0013

orig ACT007/007
cc ACT007/012
ACT007/013

KAISER STEEL

KAISER STEEL CORPORATION
CORPORATE OFFICES
8300 UTICA AVENUE ■ SUITE 301 ■ RANCHO CUCAMONGA, CA 91730
(714) 944-4155 ■ FAX 944-4158

July 14, 1988

Dear Creditors and Retirees:

At long last, we are able to present to you the enclosed Plan of Reorganization and Disclosure Statement providing for the reorganization of Kaiser Steel Corporation into Kaiser Holdings, Inc.

We have worked closely with the Retiree Subcommittee and the Official Unsecured Creditors' Committee in structuring the reorganized company to revitalize Kaiser with the development of our industrial park, our transformation of the Eagle Mountain mines into a rail-haul municipal waste landfill, and the expansion and modernization of our waste treatment plant in Fontana. In addition, we feel the reorganized company provides the best vehicle to go forward with the prosecution of our litigation seeking the return of the funds improperly paid out to shareholders and others during Kaiser's downfall.

As head of the new Kaiser management team, I look forward to working for all of our creditor and retiree shareholders in maximizing the return of all that you have lost.

We thank you for your encouragement to date and urge you to join with us in support of this Plan.

Sincerely,

Richard E. Stoddard
Chief Executive Officer

UNITED STATES BANKRUPTCY COURT
DISTRICT OF COLORADO

In re:	Chapter 11 Case Nos.
KAISER STEEL CORPORATION	87-B-01553-E
COTTONWOOD CANYON LAND CO.	87-B-01552-E
KAISER STEEL TUBING, INC.	87-B-01705-E
KT REALTY, INCORPORATED	87-B-01707-E
MYERS DRUM COMPANY	87-B-01708-E
LAKE TAMARISK DEVELOPMENT CORPORATION	87-B-10709-E
UNION STEEL COMPANY	87-B-01710-E
Debtors.	Jointly Administered under Case No. 87-B-01552-E

NOTICE OF (1) HEARING TO CONSIDER CONFIRMATION OF PLAN; (2) TIME FIXED FOR FILING ACCEPTANCES OR REJECTIONS OF PLAN; (3) TIME FIXED FOR FILING OBJECTIONS TO CONFIRMATION OF PLAN; AND (4) TIME FIXED FOR FILING OBJECTIONS TO THE ASSUMPTION OF EXECUTORY CONTRACTS PURSUANT TO THE PLAN

To All Creditors, Equity Security Holders and Other Parties in Interest:

PLEASE TAKE NOTICE that following a hearing thereon held on July 13, 1988, the United States Bankruptcy Court for the District of Colorado (the "Court") approved a Second Amended Disclosure Statement (the "Disclosure Statement") with respect to the Debtors' Joint Plan of Reorganization, as amended, dated July 13, 1988 (the "Plan") as containing adequate information to enable creditors, equity security holders, and other parties in interest to make an informed judgement about the Plan.

PLEASE TAKE FURTHER NOTICE that a hearing will be held on September 7, 1988, commencing at 10:00 a.m. in Courtroom C-202, United States Courthouse, 1929 Stout Street, Denver, Colorado 80202 to consider confirmation of the Plan. The hearing may be continued from time to time without further notice.

PLEASE TAKE FURTHER NOTICE that only those holders of record of any of the Debtors' publically traded securities as of the close of business of July 1, 1988, shall be entitled to vote to accept or reject the Plan.

PLEASE TAKE FURTHER NOTICE that the Court has directed that ballots accepting or rejecting the Plan shall only be counted if returned to the Debtors' bankruptcy counsel so that they are received no later than 5:00 p.m. Mountain Daylight Time on August 26, 1988. All Creditors and Equity Security Holders holding securities in their own name must return their ballots to:

Sherman & Howard
633 Seventeenth Street
3000 First Interstate Tower North
Denver, Colorado 80202
Attention: Leslie Petri-Cool

Securities held for beneficial owners in a nominee's name by brokerage firms and other institutions must be voted by those institutions. Beneficial owners must deliver voting instructions to the institutions holding the securities, and such institutions must, in turn, deliver their ballots to:

Sherman & Howard
633 Seventeenth Street
3000 First Interstate Tower North
Denver, Colorado 80202
Attention: Leslie Petri-Cool

PLEASE TAKE FURTHER NOTICE that any objections to confirmation of the Plan must be in writing, clearly specifying the grounds therefor, including the citation of supporting legal authority, and must include a list of proposed witnesses and exhibits, and must be filed with the Court and served on counsel named below so that they are received by the Court and all such counsel no later than the close of business on August 26, 1988:

Craig A. Christensen
Sherman & Howard
3000 First Interstate Tower North
633 Seventeenth Street
Denver, Colorado 80202

Carl A. Eklund
Roath & Brega, P.C.
370 Seventeenth Street
Suite 900
Denver, Colorado 80202

David W. Furgason
Welborn, Dufford, Brown & Tooley
Suite 1100
1700 Broadway
Denver, Colorado 80290-1199

Daryle Uphoff
Lindquist & Vennum
4200 IDS Center
80 South 8th Street
Minneapolis, Minnesota 55402

Michael E. Katch
Katch, Anderson & Wasserman
1999 Broadway
Suite 2305
Denver, Colorado 80202

Office of the United States Trustee
1845 Sherman Street
202 Columbine Building
Denver, Colorado 80203

PLEASE TAKE FURTHER NOTICE that the Plan provides that all executory contracts of the Debtors shall be presumed rejected pursuant to the provisions of Section 365 and Section 1123 of the Bankruptcy Code other than such contracts as are listed in the Listing of Contracts, Leases, Agreements which will be on file with the Court and may be amended by the Debtors on or before the date on which the Court enters an order confirming the Plan. Any party to an executory contract or unexpired lease assumed pursuant to the Plan must, within the deadline and in the same manner established for objections to confirmation, file any objection to the assumption pursuant to Section 365 of the Bankruptcy Code of such contract or lease and any claim for arrearages required to be cured under Section 365(b)(1) of the Bankruptcy Code. Failure to assert such arrearages or to file any such objection with respect to the proposed assumption of an executory contract or an unexpired lease shall constitute a consent to the assumption of such executory contract or unexpired lease and an acknowledgement that no defaults exist under said contract or lease which require cure.

Dated: Denver, Colorado
July 13, 1988

Craig A. Christensen
SHERMAN & HOWARD
3000 First Interstate Tower North
633 Seventeenth Street
Denver, Colorado 80202
Telephone: (303) 297-2900

Daryle Uphoff
LINDQUIST & VENNUM
4200 IDS Center
80 South 8th Street
Minneapolis, Minnesota 55402
Telephone: (612) 371-3211

Attorneys for Debtors

PROPONENTS' SUMMARY AND QUICK REFERENCE GUIDE TO THE DISCLOSURE STATEMENT

INTRODUCTION

This document is a summary of the contents of the Disclosure Statement submitted in support of the Joint Plan of Reorganization filed on March 17, 1988 by Kaiser Steel Corporation and certain affiliates (referred to as "Kaiser" or the "Debtors"), the Official Unsecured Creditors' Committee for Kaiser Steel Corporation (the "Steel Committee"), the Retiree Subcommittee of the Steel Committee (the "Retiree Subcommittee"), and the United Steel Workers of America AFL-CIO-CLC (the "USWA"). These parties are called the "Proponents." A complete copy of the Disclosure Statement follows this Summary and includes a complete copy of the Plan of Reorganization together with all exhibits. Because these documents are lengthy and complex, the Proponents felt that a summary of their contents, and a quick reference guide, would assist Creditors, particularly the Debtors' many Retirees, in understanding the Plan and Disclosure Statement, evaluating and locating the information they contain, and making a decision whether to vote in favor of the Plan. This summary is intended only as a summary of the information in the Disclosure Statement and a guide as to where to find it. Creditors, including Retirees, are urged to read the entire Plan and Disclosure Statement before deciding how to vote. Note that wherever the first letters of a word or phrase are capitalized, as in "Net Distributable Proceeds," this means that the word or phrase is a defined term with a specific meaning in the Plan and Disclosure Statement. These definitions are set out in Article I of the Plan entitled, "Definitions," p. A-1. The Plan follows the Disclosure Statement in this packet. The Disclosure Statement was prepared by counsel for the Proponents and was approved by the Bankruptcy Court after a hearing on July 13, 1988.

HOW TO VOTE

Voting instructions are contained in Section II of the Disclosure Statement, p. 2. Basically, voting is very simple. Coded ballots have been enclosed, and after you have filled in the information on the ballot and indicated your vote to accept or to reject the Plan, the ballot should be returned to:

Sherman & Howard
633 Seventeenth Street, #3000
Denver, Colorado 80202
Attention: Leslie Petri-Cool

You do not need to send a copy of your ballot to any other party or person, or to the Court. Please fill out and return all of the ballots which are enclosed. Votes will be tabulated and certified to the Court under oath. Each "class" of Creditors (including subclasses, such as 4A, 4B and 4C) votes separately—it takes acceptance by 50% in number and ⅔ in dollar amount of all claims actually voting in a particular class for that class to have accepted the Plan. YOUR VOTE IS IMPORTANT—only ballots which are returned are counted in determining whether a class has voted to accept or reject the Plan.

THE BASIC CONCEPT OF THE PLAN

The Plan groups the remaining assets of Kaiser and those of its affiliates included in the Plan into three categories: the "Kaiser Fontana Properties," the "Steel Assets," and the "Litigation." Note that Kaiser's Coal Company subsidiaries are not included in the Plan—they are in separate bankruptcy proceedings with a separate creditors' committee and will proceed separately if the Plan is confirmed.

The "Kaiser Fontana Properties" consist primarily of the Company's former steel mill site at Fontana, California, its industrial liquid waste treatment plant at that site, its iron ore mines at Eagle Mountain, California, and the railroad running between Ferrum, California and Eagle Mountain. Certain other assets are included in this package which the Proponents feel will be best utilized in connection with these properties. Under the Plan, the Kaiser Fontana Properties will be "redeveloped" by Kaiser, which will be reorganized as a company called Kaiser Holdings, Inc. The existing Kaiser stock, both common and preferred, will be cancelled, and New Common Stock of Kaiser Holdings will be distributed 90% to

Creditors, 2% to existing Preferred Shareholders, and 8% to current and future management in the form of discretionary incentives at the direction of Kaiser Holdings' new Board of Directors. Bruce E. Hendry, the current chairman of Kaiser, will receive shares of this stock in return for his efforts prior to and during the reorganization.

The "Steel Assets" are those assets which the Proponents do not feel are necessary to the redevelopment, and these assets will be sold by Kaiser Holdings. These assets include, among others, the Fontana Plate Fabricating Plant, 845 acres of land in Arizona, the Vallejo Marine Assembly Yard, and certain tax refunds. Some of these already have been sold by this time. It is important to bear in mind that most of the Debtors' other major assets have already been sold either before or after the bankruptcy was filed.

The "Litigation" refers to certain lawsuits which Kaiser filed after the bankruptcy against certain former officers, directors, shareholders and other parties. These lawsuits seek to recover hundreds of millions of dollars which were paid by Kaiser either to these parties, or with their participation, in connection with transactions commonly known as the "1984 Leveraged Buyout," the "April 1985 Exchange," the "TIPS" payments, and other transactions arising in the context of Kaiser's several changes of ownership and control prior to the bankruptcy. The Proponents are hopeful that significant funds will be recovered from the Defendants in these lawsuits, but there can, of course, be no guarantee of any recovery at all. The Defendants have denied any liability and the cases are proceeding in the Bankruptcy Court in Denver, Colorado.

The "Kaiser Fontana Properties" are described in more detail in Section IV(C)(1) pp. 31 to 32 of the Disclosure Statement, the Steel Assets in Section IV(C)(2) p. 32, and the Litigation in Section IV(C)(3) pp. 32 to 35. More information about Kaiser Holdings is provided in Section V of the Disclosure Statement, pp. 38 to 46, and balance sheet projections, income projections, and other financial data are provided as Exhibits C(a) and C(b) to the Disclosure Statement.

All of the cash proceeds from the sale of the Steel Assets after confirmation and all cash recovered in the Litigation will be paid out directly to Creditors, net of costs. These are large, complex lawsuits, however, involving many defendants and the costs are expected to be substantial. The costs of the Chapter 11 itself have also been substantial. Under the Bankruptcy Code, these costs must be paid before Distributions can be made to Creditors.

CLASSIFICATION OF CREDITORS AND DISTRIBUTIONS TO CREDITORS

Section III of the Disclosure Statement sets out the basic structure of the Plan, and a description of the classification of Creditors and the Distributions which they will receive if the Plan is confirmed. The Plan has eight major classes of Creditors, which contain separate sub-classes, plus unclassified Administrative Expenses. Administrative Expenses are debts which Kaiser has incurred since the filing of the bankruptcy, including professional fees for services rendered in connection with the administration of the case. All other Claims are classified as follows:

- *Classes 1A through 1F—Priority Claims.* These are Claims entitled to priority over other creditors under certain sections of the Bankruptcy Code, and include claims of the IRS and certain claims of the Pension Benefit Guaranty Corporation ("PBGC").
- *Classes 2A through 2Q—Secured Claims.* These are Claims secured by a lien on assets of the Debtors.
- *Class 3—Kaiser Fontana Environmental Claims.* These are Claims of governmental agencies for clean-up of the Kaiser Fontana Properties.
- *Class 4—Unsecured Claims.* These are all other unsecured pre-petition Claims against the Debtors, separately subclassified as follows:
    - *Class 4-A (General Unsecured Claims.)* These are all general unsecured Claims against the Debtors except for Retiree Medical Benefits Claims, Retiree Pension Claims and the PBGC Unsecured Claim.

- *Class 4-B (Retiree Medical Benefits Claims).* These are Claims of Retirees for medical and other group benefits, such as life insurance and disability benefits. (Retirees received a yellow claim form for these Claims).
- *Class 4-C (PBGC Unsecured Claims and Retiree Pension Claims).* This is the Unsecured Claim of the PBGC and all claims of Retirees for lost pension benefits (including deferred vested claims) beyond the amounts guaranteed by the PBGC. (Retirees received a blue claim form for these Claims.)
- *Class 5A and 5B—Preferred Stock.* These are Claims of the holders of Kaiser's existing Series A and Series B Preferred Stock.
- *Class 6A and 6B—Common Stock.* These are Claims of the holders of the existing common stock of Kaiser Steel and its subsidiaries.
- *Class 7—Intercompany Claims.* These are Claims of one Debtor against another Debtor or affiliate.
- *Class 8—Subordinated Claims.* These are Claims for non-monetary losses such as fines, penalties, forfeitures or punitive damages.

