that current or future operating results from Anglesey will be recoverable, we will not recognize future operating results from Anglesey. The expected inability to recognize future operating results from Anglesey and the anticipated loss of future dividend income, will adversely affect our financial position, results of operations and cash flows.

We are exposed to fluctuations in foreign currency exchange rates and interest rates, as well as inflation and other economic factors in the countries in which we operate.

Economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates in the countries in which we operate, could affect our revenues, expenses and results of operations. In particular, lower valuation of the U.S. dollar against other currencies, particularly the Canadian dollar, Euro and British Pound Sterling, may affect our profitability as some important raw materials are purchased in other currencies, while products generally are sold in U.S. dollars.

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

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

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

A significant number of our employees are represented by labor unions under labor contracts with varying durations and expiration dates. All of these contracts currently expire in 2009 and 2010, including labor contracts with the USW, covering three of our manufacturing locations or approximately 36% of our employees, scheduled to expire in the fall of 2010. In addition, efforts by the USW are currently underway to organize our Chandler, Arizona facility. We may not be able to renegotiate or negotiate these or our other labor contracts on satisfactory terms. As part of any negotiation, we may reach agreements with respect to future wages and benefits that could materially and adversely affect our future financial position, results of operations and cash flows. In addition, negotiations could divert management attention or result in union-initiated work actions, including strikes or work stoppages, that could have a material adverse effect on our financial position, results of operations and cash flows. Moreover, the existence of labor agreements may not prevent such union-initiated work actions.

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

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

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

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

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

We have accrued, and will accrue, for costs relating to the above matters that are reasonably expected to be incurred based on available information. However, it is possible that actual costs may differ, perhaps significantly, from the amounts expected or accrued. Similarly, the timing of those expenditures may occur faster than anticipated. These differences could have a material adverse effect on our financial position, results of operations and cash flows. In addition, new laws or regulations or changes to existing laws and regulations may occur, including government mandated green initiatives and limitations on carbon emissions, that increase the cost or complexity of compliance, including the increased regulation of carbon emissions. Difference in actual costs, the timing of payments for previously accrued costs and the impact of new laws and regulations may have a material adverse effect on our financial position, results of operations and cash flows.

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

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

Additionally, as with the environmental laws and regulations, the other laws and regulations which govern our business are subject to change at any time. Compliance with changes to existing laws and regulations could have a material adverse effect on our financial position, results of operations and cash flows.

Product liability claims against us could result in significant costs and could adversely affect our financial position, results of operations and cash flow.

We are sometimes exposed to warranty and product liability claims. While we generally maintain insurance against many product liability risks, a successful claim that exceeds our available insurance coverage or that is no longer fully insured as a result of the insolvency of one or more of the underlying carriers could have a material adverse effect on our financial position, results of operations and cash flows.

Our rod, bar, and tube investment projects and other expansion projects may not be completed as scheduled.

We are currently engaged in various investment projects, including investment in our rod, bar, and tube value stream to, among other things, develop a production facility in Kalamazoo, Michigan and various other expansion projects. Our ability to complete these projects, and the timing and costs of doing so, are subject to various risks associated with all major construction projects, many of which are beyond our control, including technical or mechanical problems, economic conditions and permitting. If we are unable to fully complete these projects or if the actual costs for these projects exceed our current expectations, our financial position, results of operations and cash flows could be adversely affected.

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

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

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

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

Our effective income tax rate could increase and materially adversely affect our business.

We operate in multiple tax jurisdictions and pay tax on our income according to the tax laws of these jurisdictions. Various factors, some of which are beyond our control, determine our effective tax rate and/or the amount we are required to pay, including changes in or interpretations of tax laws in any given jurisdiction, our ability to use net operating losses and tax credit carry forwards and other tax attributes, changes in geographical allocation of income and expense, and our judgment about the realizability of deferred tax assets. Such changes to our effective tax rate could materially adversely affect our financial position, liquidity, results of operations and cash flows.

Exposure to additional income tax liabilities due to audits could materially adversely affect our business.

Due to our size and the nature of our business, we are subject to ongoing reviews by taxing jurisdictions on various tax matters, including challenges to various positions we assert on our income tax and withholding tax returns. We accrue income tax liabilities and tax contingencies based upon our best estimate of the taxes ultimately expected to be paid after considering our knowledge of all relevant facts and circumstances, existing tax laws, our experience with previous audits and settlements, the status of current tax examinations and how the tax authorities view certain issues. Such amounts are included in taxes payable or other non-current liabilities, as appropriate, and updated over time as more information becomes available. We record additional tax expense in the period in which we determine that the recorded tax liability is less than the ultimate assessment we expect. We are currently subject to audit and review in a number of jurisdictions in which we operate and have been advised that further audits may commence in the next 12 months. For example, the Canadian Revenue Agency (which we refer to as the CRA) is currently conducting an audit to determine whether we are in compliance with certain transfer pricing and intercompany loan provisions. If it is determined that we are not in compliance, we will not be entitled to certain tax rates on payments from our U.S. subsidiaries to and from our Canadian company. It is reasonably possible that the amount of our unrecognized tax benefits could significantly increase or decrease within the next 12 months.

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

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. While we have concluded that at December 31, 2008, we have no material weaknesses in our internal controls over financial reporting we cannot assure you that we will not have a material weakness in the future. A material weakness is a control deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. If we fail to maintain a system of internal controls over financial reporting that meets the requirements of Section 404, we might be subject to sanctions or investigation by regulatory authorities such as the SEC or by the NASDAQ Stock Market LLC. Additionally, failure to comply with Section 404 or the report by us of a material weakness may cause investors to lose confidence in our financial statements and our stock price may be adversely affected. If we fail to remedy any material weakness, our financial statements may be inaccurate, we may be subject to increase in insurance costs, we may not have access to the capital markets, and our stock price may be adversely affected.

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

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

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

We have net operating loss carry-forwards and other significant U.S. tax attributes that we believe could offset otherwise taxable income in the United States. The net operating loss carry-forwards available in any year to offset our net taxable income will be reduced following a more than 50% change in ownership during any period of 36 consecutive months (an "ownership change") as determined under the Internal Revenue Code of 1986 (the Code). Upon our emergence from chapter 11 bankruptcy, we entered into a stock transfer restriction agreement with our largest stockholder, a voluntary employee s beneficiary association, or, VEBA, that provides benefits for certain eligible retirees represented by certain unions and their spouses and eligible dependents (which we refer to as the Union VEBA), and our certificate of incorporation was amended to prohibit and void certain transfers of our common stock. Both reduce the risk that an ownership change will jeopardize our net operating loss carry-forwards. Because U.S. tax law limits the time during which carry-forwards may be applied against future taxes, we may not be able to take full advantage of the carry-forwards for federal income tax purposes. In addition, the tax laws pertaining to net operating loss carry-forwards may be changed from time to time such that the net operating loss carry-forwards may be reduced or eliminated. If the net operating loss carry-forwards become unavailable to us or are fully utilized, our future income will not be shielded from federal income taxation, and the funds otherwise available for general corporate purposes would be reduced.

Transfer restrictions and other factors could hinder the market for our common stock.

In order to reduce the risk that an ownership change would jeopardize the preservation of our U.S. federal income tax attributes, including net operating loss carry-forwards, for purposes of Sections 382 and 383 of the Code, upon emergence from chapter 11 bankruptcy, we entered into a stock transfer restriction agreement with our largest stockholder, the Union VEBA, and amended and restated our certificate of incorporation to include restrictions on transfers involving 5% ownership. These transfer restrictions may make our stock less attractive to large institutional holders discourage potential acquirers from attempting to take over our company, limit the price that investors might be willing to pay for shares of our common stock and otherwise hinder the market for our common stock.

We could engage in or approve transactions involving our common shares that inadvertently impair the use of our federal income tax attributes.

Section 382 of the Code affects our ability to use our federal income tax attributes, including our net operating loss carry-forwards, following a more than 50% change in ownership during any period of 36 consecutive months, all as determined under the Code, an ownership change. Certain transactions may be included in the calculation of an ownership change, including transactions involving our repurchase or issuance of our common shares. When we engage in or approve any transaction involving our common shares that may be included in the calculation of an ownership change, our practice is to first perform the calculations necessary to confirm that our ability to use our federal income tax attributes will not be affected. These calculations are complex and reflect certain necessary assumptions. Accordingly, it is possible that we could approve or engage in a transaction involving our common shares that causes an ownership change and inadvertently impair the use of our federal income tax attributes.

We could engage in or approve transactions involving our common shares that adversely affect significant stockholders.