Each class or subclass receives a different treatment under the Plan. Administrative Expenses and Priority Claims (Class 1) will be paid in full, in cash, on the Effective Date of the Plan, except where the holders of certain of those Claims have agreed to different treatment (except for the IRS, which will receive a Tax Note). Secured Claims (Class 2) will either be paid through the sale of the property securing the Claim, or, in the alternative, the property will be abandoned to the Secured Creditor (except in the case of GATX, Meritor and Power Master, who receive slightly different treatment).

Kaiser Fontana Environmental Claims (Class 3) will be satisfied by the assumption by appropriate Kaiser Holdings subsidiaries of certain environmental clean-up orders to be approved by the Bankruptcy Court.

Unsecured Claims, Classes 4A, 4B and 4C, will be satisfied by the distribution of 90% of the stock of Kaiser Holdings and 100% of the net Cash proceeds realized from the sale of the Steel Assets after confirmation and the prosecution of the Litigation. These proceeds are called "Distributable Procceds" in the Plan and Disclosure Statement. These proceeds will be net of all costs, including sales commissions, professional fees and the costs of the bankruptcy proceedings. These Distributions are allocated to each separate sub-class by certain percentages as follows:

Class	Net Distributable Proceeds Percentage	Number of Shares of Kaiser Holdings New Common Stock (Percentage)
4-A General Unsecured Claims	17%	4,590,000 shares (15.3%)
4-B Retiree Medical Benefits Claims	55%	14,850,000 shares (49.5%)
4-C PBGC Unsecured Claim	24%	6,480,000 shares (21.6%)
Retiree Pension Claims	4%	1,080,000 shares (3.6%)

Classes 5A and 5B, preferred stock interests, will receive 2% of Kaiser Holdings New Common Stock (600,000 shares) allocated based upon liquidation rights as between Series A and Series B.

Common Stock, Classes 6A and 6B, will receive no Distributions and will be cancelled, except for the common stock of Kaiser's subsidiaries, which will be left in place. No Distributions will be made on account of either Intercompany Claims (Class 7), or Subordinated Claims (Class 8).

A Distribution Summary Table setting out these Distributions in greater detail, together with estimated Claim amounts in each Class, is attached to the Disclosure Statement as Exhibit B. Claims are discussed both under Section III(C) and (D) pp. 4 to 10, with respect to each class or subclass of Claims, and in Section IV(D) "Liabilities and Claims," pp. 36-38.

OTHER INFORMATION ABOUT THE PLAN

Section III(E) of the Disclosure Statement contains other information about the Plan, including, among other things, a discussion of the basis for the percentage allocations among Classes 4-A, 4-B and 4-C, and Classes 5-A and 5-B pp. 10 to 13; a discussion of the Effective Date (the day when the Plan becomes "effective,"—that is, when Kaiser has to begin making the Distributions required under the Plan) p. 10; descriptions of the Retiree Medical Benefits Trust pp. 13 to 16 and the Retiree Pension Trust pp. 16 to 17; and a desciption of the Reorganized Creditors' Committee and a list of the members (five) who will serve on the Reorganized Creditors' Committee *if* the Plan is confirmed, p. 19. The Reorganized Creditors' Committee will be responsible for monitoring the prosecution of the Litigation and the resolution of Claims against the estate. Because the two Trusts are important, a few words about them are provided here.

- *The Retiree Medical Benefits Trust:* Under the Plan, all Retiree Medical Benefits Claims will be satisfied through the Retiree Medical Benefits Trust. The trust was created by the Bankruptcy Court on March 2, 1988 as a part of the Retiree class action brought to enforce Retirees' rights under federal legislation commonly known as the "Metzenbaum Amendments." See p. 27. The trust is implementing a Retiree Medical Benefits Plan which is similar to the medical benefits plan provided by Kaiser prior to the bankruptcy, except that instead of paying 100% of the cost, the trust is only able to pay a part of the cost. If the Plan is confirmed, the trust will also offer a Prescription Drug Plan, primarily funded by NYLIC, in return for general releases from the Company, its employees and retirees. See pp. 15-16. Under the Plan, the trust will receive all Distributions of New Common Stock and Cash on account of Retiree Medical Benefits Claims and will use those Distributions to fund the Medical Benefits Plan. No Retiree will receive a Distribution on account of a Retiree Medical Benefits Claim other than by participating in the trust. The trust is described in detail in Section III(E)(4) of the Disclosure Statement, pp. 13 to 16. The Plan also contains a minimum funding provision for the trust which allows it to receive the first $3,500,000 in Cash Distributions each year, if it has not received at least that amount on account of each preceding year, so as to assure, to the extent possible, that the Medical benefits Plan will remain funded and in place. The initial Benefits Committee of the Trust will be the members of the Retiree Subcommittee—after two years, the Benefits Committee will be elected by Retirees participating in the Trust.
- *The Retiree Pension Trust:* This trust will be created under the Plan to satisfy § 4049 of ERISA and will distribute the shares of New Common Stock and Cash it receives directly to Retirees Pro Rata on account of their claims for non-guaranteed pension benefits as calculated by Coopers & Lybrand. The Trustees will be John Piazza (hourly) and William J. Mertens (salaried). The Retiree Pension Trust is described in detail in Section III(E)(5), pp. 16 to 17.

THE COMPANY

Section IV of the Disclosure Statement, pp. 20 to 38, contains information about the companies that are being reorganized, including their history, the changes in ownership and control and related financing which occurred prior to the bankruptcy, asset sales prior to and during the bankruptcy, the reasons for filing the bankruptcy, significant events which have occurred since the filing of the bankruptcy, and a description of the available assets and estimated liabilities. Information is provided on settlement agreements with certain creditors and interest groups, including Retirees, the PBGC, New York Life Insurance Co. and environmental agencies.

Section V, pp. 38 to 46, sets out Kaiser's plans for the redevelopment of the Kaiser Fontana Properties. Basically, the former steel mill site will be developed as an industrial park, the waste treatment plant will be expanded and upgraded to serve both tenants of the industrial park and other users, and the Eagle Mountain mine and railroad will be developed into a solid waste disposal (landfill) site. All of these projects will require either a joint venture partner or substantial financing to complete. Kaiser is optimistic that these conditions will be met, but there can be no guarantee. The value of the New Common Stock distributed to Creditors under the Plan will depend, at least in part, on the success of these ventures.

- *New Board of Directors and Management:* Section V(E) of the Disclosure Statement, pp. 43 to 46, provides information about the directors and management of Kaiser Holdings following confirmation of the Plan. The individuals who will serve on the new Board of Directors are: Vern W. Maxie, Cass D. Alvin, Thomas Rabone (nominated by the hourly Retiree members of the Retiree Subcommittee), Reynold MacDonald and Nicholas Rickard (nominated by the salaried Retiree members of the Retiree Subcommittee), John W. Kluesener and William R. Amos (nominated by the non-retiree members of the Steel Committee), Bruce E. Hendry, and a nominee of the PBGC. These directors will serve for an initial three-year term and then will be elected at the annual meeting of shareholders.

The new chief executive officer of Kaiser is Rick Stoddard, its executive vice-president is Dan Larson, and its chief financial officer is Claude Bradford. A Claims Manager has been appointed to manage the process of resolving claims against the estate and a Litigation Manager has been appointed to manage the Litigation. The Claims Manager is Jim Fox and the Litigation Manager is Dan Larson. The duties of the Claims Manager and the Litigation Manager are discussed in Section III(E)(18), p. 20, and further information on new management can be found in Section V(E) pp. 43 to 46.

RISK FACTORS

Section VI of the Disclosure Statement, pp. 46 to 48, provides information about risk factors under the Plan, including the possibility that the cash flows necessary for the success of the redevelopment of the Kaiser Fontana Properties will not materialize, that joint venture partners and/or financing may not be found, and that the Steel Assets and the Litigation will not generate any substantial recoveries to Creditors above the amount of the costs which have been and will be incurred. These risks are substantial, and while the Proponents of the Plan believe the Plan to be the best available alternative for reorganizing Kaiser, there can be no assurance that the goals of the reorganized company will be achieved.

MISCELLANEOUS INFORMATION

Section VII of the Disclosure Statement, pp. 48 to 49, describes the New Common Stock of Kaiser Holdings and the resale of that stock. Section VIII, pp. 49 to 52, discusses certain Federal income tax consequences of the Plan to the Debtors, Creditors, and other entities, including the Retiree Medical Benefits Trust and the Retiree Pension Trust.

Section IX, pp. 52 to 57, contains information on the effect of confirmation of the Plan and the legal requirements which the Plan must meet in order to be confirmed. If the Plan is confirmed, all of the pre-petition debts of the Debtors will be discharged and released in full in return for the Distributions to be made under the Plan. Before this can happen, the Bankruptcy Court must make certain findings with respect to the Plan, including a finding that the Plan is feasible, and that Creditors will receive at least as much under the Plan as they would if the Debtors were liquidated under Chapter 7. Section IX also describes procedures which can be followed to confirm the Plan even if a class of Creditors votes to reject the Plan.

Section X, p. 57, provides information about the hearing on confirmation of the Plan, and sets out the procedure for filing an objection to confirmation of the Plan, for Creditors who wish to do so. This procedure is also outlined in the Court's "Notice of Hearing to Consider Confirmation of the Plan" which is enclosed. Note that it is not necessary to participate in the proceedings on confirmation of the Plan for your vote to count, or to receive Distributions, if you have a timely filed Claim and you have not been served with an objection to that Claim.

INFORMATION AGENT

Additional copies of the Plan and Disclosure Statement, and, if you are confused, information concerning how to vote on the Plan, can be obtained from the information agent at Kaiser:

Information Agent
Kaiser Steel Corp.
8300 Utica Avenue
Rancho Cucamonga, California 91730
Telephone (714) 944-4155

CONCLUSION

Creditors are cautioned that the information set out above is a summary only, and a great deal of material information has been omitted which is set out in the Disclosure Statement and Plan. Although every effort has been made to present accurate information in this Summary, as well as in the Plan and Disclosure Statement themselves, the Proponents cannot warrant or represent that all of the information contained in these documents is totally accurate. Certain assumptions and projections which have been used will inevitably fail to materialize. Certain events which are now anticipated will either fail to occur, or occur in a different way. There can be no guarantee that the redevelopment of the Kaiser Fontana Properties, the sale of the Steel Assets, or the prosecution of the Litigation will ultimately produce substantial value for Creditors. Nonetheless, the Proponents of the Plan,—the Debtors, the Steel Committee, the Retiree Subcommittee, and the USWA—all believe that the Plan represents the best prospect for recovery by Creditors under the circumstances, and recommend that all Creditors vote to *Accept* the Plan.

UNITED STATES BANKRUPTCY COURT
DISTRICT OF COLORADO

In re:	Chapter 11 Case Nos.
KAISER STEEL CORPORATION	87-B-01553-E
COTTONWOOD CANYON LAND CO.	87-B-01552-E
KAISER STEEL TUBING, INC.	87-B-01705-E
KT REALTY, INCORPORATED	87-B-01707-E
MYERS DRUM COMPANY	87-B-01708-E
LAKE TAMARISK DEVELOPMENT	87-B-01709-E
CORPORATION	
UNION STEEL COMPANY	87-B-01710-E
Debtors.	Jointly Administered under Case No. 87-B-01552-E

SECOND AMENDED DISCLOSURE STATEMENT AND JOINT PLAN OF REORGANIZATION

ATTORNEYS FOR DEBTORS

Craig A. Christensen
Harold G. Morris, Jr.
Harrie F. Lewis
SHERMAN & HOWARD
633 Seventeenth Street
Suite 3000
Denver, Colorado 80202
(303) 297-2900

and

Daryle L. Uphoff
Donald C. Swenson
Mark R. Johnson
LINDQUIST & VENNUM
4200 IDS Center
80 South Eighth Street
Minneapolis, Minnesota 55402
(612) 371-3211

ATTORNEYS FOR THE UNSECURED CREDITORS COMMITTEE

Michael E. Katch
Britt C. Anderson
KATCH, ANDERSON & WASSERMAN
1999 Broadway
Suite 2305
Denver, Colorado 80202
(303) 296-1999

ATTORNEYS FOR THE RETIREE SUBCOMMITTEE

Carl A. Eklund
John Edward Maas
ROATH & BREGA, P.C.
900 Republic Plaza
370 Seventeenth Street
Denver, Colorado 80202
(303) 893-5800

ATTORNEYS FOR THE UNITED STEELWORKERS OF AMERICA, AFL-CIO-CLC

David W. Furgason
Randall J. Feuerstein
WELBORN DUFFORD BROWN & TOOLEY, P.C.
1700 Broadway
Suite 1100
Denver, Colorado 80290-1199
(303) 861-8013

THIS DISCLOSURE STATEMENT HAS BEEN APPROVED AS CONTAINING ADEQUATE INFORMATION BY ORDER OF THE UNITED STATES BANKRUPTCY COURT ENTERED ON JULY 13, 1988, AND ITS DISTRIBUTION TO THE HOLDERS OF CLAIMS AND EQUITY SECURITY INTERESTS IS AUTHORIZED BY THAT ORDER.

INDEX

Page

SECTION I. INTRODUCTION

This document is the Disclosure Statement required by the Bankruptcy Code in connection with the solicitation of acceptances by creditors of the Second Amended Joint Plan of Reorganization (the "Plan") filed on July 13, 1988, by the following parties:

(a) Kaiser Steel Corporation ("Kaiser" or the "Company"); Kaiser Steel Tubing, Inc.; Union Steel Company; Myers Drum Company; KT Realty, Incorporated; Cottonwood Canyon Land Co.; and Lake Tamarisk Development Corporation (collectively referred to as the "Debtors");

(b) The Official Unsecured Creditors Committee of Kaiser Steel Corporation, et al. (the "Steel Committee");

(c) The Retiree Subcommittee of the Official Unsecured Creditors Committee of Kaiser Steel Corporation, et al. (the "Retiree Subcommittee"); and

(d) The United Steelworkers of America, AFL-CIO-CLC (the "USWA").