Under the transfer restrictions in our certificate of incorporation, our 5% stockholders are, in effect, required to seek the approval of, or a determination by, our Board of Directors before they engage in transactions involving our common stock. We could engage in or approve transactions involving our common stock that limit our ability to approve future transactions involving our common stock by our 5% stockholders in accordance with the transfer restrictions in our certificate of incorporation without impairing the use of our federal income tax attributes. In addition, we could engage in or approve transactions involving our common stock that cause stockholders owning less than 5% to become 5% stockholders, resulting in those stockholders having to seek the approval of, or a determination by, our Board of Directors under our certificate of incorporation before they could engage in future transactions involving our common stock. For example, share repurchases reduce the number of our common shares outstanding and could cause a stockholder holding less than 5% to become a 5% stockholder even though it has not acquired any additional shares.

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

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

- volatility in the spot market for primary aluminum and energy costs;
- changes in the volume, price and mix of the products we sell;
- our annual accruals for variable payment obligations to the Union VEBA and another VEBA that provides benefits for certain other eligible retirees and their surviving spouses and eligible dependents (which we refer to as the Salaried VEBA);
- non-cash charges including last-in, first-out, or LIFO, inventory charges and impairments, lower of cost or market valuation adjustments to inventory, mark-to-market gains and losses related to our derivative transactions and impairments of fixed assets and investments;
- global economic conditions;
- unanticipated interruptions of our operations for any reason;
- variations in the maintenance needs for our facilities;
- unanticipated changes in our labor relations;
- cyclical aspects impacting demand for our products; and
- reductions in defense spending.

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

We are obligated to make annual payments to the Union VEBA and Salaried VEBA calculated based on our profitability and therefore not all of our earnings will be available to our stockholders. The aggregate amount of our annual payments to these VEBAs is capped however at $20 million and is subject to other limitations. As a result of these payment obligations, our earnings and cash flows may be reduced. Although our obligation to make annual payments to the Union VEBA terminates for periods beginning after December 31, 2012, the Union VEBA or other groups representing our current and future retired hourly employees may seek to extend our obligation beyond the termination date. Any such extension could have a material adverse effect on our financial position, results of operations and cash flows.

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

The Union VEBA owns 24.2% of our outstanding common stock as of December 31, 2008. As a result, the Union VEBA has significant influence over matters requiring stockholder approval, including the composition of our Board of Directors. Further, to the extent that the Union VEBA and other substantial stockholders were to act in concert, they could potentially control any action taken by our stockholders. This concentration of ownership could also facilitate or hinder proxy contests, tender offers, open market purchase programs, mergers or other purchases of our common stock that might otherwise give stockholders the opportunity to realize a premium over the then prevailing market price of our common stock or cause the market price of our common stock to decline. We cannot assure you that the interests of our major stockholders will not conflict with our interests or the interests of our other investors.

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

Pursuant to an agreement, the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC, or USW, has the right to nominate candidates which, if elected, would constitute 40% of our Board of Directors through December 31, 2012 at which time the USW is required to cause any director nominated by the USW to submit his or her resignation to our Board of Directors, which submission our Board of Directors may accept or reject in its discretion. As a result, the directors nominated by the USW have a significant voice in the decisions of our Board of Directors. It is possible that the USW may seek to extend the term of the agreement and its right to nominate board members beyond 2012.

Payment of dividends may not continue in the future and our payment of dividends and stock repurchases are subject to restriction.

In June 2007, our Board of Directors initiated the payment of a regular quarterly cash dividend. A quarterly cash dividend has been paid in each subsequent quarter and in June 2008, our Board of Directors increased the payment of the regular quarterly cash dividend. The future declaration and payment of dividends, if any, will be at the discretion of the Board of Directors and will depend on a number of factors, including our results, financial condition, anticipated cash requirements, and ability to satisfy conditions reflected in our revolver. We can give no assurance that dividends will be declared and paid in the future. Our revolving credit facility, as amended on January 9, 2009, restricts our ability to pay any dividends and prohibits us from repurchasing our common shares. Under our revolving credit facility, we may pay cash dividends only if we maintain $100 million in borrowing availability and are not in default. In addition, our revolving credit facility, as amended, limits dividends during any fiscal year to an aggregate amount not to exceed $25 million.

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

Our certificate of incorporation restricts the transfer of our equity securities if either (1) the transferor holds 5% or more of the fair market value of all of our issued and outstanding equity securities or (2) as a result of the transfer, either any person would become such a 5% stockholder or the percentage stock ownership of any such 5% stockholder would be increased. These restrictions are subject to exceptions set forth in our certificate of incorporation. Any transfer that violates these restrictions is void and will be unwound as provided in our certificate of incorporation.

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

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

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

None.

Item 2. ***Properties***

The locations of the principal plants and other materially important physical properties relating to our Fabricated Products business unit are below:

Location	Square footage	Owned or Leased
Chandler, Arizona	93,000	Leased(1)
Greenwood, South Carolina	185,000	Owned
Jackson, Tennessee	310,000	Owned
Kalamazoo, Michigan	465,000	Leased(2)
London, Ontario (Canada)	265,000	Owned
Los Angeles, California	183,000	Owned
Newark, Ohio	1,293,000	Owned
Richland, Washington	45,000	Leased(3)
Richmond, Virginia	443,000	Owned
Plainfield, Illinois	80,000	Leased(4)
Sherman, Texas	313,000	Owned
Spokane, Washington	2,854,000	Owned/Leased(5)
Tulsa, Oklahoma	28,000	Owned
Total	6,557,000	

(1) The Chandler, Arizona facility is subject to a lease with a primary lease term that expires in 2033. We have certain extension rights in respect of the Chandler lease.

(2) The Kalamazoo, Michigan facility is subject to a lease with a 2033 expiration date.

(3) The Richland, Washington facility is subject to a lease with a

2011 expiration date, subject to certain extension rights held by us.

(4) The Plainfield, Illinois facility is subject to a lease with a 2010 expiration date and a renewal option subject to certain terms and conditions.

(5) 2,733,000 square feet is owned and 121,000 square feet is subject to a lease with a 2010 expiration date and a renewal option subject to certain terms and conditions.

Plants and equipment and other facilities are generally in good condition and suitable for their intended uses.

Our corporate headquarters located in Foothill Ranch, California, is a leased facility consisting of 21,500 square feet.

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

Item 3. ***Legal Proceedings***

None.

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

No matters were submitted to a vote of our security holders during the fourth quarter of 2008.

PART II

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

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

The following table sets forth the high and low sale prices of our common stock for each quarterly period for fiscal years 2007 and 2008:

	High	Low
Fiscal 2007		
First quarter.	$78.00	$57.00
Second quarter	$89.24	$70.09
Third quarter.	$79.99	$52.75
Fourth quarter	$80.75	$65.89
Fiscal 2008		
First quarter.	$79.84	$56.67
Second quarter	$76.46	$53.23
Third quarter.	$55.49	$41.89
Fourth quarter	$43.00	$15.01

Holders

As of January 30, 2009, there were approximately 651 holders of record of our common stock.

Dividends

In June 2007, our Board of Directors initiated the payment of a regular quarterly cash dividend of $0.18 per common share per quarter. In June 2008, our Board of Directors increased the quarterly cash dividend to $0.24 per common share per quarter. Each quarterly cash dividend declared in 2007 and 2008 has been paid in the subsequent quarter. Total cash dividends paid were $0.36 per common share, or $7.4 million, in 2007 and $0.84 per common share, or $17.2 million, in 2008.

In January 2009, our Board of Director declared another quarterly cash dividend of $0.24 per common share, or $4.8 million to shareholders of record at the close of business on January 26, 2009, which was paid on February 13, 2009.

Future declaration and payment of dividends, if any, will be at the discretion of the Board of Directors and will be dependent upon our results of operations, financial condition, cash requirements, future prospects and other factors. We can give no assurance that any dividends will be declared or paid in the future. On January 9, 2009, we entered into an amendment to our revolving credit facility. Our revolving credit facility, as amended restricts our ability to pay dividends and prohibits us from repurchasing our common shares. Under our revolving credit facility, as amended, we may pay cash dividends only if we maintain $100 million in borrowing availability thereunder, and are not in default or would not be in default as a result of the dividend payment, and such dividends can not exceed $25 million during any fiscal year.

Stock Performance Graph

The following graph compares the cumulative total shareholder return on the Company s common stock with: (i) the Russell 2000 of which we are a component, and (ii) the S&P SmallCap 600. The graph assumes (i) an initial investment of $100 as of July 7, 2006, the first day on which the Company s common stock began trading on the Nasdaq Stock Market, and (ii) reinvestment of all dividends. The performance graph is not necessarily indicative of future performance of our stock price.

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

Our performance graph reflects the cumulative return of (i) the Russell 2000, a broad equity market index of which we are a component and (ii) the S&P SmallCap 600. We elected to use the S&P SmallCap 600 index after determining that no published industry or line-of-business indexes were closely enough related to our industry or business to provide a reasonable basis for comparison. Similarly, we determined that we could not identify comparables to include in a peer group that would provide a reasonable basis for comparison and that, as a result, an index consisting of companies with similar market capitalizations was appropriate.

Issuer Repurchases of Equity Securities

We made no repurchases of our common shares during the quarter ended December 31, 2008.

In June 2008, our Board of Directors authorized the repurchase of up to $75 million of our common shares, with repurchase transactions to occur in open-market or privately negotiated transactions at such times and prices as management deemed appropriate and to be funded with our excess liquidity after giving consideration to internal and external growth opportunities and future cash flows. The program may be modified, extended or terminated by our Board of Directors at any time. All shares repurchased under this stock repurchase program were treated as treasury shares. In January 2009, we entered into an amendment to our revolving credit facility that prohibits us from repurchasing our common shares. As a result, we can no longer repurchase our common shares or withhold common shares to satisfy employee minimum statutory withholding obligations without lender approval.

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

The following table represents our selected financial data. The table should be read in conjunctions with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data, of this Report.

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006: July 1, 2006 through December 31, 2006	Year Ended December 31, 2006: Predecessor January 1, 2006 to July 1, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
	(In millions of dollars, except shipments, average sales price and per share amounts)					
Net sales	$1,508.2	$1,504.5	$667.5	$ 689.8	$ 1,089.7	$ 942.4
(Loss) income from continuing operations	(68.5)	101.0	26.2	3,136.9	(1,112.7)	(868.1)
Income from discontinued operations				4.3	363.7	121.3
Cumulative effect of accounting change					(4.7)	
Net (loss) income	$ (68.5)	$ 101.0	$ 26.2	$ 3,141.2	$ (753.7)	$(746.8)
Basic (loss) income per share:						
(Loss) income from continuing operations	$ (3.43)	$ 5.05	$ 1.31	$ 39.37	$ (13.97)	$(10.88)
Income from discontinued operations				.05	4.57	1.52
Cumulative effect of accounting change					(.06)	
Net (loss) income per share	$ (3.43)	$ 5.05	$ 1.31	$ 39.42	$ (9.46)	$ (9.36)
Diluted (loss) income per share:						
(Loss) income from continuing operations	$ (3.43)	$ 4.97	$ 1.30	$ 39.37	$ (13.97)	$(10.88)

Income from discontinued operations				.05	4.57	1.52
Cumulative effect of accounting change					(.06)	
Net (loss) income per share	$ (3.43)	$ 4.97	$ 1.30	$ 39.42	$ (9.46)	$ (9.36)
Shipments (mm lbs)	691.6	705.0	326.9	350.6	637.5	615.2
Average realized third party sales price (per lb)	$ 2.18	$ 2.13	$ 2.04	$ 1.97	$ 1.71	$ 1.53
Cash dividends declared per common share	$ .66	$ .54	$	$	$	$
Capital expenditures, net of accounts payable	$ 93.2	$ 61.8	$ 30.0	$ 28.1	$ 31.0	$ 7.6
Depreciation expense	$ 14.7	$ 11.9	$ 5.5	$ 9.8	$ 19.9	$ 22.3

				Predecessor	
			December 31,		
	2008	**2007**	**2006**	**2005**	**2004**
Total assets	$1,145.4	$1,165.2	$655.4	$1,538.9	$1,882.4
Long-term borrowings, including amounts due within one year	43.0		50.0	1.2	2.8

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The financial information for all prior periods has been reclassified to reflect discontinued operations. See Note 22 of Notes to Consolidated Financial Statements. Earnings (loss) per share and share information for the Predecessor may not be meaningful because, pursuant to the Plan, the equity interests in the Company s existing stockholders were cancelled without consideration.

In addition to the operational results presented in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, significant items that impacted the results included, but were not limited to, the following:

2008:

We recorded $87.1 million of non-cash, pre-tax, unrealized mark to market losses on our derivative positions primarily as a result of the decline in metal price.

We recorded a $65.5 million lower of cost or market inventory adjustment due to the decline in metal prices. This inventory write-down lowered the LIFO inventory values that had been established at relatively high prices during the implementation of fresh start accounting in July 2006.

In December 2008, we announced plans to close operations at our Tulsa, Oklahoma extrusion facility and significantly reduce operations at our Bellwood, Virginia facility in response to lower demand for products produced at these locations. These actions, which are expected to be completed by early 2009, resulted in a restructuring charge of $8.8 million in the fourth quarter of 2008 related to employee termination benefits and asset impairment.

Anglesey is expected to fully curtail its smelting operations at the end of September 2009, when its current power contract expires. Based on a review of new facts and circumstances that came into light during the fourth quarter of 2008 and early 2009 regarding Anglesey, we currently do not expect to be able to recover our investment in Anglesey. As a result, we recorded an impairment charge of $37.8 million and a corresponding decrease to Investment in and advances to unconsolidated affiliate.

On June 12, 2008, Anglesey suffered a significant failure in the rectifier yard that resulted in a localized fire in one of the power transformers. As a result of the fire, Anglesey was operating below its maximum capacity during the second half of 2008, returning to its normal production level in the fourth quarter of 2008. In December 2008, Anglesey received $20 million in a partial insurance settlement, of which $10 million was recorded as an increase in our equity in earnings and an increase in our investment in Anglesey. This amount was subsequently impaired at December 31, 2008.

We announced a $75 million stock repurchase plan to commence after July 6, 2008. We repurchased 572,706 shares of common stock at a weighted-average price of $49.05 per share, or total cost of $28.1 million, under the repurchase plan. Our revolving credit facility, as amended on January 9, 2009, currently prohibits us from repurchasing our common shares, including under the repurchase program.

We began drawing down on our revolving credit facility during the last two quarters of 2008 and had $36.0 million of outstanding borrowings at December 31, 2008.

We paid dividends totaling $17.2 million in 2008.

2007:

During the fourth quarter we repaid our $50 million term loan.

In June 2007, our Board of Directors initiated a regular quarterly dividend of $.18 per share. We paid total dividends of $7.4 million in 2007.

In addition, in 2007 we determined that we met the more likely than not criteria for recognition of our deferred tax assets and we released the vast majority of the valuations allowance. At December 31, 2007, total assets included net deferred tax assets of $327.8 million.

2006:

We emerged from chapter 11 bankruptcy on July 6, 2006 with our then-existing fabricated product facilities and operations and a 49% interest in Anglesey. During the period from January 1, 2006 to July 1, 2006, we recorded gains upon emergence and other reorganization related benefits (costs) of approximately $3.1 billion.

2005:

We were in chapter 11 bankruptcy for the entire year. During 2005, we recorded reorganization costs of approximately $1.2 billion.

We also recorded a $4.7 million charge as a result of adopting accounting for conditional asset retirement obligations.

2004:

We were in chapter 11 bankruptcy for the entire year.

We disposed of various foreign operations and recorded settlement and termination charges related to the termination of post-retirement medical and pension benefits plans.

During 2004, we recorded reorganization costs of approximately $39 million.

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

This Annual Report on Form 10-K contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this Report and can be identified by the use of forward-looking terminology such as believes, expects, may, estimates, will, sho plans or anticipates or the negative of the foregoing or other variations of comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary from those in the forward-looking statements as a result of various factors. These factors include: the effectiveness of management s strategies and decisions; general economic and business conditions including cyclicality and other conditions in the aerospace, automobile and other end markets we serve; developments in technology; new or modified statutory or regulatory requirements; and changing prices and market conditions. This Item and Item 1A. Risk Factors 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.

In accordance with Section 404 of the Sarbanes-Oxley Act of 2002, our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our internal control over financial reporting and concluded that such control was effective as of December 31, 2008. Management s report on the effectiveness of our internal control over financial reporting and the related report of our independent registered public accounting firm are included in Item 8. Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in ten sections:

Overview

Financial Reporting Changes

Business Strategy and Core Philosophies

Management Review of 2008 and Outlook for the Future

Results of Operations

Other Information

Liquidity and Capital Resources

Contractual Obligations, Commercial Commitments and Off-Balance-Sheet and Other Arrangements

Critical Accounting Estimates

New Accounting Pronouncements

We believe our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 8. Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Unless otherwise noted, this MD&A relates only to results from continuing operations. In the discussion of operating results below, certain items are referred to as non-run-rate items. For purposes of such discussion, non-run-rate items are items that, while they may recur from period to period, are (i) particularly material to results, (ii) affect costs primarily as a result of external market factors, and (iii) may not recur in future periods if the same level of underlying performance were to occur. Non-run-rate items are part of our business and operating environment but are worthy of being highlighted for the benefit of the users of the financial statements. Our intent is to allow users of the financial statements to consider our results both in light of and separately from items such as fluctuations in underlying metal prices, natural gas prices and currency exchange rates.

Overview

We are a leading producer of fabricated aluminum products for aerospace / high strength, general engineering and custom automotive and industrial applications. In addition, we own a 49% interest in Anglesey, which owns and operates an aluminum smelter in Holyhead, Wales.