Collectively, these parties are referred to as the "Proponents" of the Plan. The Proponents seek confirmation of the Plan in the Debtors' Chapter 11 cases now pending before the United States Bankruptcy Court for the District of Colorado. This Disclosure Statement is designed to provide creditors with adequate information to enable them to make a decision whether to vote for or against the Plan. This Disclosure Statement was approved by the Bankruptcy Court for this purpose on July 13, 1988. No representations about the Debtors, the Plan or the Proponents are authorized except as contained in this Disclosure Statement, and you should not rely in making your decision on any representation that is not contained herein.

The Plan itself is attached hereto as Exhibit A. In the event of any perceived conflict between anything stated in this Disclosure Statement and the Plan, the Plan will control.

The Bankruptcy Court will hold a hearing on confirmation of the Plan commencing at 10:00 o'clock a.m., on, September 7, 1988, in the United States Courthouse, 1929 Stout Street, Denver, Colorado. You may attend this hearing if you wish. However, if you wish to be heard by the court at the hearing in opposition to confirmation of the Plan, you must follow the steps set out in the "Notice of Hearing to consider Confirmation of the Plan" which accompanies this Disclosure Statement. Your vote on the Plan will be counted, of course (if you have filed a proof of claim and you have not received an objection to that claim), whether or not you decide to appear at the Confirmation Hearing.

Capitalized terms used in this Disclosure Statement are defined in Article I of the Plan. You may wish to consult these definitions for any terms that are unclear to you. References to "See Section " refer to the Section (in roman numerals) of this Disclosure Statement. References to "Articles" refer to the Articles (also in roman numerals) in the Plan. If you have any questions about voting procedures after reading this Disclosure Statement, you may also wish to contact the Information Agent for the Proponents at

INFORMATION AGENT
KAISER STEEL CORPORATION
8300 UTICA AVENUE
SUITE 301
RANCHO CUCAMONGA, CALIFORNIA 91730
TELEPHONE: (714) 944-4155

ALTHOUGH THE PROPONENTS OF THE PLAN BELIEVE THAT THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS ACCURATE, THEY ARE UNABLE TO WARRANT OR REPRESENT THAT SUCH INFORMATION IS ACCURATE. FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO AN AUDIT. IN PREPARING THE PLAN AND DISCLOSURE STATEMENT, THE STEEL COMMITTEE, THE RETIREE SUBCOMMITTEE AND THE USWA HAVE HAD TO RELY UPON SOME INFORMATION PROVIDED TO THEM BY THE DEBTORS AND HAVE NOT INDEPENDENTLY VERIFIED SUCH INFORMATION.

Each of the Proponents believe that this is the best plan currently available and recommend and request that each retiree, each creditor, and each interest holder vote for this Plan.

SECTION II. VOTING INSTRUCTIONS

A. ALL CREDITORS AND RECORD HOLDERS OF SECURITIES.

After carefully reviewing the Disclosure Statement and its Exhibits, please indicate your vote on the enclosed Ballot. **IN ORDER FOR YOUR VOTE TO COUNT, BALLOTS MUST BE RECEIVED BY SHERMAN & HOWARD BEFORE 5:00 P.M., COLORADO TIME, ON AUGUST 26, 1988.** If you have a claim against or interest in more than one class under the Plan, you should receive separate ballots for each claim or interest. If you need additional ballots please contact the Information Agent. Please vote and return every ballot you receive.

If you hold Series A or Series B Preferred Stock of Kaiser, **do not return your share certificate with your ballot.**

IT IS IMPORTANT THAT YOU EXERCISE YOUR RIGHT TO VOTE TO ACCEPT OR REJECT THE PLAN. You should read the ballot carefully and follow the instructions. In voting for or against the Plan, please use only the ballot(s) sent to you with this Disclosure Statement or obtained from the Information Agent.

Confirmation of the Plan requires compliance with various provisions of the Bankruptcy Code, one of which is the acceptance by the holders of two-thirds in amount and more than one-half in number of the Allowed Claims in each impaired class of creditors, including Retirees, *voting on the Plan*. Creditor acceptance of the Plan is accomplished by voting to "**Accept**" the Plan on the enclosed ballots.

In order to simplify the voting procedure, ballots will be sent to known holders of all Claims, including Disputed Claims to which Debtors have filed or intend to file objections. However, the Bankruptcy Code provides that only the holders of Allowed Claims, Allowed Secured Claims and Allowed Interests (or Claims and Interests which are deemed allowed) are entitled to vote on the Plan. A Claim to which an objection has been filed is not an Allowed Claim unless and until the Bankruptcy Court rules on the objection. The Bankruptcy Code provides, however, that the Bankruptcy Court may temporarily allow a Disputed Claim for purposes of voting on the Plan. Therefore, although holders of Disputed Claims will receive ballots, these votes will not be counted unless the Bankruptcy Court, upon request by the holder of a Disputed Claim, temporarily allows such Claim for purposes of voting on the Plan. Retiree Medical Benefits Claims will be counted as the larger of (a) the amounts calculated by Coopers & Lybrand, (b) the amounts claimed by individual Retirees, (c) the amounts claimed by the USWA and the Retiree Subcommittee in their representative claims, as amended, or (d) the amounts included in the Debtors' revised schedules. Pursuant to federal law, the trustee(s) of the Retiree Pension Trust will vote 75% of Retiree Pension Claims. Individual Retirees will vote the other 25%. The record date for determining which holders of public securities are entitled to vote on the Plan is July 1, 1988.

RETURN BALLOTS TO:

SHERMAN & HOWARD
633 17TH STREET
#3000
DENVER, COLORADO 80202
ATTENTION: LESLIE PETRI-COOL

B. SECURITIES HELD IN NOMINEE NAME.

Broker nominees will transmit a copy of this Disclosure Statement with a ballot and instructions for returning the ballot to each beneficial owner of Debtor's securities held in the name of such nominees. If you have a question concerning the voting procedure for beneficial owners, contact your broker, or the Information Agent at the address and telephone number on page 1.

SECTION III. SUMMARY OF DISTRIBUTIONS TO CREDITORS UNDER THE PLAN

The following description of distributions to creditors under the Plan is qualified in its entirety by the terms of the Plan itself which is incorporated herein and attached hereto as Exhibit A.

A. BASIC STRUCTURE OF THE PLAN.

After a thorough evaluation of the assets of the Debtors and after extensive negotiations among the Proponents of the Plan, it was agreed by the Proponents that the Debtors should reorganize around two basic activities:

(1) The development of what are referred to as the "Kaiser Fontana Properties" located near Fontana and Eagle Mountain, California; and

(2) The sale of the balance of the assets of the Debtors (referred to as the "Steel Assets") and the prosecution of certain lawsuits which the Debtors have filed against former shareholders, officers, directors and others (referred to as the "Litigation").

The Proponents believe that this structure will maximize recoveries for all unsecured creditors. The term "unsecured creditors" includes Kaiser's Retirees unless otherwise noted. The reorganization around the Kaiser Fontana Properties represents a long-term recovery, and the value thereof will be distributed to creditors in the form of "New Common Stock" in the reorganized company, Kaiser Holdings, Inc. ("Kaiser Holdings"). The sale of the Steel Assets and the prosecution of the Litigation represent relatively more short-term recoveries, and, as Cash is received, it will be paid out directly as provided in the Plan in the form of "Distributable Proceeds." For more specific information on the "Kaiser Fontana Properties," the "Steel Assets" and the "Litigation," *see* Section IV (C), ¶¶ 1, 2, and 3.

The Plan is a "Joint Plan" for all Debtors, but excludes the coal subsidiaries of Kaiser Steel Corporation (the "Coal Companies") which are in separate bankruptcy proceedings. Neither the assets nor the liabilities of the Coal Companies are dealt with in this Plan except as specifically provided. The Plan treats Claims of all creditors of each Debtor on the same basis or, in other words, on a consolidated basis. Although some Debtor entities may have more liabilities than other Debtor entities or may have more assets than other entities, the Proponents believe that treating all creditors of all Debtors on the same basis is proper due to the joint and several liability of each Debtor in an amount exceeding $200 million to the PBGC and due also to the similar joint and several liability to the U.S. Internal Revenue Service (the "IRS") which claims $92 million and to the State of California which claims $11 million. If these entities successfully pursued their disputed Priority Claims and Unsecured Claims against each Debtor, no unsecured creditor would receive more than it will receive under this Joint Plan. The Proponents, therefore, believe that a Joint Plan affords the maximum possible recovery for all classes of Claims, while expediting the reorganization of the Debtors.

B. DESCRIPTION OF DISTRIBUTIONS TO CREDITORS.

In satisfaction of the Claims of creditors, Cash (referred to as "Distributable Proceeds") and New Common Stock will be distributed generally in accordance with the priorities established under the Bankruptcy Code. Claims have been separately classified for this purpose as follows: Administrative Expenses (unclassified); (1) Priority Claims—Classes 1A through 1G; (2) Secured Claims—Classes 2A through 2Q; (3) Kaiser Fontana Environmental Claims—Class 3; (4) Unsecured Claims—Class 4, separated into:

(a) General Unsecured Claims—Class 4A;

(b) Retiree Medical Benefits Claims—Class 4B; and

(c) Retiree Pension Claims and the PBGC Unsecured Claims—Class 4C;

(5) Preferred Stock—Classes 5A and 5B; (6) Common Stock—Classes 6A and 6B; (7) Intercompany Claims —Class 7; and (8) Subordinated Claims—Class 8. In order to avoid lengthy and complex litigation

over the amounts of Claims, which the Proponents believe would only delay distribution to Retirees and all other creditors, certain percentage allocations have been made among the different classes of Class 4 unsecured creditors as described in Section III. D. ¶ 4, entitled "Unsecured Claims Class 4."

C. ADMINISTRATIVE EXPENSES (UNCLASSIFIED).

The Plan provides for the payment in full in Cash of Administrative Expenses unless otherwise agreed by the holder of the Claim. Administrative Expenses include the costs and expenses incurred in connection with the Debtors' reorganization, such as trade and certain other claims arising subsequent to the commencement of the Chapter 11 cases, as well as attorneys', accountants' and consultants' fees and expenses allowed by the Bankruptcy Court. Payment of Administrative Expenses will be made (i) on or as soon as practicable after the later of the Effective Date or the date upon which such Claim is allowed by the Bankruptcy Court; or (ii) at the option of the Debtors, in accordance with ordinary business terms with respect to the payment of such expenses; or (iii) as agreed between the Debtors and the holders of such claims.

The Proponents estimate that approximately $8.6 million of Cash will be needed to pay Administrative Expenses. These Administrative Expenses primarily consist of several months of professional fees not being paid current, the 25% holdback of fees paid to professionals, and a $3.1 million Administrative Expense of New York Life Insurance Company ("NYLIC") for reimbursement of post-petition medical benefits provided to Kaiser's retirees. Kaiser's motion for an order approving this settlement of NYLIC's claim totalling about $7.3 million pursuant to which an allowed Administrative Expense of $3.1 million and an unsecured claim for the remainder is currently before the Bankruptcy Court for approval. Certain legal fees being incurred on a contingent basis with respect to the Litigation are not included in this amount. Although Administrative Expenses are required by the Bankruptcy Code to be paid in Cash in the amount awarded by the Bankruptcy Court, the Debtors nonetheless anticipate that this approximately $8.6 million of Administrative Expenses, may be deferred until the end of 1988 or later. In such an event the Proponents expect that the claimants would receive promissory notes bearing interest at 12% commencing September 1, 1988. The source of such future payments is anticipated to be from tax refunds, recovery in or settlements of any of the Litigation, and/or working capital loans. All holders of deferred Administrative Expenses will be paid ratably.

D. CLASSIFICATION AND DISTRIBUTIONS—ALL OTHER CLAIMS AND INTERESTS

1. Priority Claims—Class 1.

These are Allowed Claims entitled to priority of payment over other creditors under §§ 507(a)(3), (4), (6) or (7) of the Bankruptcy Code. These sections of the Bankruptcy Code grant priority status up to stated dollar limits to certain claims for unpaid wages, salaries and commissions, contributions to employee benefit plans, claims on account of certain deposits placed by customers of the Debtors, and to certain tax claims. Estimated Priority Claims after dispute resolution are as follows:

CLASS	AMOUNT	DESCRIPTION
1A	$50,000	Wage Claims
1B	$0	Unsecured Claims for Contributions to an Employee Benefit Plan, excluding claims of the PBGC
1C	$0	Deposit Claims
1D	$5,400,000	Tax Claims (IRS and Property)
1E	$1,000,000	PBGC Priority Claim
1F	$4,000,000	PBGC Special Priority Claim

Holders of Class 1 Allowed Claims other than the PBGC Special Priority Claim will receive Cash or, in the case of the Class 1D Claim, Tax Notes, in the full amount of their Allowed Claims on the Effective Date or as soon as practicable thereafter.

The PBGC shall receive, on account of their Special Priority Claim, the first 10% of Distributable Proceeds as defined in the Plan until the full amount of their Special Priority Claim is satisfied.

2. Secured Claims—Class 2.

These are Allowed Claims secured by a lien on assets of the Debtors. Class 2 separately classified all Allowed Secured Claims to the extent of the holders' interest in the property securing such Claim, as determined under Section 506 of the Bankruptcy Code. If a secured claim against the Debtors is not listed below and is ultimately allowed by the Bankruptcy Court, the Plan provides that it will be automatically separately classified under Class 2 and will receive, at the option of the Debtors, one of the treatments provided in paragraph c. below. Proponents estimate that Allowed Secured Claims requiring Cash payments will be approximately $1 million. Approximately $22 million of Claims will be satisfied by tender of the property securing such claims or granting relief to foreclose or quiet title.

a. *Class 2A (Meritor).* Class 2A is the Allowed Secured Claim of Meritor Savings Bank ("Meritor"). This Claim arises from secured loans made to the Company prior to the Bankruptcy filing. The Debtors have challenged the validity of Meritor's liens under the Bankruptcy Code and sought monetary damages, see Section IV.C(3)(d). "The Chase Action." Even if the claim is valid, a dispute exists as to the amount of attorney fees and other expenses due. The Class 2A Claim, if valid, will be satisfied first out of proceeds of assets in which Meritor has a security interest (other than the Kaiser Fontana Properties), and the balance, if any, by retention of its lien on the Kaiser Fontana Properties and payable eighteen (18) months after the Effective Date with interest at the contract rate.

b. *Class 2B (GATX).* Class 2B consists of the Allowed Secured Claim of GATX Leasing Corporation ("GATX"). This Claim arises from a sale-leaseback of the Company's ocean-going launch barge for $20 million on June 10, 1985, secured by certain assets of the Company. The Claim of GATX, which was approximately $1.3 million as of July 1, 1988, and is estimated to be approximately $500,000 as of September 1, 1988, will be satisfied first out of the property in which GATX has a security interest other than the Kaiser Fontana Properties. GATX will retain its lien against the Kaiser Fontana Properties pending satisfaction of its Claim. However, GATX shall not be able to pursue its security interests in the Kaiser Fontana Properties until the earlier of the sale of all of its other collateral or 18 months after the Effective Date. In the alternative and at the election of the Debtors in consultation with the Steel Committee, the Class 2B Claim of GATX may be treated in accordance with the GATX Settlement Agreement discussed in Section IV. B. 2., up to and including the date of expiration thereof, at which time such treatment will be superceded by the treatment afforded by this paragraph. The Debtors shall provide notice of such election to GATX at least 20 days prior to the Confirmation Date.