We have two reportable operating segments, Fabricated Products and Primary Aluminum, and our Corporate segment. The Fabricated Products segment is comprised of all of the operations within the fabricated aluminum products industry including our fabricating facilities in North America during 2008. The Fabricated Products segment sells value-added products such as heat treat aluminum sheet and plate, extrusions and forgings which are used in a wide range of industrial applications, including aerospace, defense, automotive and general engineering end-use applications.

The Primary Aluminum segment produces commodity grade products as well as value-added products such as ingot and billet, for which we receive a premium over normal commodity market prices and conducts hedging activities in respect of our exposure to primary aluminum price risk.

Changes in global, regional, or country-specific economic conditions can have a significant impact on overall demand for aluminum-intensive fabricated products in the markets in which we participate. Such changes in demand can directly affect our earnings by impacting the overall volume and mix of such products sold. During 2008, 2007, and 2006, the markets for aerospace and high strength products in which we participate were strong, resulting in higher shipments and improved margins. However, demand for our products for general engineering and custom automotive and industrial applications dramatically declined in the final months of 2008.

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

During 2008, the average London Metal Exchange, or LME, transaction price per pound of primary aluminum was $1.17. During 2007 and 2006, the average LME price per pound for primary aluminum was $1.20 and $1.17, respectively. At January 30, 2009, the LME price was approximately $.59 per pound.

Financial Reporting Changes

From the first quarter of 2002 to June 30, 2006, Kaiser and 25 of its subsidiaries operated under chapter 11 of the United States Bankruptcy Code under the supervision of the Bankruptcy Court. Pursuant to the Plan, Kaiser and its subsidiaries, which owned all of our then-existing core fabricated products facilities and operations and a 49% interest in Anglesey, emerged from chapter 11 on July 6, 2006. Pursuant to the Plan, all material pre-petition debt, pension and post-retirement medical obligations and asbestos and other tort liabilities, along with other pre-petition claims (which in total aggregated at June 30, 2006 approximately $4.4 billion) were addressed and resolved. Pursuant to the Plan, all of the equity interests of Kaiser s pre-emergence stockholders were cancelled without consideration. Equity of the newly emerged Kaiser was issued and delivered to a third-party disbursing agent for distribution to claimholders pursuant to the Plan. See Notes 2 and 21 of Notes to Consolidated Financial Statements included in this Report for additional information on Kaiser s reorganization and the Plan.

Our emergence from chapter 11 bankruptcy and adoption of fresh start accounting resulted in a new reporting entity for accounting purposes. Although we emerged from chapter 11 bankruptcy on July 6, 2006, we adopted fresh start accounting under the provisions of American Institute of Certified Professional Accountants Statement of Position 90-7 (SOP 90-7), *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, effective as of the beginning of business on July 1, 2006. As such, it was assumed that the emergence was completed instantaneously at the beginning of business on July 1, 2006 so that all operating activities during the period from July 1, 2006 through December 31, 2006 are reported as applying to the new reporting entity. We believe that this is a reasonable presentation as there were no material non-Plan-related transactions between July 1, 2006 and July 6, 2006.

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

As indicated above, we also made changes to our accounting policies and procedures as part of the application of fresh start accounting as required by SOP 90-7. In general, our accounting policies are the same as or similar to those historically used to prepare our financial statements. In certain cases, however, we adopted different accounting principles for, or applied methodologies differently to, our post emergence financial statement information. For instance, we changed our accounting methodologies with respect to inventory accounting. While we still account for inventories on LIFO basis after emergence, we are applying LIFO differently than we did in the past. Specifically, we now view each quarter on a standalone year-to-date basis for computing LIFO; in the past, the Predecessor recorded LIFO amounts with a view to the entire fiscal year, which, with certain exceptions, tended to result in LIFO charges being recorded in the fourth quarter or second half of the year.

Business Strategy and Core Philosophies

We are a leading manufacturer of fabricated aluminum products. We specialize in providing highly engineered solutions that meet the demanding needs of the transportation and industrial markets. We are leaders in our industry, maintaining a strong competitive position in a significant majority of the markets we serve. In a very competitive marketplace, we distinguish ourselves with our Best in Class customer satisfaction along with a broad and deep product offering. Our blue-chip customer base includes some of the top names in industry, with whom we share long-standing relationships based on quality and trust. We have established a platform for growth that we believe is well positioned within the industry.

We strive to reinforce our position as supplier of choice through Best in Class customer satisfaction and seek to continuously improve our cost performance in order to be the low cost provider by eliminating waste throughout the value stream.

Our line of Kaiser Select® products reflects a structured approach to reduce waste and variability for our customers. Our Kaiser Select® products are manufactured according to strict specifications that deliver enhanced product characteristics with improved consistency that result in better performance and in many cases lower cost for our customers.

Our lean enterprise initiative is facilitated by the Kaiser Production System (KPS), which is an integrated application of the tools of Lean Enterprise, Six Sigma and Total Productive Manufacturing which underpins our continuous effort to provide Best in Class customer satisfaction. We believe KPS enables us to deliver superior customer service through consistent, on-time delivery of superior quality products on short lead times. We are committed to imbedding KPS as the common culture through which we continuously improve our operations and enhance our total competitive position.

Management Review of 2008 and Outlook for the Future

In 2008, we continued our focus on the generation of long-term value through our organic growth initiatives and ongoing focus on streamlining our existing value streams. This focus contributed to record Fabricated Products segment shipments of 559 million pounds with Fabricated Products net sales growth over 2007 of 3%.

During 2008 our results benefited from higher average realized third party sales prices in our Fabricated Products segment due primarily to favorable mix and higher value-added pricing. We continued to benefit from strong demand for our products in the aerospace, high strength and defense markets. During the year, we brought additional heat treat plate capacity online at our Trentwood facility which, along with robust demand, led to record heat treat plate shipments in 2008. Also in 2008, we continued our $91 million investment program in our rod, bar and tube value stream including a facility to be located in Kalamazoo, Michigan, and improvements at three existing extrusion and drawing facilities. This investment program is expected to significantly improve the capabilities and efficiencies of our rod and bar and seamless extruded and drawn tube operations and enhance the market position of such products. We expect the facility in Kalamazoo, Michigan to be equipped with two extrusion presses and a remelt operation. Completion of these investments is expected to occur by early 2010.

In 2008, we also faced a number of challenges. Demand in the ground transportation and general industrial markets was weak throughout the year, and especially weak in the last few months of 2008. Additionally, service center customers dramatically reduced their inventories in the last few months of 2008, which exaggerated the effect of reduced end-use demand and dramatically reduced industry mill shipments of certain service center catalogue products. As a result, our shipments of general engineering rod and bar products were down significantly in the last two quarters. We also endured higher freight and energy prices during much of 2008.

In December 2008, we announced plans to close operations at our Tulsa, Oklahoma extrusion facility and significantly reduce operations at our Bellwood, Virginia facility. The operations and workforce reductions were a result of deteriorating economic and market conditions. Approximately 45 employees at the Tulsa, Oklahoma facility and 125 employees at the Bellwood, Virginia facility were affected. The Tulsa, Oklahoma facility was closed in December 2008 and the curtailment at the Bellwood, Virginia plant was completed in early 2009. We expect these restructuring activities to reduce excess capacity and related costs in anticipation of expected reduced demand in the general engineering and ground transportation end markets in 2009 (see Segment Discussion below). We continue to maintain adequate capacity throughout our operations capable of meeting customer needs and serving anticipated market demand in the core markets of extruded rod and bar, seamless tube, and automotive products. The Bellwood, Virginia facility will continue to produce drive shaft tube for automotive applications, seamless tube and large diameter rod and bar for service centers. In addition to the restructuring costs incurred in 2008, we expect to incur $1 million to $3 million of additional charges in 2009 relating to activities such as vendor contract termination and consolidation of facilities.

Looking into 2009 and beyond, we see continued strength in demand for our aerospace and high strength products, while general industrial and ground transportation demand is expected to be especially weak. However, our visibility into future market conditions is poor, requiring us to remain prepared to flex our operations with changing market conditions. We anticipate our main areas of focus will be:

- completing and realizing the benefits from our organic growth initiatives, particularly our heat treat plate expansion at our Trentwood facility in Spokane, Washington (now completed) and our Kalamazoo, Michigan casting and extrusion facility;
- improving the manufacturing efficiencies of our facilities to generate significant cost improvements over our performance in 2008;
- aligning our resources and output with demand and market conditions;
- continuing to improve our Best In Class customer satisfaction with strong delivery performance, improved product quality and consistency, expanded product breadth, and broader geographic marketing presence;
- generating cash from operations that funds capital expenditures made in the ordinary course of business as well as other initiatives;
- managing our liquidity, debt and capital structure to maintain a strong financial position and a balance between cost and flexibility; and
- maximizing of shareholder value.

Results of Operations

Fiscal 2008 Summary

- Net sales for the year ended December 31, 2008 increased to $1,508.2 million compared to $1,504.5 million for the year ended December 31, 2007. The increase primarily reflected higher shipments and higher value-added pricing in Fabricated Products, which was largely offset by the effect of lower shipments in Primary Aluminum as a result of the fire at Anglesey during the second quarter of 2008.

- Our operating loss for the year ended December 31, 2008 was $91.0 million compared to operating income of $182.0 million for the year ended December 31, 2007. The 2008 operating loss reflected significant items that we consider to be non-run-rate which totaled $206.6 million. These items primarily included $87.1 million of unrealized mark to market loss on our derivative positions, $65.5 million of lower of cost or market inventory write-down, $37.8 million of impairment charge relating to our investment in Anglesey, and $8.8 million of restructuring costs and other charges in connection with the closure of our Tulsa, Oklahoma facility and the curtailment of our Bellwood, Virginia operation, of which $4.5 million was related to one time employee termination costs and $4.3 million was related to asset impairment.

Net loss for the year ended December 31, 2008 was $68.5 million compared to net income of $101.0 million for the year ended December 31, 2007. Net loss for 2008 included all of the non-run-rate items discussed above. Net income for the year ended December 31, 2007 included Other operating benefits of $13.6 million related primarily to the reimbursement of $8.3 million of amounts paid in connection with the sale of our interests in and related to Queensland Alumina Limited (QAL) in 2005, a $4.9 million non-cash gain from the settlement of a claim by the purchaser of the Gramercy alumina refinery and our interests in and related to Kaiser Jamaica Bauxite Company, a $1.6 million gain from the resolution of contingencies relating to the sale of a smelter in Tacoma, Washington, a $1.3 million gain related to a settlement with the Pension Benefit Guaranty Corporation or PBGC, and a charge of $2.6 million related to other post-emergence chapter 11 related items (see Note 14 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data).

Our effective tax benefit rate was 25.0% for the year ended December 31, 2008 (see discussion of (Benefit) Provision for Income Taxes).

In 2008, we paid a total of approximately $17.2, or $.84 per common share, in cash dividends to stockholders, and in dividend equivalents to the holders of restricted stock, the holders of restricted stock units and the holders of performance shares with respect to one half of the performance shares. In 2008, we repurchased 572,706 common shares at the weighted-average price of $49.05 per share during 2008. As of December 31, 2008, $46.9 million remained available for repurchases under the existing repurchase authorization.

Consolidated Selected Operational and Financial Information

The table below provides selected operational and financial information on a consolidated basis (in millions of dollars, except shipments and prices). The selected operational and financial information after July 6, 2006 is that of the Successor and certain of the information presented is not comparable to the information of the Predecessor.

The following data should be read in conjunction with our consolidated financial statements and the notes thereto included in Item 8. Financial and Supplementary Data. See Note 16 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for further information regarding segments.

			Year Ended December 31, 2006	
	Year Ended December 31, 2008	Year Ended December 31, 2007	July 1, 2006 through December 31, 2006	Predecessor January 1, 2006 to July 1, 2006
	(In millions of dollars, except shipments and average sales price)			
Shipments (mm lbs):				
Fabricated Products	558.5	547.8	249.6	273.5
Primary Aluminum(1)	133.1	157.2	77.3	77.1
	691.6	705.0	326.9	350.6
Average Realized Third Party Sales Price (per pound):				
Fabricated Products(2)	$ 2.39	$ 2.37	$ 2.27	$ 2.16
Primary Aluminum(3)	$ 1.29	$ 1.31	$ 1.30	$ 1.28
Net Sales:				
Fabricated Products	$ 1,336.8	$ 1,298.3	$ 567.2	$ 590.9
Primary Aluminum	171.4	206.2	100.3	98.9
Total Net Sales	$ 1,508.2	$ 1,504.5	$ 667.5	$ 689.8
Segment Operating (Loss) Income:				

Fabricated Products(4)(5)	$ 53.5	$ 169.0	$ 60.8	$ 61.2
Primary Aluminum(6)(7)	(99.7)	46.5	10.8	12.4
Corporate and Other	(46.2)	(47.1)	(25.5)	(20.3)
Other Operating Benefits (Charges), Net(8)	1.4	13.6	2.2	(.9)
Total Operating (Loss) Income	$ (91.0)	$ 182.0	$ 48.3	$ 52.4
Discontinued Operations	$	$	$	$ 4.3
Reorganization Items(9)	$	$	$	$ 3,090.3
Income tax (benefit) provision	$ (22.8)	$ 81.4	$ 23.7	$ 6.2
Net (Loss) Income	$ (68.5)	$ 101.0	$ 26.2	$ 3,141.2
Capital Expenditures, (net of accounts payable and excluding discontinued operations).	$ 93.2	$ 61.8	$ 30.0	$ 28.1

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(1) Shipments in the Primary Aluminum segment decreased in 2008 primarily due to decrease in production of primary aluminum as a result of the fire at Anglesey in June 2008 (see further discussion in Segment Information below).

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

(3) Average realized prices for our Primary Aluminum business unit exclude hedging

revenues.

(4) Fabricated Products business unit operating results for 2008, 2007, the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006 include non-cash LIFO inventory benefits (charges) of $7.5 million, $14.0 million, $(3.3) million and $(21.7) million, respectively, and metal gains (losses) of approximately $(11.4) million, $(13.1) million, $4.2 million and $16.6 million, respectively. Also included in the operating results for 2008 was $65.5 million of lower of cost or market write-down of inventory.

(5) Fabricated Products business unit operating results for 2008, 2007, the period from July 1, 2006

through December 31, 2006 and the period from January 1, 2006 to July 1, 2006 include non-cash mark-to-market gains (losses) on natural gas and foreign currency hedging activities totaling $(5.7) million, $1.7 million, $(1.2) and $(1.0), respectively. For further discussion regarding mark-to-market matters, see Note 13 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

(6) Primary Aluminum business unit operating results for 2008, 2007, the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, include

non-cash mark-to-market gains (losses) on primary aluminum hedging activities totaling $(67.2) million, $16.2 million and $6.4 million and $(.7) million, respectively, and on foreign currency derivatives of $(14.2) million, $(8.2) million, $3.8 million and $7.8 million, respectively. For further discussion regarding mark-to-market matters, see Note 13 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

(7) Primary Aluminum business unit operating results for 2008 includes an impairment charge of $37.8 million relating to our investment in Anglesey.

(8) See Note 14 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for a detailed summary of the components of Other operating benefits (charges), net and the business segment to which the items relate.

(9) See Notes 2 and 21 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for a discussion of Reorganization items.

Summary. We reported Net loss of $68.5 million for 2008 compared to Net income of $101.0 million for 2007 and Net income of $26.2 million and $3,141.2 million for the periods from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, respectively. Net loss for 2008 includes (i) a non-cash mark-to-market unrealized loss of $87.1 million on our derivative positions primarily as a result of the decline in metal price, (ii) a $65.5 million charge relating to lower of cost or market valuation of inventory, (iii) a non-cash impairment charge of $37.8 million relating to our investment in Anglesey and (iv) restructuring charges of $8.8 million relating to the recently announced plant closure and curtailment of operations. Net income for the Predecessor period in 2006 includes a non-cash gain of $3,110.3 million related to the implementation of our Plan and application of fresh start accounting. All years include a number of other non-run-rate items that are more fully explained in the sections below.

Net Sales. We reported Net sales in 2008 of $1,508.2 million compared to $1,504.5 million in 2007, $667.5 million for the period from July 1, 2006 through December 31, 2006 and $689.8 million for the period from January 1, 2006 to July 1, 2006. As more fully discussed below, the increase in revenues in 2008 is primarily the result of higher shipments and value-added pricing in Fabricated Products, offset by a decrease in shipments in Primary Aluminum as a result of the fire at Anglesey during the second quarter of 2008.

The increase in revenues in 2007 as compared to the period from July 1, 2006 through December 31, 2006 and for the period from January 1, 2006 to July 1, 2006 is primarily the result of higher shipments, favorable product mix and value-added pricing in Fabricated Products as well as a higher market price for primary aluminum. Such increases in primary aluminum market prices do not necessarily directly translate to increased profitability because (i) a substantial portion of the business conducted by the Fabricated Products business unit passes primary aluminum prices on directly to customers and (ii) our hedging activities, while limiting our risk of losses, may limit our ability to participate in price increases.

Cost of Products Sold, excluding Depreciation and Other Items. Cost of goods sold, excluding depreciation in 2008 totaled $1,400.7 million compared to $1,251.1 million in 2007 or 93% and 83% of net sales, respectively. The increase in Cost of products sold, excluding depreciation as a percentage of net sales in 2008 was primarily the result of a mark-to-market unrealized loss of $87.1 million on our derivative positions. Additionally, increases in energy, freight, currency exchange, major maintenance expense, and other manufacturing costs increased the Cost of products sold, excluding depreciation as a percentage of net sales in 2008.