This Class also includes the Allowed Secured Claim, if any, of Bank of America. The Bank claims a right to "step into the shoes" of GATX in the amount of $3.25 million. The Proponents dispute this right, however, should the Bank prevail, they will be in this Class.

c. *Classes 2C through 2P (Other Secured Claims).* Classes 2C through 2P (and any other Secured Claims to be automatically added as provided in the Plan) consist of other Allowed Secured Claims against any of the Debtors. Holders of such Claims include:

(1) General Motors Acceptance Corporation (Class 2C) claim for approximately $21,000 is secured by certain automobiles which the Debtors intend to retain.

(2) Weyerhaeuser Mortgage Company (Class 2D) claim for approximately $115,000 is secured by certain assets of Union Steel Company. The Debtors intend to pay the claim in accordance with the underlying documents, but may surrender the property.

(3) Bank of America (Class 2E) claim for approximately $52,000 is secured by certain assets of Union Steel Company valued at the amount of or less than the debt. The Debtors intend to pay the claim relating to the Lake Tamarisk houses in accordance with the underlying documents, but may surrender the property.

(4) Western States Minerals Corporation (Class 2F) claim for approximately $2.2 million is secured by certain coal properties in Las Animas and Huerfano Counties, Colorado, which are worth less than the claim and which will be tendered to the claimant.

(5) Charter Colorado Resources Company (Class 2G) claim for approximately $2.766 million is secured by certain coal properties in Las Animas and Huerfano Counties, Colorado, which are worth less than the claim and which will be tendered to the Claimant.

(6) Gerald R. Dilley (Class 2H) claim for approximately $243,000 is secured by 1138 acres of property in Huerfano County, Colorado purchased from Dilley, which is worth less than the claim and which will be tendered to the Claimant.

(7) Bechtel Operating Services Corporation (Class 2I) claim for approximately $5.229 million is secured by the Chimney Rock Mine properties and certain Fremont County, Colorado, coal rights, which are worth less than the claim and which properties will be tendered to the Claimant.

(8) Jelen & Sons, Inc. (Class 2J) claim for $1.1 million is disputed and unliquidated and relates to Colorado coal properties, which are worth less than the claim and which will be tendered to the Claimant.

(9) Travelers Insurance (Class 2K) claim for $4.974 million is secured by a first lien on certain Cottonwood property (approximately 31,000 acres in Colorado). Travelers has been given relief to foreclose and has waived any deficiency.

(10) Northern Cimmaron Resources Co. c/o Southern California Edison (Class 2L) asserts a claim for $2.518 million and alleges the claim is secured by a lien on the stock of Cottonwood Canyon Land Co. and a second lien on the Cottonwood Property. This matter has been settled and the Claimant has waived any deficiency.

(11) Thelen, Marrin, Johnson & Bridges (Class 2M) claim for $843,489 is allegedly secured by the IMACC Preferred Stock. The Debtors dispute this claim and the Proponents believe no distribution will have to be made with respect to this claim other than as a Class 4A general Unsecured Claim. If the claim is allowed it will be paid out of the $3.5 million IMACC Note as proceeds are received.

(12) The Chase Manhattan Bank, N.A. and its Participants (Class 2N) have a claim solely against the stock of Kaiser Coal Corporation. The Debtors have challenged Chase's lien, see Section IV. C. 3. d. "The Chase Action." If the claim is allowed, the Proponents believe that stock has no value and the Debtors will tender that stock to the Claimant.

(13) Colwell Financial Company (Class 2O) claim for $33,000 is secured by a mortgage on a house in Raton, New Mexico, which may be tendered to the claimant.

(14) Security Pacific National Bank (Class 2P) claim for approximately $40,000 is secured by certain assets of Union Steel Company and will be paid in the ordinary course pending sale of those assets.

The Debtors reserve the right until Confirmation Date to change the treatment of a Secured Claim, notwithstanding the present intentions indicated above. The holders of Class 2C through 2P Allowed Secured Claims (and any other Secured Claims added as provided in the Plan) shall be treated in one of the following ways:

(1) retention of their legal, equitable and contractual rights against the property in which they have a valid and perfected security interest to the extent of their Allowed Secured Claim as determined under § 506 of the Bankruptcy Code;

(2) sale or distribution of the property securing any Allowed Secured Claim either subject to the claim or free and clear of the claim and payment of the net proceeds thereof to the holder of such Allowed Secured Claim to the extent of the value of its interest in such property;

(3) cure of all defaults with respect to such Allowed Secured Claim and assumption of such obligation by Kaiser Holdings, or a subsidiary thereof, and payment in accordance with the terms of the underlying debt instrument; or

(4) tender to the holder of each such Allowed Secured Claim of the property securing such Claim in full satisfaction of such claim and in the event of non-recourse claims satisfaction of any claimed deficiency.

The manner of treatment of each such Claim shall, to the extent necessary, be determined by the Proponents on or before the Confirmation Date upon written notice to the holder of each such Claim and the Bankruptcy Court.

d. *Class 2Q (Power Master).* Class 2Q consists of the Allowed Secured Claim of Power Master, Inc. Power Master has asserted a lien against the Kaiser Fontana Properties, securing a claim of approximately $350,000. Under the Plan, Power Master will retain its lien, to the extent it is valid and perfected under § 506(a) of the Bankruptcy Code, except that it shall not be permitted to foreclose its lien against any of the Kaiser Fontana Properties for a period of three years following the Effective Date of the Plan, unless the Plan is revoked, or the case is dismissed or converted to Chapter 7. During the three year forbearance period, Power master's Allowed Secured Claim will be treated as an Allowed General Unsecured Claim in Class 4A, with any and all payments received by Power Master credited against the total amount of Power Master's Allowed Secured Claim. Any New Common Stock received by Power Master will be valued as of the effective date, and, if foreclosure is initiated by Power Master, the stock may either be returned to Kaiser Holdings or credited against the remaining balance of Power Master's Allowed Secured Claim in the amount of its value as of the effective date of the Plan. Power Master's Allowed Secured Claim shall be determined as of the Confirmation Date and Power Master shall not be entitled to further interest, costs or attorneys fees thereafter.

3. Kaiser Fontana Environmental Claims—Class 3.

Class 3 Kaiser Fontana Environmental Claims consist of Claims of governmental authorities, principally the State of California Department of Health Services ("DOHS") and the United States Environmental Protection Agency ("EPA"), for environmental cleanup which relate solely to the Kaiser Fontana Properties. Under the Plan, in satisfaction of these Claims, Kaiser Holdings and the Kaiser Fontana Subsidiaries will assume Kaiser's obligations under the DOHS Consent Order and the CRWQCB Cleanup Order (described more fully in Section B.6) as they relate to the respective Kaiser Fontana Properties vested in it by the Plan. If Kaiser Holdings or any Kaiser Fontana Subsidiary fails to satisfy its assumed obligations under such orders, the holder(s) of Class 3 Allowed Claim(s) will have recourse against the assets of such Kaiser Fontana Subsidiary, Kaiser Holdings and other subsidiaries, but not against the Distributable Proceeds, or any person or entity entitled to receive Distributions under the Plan.

Environmental Claims other than those against the Kaiser Fontana Properties are all classified as Class 4A Unsecured Claims and the holders thereof will have no recourse against Kaiser Holdings or the Kaiser Fontana Properties.

4. Unsecured Claims—Class 4.

Unsecured Claims are divided under the Plan into three classes: Class 4A, Class 4B and Class 4C.

—Class 4A consists of all Allowed Unsecured Claims **other than:** (i) all Retiree Medical Benefits Claims, (ii) all Retiree Pension Claims, and (iii) the PBGC Unsecured Claim.

—Class 4B consists of all Retiree Medical Benefits Claims.

—Class 4C consists of all Retiree Pension Claims and the PBGC Unsecured Claim.

Following the Effective Date of the Plan, the Allowed Unsecured Claims in Classes 4A, 4B and 4C shall be secured by a lien upon the Litigation Proceeds requiring, however, first payment to deferred Administrative Expenses, Special Priority Claims, legal fees, costs or other expenses and advances made in support of the Litigation.

The percentage allocations to the holders of Class 4A, 4B and 4C Claims described below were reached after extensive negotiations over several months among the Debtors, the Steel Committee, the Retiree Subcommittee, the USWA and the PBGC, and the Proponents believe they are fair and equitable under the circumstances including new legislation enhancing the treatment of retiree medical benefits. They are designed to avoid costly and lengthy litigation over the amount of the Company's liabilities to its Retirees and to the PBGC, which, the Proponents believe, would jeopardize the ability of the Debtors to reorganize and greatly slow distribution to creditors. **However, if the Bankruptcy Court determines that the Plan is not confirmable because of these percentage allocation, then the percentages will be those determined by the Bankruptcy Court to be confirmable under the Bankruptcy Code.** For more information on these percentage allocations, see Section III. E. 2. "Basis for Percentage Allocations Among Class 4A, 4B and 4C."

Creditors should note also that, except for distributions to the Retiree Medical Benefits Trust and the Retiree Pension Trust, a claim or interest will receive a distribution under the Plan only if it is an "Allowed Claim," "Allowed Secured Claim," or "Allowed Interest." Allowed Claim, Allowed Secured Claim and Allowed Interest are defined in Article I of the Plan. Distributions of Cash to holders of Allowed Claims and Allowed Secured Claims under the Plan will be deemed in satisfaction of those Claims to the extent of such Cash Distributions and Distributions of New Common Stock will be in full satisfaction of the balance of those Allowed Claims and Allowed Secured Claims (including any interest accrued thereon) and in full satisfaction of Allowed Interests. All Claims against and Interests in each Debtor arising prior to the Confirmation Date, including inter-company obligations and subordinated Claims, will be discharged on the Confirmation Date as provided in the Plan. A table of all of the Distributions to be made to creditors, called the "Distribution Summary Table," is attached as Exhibit B.

a. *Class 4A (General Unsecured Claims).* Each holder of an Allowed Claim in Class 4A shall receive, subject to the minimum funding of the Retiree Medical Benefits Trust described below, its Pro Rata share of (i) 17% of all Net Distributable Proceeds, and (ii) 4,590,000 shares of New Common Stock of Kaiser Holdings. The Claims in Class 4A consist of all Unsecured Claims other than Retiree Medical Benefits Claims, Retiree Pension Claims and the PBGC Unsecured Claim. The total amount of Class 4A Allowed Claims is unknown. In excess of $401 million of general claims have been filed against Kaiser Coal and Kaiser Steel, $183 million of claims have been filed against Kaiser Steel only, $901 million of claims have been filed by directors and officers for indemnification, and over $501 million of claims were filed for contribution and indemnification as the result of alleged Superfund liability. In addition, the Mine Workers Union has filed claims for over $32 million for unpaid benefits. The Debtors estimate that Class 4A Claims will ultimately be allowed between $150 and $250 million, but this determination cannot be made at this time. The Debtors and/or the Reorganized Creditors Committee will file objections to all claims they believe to be improper or unallowable. However, since distributions to individual claimants in Class 4A will be made on a Pro Rata basis, the final amount received by each holder will ultimately depend on the Allowed Amount of each holders's Claim and on the total amount of all Claims allowed in Class 4A.

b. *Class 4B (Retiree Medical Benefits Claims).* These are claims of Retirees for lost group benefits, including medical insurance, life insurance and disability benefits. For purposes of the Plan, these Claims have been estimated by Coopers & Lybrand at $400 million, although the ultimate amount could range from $300 million to $500 million. The holders of Class 4B Claims will become beneficiaries of the Retiree Medical Benefits Trust. The Retiree Medical Benefits Trust will receive 55% of all Net Distributable Proceeds and 14,850,000 shares of New Common Stock of Kaiser Holdings. Under the Plan, Retirees will not receive direct distributions from the Debtors' estates on account of Retiree Medical Benefits Claims; rather, the Trust will collect all Distributions on account of these Claims and use the Cash and New Common Stock to continue and, if possible, enhance the medical, life and disability benefits plan which is being implemented by the Trust at this time. A copy of the Retiree Medical Benefits Trust Agreement, together with the Medical Benefits Plan, is available upon written request to Jill Shaft at the attorneys for the Retiree Subcommittee who are identified on the cover of this Disclosure Statement. For more information on the Retiree Medical Benefits Trust and the medical plan it administers, see Section III. E. 4.

(1) Minimum Funding Provision for Retiree Medical Benefits Trust. Because the Retiree Subcommittee and the other Proponents have agreed that the Retiree Medical Benefits Trust will require minimum funding of at least \$3.5 million each year, the Plan provides that the first \$3.5 million of Net Distributable Proceeds in each year will be paid to the Retiree Medical Benefits Trust, but only to the extent that the Trust has not received Distributions in prior years which satisfy that minimum level of funding. For more information on this minimum funding provision, see Section III. E. 4. a, "Minimum Funding Provision".