Cost of products sold, excluding depreciation in 2007 totaled $1,251.1 million compared to $580.4 million for the period from July 1, 2006 through December 31, 2006 and $596.4 million for the period from January 1, 2006 to July 1, 2006. Included in Cost of products sold, excluding depreciation in 2007 was a LIFO gain of $14.0 million. Included in Cost of products, excluding depreciation for the periods from July 1, 2006 to December 31, 2006 and from January 1, 2006 to July 1, 2006 were LIFO charges of $3.3 million and $21.7 million, respectively.

Lower of Cost or Market Inventory Write-down. We recorded a lower of cost or market inventory write-down of $65.5 million in 2008 as a result of declining metal prices.

Impairment of Investment in Anglesey. Anglesey operates under a power agreement that provides sufficient power to sustain its aluminum reduction operations at full capacity through September 2009. The nuclear plant that supplies power to Anglesey is currently slated for decommissioning in late 2010. Anglesey has worked intensively with government authorities and agencies to find a sustainable alternative to the power supply needs of the smelter, but has been unable to reach a feasible solution. In January of 2009, we announced that we expect Anglesey to fully curtail its smelting operations at the end of September 2009, when its current power contract expires. Although Anglesey will continue to pursue alternative sources of affordable power, as of the filing date of this Report, no sources have been identified that would allow the uninterrupted continuation of smelting operations. Additionally, Anglesey is expected to evaluate alternative operating activities in line with the needs of the local community and market opportunities, including the potential continuation of remelt and casting operations and the production of anodes for use by other smelting facilities. Taking into account Anglesey s inability to obtain affordable power, the resulting expected curtailment of smelting operations, the growing uncertainty with respect to the future of Anglesey s operations, and Anglesey s expected cash requirements for redundancy and pension payments, we do not expect to receive any dividends from Anglesey in the future and, as a result, we recorded a $37.8 million impairment charge to fully impair our 49% equity investment in Anglesey during the fourth quarter of 2008.

Restructuring Costs and Other Charges. In December 2008, we announced plans to close our Tulsa, Oklahoma facility and to curtail operations at our Bellwood, Virginia facility. Total restructuring charges for 2008 were $8.8 million, of which $4.5 million was related to one time employee termination costs and $4.3 million was related to asset impairment as a result of the restructuring plan.

Depreciation and Amortization. Depreciation and amortization for 2008 was $14.7 million compared to $11.9 million for 2007. Higher depreciation expense was the result of Construction in progress being placed into production throughout the second half of 2007 and 2008 primarily in relation to the various expansion projects, including the expansion project at our Trentwood facility in Spokane, Washington.

Depreciation and amortization for 2007 was $11.9 million compared to $5.5 million and $9.8 million for the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 and July 1, 2006, respectively. The period from July 1, 2006 to December 31, 2006 and the year ended December 31, 2007 benefited from lower depreciation as a result of the application of fresh start accounting. This accounted for a reduction in depreciation expense of approximately $4.5 million related to the first half of 2007 compared to the period from January 1, 2006 to July 1, 2006. This reduction was partially offset in 2007 by an increase in depreciation expense as a result of construction in progress being placed into production during the second half of 2007.

Selling, Administrative, Research and Development, and General. Selling, administrative, research and development, and general expense totaled $73.1 million in 2008 which is comparable to $73.1 million in 2007.

Selling, administrative, research and development, and general expense totaled $73.1 million in 2007 compared to $35.5 million and $30.3 million for the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, respectively. Selling, administrative, research and development, and general expense for 2007 included non-cash equity compensation expense of $9.1 million as compared to the period from July 1, 2006 through December 31, 2006 where non-cash compensation expense was $4.0 million. In addition, in 2007 we incurred $2.8 million of additional expenses in relation to the continued investment in research and development, our Kaiser Production System group and management of our capital spending programs.

Other Operating (Benefits) Charges, Net. Included within Other operating (benefits) charges, net (in millions of dollars) for 2008, 2007, the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006 were the following:

			Year Ended December 31, 2006	
	Year Ended December 31, 2008	Year Ended December 31, 2007	July 1, 2006 through December 31, 2006	Predecessor January 1, 2006 to July 1, 2006
Reimbursement of amounts paid in connection with sale of the Company s interests in and related to QAL Corporate:				
AMT (Note 9)	$	$ (7.2)	$	$
Professional fees		(1.1)		
Bad debt recoveries relating to pre-emergence write-offs Corporate	(1.6)			
Pension benefit related to terminated pension plans Corporate (Notes 10 and 24)			(4.2)	
Resolution of a pre-emergence contingency Corporate			(3.0)	
PBGC settlement Corporate(1)		(1.3)		
Non-cash benefit resulting from settlement of a $5.0 claim by the purchaser of the Gramercy, Louisiana alumina refinery and Kaiser Jamaica Bauxite Company for payment of $.1 Corporate		(4.9)		
Resolution of contingencies relating to sale of property prior to emergence Corporate(2)		(1.6)		
Post emergence Chapter 11 related items Corporate(3)	.2	2.6	4.5	

Charges associated with retroactive portion of contributions to defined contribution plans upon termination of defined benefit plans(4) (Note 10)

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006 July 1, 2006 through December 31, 2006	Predecessor January 1, 2006 to July 1, 2006
Fabricated Products			.4	
Other		(.1)	.1	.9
	$ (1.4)	$ (13.6)	$ (2.2)	$ .9

(1) The PBGC proceeds consist of a payment related to a settlement agreement entered into with the PBGC in connection with the our chapter 11 reorganization.

(2) During 2007, certain contingencies related to the sale of the Predecessor s interest in a smelter in Tacoma, Washington were resolved with the buyer. As a result, approximately $1.6 million of the sale proceeds which had been placed into escrow at the time of sale,

were released to us. At our emergence from chapter 11, no value had been ascribed to the funds in escrow because they were deemed to be contingent assets at that time.

(3) Post-emergence chapter 11-related items include primarily professional fees and expenses incurred after emergence which related directly to our reorganization.

(4) Amount in 2006 represents a one time contribution related to the retroactive implementation of the hourly defined benefit plans (See Note 10).

Interest Expense. Interest expense was $1.0 million in 2008 compared with $4.3 million in 2007 resulting in a decrease of $3.3 million. The decrease is primarily the result of the repayment of our term loan during the fourth quarter of 2007.

Interest expense was $4.3 million in 2007 compared with $1.1 million and $.8 million for the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, respectively. Interest expense in 2007 is primarily related to the prepayment of a term loan resulting in a $1.5 million write-off of the remaining unamortized deferred financing costs and total borrowing outstanding during the period.

Reorganization Items. We recognized a benefit of $3,090.3 million for the period from January 1, 2006 to July 1, 2006. The primary component of the benefit recognized in 2006 was a gain of $3,110.3 million related to the implementation of our Plan and the application of fresh start accounting.

Other Income (Expense) Net. Other income (expense) net was a benefit of $.7 million in 2008 compared to a benefit of $4.7 million in 2007. The decrease was primarily due to a decrease in interest income of $3.6 million as a result of lower interest earning cash balance during 2008.

Other income (expense) net was a benefit of $4.7 million in 2007 compared to a benefit of $2.7 million and $1.2 million for the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, respectively. The benefit in 2007 is primarily related to interest income of $5.3 million. Interest income was recorded as a reduction in reorganization expense before our emergence from bankruptcy.

(Benefit) provision for Income Taxes. Our effective tax benefit rate was 25.0% for 2008. The tax benefit from the United States pre-tax book loss was partially offset by the tax provision for Canada and United Kingdom relating to Anglesey resulting in a blended statutory tax benefit rate of 39.6%. The difference between the effective tax benefit rate and the blended statutory tax benefit rate was primarily due to the following factors:

Increase in the valuation allowance for certain state net operating losses and the impairment related to Anglesey resulted in $7.1 million being included in the income tax provision, decreasing the blended statutory tax benefit rate by approximately 7.7%.

Our equity in income before income taxes of Anglesey is treated as a reduction (increase) in Cost of products sold excluding depreciation. The income tax effects of our equity in income are included in the tax provision. This resulted in $3.5 million being included in the income tax provision, decreasing the blended statutory tax benefit rate by approximately 3.8%.

Unrecognized tax benefits, including interest and penalties, decreased the income tax benefit by $2.4 million and the blended statutory tax benefit rate by approximately 2.7%.

The foreign currency impact on unrecognized tax benefits, interest and penalties resulted in a $5.2 million currency translation adjustment that was recorded in Accumulated other comprehensive income.

Comparison of the 2007 effective tax rate to the rates for the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006 are not useful due to the significant reorganization related benefits and costs recognized in those periods that were not subject to normal income tax treatment. Accordingly, no comparison to prior years is provided.

Income from Discontinued Operations. Income from discontinued operations for the period from January 1, 2006 to July 1, 2006 included a payment from an insurer for certain residual claims relating to the 2000 incident at our Gramercy, Louisiana alumina facility, which was sold in 2004, and a refund related to certain energy surcharges, which had been pending for a number of years. These amounts were partially offset by a charge resulting from an agreement between the Bonneville Power Administration and us for a rejected electric power contract (see Note 22 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data).

Derivatives

In conducting our business, we use various instruments, including forward contracts and options, to manage the risks arising from fluctuations in aluminum prices, energy prices and exchange rates. We have historically entered into derivative transactions from time to time to limit our economic (i.e. cash) exposure resulting from (i) our anticipated sales of primary aluminum and fabricated aluminum products, net of expected purchase costs for items that fluctuate with aluminum prices, (ii) the energy price risk from fluctuating prices for natural gas used in our production process, and (iii) foreign currency requirements with respect to our cash commitments for equipment purchases and with respect to our foreign subsidiaries and affiliate. As our 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 the hedging activities generally offset at least a portion of any losses or gains, respectively, on the transactions being hedged at the time the transaction occurs. However, due to mark-to-market accounting, during the term of the derivative contract, significant unrealized, non-cash gains and losses may be recorded in the income statement as a reduction or increase in Cost of products sold, excluding depreciation. We may also be exposed to margin calls placed on derivative contracts entered into when aluminum prices, energy prices and/or currency exchange rates were high, which we try to minimize or offset, after considering our liquidity requirements, through (i) counterparty credit lines, and (ii) the purchasing and/or use of options. From time to time, we may modify the terms of the derivative contracts based on operational needs.

The fair value of our derivatives recorded on the Consolidated Balance Sheets at December 31, 2008 and December 31, 2007 was a net liability of $59.6 million and a net asset of $20.6 million, respectively. The primary reason for this change was the effect of declining metal prices, declining natural gas prices, and fluctuation in foreign currency rates. These changes resulted in the recognition of $87.1 million of unrealized mark-to-market losses on derivatives for the year ended December 31, 2008, which we consider to be a non-run-rate item (see Note 13 of Notes to Consolidated Financial Statements included in Part II. Item 1. Financial Statements and Supplemental Data of this Report). In addition, we had $17.2 million of margin call on deposit with our counterparties at December 31, 2008, which was included in Other assets.

Segment Information

Our continuing operations are organized and managed by product type and include two operating segments and the Corporate segment. The accounting policies of the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data. Segment results are evaluated internally by us before any allocation of Corporate overhead and without any charge for income taxes, interest expense, or Other operating (benefits) charges, net.

Fabricated Products

The table below provides selected operational and financial information for our Fabricated Products segment for 2008, 2007, the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006:

			Year Ended December 31, 2006	
	Year Ended December 31, 2008	**Year Ended December 31, 2007**	**July 1, 2006 through December 31, 2006**	**Predecessor January 1, 2006 to July 1, 2006**
Shipments (mm lbs)	558.5	547.8	249.6	273.5
Average realized third party sales price (per pound)	$ 2.39	$ 2.37	$ 2.27	$ 2.16
Net sales	$1,336.8	$1,298.3	$567.2	$ 590.9
Segment Operating Income	$ 53.5	$ 169.0	$ 60.8	$ 61.2

Net sales of fabricated products increased by 3% to $1,336.8 million for 2008 as compared to 2007, primarily due to a 2% increase in shipments and a 1% increase in average realized prices. Shipments of products for aerospace, high-strength and defense applications were slightly higher in 2008 as compared to 2007, reflecting continued strong demand for such products. Shipments of general engineering products were also higher as compared to 2007, but shipments for automotive and custom industrial products declined as compared to 2007. The increase in average realized price in 2008 as compared to 2007 was primarily due to higher realized value-added pricing.

The second phase of the heat treat plate expansion project at our Trentwood facility in Spokane, Washington became operational at the beginning of 2008 and the third and final phase of the heat treat plate capacity expansion was completed in October of 2008. Our record heat treat plate shipments in 2008 were made possible by this new, incremental capacity as well as continued strong demand.

The table below provides shipment and value-added revenue information for our three end-use product groupings for 2008, 2007, the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006 for our Fabricated Products segment:

			Year Ended December 31, 2006	
	Year Ended December 31, 2008	**Year Ended December 31, 2007**	**July 1, 2006 through December 31, 2006**	**Predecessor January 1, 2006 to July 1, 2006**
Shipments (mm lbs):				
Aerospace and high strength products	157.7	155.0	67.4	74.3
General engineering products	258.1	245.8	109.4	117.2
All other products	142.7	147.0	72.8	82.0
	558.5	547.8	249.6	273.5

Value added revenue(1):								
Aerospace and high strength products	$	323.8	$	297.4	$	125.2	$	130.4
General engineering products		248.9		225.3		101.1		90.3
All other products		99.8		116.5		55.4		62.9
	$	672.5	$	639.2	$	281.7	$	283.6
Value added revenue per pound:								
Aerospace and high strength products	$	2.05	$	1.92	$	1.86	$	1.75
General engineering products		.96		.92		.92		.77
All other products		.70		.79		.76		.77
	$	1.20	$	1.17	$	1.13	$	1.04

(1) Value added revenue represents net sales less hedged cost of alloyed metal.

Recent trends that could affect 2009 include management s expectation for continuing strong aerospace and defense demand for heat treat plate and other products. We anticipate armor plate demand to remain strong, although lower than the record levels of 2008. Significant uncertainty regarding demand from U.S. industrial markets will affect our general engineering products during the year, and we expect that the first quarter of 2009 will continue to be negatively impacted by aggressive service center de-stocking. Ground transportation end use demand is expected to remain weak as North American automotive build rates continue to decline.

We introduced an energy surcharge for new orders and new contracts placed beginning July 1, 2008. The surcharge is intended to pass through increases over the 2007 average prices for natural gas, electricity and diesel fuel costs. The surcharge passed approximately $1 million of costs onto customers in the third quarter shipments. In the fourth quarter, energy prices declined to a point that the surcharge recovery was insignificant. While we intend to maintain the surcharge as part of our routine pricing mechanism to pass on higher energy costs in the future, at current energy prices, which are below the 2007 average prices, the surcharge has no effect.

Net sales of fabricated products increased to $1,298.3 million for 2007 as compared to the period July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, primarily due to a 5% increase in shipments and a 7% increase in average realized prices. Shipments of products for aerospace and defense applications were higher in 2007 as compared to the period July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, reflecting continued strong demand for such products as well as incremental capacity from two new heat treat plate furnaces at our Trentwood facility in Spokane, Washington which were fully operational for the entire year in 2007. This was partially offset by lower shipments of products for ground transportation and other industrial applications as compared to the period July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006. The increase in the average realized prices primarily reflects improved value-added pricing and a favorable product mix as well as the pass-through to customers of higher underlying primary aluminum prices.

Operating income for the twelve months ended December 31, 2008 of $53.5 million was $115.5 million lower than the comparable period in 2007. Operating income for the twelve months ended December 31, 2008 included several large non-run-rate items totaling a loss of $88.9 million (discussed and listed below). Excluding non-run-rate items, 2008 operating income was $24.9 million lower than 2007, reflecting the following factors:

	2008 vs. 2007 Favorable (unfavorable)
Sales impact	$ 24.8
Manufacturing inefficiencies(1)	(23.7)
Energy costs	(12.1)
Planned major maintenance	(2.6)
Freight costs	(3.4)
Depreciation expense	(2.8)
Currency exchange related	(1.3)
Other	(3.8)

(1) Manufacturing inefficiencies were primarily the result of (i) planned interruptions in connection with the implementation of various investment programs, including the completion of our heat treat

plate expansion project at our Trentwood facility in Spokane, Washington, (ii) challenges created by sudden drop in demand, and (iii) weather related inefficiencies.

Operating income for 2007 was $169.0 million compared to $60.8 million for the period from July 1, 2006 through December 31, 2006 and $61.2 million for the period from January 1, 2006 to July 1, 2006. Operating income for 2007 included favorable impacts from heat treat plate of approximately $41.5 million from higher shipments and stronger value added pricing as compared to the prior year. The unfavorable impact of shipments for ground transportation and other industrial applications to operating income was approximately $2.1 million. The results of 2007 also reflect higher planned major maintenance expense and other costs, including energy and research and development as compared to the periods from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006, partially offset by improved general cost performance. Depreciation and amortization in 2007 was approximately $3.4 million lower than the periods from July 1, 2006 to December 31, 2006 and from January 1, 2006 to July 1, 2006, primarily as a result of the application of fresh start accounting partially offset by Construction in progress being placed into production in 2007.