(2) Prescription Drug Plan. The Plan further provides that a Prescription Drug Plan will be established on or as soon as practicable after the Confirmation Date. All Retirees entitled to receive health benefits from the Retiree Medical Benefits Trust will be eligible to participate in the Prescription Drug Plan. For a summary of the provisions of the Prescription Drug Plan, and certain related provisions, see Section III. E. 4.

c. *Class 4C (PBGC Unsecured Claim and Retiree Pension Claims).* The Claims in Class 4C consist of the Unsecured Claim of the Pension Benefit Guaranty Corporation (the "PBGC Unsecured Claim"), in the estimated amount of \$203 million, for guaranteed pension benefits owing to Retirees which the PBGC must pay under federal law due to the Debtors' inability to pay, and the Retiree Pension Claims, in the estimated amount of \$37 million, for benefits owed to them in excess of amounts to be paid by the PBGC. 24% of Net Distributable Proceeds and 21.6% (6,480,000 shares) of New Common Stock of Kaiser Holdings will be distributed to the PBGC. 4% of Net Distributable Proceeds and 3.6% (1,080,000 shares) of New Common Stock of Kaiser Holdings will be distributed to the Retiree Pension Trust. The Retiree Pension Trust will distribute the Cash and stock directly to Retirees on account of their Claims. Under the Plan, the Retiree Pension Trust will also receive subject to existing security interests an assignment of one-half of a promissory note held by Kaiser from IMACC Corp. in the amount of \$3.5 million (the "IMACC Note") which will be due December 31, 1989. Amounts received from the IMACC Note will be disbursed 90% to USWA Supplemental Benefit Retirees and to approximately 50 other USWA Retirees who received negotiated pensions resulting from the settlement of grievances and 10% to Salaried Retirees. Those same amounts will be credited against only their share of future Distributions to the Retiree Pension Trust for those same Retirees. For more information on the Retiree Pension Trust, see Section III. E. 5.

5. Preferred Stock Interests—Class 5.

a. *Class 5A (Series A Preferred Stock of Kaiser Steel Corporation).* Class 5A consists of the interests of the holders of Kaiser Steel Corporation Series A Preferred Stock, \$1.00 par value, of which there were 7,478,256 shares outstanding at March 1, 1988. In full satisfaction of the Class 5A Allowed Interests, each holder shall receive a Pro Rata portion of 260,000 shares of New Common Stock of Kaiser Holdings.

b. *Class 5B (Series B Preferred Stock of Kaiser Steel Corporation).* Class 5B consists of the interests of the holders of Kaiser Steel Corporation Series B Preferred Stock, \$1.00 par value, of which there were 7,478,256 shares outstanding at March 1, 1988. In full satisfaction of the Class 5B Allowed Interests, each holder shall receive a Pro Rata portion of 340,000 shares of New Common Stock of Kaiser Holdings. For more information on the percentage allocation among Class 5A and Class 5B, see Section III. E. 3.

6. Common Stock—Class 6.

a. *Class 6A (Common Stock of Kaiser Steel Corporation).* Class 6A consists of all Allowed Interests based upon the common stock of Kaiser Steel Corporation and all Allowed Claims against any of the Debtors (i) for damages or rescission based upon the purchase or sale of Outstanding Securities, or (ii) for reimbursement, indemnity, contribution or arising as a result of subrogation by an entity which is, or may be liable, with any of the Debtors on account of such Claims, to the extent the Bankruptcy Court shall determine that such Claims shall be included in Class 6A. The holders of Class 6A Allowed Interests and Allowed Claims shall receive no Distributions or other consideration under the Plan.

b. *Class 6B (Common Stock of Subsidiaries).* Class 6B consists of the Allowed Interests of Kaiser Steel Corporation as holder of the common stock of its subsidiaries which are Debtors under the Plan. Kaiser Steel Corporation shall retain such stock and is therefore unimpaired under the Plan, except that the common stock of Kaiser Coal Corporation may be tendered to certain secured creditors.

7. Intercompany Claims—Class 7.

Class 7 consists of all intercompany claims between and among the individual Debtors and from Debtors to non-Debtor subsidiaries of Kaiser. Class 7 Claims will be discharged and released without any payment or Distribution of any kind.

8. Subordinated Claims—Class 8.

Subordinated Claims consist of Claims for non-monetary losses as generally contemplated in § 726(a)(4) of the Bankruptcy Code. Class 8 Claims will be discharged and released without any payment or Distribution of any kind.

E. OTHER INFORMATION ABOUT THE PLAN.

1. Effective Date.

The "Effective Date" is the date when the Debtors must begin to make the Distributions to creditors as provided for under the Plan. The Effective Date of the Plan is the later of five business days following confirmation of the Plan or when there are sufficient funds to pay all Administrative Expenses and Priority Claims not otherwise deferred by agreement. If the Effective Date is delayed beyond the fifth business day after confirmation of the Plan, a notice of the Effective Date will be filed within 30 days. At the option of the Debtors, after consulting with the Steel Committee, the Effective Date may be delayed to a date in 1989 if a favorable tax ruling, as described in Section VIII. B. is not received. In any event, the Effective Date will not be later than January 31, 1989 unless modified by the Proponents and approved by the Bankruptcy Court.

2. Basis for Percentage Allocations Among Class 4A, 4B and 4C.

The percentage allocations to each class of Unsecured Creditors were arrived at after extensive negotiations among the Proponents and after consultation with Coopers & Lybrand, the accountants for the Company and the Steel Committee. The Proponents believe that the Retiree Medical Benefits Claims (Class 4B) would be extremely difficult to judicially estimate since minor variations in actuarial and other assumptions cause major variations in the total amount of these Claims. The Proponents do not believe there is any set formula for calculating these Claims that would be agreed upon by all parties, with the result that Retirees could be required to defend the Claim amounts in potentially lengthy and complex litigation before the Bankruptcy Court. Pension Claims are also difficult to estimate, although to a somewhat lesser degree, since they also depend on actuarial methods and assumptions for their valuation. **All of the figures used herein are approximations and/or hypotheticals—actual results may not be known for some time.**

As noted above, general Unsecured Claims filed against the estate also cannot be determined at this time, but are estimated by the Debtors, based on Claims filed, the Debtors' books and records and calculations prepared by Coopers & Lybrand, to be between $150 and $250 million dollars. It will be from between six months to one year before the total amount of these claims can be estimated with any greater precision. The Debtors and/or the Reorganized Creditors' Committee will use either the Claims objection process or the Claims estimation process (pursuant to Section 502 of the Bankruptcy Code) to reduce these claims as expeditiously as possible. The Proponents believe many of the filed Claims to be either wholly without merit or grossly overstated, particularly in the case of claims filed for indemnification arising from both suits against former directors and officers and off-site environmental liabilities.

The Proponents firmly believe that a percentage allocation among these three classes of creditors, all of whose claims are difficult to estimate and all of whose legal rights against the estates arise from a different factual and legal basis, represents the fairest and quickest way to reorganize the Debtors and enable creditors to actually receive Distributions on account of their Claims. Based on the information presented by the Debtors about their current financial condition, the Proponents do not believe that the Debtors have sufficient assets to engage in protracted litigation over these Claim amounts in the Bankruptcy Court. More importantly, the Distributions which the Proponents believe are likely to be received by creditors under this or any other Plan do not justify this litigation. A hypothetical makes this clear.

If it is assumed that New Common Stock trades at **$1.00 per share** and the amount of **$150 million** is generated for use as Distributable Proceeds from the sale of the Steel Assets and the prosecution of the Litigation (representing approximately 50% of the total values and damages sought), the total "value" available for distribution to creditors over the life of the Plan would be $177 million.[1] As noted above, Retiree Medical Benefits Claims are estimated at $400 million, the PBGC Unsecured Claim is estimated at $203 million, Retiree Pension Claims are estimated at $37 million, and general unsecured claims are estimated at between $150 and $250 million. This is a total of between $790 million and $890 million in estimated Allowed Unsecured Claims against the Debtors' estates. Assuming a deduction of approximately $15 million for payment of Administrative Expenses, Priority Claims, and Secured Claims, then the total "value" to be distributed would be $162 million, or an overall "recovery" of between 18 cents and 20 cents on the dollar results—$135 million in Net Distributable Proceeds and $27 million in New Common Stock.[2] Although the New Common Stock may ultimately rise in value (it may also decline in value), the Proponents believe that this amount is the maximum potential return to creditors that can reasonably be expected under the Plan in light of the available assets of the Company and the prospects for realizing value from these assets. Obviously, this is a "hypothetical," and **the total return could be substantially greater or substantially less than these amounts**. Nonetheless, the Proponents do not believe that the return is likely to be, under even the most optimistic scenario, greater than 25 cents on the dollar in terms of total value, and may well be substantially less than the 18 to 20 cents set out above.

What this means for creditors, in the view of the Proponents, is that there is simply not enough value in these estates to justify the expenditure of time and money necessary to allocate Distributions more precisely. Moreover, the Proponents believe that the ability of the Company to reorganize **at all** would be gravely jeopardized if the Company was subjected to protracted and costly Claims litigation with its Retirees and the PBGC. Some Claims litigation in the Class 4A general unsecured category, either through Claims objections or estimation, is unavoidable because of the huge claims which have been filed against the estate which the Debtors believe to be not allowable. With the use of the percentage allocations, however, Distributions can be made to other classes of creditors, and the Company can proceed with its reorganization while Claims litigation continues. The use of these percentage allocations, which the Proponents believe approximate the relative "stake" in the estate represented by each of the classes of claimants, serves to completely eliminate the need for much of this litigation and to expedite Distributions to all classes of creditors.

[1]Twenty-seven (27) million shares at $1.00 per share and $150 million in Distributable Proceeds.

[2]This conclusion also assumes that the $150 million is net of costs of the Litigation, sale of the Steel Assets, and the Claims resolution process. These costs will be substantial, however, and cannot be estimated at this time.

To continue, if the Retiree Medical Benefits Trust receives 55% of Net Distributable Proceeds and 49.5% of New Common Stock (14,850,000 shares), and you assume its total claims amount to $400 million, then, the Trust receives approximately 22 cents on the dollar for the Retiree Medical Benefits Claims. However, one must bear in mind that the Retiree Medical Benefits Claims are only **estimated** at $400 million, and that they represent a range of possible valuations from $300 million to $500 million. Thus, under the above scenario, the "range" of value received would be between 17.8 cents on the dollar (at $500 million), and 29.7 cents on the dollar (at $300 million).

The same analysis can be conducted for the other classes of unsecured claims. For example, if 17% of these assumed Net Distributable Proceeds of $135 million (approximately $23 million) and 4,590,000 shares of New Common Stock is distributed to general unsecured creditors on account of Claims ranging from $150 to $250 million, the "value" received will range from between 11 cents on the dollar (at $250 million) and 18.4 cents on the dollar (at $150 million).[3] This result would mean that a creditor with an Allowed general Unsecured Claim of $10,000 would receive from between approximately $1,100 and $1,840 in total "value"—82% in the form of cash and 18% in the form of New Common Stock—on account of his Allowed Claim.

A minor incremental adjustment in these percentage allocations does not have a very large effect on the total amount of value a creditor will receive under the Plan. For instance, if the percentage allocations on account of general unsecured claims are increased from 17% to 20% (Net Distributable Proceeds) and 15.3% to 18% (New Common Stock), the ultimate "value" received under the hypothetical moves only to between 13 cents and 21.6 cents on the dollar, or, in the case of an Allowed $10,000 Claim, from $1,300 to $2,160 "worth" of Cash and New Common Stock. This is a difference of only between $200 and $320 in terms of total "value" recovered by such creditor depending on where the total amount of Allowed general Unsecured Claims comes to rest—$150 or $250 million. If the total amount of "value" used in the hypothetical goes down, say, from $162 million to $100 million,[4] these differences become even less important in terms of the ultimate recovery (6.8 cents to 11.3 cents at 17% and 15.3%; 7.6 cents to 12.6 cents at 20% and 18%). The difference is then between $80 and $130 in total "value" distributed on a $10,000 Allowed Unsecured Claim. In the view of the Proponents, these theoretical, incremental differences are not worth fighting over, in light of the overall need to reorganize these companies so that such value as there is can be distributed expeditiously to creditors. The Proponents firmly believe that a reasonable cost/benefit analysis will not support the litigation that would certainly result from an effort to be more precise, or completely precise, in the allocation of value to unsecured creditors based upon the allowed amount of their Claims.

As a result, to expedite Distributions and enhance the prospects for reorganization, the Plan provides for the above percentage allocations of Cash and New Common Stock for each of the three classes of Unsecured Claims. All of the Proponents believe these percentage allocations to be fair and equitable but, **should the Bankruptcy Court find, based upon evidence presented at the confirmation hearing, that these percentage allocations are nevertheless not confirmable under the Bankruptcy Code, then the Proponents have agreed that the percentage allocations shall automatically be adjusted to those approved as confirmable by the Bankruptcy Court.**

---

[3]The Debtors believe that the ultimate allowed amount of general Unsecured Claims will be closer to, and perhaps even below, the $150 million amount. Although none of the allocations are "perfect," the Retiree Medical Benefits Trust is afforded a somewhat larger allocation because it is given certain priorities by The Retiree Benefits Bankruptcy Protection Act of 1988 and it is taking over the immense task of administering the medical benefits plan and dealing with all of the questions and problems of Retiree Claimants arising thereunder.

[4]For example, assuming $86.6 million in Net Distributable Proceeds and $13.5 million worth of New Common Stock (27,000,000 shares at $.50 per share). At 55% and 49.5%, respectively, the "value" distributed to the Retiree Medical Benefits Trust would be approximately 13.75 cents on the dollar at $400 million in Claims.

3. Basis for Percentage Allocations Among Classes 5A and 5B.

The ratio of Distributions between the Series A Preferred Stock and the Series B Preferred Stock was determined based upon liquidation preferences contained in each series of preferred. Series A Preferred Stock, which has an aggregate redemption face value of $97.2 million at $13.00 per share, carried a dividend rate of $1.04 per share per annum. Series B Preferred Stock, which has an aggregate redemption face value of $127.1 million at $17.00 per share, carried a dividend rate of $2.25 per share per annum. Upon liquidation of the Company, the shares of Preferred Stock were entitled to receive, out of the assets of the Company, an amount per share equal to the redemption price of such series of Preferred Stock plus accrued but unpaid dividends.

4. The Retiree Medical Benefits Trust.

The Retiree Medical Benefits Trust was created pursuant to an Order of the Bankruptcy Court on March 2, 1988 as a part of the Retiree class action, *Rickard et al. v. Kaiser Steel Corp.* As a part of that action, the Trust received initial funding of $7.0 million in settlement of certain Retiree priority rights under legislation commonly referred to as the "Metzenbaum Amendments" (see Section IV. B. 3., "Retiree Priority Claim ("Metzenbaum") Settlement").