Operating income for 2008, 2007, and the periods from July 1, 2006 to December 31, 2006 and from January 1, 2006 to July 1, 2006 includes non-run-rate items. Non-run-rate items to us are items that, while they may recur from period to period, are (i) particularly material to results, (ii) affect costs primarily as a result of external market factors, and (iii) may not recur in future periods if the same level of underlying performance were to occur. Non-run-rate items are part of our business and operating environment but are worthy of being highlighted for the benefit of the users of the financial statements. Our intent is to allow users of the financial statements to consider our results both in light of and separately from fluctuations in underlying metal prices, natural gas prices and currency exchange rates. These items are listed below (in millions of dollars):

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006: July 1, 2006 through December 31, 2006	Year Ended December 31, 2006: Predecessor January 1, 2006 to July 1, 2006
Metal gains (losses) (before considering LIFO)	$ (11.4)	$ (13.1)	$ 4.2	$ 16.6
Non-cash LIFO benefit (charges)	7.5	14.0	(3.3)	(21.7)
Non-cash lower of cost or market inventory write down (1)	(65.5)			
Mark-to-market gains (losses)	(5.7)	1.7	(1.2)	(1.0)
Restructuring charges (2)	(8.8)			
Pre-emergence related environmental costs (3)	(5.0)	(.9)	(.6)	(1.6)
Total non-run-rate items	$ (88.9)	$ 1.7	$ (.9)	$ (7.7)

(1) The $65.5 million lower of cost or market inventory write-down in 2008 was the result of the decline in metal prices in late

2008.

(2) Restructuring charges of $8.8 million in 2008 was the result of the restructuring plan to close the Tulsa, Oklahoma extrusion facility and to curtail operations at the Bellwood, Virginia facility. Of the $8.8 million, $4.3 million was a non-cash charge related the impairment of property, plant and equipment and $4.5 million was related to termination costs which we expect to pay during the first quarter of 2009.

(3) Pre-emergence related environmental costs were related to environmental issues at our Spokane, Washington facility that existed before our emergence from chapter 11 bankruptcy.

Segment operating results for 2008, 2007, the period from July 1, 2006 through December 31, 2006 and the period from January 1, 2006 to July 1, 2006 include gains on intercompany hedging activities with the Primary Aluminum business unit totaling $16.9 million, $19.8 million, $19.9 million and $24.7 million, respectively. These amounts eliminate in consolidation.

Primary Aluminum

The table below provides selected operational and financial information (in millions of dollars except shipments and prices) for our Primary Aluminum segment:

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006: July 1, 2006 through December 31, 2006	Year Ended December 31, 2006: Predecessor January 1, 2006 to July 1, 2006
Shipments (mm lbs)	133.1	157.2	77.3	77.1
Average realized third party sales price (per pound)	$ 1.29	$ 1.31	$ 1.30	$ 1.28
Net sales	$ 171.4	$ 206.2	$ 100.3	$ 98.9
Segment Operating Income	$ (99.7)	$ 46.5	$ 10.8	$ 12.4

During 2008, third party net sales of primary aluminum decreased 17% compared to 2007. The decrease in net sales is primarily due to a 15% decrease in shipments and a 2% decrease in average realized prices. The lower shipments during the 2008 periods reflect the loss of production from the outage triggered by the fire on June 12, 2008 discussed below. During 2007, third party net sales of primary aluminum increased 4% compared to 2006. The increase in net sales is primarily due to a 2% increase in shipments and a 2% increase in average realized prices. The net sales and unit prices do not consider the impact of hedging transactions.

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

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006: July 1, 2006 through December 31, 2006	Year Ended December 31, 2006: Predecessor January 1, 2006 to July 1, 2006
Profit on metal sales (net of alumina sales)(1)	$ 15.5	$ 7.1	$ (1.2)	$ 10.1
Anglesey joint venture(2)	7.5	51.6	22.8	17.7
Impairment of investment in Anglesey	(37.8)			
Internal hedging with Fabricated Products(3)	(16.9)	(19.8)	(19.9)	(24.7)
Derivative settlements Pound Sterling(4)(5)	(2.9)	10.2	1.1	(1.2)
Derivative settlements External metal hedging(4)(5)	16.4	(10.6)	(2.2)	3.4
Market-to-market on derivative instruments(4)	(81.4)	8.0	10.2	7.1
	$ (99.7)	$ 46.5	$ 10.8	$ 12.4

(1)

Operating income represents earnings on metal purchases from Anglesey and resold by us and on alumina purchases from third parties by us and sold to Anglesey. This is impacted by the market price for primary aluminum and alumina pricing, offset by the impact of foreign currency translation.

(2) Represents our share of earnings from Anglesey.

(3) Eliminates in consolidation.

(4) Impacted by positions and market prices.

(5) In 2007 we began to track Pound Sterling and external metal hedging derivative settlement gains and losses separately from the Anglesey joint venture s operating results. As such we have conformed the presentation for the periods from July 1, 2006

through December 31, 2006 and from January 1, 2006 to July 1, 2006 to that of 2007 and 2008 to allow for an appropriate comparison of results.

On June 12, 2008, Anglesey suffered a significant failure in the rectifier yard that resulted in a localized fire in one of the power transformers. As a result of the fire, Anglesey was operating below its production capacity during the latter half of 2008 until normal production was resumed in December 2008 and incurred incremental costs, primarily associated with repair and maintenance costs, as well as loss of margin due to the outage. Anglesey has property damage and business interruption insurance that is expected to cover financial losses for Anglesey and its owners (net of applicable deductibles) and is in the process of pursuing an insurance claim. In December 2008, Anglesey received a partial insurance settlement of $20 million, of which $10 million was included in Anglesey related operations above and was subsequently impaired as we do not expect to receive any of the insurance proceeds (see discussion below regarding impairment).

Anglesey operates under a power agreement that provides sufficient power to sustain its aluminum reduction operations at full capacity through September 2009. The nuclear plant that supplies power to Anglesey is currently slated for decommissioning in late 2010. Anglesey has worked intensively with government authorities and agencies to find a sustainable alternative to the power supply needs of the smelter, but has been unable to reach a feasible solution. In January of 2009, we announced that we expect Anglesey to fully curtail its smelting operations at the end of September 2009, when its current power contract expires. Although Anglesey will continue to pursue alternative sources of affordable power, as of the filing date of this Report, no sources have been identified that would allow the uninterrupted continuation of smelting operations. Additionally, Anglesey is expected to evaluate alternative operating activities in line with the needs of the local community and market opportunities, including the potential continuation of remelt and casting operations and the production of anodes for use by other smelting facilities. Taking into account Anglesey s inability to obtain affordable power, the resulting expected curtailment of smelting operations, the growing uncertainty with respect to the future of Anglesey s operations, and Anglesey s expected cash requirements for redundancy and pension payments, we do not expect to receive any dividends from Anglesey in the future and as a result, we recorded a $37.8 million charge to fully impair our 49% equity investment in Anglesey during the fourth quarter. During 2009, we do not expect to recognize our share of the operating results of Anglesey unless we can determine that those results will be recoverable through receipt of dividends.

In 2009, we anticipate that the Primary Aluminum segment will be favorably impacted by approximately $1 million due to the impact of Pound Sterling exchange rates, reflecting derivative transactions that were set at a lower effective exchange rate in 2009 than those in place for 2008. In addition, we anticipate that the Primary Aluminum segment will be favorably impacted by approximately $3 million due to the favorable ocean freight rate in our 2009 ocean freight contract as compared to the ocean freight rate in 2008.

Corporate and Other

Corporate operating expenses represent corporate general and administrative expenses that are not allocated to our business segments. Corporate operating expenses exclude Other operating (benefit) charges, net discussed above.

Corporate operating expenses for 2008 were $.9 million lower than in 2007. Of this decrease, salary and incentive compensation were $1.6 million lower primarily as a result of lower operating results in 2008 as compared to 2007, and costs for outside services related to compliance with the Sarbanes-Oxley Act of 2002 were lower by $2.1 million. These decreases were partially offset by an increase in non-cash charges associated with equity compensation of $1.0 million (see Note 11 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data) and a reduction in VEBA net periodic benefit income of $2.0 million.

Corporate operating expenses for 2007 were $1.3 million higher than the periods from July 1, 2006 through December 31, 2006 and from January 1, 2006 to July 1, 2006. Of this increase, salary and incentive compensation accruals were $9.6 million higher primarily as a result of better operating results in 2007 as compared to the periods from July 1, 2006 through December 31, 2006 and from January 1, 2006 to July 1, 2006. Included in the increase was an increase of $5.1 million in non-cash charges associated with equity compensation (see Note 11 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data). These increases were partially offset by a reduction in retiree medical expense of $1.0 million, a reduction in VEBA net periodic benefit income (costs) of $3.2 million and lower costs for outside services related to compliance with the Sarbanes-Oxley Act of 2002 of $1.1 million.

Other Information

We have significant federal income tax attributes. Section 382 of the Code affects a corporation s ability to use its federal income tax attributes, including its net operating loss carry-forwards, following a more than 50% change in ownership during any period of 36 consecutive months, all as determined under the Code (an ownership change). Under Section 382(l)(5) of the Code, if we were to have an ownership change, our ability to use our federal income tax attributes would be limited to an amount equal to the product of (a) the aggregate value of our outstanding common shares immediately prior to the ownership change and (b) the applicable federal long-term tax exempt rate in effect on the date of the ownership change.

In order to reduce the risk that any