Basically, this Trust will work as follows: All Claims of Retirees for medical, life, disability, and other group benefits previously paid for by the Debtors will be satisfied through the Retiree Medical Benefits Trust. Under the Plan, the Retiree Medical Benefits Trust will be entitled to receive all Distributions of Net Distributable Proceeds and New Common Stock distributed on account of Retiree Medical Benefits Claims under the Plan. The Retiree Medical Benefits Trust will use these Distributions of Cash and New Common Stock to fund the Retiree Medical Benefits Plan.

The Retiree Medical Benefits Plan being administered by the Trust offers all eligible Retirees of Kaiser an option to participate in one or more of the following group benefits plans: (1) a group plan with Kaiser Foundation Health Plan (Kaiser Permanente) in which the Trust pays part of the cost (*note:* eligibility limited to certain Retirees previously enrolled in a Kaiser Permanente Plan on certain dates); (2) a group plan with Inland (Partners) Health Plan, Inc. in which the Trust pays part of the cost; (3) a Subsidy Plan whereby eligible Retirees who have arranged for other medical benefits insurance or services can submit proof of payment and receive the same amount of subsidy paid by the Trust under the Kaiser Foundation Health plan option; (4) a life insurance benefit in the amount which would have been paid by Kaiser, or $4,000, whichever is less; and (5) disability benefits at 75% of the amount previously paid by Kaiser.

Eligible Retirees are defined in Article Two, paragraph 2.1 of the Medical Benefits Plan, and basically includes all Retirees, surviving spouses and dependents entitled as of February 11, 1987 to receive medical/insurance benefits under the various plan provided for by the Company. There are additional restrictions on eligibility with respect to certain health care plans offered by the Trust, long-term disability benefits, and with respect to Retirees who received a "buyout" of their health care benefits prior to the filing of the bankruptcy.

Coopers & Lybrand, the accountants and benefits professionals who worked with the Retiree Subcommittee to design the benefits plan, estimate that the initial $7.0 million funding will enable the benefits plan to continue fully funded for approximately two years from the date of implementation. All Distributions of Cash and New Common Stock received by the Trust will be used to continue to fund these benefit plans, and, if possible, to enhance the benefits offered. The viability of the Retiree Medical Benefits Plan to continue to provide plan benefits to Retirees will depend upon the amounts and ultimate values of the Distributions which it receives under the Plan.

The Proponents believe that the Retiree Medical Benefits Trust is the fairest and most equitable way to satisfy the claims of Retirees for lost medical and group benefits, in view of the assets available and the particular circumstances of the Debtors' Chapter 11 cases. The Retiree Medical Benefits Trust offers Retirees medical benefit plans similar to those which were funded by the Debtors prior to the bankruptcy, except that the Trust is, at this time, only able to pay a portion of the cost. In addition, the plans offered are not as extensive as those previously funded by the Company. Unfortunately, sufficient assets are simply unavailable currently to fund medical benefits at a higher level. In light of the assets available and the nature of the Retiree Medical Benefits Claims, the Proponents believe that the Trust concept represents the best method available for satisfying these Claims. In addition, channelling Retiree Claims to the use of the Retiree Medical Benefits Trust eliminates the need for long, difficult, and costly litigation over the individual and aggregate amounts of individual Retiree Medical Benefits Claims. The Proponents do not believe there would be any great benefit to Retirees in such litigation.

As noted above, depending on the actuarial and other assumptions that are used, the total of all Retiree Medical Benefits Claims could vary between $300 and $500 million. If these Claims were litigated, Distributions to Retirees would be significantly delayed. Individual Retirees could be forced to travel to Denver, Colorado to defend their Claims, on a Claim-by-Claim basis, in the Bankruptcy Court. Under the Bankruptcy Code, Claims would likely be paid on a "pro rata" basis, meaning that Retirees with Claims calculated at different amounts would receive a proportionately different percentage of whatever Distributions were ultimately made. The Proponents firmly believe that the ultimate value to be received by Retirees on account of their Medical Benefits Claims will be substantially greater through the use of the Retiree Medical Benefits Trust and the medical benefits plan, than would be the case if Retirees were forced to defend the individual amounts of their Claims and share Distributions Pro Rata with all other creditors in claims litigation that could take years to determine. Indeed, if the Debtors could not ultimately afford this litigation, it is possible that the cases would be converted to Chapter 7 liquidations and thus, in the view of the Proponents, further delay or eliminate entirely any Distributions to Retirees.

All Retirees for whom sufficient data was available from Company records received a precalculated Retiree Group Benefits claim form, with instructions for filing that form with the Bankruptcy Court by the Claims "bar date," January 31, 1988 (later extended to March 2, 1988). Under the Plan, however, no Retiree will receive Distributions on account of a Retiree Medical Benefits Claim other than by participating in the Trust. No Retiree can "opt out" of the Trust and elect to receive Distributions as an Unsecured Creditor on account of a Retiree Medical Benefits Claim. The Proponents believe that to allow an "opt out" would destroy the economic viability of the Trust and would make inevitable the litigation over Claim amounts which the Retiree Medical Benefits Trust is specifically designed to avoid.

As set forth in the Trust Agreement, the initial Benefits Committee of the Trust will consist of the members of the Retiree Subcommittee. First Interstate Bank of Los Angeles, 707 Wilshire Boulevard, Los Angeles, California 90017, Attention: Terry Colberg, Trustee, has been selected to serve as Trustee and hold and invest the Trust funds. The Retiree Medical Benefits Plan will be administered by Travelers Plan Administrators, Inc., P.O. Box 31476, Walnut Creek, California 94598, Attention: Fred Allan. The Trust has retained the firm of Price Waterhouse, 555 California Street, San Francisco, California 94104, as its interim accountants and benefits experts. Mr. Alfred B. Fowler III of Price Waterhouse is primarily responsible for this representation. During the implementation phase, the Trust will use the firm of Roath & Brega, P.C. to provide it with such legal services as are necessary to effect the initial implementation and enrollment of Retirees into the interim medical benefits plan. Thereafter, it is envisioned that the Trust will arrange for such accounting and legal services as it needs from professionals in the Southern California area. The Retiree Medical Benefits Trust will maintain an office at the headquarters of Kaiser Holdings.

a. *Minimum Funding Provision for Retiree Medical Benefits Trust.* It is the intention of the Proponents that the Retiree Medical Benefits Trust will be funded to a minimum annual level of $3.5 million in order to ensure, to the extent possible, that the Retiree Medical Benefits Trust continues to be able to fund, on an annual basis, the Retiree medical benefits plan. This plan is a key component of the reorganization of the Debtors. However, if the Trust runs out of funds, the benefits it provides would cease. In an effort to avoid this result, the Plan provides a "minimum funding" provision to maintain, if possible, the financial viability of the Retiree Medical Benefits Trust.

Thus, if the Trustee of the Retiree Medical Benefits Trust certifies in writing to Kaiser Holdings within 30 days of each anniversary of March 2, 1989 (i) that the Retiree Medical Benefits Trust does not have at least $3.5 million in Cash available for the next twelve month period and (ii) that the Retiree Medical Benefits Trust has received since March 2, 1989, Distributions of Net Distributable Proceeds totalling less than $3.5 million multiplied by the number of years since March 2, 1989, then the Retiree Medical Benefits Trust will be entitled to receive the full amount of the next Distribution of Net Distributable Proceeds until the amount received, together with the amount on hand at the time of certification, equals $3.5 million.

Whenever, as a result of this minimum funding provision, Class 4A and Class 4C receive in the aggregate less than their total allocated percentages of the total Distributions of Net Distributable Proceeds for that period (45% under the Plan as filed, unless adjusted by the Court at confirmation, in which case the adjusted percentage shall apply), the difference is considered to be a loan from Kaiser Holdings to the Retiree Medical Benefits Trust. This loan will be a non-recourse loan to the Retiree Medical Benefits Trust and can only be repaid through deductions from future Distributions of Net Distributable Proceeds made to the Retiree Medical Benefits Trust, since the Trust will spend all funds it receives on the Retiree Medical Benefits Plan, and has no other source of income available for this purpose other than Distributions from the estates. However, this loan is not subject to repayment by such a deduction until the minimum funding provisions described above have first been satisfied. Consequently, it may occur that such loans are never repaid. In that event, the amount otherwise to be distributed to holders of Class 4A and 4C Claims would be reduced by the amount of such unpaid loans. The Proponents believe the possibility of such non-repayment to be relatively remote, and amply justified by the purpose to be served in maintaining, to the extent possible, the financial viability of the Retiree Medical Benefits Trust.

b. *The Prescription Drug Plan.* On or as soon as practicable after the Confirmation Date, the Retiree Medical Benefits Trust will establish the Prescription Drug Plan. All Retirees entitled to receive health benefits from the Retiree Medical Benefits Trust will be eligible to participate in the Prescription Drug Plan. The Prescription Drug Plan will permit participants to acquire prescription drugs either by mail order or at designated pharmacies (presently including OSCO, Thrifty and Long's) at no charge or for significantly reduced prices, as follows:

Mail Order: No co-payment required for 30-day supply of generics
$2 co-payment required for 30-day supply of non-generics
$3 co-payment required for 90-day supply of generics
$6 co-payment required for 90-day supply of non-generics.

Pharmacy: $6 co-payment required for 30-day supply of generics
$12 co-payment required for 30-day supply of non-generics
$50 annual deductible, payable in cash before payment of any benefits for drugs purchased at a pharmacy.
50% co-payment for purchases at non-designated pharmacies.

It is anticipated that the Retiree Medical Benefits Trust will enter into an agreement with Express Script, Inc., an affiliate of NYLIC, to establish and administer the Prescription Drug Plan. The agreement will contain such other provisions as would normally be included in a prescription drug plan.

In recognition of the hardship imposed on the Retirees by the Company's bankruptcy, and in order to assist in alleviating that hardship, NYLIC has agreed that, for each of the first two years of the operation of the Prescription Drug Plan, it will pay all costs of the Prescription Drug Plan in excess of $500,000, and will designate a part of its priority claim for that purpose. The $500,000 will be paid by the Retiree Medical Benefits Trust.

c. *Related Provisions.* In consideration for NYLIC's agreement partially to fund the Prescription Drug Plan, the Proponents have agreed that the Plan shall include certain provisions requested by NYLIC. Specifically, the Plan provides that on the Confirmation Date all holders of claims against the Company, including all Retirees, or any other person holding a Retiree Medical Benefits Claim, shall forever waive, release, and discharge all rights and claims against NYLIC, its directors, officers, employees, and agents, whether based on tort, contract, statutory law, or otherwise, and whether known or unknown, in existence now or arising in the future, with respect to any Retiree Medical Benefits Claim or arising under or relating to the contracts pursuant to the KSC-NYLIC Contracts. *See* Plan at Article VI. K.

NYLIC's obligation to fund the Prescription Drug Plan is subject to the provision in the Confirmation Order that all Retirees shall be permanently enjoined from commencing or continuing any action or proceeding, or taking any other action, against NYLIC, or its directors, officers, employees, and agents, with respect to any Retiree Medical Benefits Claim or arising under or related to the KSC-NYLIC Contracts. *See* Plan at Article VI. K. NYLIC's obligation to provide funding for the Prescription Drug Plan is also conditioned upon the entry of an order of the Bankruptcy Court approving the NYLIC Settlement Agreement. The release and injunctive provisions referred to above do not apply to pending claims filed with NYLIC's home office before July 13, 1988, the administration of which has not been completed.

The Proponents of the Prescription Drug Plan believe that these provisions are fair and reasonable to the Retirees, who are the only persons affected by them, because they make possible the provision of prescription drug benefits at a level which would otherwise be unavailable because the Retiree Medical Benefit Trust has no alternative funding for that purpose. It is anticipated by the Proponents that NYLIC's contribution will make possible a level of benefits that would cost substantially more than $1.5 million per year if purchased from other sources. The Proponents and NYLIC are not aware of any pending substantive Retiree claims which will be adversely affected by the releases granted to NYLIC in partial consideration for its agreement to provide partial funding for the Prescription Drug Plan.

5. The Retiree Pension Trust.

The holders of the Retiree Pension Claims (which includes any Claim of the PBGC under ERISA § 4049) shall become beneficiaries of the Retiree Pension Trust which will be established under the Plan to collect and distribute Cash Distributions and New Common Stock directly to Retirees on account of their Claims for pension benefits above and beyond the amounts guaranteed by the PBGC. The majority of most Retiree pensions are guaranteed and will be paid by the PBGC. However, certain pensions in excess of PBGC limits and certain pensions which do not fall within the Company's qualified pension plans (such as the $400 supplement provided directly by the Company to many Retirees) are not guaranteed and will not be paid by the PBGC. These Claims for non-guaranteed pension benefits are called "Retiree Pension Claims" under the Plan. Coopers & Lybrand and the PBGC estimate the total amount of all such Claims to be approximately $37 million.

The Retiree Pension Trust is also designed to satisfy the provisions of the ERISA § 4049 (subsequently repealed, but in effect when the bankruptcy was filed), which requires the PBGC to cause a trust to be established to collect and distribute funds to Retirees for non-guaranteed pension amounts. Under the Plan, the Retiree Pension Trust is intended to fully satisfy this statutory provision. The trustee(s) of the Retiree Pension Trust will be John Piazza and William J. Mertens. Pursuant to the request of the PBGC and the requirements of ERISA, in voting on the Plan, the trustee(s) will vote 75% of the Retiree Pension Claims and individual Retirees will vote 25%. The Retiree Pension Trust will maintain an office at the headquarters of Kaiser Holdings.

Unlike the Retiree Medical Benefits Trust, the Retiree Pension Trust will not retain the Distributions it receives, but will itself distribute the Cash and New Common Stock it receives directly to Retirees who are the holders of Retiree Pension Claims. These distributions will be made in accordance with the Retiree

Pension Trust Agreement. No Retiree will receive a Distribution directly from the Debtors' estates or Kaiser Holdings on account of a Retiree Pension Claim; rather, all Distributions will be made first to the Trust and then distributed as soon as practicable to holders of Retiree Pension Claims by or at the direction of the trustee(s) in accordance with the Trust Agreement. This will avoid the need for litigation of the individual amounts of any Retiree Pension Claims against the estates of the Debtors.

The Retiree Pension Claims are subject to many of the same variations in amount, based upon actuarial and other assumptions, as are the Retiree Medical Benefits Claims. The Claims calculations previously prepared by Coopers & Lybrand will be used for all Retirees to determine the amounts of their Retiree Pension Claims. All Retirees for whom sufficient data was available have already received a pre-calculated Retiree Pension Claim form, with instructions for filing that form with the Bankruptcy Court by the Claims "bar date," January 31, 1988 (later extended to March 2, 1988). The Retiree Pension Trust will use the Claims as filed with the Bankruptcy Court to make Distributions to Retirees on account of Retiree Pension Claims, *Pro Rata*, but will *only* recognize Claims in the amounts allowed for voting on this Plan. In the event that a Claim has not been calculated, the Claim will be calculated in the same fashion as the Claims previously calculated by Coopers & Lybrand, for the purpose of making these Distributions. Thus, the same treatment will be afforded to all holders of Retiree Pension Claims, based upon the relative amounts of their non-guaranteed pension benefits claims as calculated by Coopers & Lybrand using the same method for all Retirees.

The Retiree Pension Trust will also receive (subject to existing security interests) an assignment of one-half of the IMACC Note due December 31, 1989. IMACC Note proceeds paid to the Retiree Pension Trust will be disbursed 90% to USWA Supplemental Benefit Retirees and approximately 50 USWA Retirees receiving pensions from grievance settlements and 10% to salaried Retirees. All Cash from the IMACC Note disbursed to USWA Retirees and salaried Retirees, will, when received, be credited against the share of future Distributions to the Retiree Pension Trust for those same Retirees.

6. Reserve for Disputed Claims and Effect on Distributions in Class 4A.

Except to the extent the Bankruptcy Court determines that a sufficient reserve for any Disputed Claim is less than the full amount thereof, the amount of Pro Rata Distributions to the holders of Allowed Claims in Class 4A (and in other classes, if any) will be calculated as if each Disputed Claim in a Class were an Allowed Claim. The Distributions reserved for the holders of Disputed Claims (including interest and dividends thereon) will be held by Kaiser Holdings in trust for the benefit of the holders thereof. At such time as a Disputed Claim becomes an Allowed Claim or Allowed Interest, the Distribution reserved therefor (with any interest and dividends thereon) will be paid to the holder of such Allowed Claim or Allowed Interest. Kaiser Holdings or a designated Liquidating Entity will make periodic Pro Rata Distributions of Net Distributable Proceeds, including Distributions previously reserved for Disputed Claims, to the holders of Allowed Claims as set forth in the Plan. Notwithstanding the foregoing, any Claim with respect to which no written objection has been filed with the Bankruptcy Court will receive Distributions as if it were an Allowed Claim until a written objection thereto is filed with the Bankruptcy Court and such holder may retain the Distributions received prior to any such objection being filed, unless made by mistake. Following any written objection, the holder shall receive no Distributions pending allowance or disallowance of the Claim by the Bankruptcy Court. All unclaimed funds or New Common Stock reserved on account of Disputed Claims and not Distributed to the holders of such Claims, shall be Distributed, *Pro Rata* to all other holders of Class 4A (and other classes, if any) Allowed Claims and shall not revert to the Reorganized Debtors or any other entity.

7. Executory Contracts.

Pursuant to the Bankruptcy Code, Debtors have the right, subject to Bankruptcy Court approval, to assume or reject any executory contracts and unexpired leases entered into prior to the filing of the Bankruptcy petitions. Any damages resulting to the other party from a rejection is treated as an Unsecured

Claim arising prior to the filing of the petition and included in Class 4A to the extent such Claim is allowed by the Bankruptcy Court. The Debtors will reject all executory contracts except those contracts which are the subject of separate motions filed by any of the Debtors prior to the hearing to confirm the Plan and those contracts which are listed in the "Schedule of Assumed Executory Contracts" attached as Exhibit B to the Plan. The executory contracts and leases which the Debtor intends to assume have been paid currently and therefore the Debtors do not believe any additional amounts will have to be paid upon assumption of those contracts.

8. Unclaimed Distributions.

Unclaimed Distributions will be held by Kaiser Holdings for five years following the Effective Date. After such five year period, the holders of Allowed Claims or Allowed Interests theretofore entitled to Unclaimed Distributions will no longer be entitled thereto and such distributions shall become the property of Kaiser Holdings.

9. Surrender of Securities.

As a condition precedent to the Distribution of New Common Stock to the Preferred Stockholders, Preferred Shareholders must surrender their preferred certificates to Kaiser Holdings or its agent. Notice of procedures to be followed will be mailed following confirmation.

10. Fractional Shares and Interests.

The Plan provides there will be no issuance or distribution of fractional shares of New Common Stock. Any shares not distributed as a result of this provision will be retained by Kaiser Holdings as a treasury stock.

11. De Minimis Distributions.

Due to the large number of claimants, the frequency of Distributions, and the probability that amounts of any particular interim Distribution to a holder may be less than the cost of processing such Distribution, the Plan provides that only Distributions above a certain level will be made to any particular holder. The Plan provides that no Cash Distribution will be made unless that particular Distribution totals at least $35 and no New Common Stock Distribution will be made unless the Distribution to a holder is more than 50 shares, except for the final Distribution.

12. New Articles/Limitation of Liability.

The articles of incorporation of Kaiser Steel Corporation will be amended to change the name of the corporation to Kaiser Holding, Inc., a Delaware corporation.

The New Articles will incorporate recent amendments to Delaware General Corporation Law which permit Delaware corporations to include in their articles of incorporation provisions eliminating or limiting the personal liability of a director to the corporation or to the stockholders for monetary damages for breach of a director's fiduciary duty of care in certain circumstances. The New Articles will not permit a limitation on or the elimination of the liability of a director for disloyalty to the corporation or its stockholders, failing to act in good faith, engaging in intentional misconduct or a knowing violation of law, obtaining an improper personal benefit or paying a dividend or approving a stock repurchase that was illegal under the General Corporation Law. Accordingly, the provision limiting or eliminating the potential monetary liability of directors applies only to the directors' "duty of care" (such as unintentional errors in their deliberations or judgments) and not to any form of "bad faith" conduct. Moreover, the provision applies only prospectively and equitable remedies for breaches of the duty of care including rescission and injunctive relief are still available.

13. Covenants of Kaiser Holdings.

The Plan imposes certain post-confirmation obligations and limitations on Kaiser Holdings. The obligations include providing the post-confirmation Steel Committee with financial information, a limitation on the issuance of new stock without the affirmative action of the Board of Directors, a limitation on joint ventures without the affirmative action of the Board of Directors, an agreement, subject to certain conditions, to liquidate all assets determined to be no longer reasonably necessary for the development and operation of the Kaiser Fontana Subsidiaries, and finally an agreement that it will not cause the Litigation or Litigation Proceeds to become subject to any claim against or obligations of Kaiser Holdings or any of the Kaiser Fontana Subsidiaries except as provided in the Plan.

14. Discharge.

Except as otherwise provided in the Plan or in the Confirmation Order, the Confirmation Order acts as a discharge effective as of the Effective Date, of any and all debts of the Debtors and the Reorganized Debtors, as successor(s), that arose at any time before the entry of the Confirmation Order, including all principal and interest accrued thereon, pursuant to Section 1141(d)(1) of the Bankruptcy Code. The discharge of all such debts will be effective regardless of whether a Proof of Claim therefore was filed, whether the claim is an Allowed Claim or whether the holder thereof votes to accept the Plan. [See also Section IX. E.]

15. Memorandum of Understanding, Cushenbury Mine Trust and Kaiser Steel Corporation Retirees' Benefit Trust.

A Memorandum of Understanding, a collectively bargained agreement between Kaiser and the USWA, was entered into on September 14, 1984 (the "Memorandum") pursuant to which the Company reduced its health and insurance benefits to hourly steelworker Retirees. A reduced benefits package was established under the Memorandum, and hourly steelworker Retirees could elect Company-paid health and insurance benefits under this "Program of Continuing Coverage" or a lump-sum buyout from the Company.

In consideration of the reduction in benefits, Kaiser created the Cushenbury Mine Trust on January 1, 1985 ("Mine Trust") and conveyed the Cushenbury Mine properties to that trust for the purpose of starting a fund to provide health and insurance benefits for those hourly steelworker Retirees who elected the Program of Continuing Coverage.

The Kaiser Steel Corporation Retirees' Benefit Trust was also created pursuant to the Memorandum on December 28, 1987 (the "Benefit Trust") for the purpose of collecting royalties and other income from the Mine Trust and using these funds to provide health and insurance benefits to those hourly steelworker Retirees who elected the Program of Continuing Coverage.

The Company stopped providing the Program of Continuing Coverage benefits in January 1987, and this loss of benefits created Unsecured Claims against Kaiser to be satisfied under the Plan as Class 4B Claims. [See Section III. D. 4. b. above.] The Company continues to exercise its amendment and appointment powers, with the USWA, under the Memorandum, Mine Trust and Benefit Trust. Whether or not the Memorandum, Mine Trust and Benefit Trust are considered executory, those contracts and agreements, as amended, will remain in existence and those amendment and appointment powers will continue to be exercised by Kaiser Holdings to the extent authorized by the BANKRUPTCY COURT as the result of a hearing currently scheduled for July 13, 1988.

16. Reorganized Creditors Committee.

Because a major part of the activities of the Reorganized Debtors will consist of the sale of the Steel Assets and the prosecution of the Litigation, the Proponents believe that a reorganized Creditors Committee is required to oversee these activities, and consult with the Debtors' management thereon. This is so because proceeds received from the sale of the Steel Assets and the Litigation will not be used in the business operations of the Reorganized Debtors (principally the development of the Kaiser Fontana Properties), but must be distributed to creditors in the priorities established under the Plan. The Proponents believe that the principal source of Cash Distributions of Distributable Proceeds, if any, will come from recoveries on the Litigation.

The Plan provides for a five-member Reorganized Creditors' Committee, with two members appointed by the hourly Retiree members of the Retiree Subcommittee, one member appointed by the salaried Retiree members of the Retiree Subcommittee, one member appointed by the Non-Retiree members of the Steel Committee, and one member appointed by the PBGC. None of these individuals may simultaneously serve on the Board of Directors of Kaiser Holdings. The duties of the Reorganized Creditors' Committee are limited to monitoring the Litigation, Distributions to unsecured creditors under the Plan, sale of the Steel Assets, Claims' resolution, and initiating actions in the Bankruptcy Court with respect to the foregoing. The Reorganized Creditors' Committee will also provide a certification to the Bankruptcy Court at the time of the closing of the Debtors' Chapter 11 cases upon consummation of the Plan. Members of the Reorganized Creditors' Committee will not be paid other than through reimbursement of their reasonable expenses. While professionals may be retained to advise the Reorganized Creditors' Committee, expenses for professionals are limited to a maximum of $10,000 per month, excluding any fees or expenses incurred in the prosecution of the objections to Claims.

Under the Plan, the members of the Reorganized Creditors' Committee have been selected by the members of the Steel Committee and the Retiree Subcommittee. They are: Ronald Bitonti and Ralph Shoultes (hourly Retirees), Lyle B. "Scotty" Stevenson (salaried Retirees), Dean Gelvin (non-Retiree members). The PBGC has not selected a member and if not selected by the confirmation hearing, then the fifth (5th) member will be selected by the Steel Committee.

17. Limitation of Liability.

The Plan provides that the Steel Committee, the Reorganized Creditors' Committee, the Debtors, and any of their members, directors, officers and agents, including, without limitation, their counsel, accountants, consultants or employees, will not be liable to any of the Debtors, any holder of a Claim against or Interest in any of the Debtors, or any other entity for any action taken or omitted to be taken in connection with their duties in these Chapter 11 cases or under the Plan, except in the case of willful misconduct. The Bankruptcy Court will have exclusive jurisdiction to resolve any questions concerning the foregoing.

18. Litigation and Claims Management.

Under the Plan, Kaiser Holdings (or a subsidiary—referred to in the Plan as the "Liquidating Entity") will be responsible for the prosecution of the Litigation and the resolution of Claims against the estates. Kaiser Holdings will hire Dan Larson as a Litigation Manager to oversee and direct the prosecution of the Litigation, and Jim Fox as a Claims Manager to oversee and direct the Claims objection and resolution process. These managers will be required to consult with the Reorganized Creditors' Committee on these issues.

SECTION IV. THE COMPANY

A. HISTORY OF THE COMPANY PRIOR TO THE BANKRUPTCY.

1. General.

Kaiser Steel Corporation (the "Company" or "Kaiser") began business in 1941 as a Nevada corporation. The Company was principally engaged in steel-making until late 1982 and steel finishing until late 1983 when economic conditions forced the closing of the Company's steelworks near Fontana, California. Every division of the Company lost money in 1983.

Historically, the operations of the Company were organized into two principal operating groups, the Steel Group and the Coal Group. The Steel Group engaged in heavy steel production, fabrication and erection activities; operated an ocean-going launch barge; and manufactured large diameter pipe. The Coal Group mined metallurgical and steam coal in Utah and New Mexico at mines operated by wholly-owned subsidiaries of the Company, now Kaiser Coal Corporation and its subsidiaries. The coal was marketed primarily throughout the western United States. The Company also held certain other potential coal reserves. The coal mines and reserves will be sold by Kaiser Coal Corporation and the Company or tendered to the Secured Creditors of Coal and are not a part of this Plan.

In 1985 a third operating group called Kaiser Fontana, was added to develop (i) an industrial park on the former site of the Fontana Steel mill, (ii) the existing hazardous waste treatment facility in Fontana, and (iii) its Eagle Mountain, California ore mine as a solid waste disposal site.

As of March 1, 1988, the Company, excluding coal subsidiaries, had a total of 99 employees. Of these employees, 54 were employed in the Company's Fabrication Products Group, the assets of which are being sold. Total employees including the Coal Companies, was 666 employees at year-end 1987, 984 employees at year-end 1986, 1,564 employees at year-end 1985 and 1,998 employees at year-end 1984.

The principal executive office of the Company is now at 8300 Utica Avenue, Suite 301, Rancho Cucamonga, California 91730, and its general telephone number is (714) 944- 4155. The Company relocated to these smaller, less expensive facilities on June 1, 1988.

a. Steel Group.

The Fabricated Products Group engaged in heavy steel fabrication and erection activities, manufactured large diameter pipe and operated an ocean-going launch barge for transporting and launching deep-water offshore oil platform jackets. That launch barge has been transferred to the secured creditor, GATX, and the Company has no further liability with respect to the barge. Heavy steel fabrication operations were conducted until 1985 at the Company's fabricating facility at Fontana, California, located on what is known as the West End property. The Company has a marine assembly yard at Vallejo, California for the construction of offshore oil and gas drilling platforms, decks and modules for California and Alaska. This marine assembly yard has been sold. Large diameter pipe was produced at the Company's former pipe mill in Napa, California.

During the fourth quarter of 1985, the Company restructured the Fabricated Products Group into five business units. These units were Offshore and Construction, Large Diameter Pipe, Napa Fabrication, Fontana Fabrication, and Kaiser Torrance.

The Company's fabricating plan in Napa, California, was idled in July 1986 after operating at approximately one-half its capacity from 1983 to 1985. The Fontana Plate Fabricating Plan operated at one-half its capacity in 1986. This facility has been sold. The Fontana Structural Fabricating Plan, located on the West End Property, was vacated in April 1985 and Fontana fabricating operations were consolidated into the Fontana Plate Fabricating Plant. The Vallejo Marine Assembly Yard operated at approximately half its capacity in 1986, compared to one-quarter capacity in 1985 and over three-quarters capacity in 1984 and 1983. This facility and related equipment have been sold. The large diameter pipe mill in Napa, California operated at one-tenth of capacity in 1986 compared to approximately one-quarter its capacity in 1985 and less than one-tenth capacity in 1984 and in 1983. That facility and the adjacent fabricating plant were sold in October 1987. In 1987 essentially the only operations of the Fabricated Products Group consisted of the Fontana Plate Fabricating Plant's manufacture of fabricated water pipe and construction of top side decks for an oil production platform.

b. Coal Companies.

The Company and its subsidiaries, principally Kaiser Coal Corporation which was formed in 1985 as part of the April 1985 Exchange, owned and controlled coal acreage in Utah, New Mexico, and Colorado and operated mines that produced both steam and metallurgical coal in Utah and New Mexico. Prior to 1985, the coal operations were divisions of Kaiser. All of the Coal Group acreage and mines either have been sold or are for sale. Substantially all of the assets of the Coal Companies were pledged as security for a loan from Chase Manhattan Bank prior to the bankruptcy. The remaining principal amount of this loan is approximately $69 million. The Company has challenged Chase Manhattan's security interests in a lawsuit filed in March, 1988 (see Section IV. C. 3. d). The Coal Companies are *not* being reorganized as a part of this Plan, and are in separate bankruptcy proceedings with a different creditors committee.

The Proponents initially hoped that assets in the Coal Companies would be worth more than their liabilities. However, as the case progressed, it became apparent that the assets of the Coal Companies were worth much less than believed, and that the proceeds of their sale would be insufficient to cover even the liabilities of the Coal Companies. The Proponents do not expect that any funds from the Coal Companies will be available to pay claims to creditors of the Debtors. It is anticipated that the Coal Companies will continue to be liquidated either under a separate plan of reorganization, in a Chapter 7 liquidation proceeding or foreclosure by the Coal Creditors.

2. Changes in Ownership, Control, and Related Financing.

a. 1984 LBO.

Prior to 1984, the Company's stock was publicly held and traded on the New York Stock Exchange. In February 1984, the Company's common stock was acquired in a leveraged buyout transaction (the "1984 LBO") by an investor group led by J.A. Frates of Tulsa, Oklahoma (the "Frates Group"). Pursuant to an agreement between the Frates Group and an investor group led by Monty H. Rial (the "Rial-Perma Group"), the Rial-Perma Group held an equitable interest in 50% of the Kaiser common stock owned by the Frates group (herein referred to as the "Perma/Frates Joint Venture"). In connection with the 1984 LBO, Kaiser entered into a $100 million loan from Citibank secured by all the assets of the Company. The loan proceeds and Kaiser's cash reserves were used to enable the Frates Group, through an entity known as Kaiser Acquisition Corporation, to acquire all of the common stock of Kaiser with the former common stockholders receiving $22 cash per share plus one share each of Series A Preferred Stock and Series B Preferred Stock. Additionally, an investor group led by Irwin L. Jacobs (the "Jacobs Group") received a premium of $14.5 million for an option on their shares in favor of the Frates Group.

b. April 1985 Exchange.

Pursuant to approval by the Board of Directors on August 15, 1984, the Company completed on April 2, 1985 an exchange of assets between the Company and the Perma/Frates Joint Venture (the "April 1985 Exchange"). Under the April 1985 Exchange, the Company transferred real property worth in excess of $45 million, a Promissory Note in the amount of $5 million, $5 million in cash and assumed liabilities of approximately $23 million. In addition, the Company paid approximately $10 million in professional fees relating to the transaction and related financings. In return, the Company received from the Perma/Frates Joint Venture worthless coal properties located in Colorado and the SPS Letter of Intent. (See Section IV. C. 3. b. 1.)

As a result of the exchange of assets, Perma Pacific, Inc., a Delaware corporation controlled by Monty Rial, Dr. Eustace Winn, Jr. and Charles S. McNeil ("Perma Pacific") acquired all the outstanding common stock of the Company from the Frates Group. Immediately following the acquisition of the common stock by Perma Pacific, the three members of the Board of Directors elected as representatives of the Frates Group resigned. As part of the April 1985 Exchange, Kaiser assumed approximately $23 million of Rial-Perma's debt incurred in connection with Rial-Perma's Colorado coal properties. Kaiser paid approximately $12 million of this debt simultaneously or within weeks of the April 1985 Exchange.

Perma Pacific borrowed $30 million from California Federal Savings & Loan Association ("California Federal"). The California Federal loan was secured by a surety bond issued by Industrial Indemnity Company. Pursuant to an indemnity and reimbursement agreement between Industrial Indemnity and Perma Pacific and certain other members of the Rial-Perma Group, the surety bond was secured by a pledge of all of the common stock of the Company.

In connection with the April 1985 Exchange, the Company refinanced its debt with Citibank and increased the overall amount of its outstanding bank debt from $66 million (of which $25 million was held by Citibank in a reserve escrow account) to $110 million through credit agreements described below. The Company borrowed $50 million from a consortium led by what is now Meritor Savings Bank pursuant to a loan agreement dated April 1, 1985 between the Company and the Banks (the "Meritor Loan Agreement").

Also as part of the April 1985 Exchange the Company transferred its Utah and New Mexico coal properties to its newly formed wholly-owned subsidiary, Kaiser Coal Corporation. In connection with the transfer, Kaiser Coal Corporation entered into a credit agreement, dated as of March 28, 1985, with Chase Manhattan Bank, N.A. (the "Chase Credit Agreement") for a loan of $60 million secured by the stock and assets of Kaiser Coal Corporation and its subsidiaries. In April 1985, Kaiser Coal Corporation borrowed $60 million under the Chase Credit Agreement and then paid that amount to Kaiser Steel Corporation as a dividend. The loan to Kaiser Coal Corporation under the Chase Credit Agreement is payable over a ten year period in quarterly installments generally equal to between $7.5 million and $1.5 million per quarter, depending on the amount of coal sales, cash flow, and other factors. As of March 1, 1988, $69 million of principal and approximately $9 million of interest was due under the Chase Agreement and short term working capital loans provided by Chase and certain other banks.

The $60 million received under the Chase Credit Agreement in April 1985 and the $50 million received under the Meritor Loan Agreement in April 1985 were used to: (i) pay $5 million in cash to the Perma/Frates Joint Venture in the April 1985 Exchange; (ii) pay approximately $10 million to various professionals, advisors and participants in the April 1985 Exchange transaction and related financings and agreements; (iii) repay the Company's then outstanding indebtedness of approximately $66.1 million to Citibank; (iv) pay approximately $18 million for a lump-sum buyout offer made to those Retirees who elected to accept a settlement with respect to future health benefit coverage; (v) pay approximately $3 million in bonus payments to members and affiliates of the Rial-Perma and Frates Groups under an additional compensation scheme known as the Transaction Incentive Program ("TIPS"); and (vi) finance the construction of an ocean-going launch barge and working capital requirements. The repayment of the Company's indebtedness to Citibank released $25 million cash which had been held as collateral by Citibank.

c. 1987 Proxy Contest.

In April, July, and October 1986 the Company's Board of Directors did not declare, and the Company did not pay, the mandatory quarterly dividends on the Company's Series A and Series B Preferred Stock which had been issued as part of the 1984 LBO. The dividends, which would have been payable on May 15, August 15, and November 15, 1986, totalled $18.5 million. In addition, the Company's Board of Directors did not declare, and the Company did not pay, the regular quarterly dividends which would have been payable on February 15, 1987. Under the Company's Certificate of Incorporation, the Company's failure to make the scheduled payments into escrow for the purchase fund for the retirement of the Series B Preferred Stock and its failure to make quarterly dividend payments: (i) gave the holders of Series A and Series B Preferred Stock the right to elect a majority of the Company's Board of Directors, and (ii) barred the distribution of any cash, property, securities, or dividends to the holders of the Company's common stock or their affiliates. Such default also barred any loans or advances by the Company to the holders of common stock or their affiliates.

Bruce E. Hendry, a preferred shareholder, forced a meeting of stockholders on November 25, 1986, in Denver, Colorado, at which the Company's Preferred Stockholders voted to elect two directors (the "Preferred Stock Directors") to serve until the next Annual Meeting of Stockholders. In addition, the Preferred Stockholders also elected four directors (the "Special Preferred Stock Directors") to serve until the earlier of the next Annual Meeting of Stockholders or the termination of the right of the Preferred Stockholders to elect a majority of the Company's Board of Directors. The holder of the common stock of the Company, Perma Pacific, elected five directors to the Board of Directors.

The results of the vote taken at the Annual Meeting, certified by the inspector of elections, indicated that Messrs. Bruce E. Hendry and Lawrence Perlman were elected Preferred Stock Directors and that Messrs. William R. Dimeling, Bernard V. Donahue, Elton W. Geist and Byron D. Olsen were elected Special Preferred Stock Directors. However, other candidates for these positions who were not elected disputed the validity of the election inspector's certification. Litigation concerning the election was commenced in the Court of Chancery in the State of Delaware on December 15, 1986. On January 7, 1987, a settlement was reached among the parties to the litigation whereby the following individuals were recognized as directors of the Company: Messrs. Bruce E. Hendry and James L. Marvin as Preferred Stock Directors; Messrs. William R. Dimeling, Lawrence Perlman, John C. Davis and Stonie Barker, Jr., as Special Preferred Stock Directors; and Messrs. Monty H. Rial, Eustace H. Winn, Jr. and Stephen A. Girard as Common Stock Directors. In connection with the settlement, the number of common stock Directors was reduced from five to three. The Board of Directors elected Mr. Hendry Chairman and Chief Executive Officer on January 7, 1987. Mr. Hendry has remained chairman throughout the efforts of the Debtors to reorganize and served as CEO until June 1, 1988.

3. Pre-Bankruptcy Financial Condition.

As indicated above, due to the Company's financial condition the Company did not make the May 15, August 15, and November 15, 1986 preferred stock dividend payments of $6.2 million each. In addition, the Company did not deposit into escrow by September 30, 1986 the required $22.9 million for the redemption of preferred stock, nor did the Company make the required deposit of $100,000 in the fourth quarter of 1986. The Company also did not make its required 1985 minimum contribution of $18 million to the Company's various pension plans which was due in 1986. In March 1986, the Company's independent public accountants issued a qualified opinion on the Company's 1985 financial statements, stating that "continuation of the Company as a going concern is dependent upon its obtaining additional funding in 1986 and achieving profitable operations in the future."

Because of financial constraints and the uncertainties of the reorganization effort on consolidated financial statements, the Company did not submit its 1986 consolidated financial statements to independent audit and did not file 10-Q quarterly reports with the SEC for the second, third and fourth quarters of 1987.

As of December 31, 1986, the Company was significantly in arrears on most of its trade payables and was not current on most of its secured loan and lease obligations. The Company also failed to provide health and insurance benefits for Retirees early in 1987 in violation of various agreements of the Company for the benefit of Retirees.

4. Pre-Bankruptcy Asset Sales.

Throughout 1984, 1985 and 1986, the Company sold major assets primarily to fund the 1984 LBO, the April 1985 Exchange and the TIPS incentive programs, as well as other related payments.

During the third quarter of 1984, the Company sold substantially all of its steel manufacturing facilities and certain of the Company's land at Fontana, California to California Steel Industries, Inc. ("CSI") for $110 million. During the third quarter of 1984, the Company sold its 51% interest in Kaiser Pipe and Casing, Inc. for a $5 million interest bearing note payable over five years. The note was subsequently transferred to the Perma/Frates Joint Venture in connection with the 1985 Exchange. In addition, the Company purchased a condominium for $186,000 and transferred it to Mr. Stephen Girard, a director, to settle, in part, certain amounts claimed by him. During the fourth quarter of 1984, the Company sold the majority of the assets of Myers Drum Company and its subsidiary, Industrial Molding Corporation, to former management employees which controlled the acquiring company, IMACC Corporation. The Company received $14.8 million in Cash while retaining $3.9 million in receivables. Concurrently with the sale, $6.5 million of the cash received from the sale was used by the Company to purchase all of the preferred stock of the acquiring corporation for $5 million and all of the convertible preferred stock of IMACC Corporation (the "IMACC Stock") for $1.5 million.

In January 1985, the Company sold 460 acres of undeveloped land (which included an abandoned quarry) south of Fontana for $4 million. In April 1985, the Company transferred the West End Property and other Fontana real estate as part of the April 1985 Exchange. In June 1985, the Company sold its ocean-going barge for $20 million under a sale-leaseback arrangement with GATX Leasing Corporation ("GATX"). During the third quarter of 1985, the Company sold all of the assets of its wholly-owned subsidiary, Kaiser Steel Tubing, Inc., for $6.5 million in cash, two promissory notes payable in the aggregate principal amount of $7.5 million and convertible preferred stock of the company purchasing the real property and equipment. Also in the third quarter of 1985, the Company sold the land and building of Industrial Molding Corporation in Vernon, California for $4.8 million and sold certain land in Montebello, California for $1.5 million.

In 1986, the Company sold certain Eagle Mountain iron ore mining equipment for $4 million, sold a Silverado condominium in June for $236,750, completed the sale-leaseback of the corporate office complex in Fontana, California for $4.5 million, sold 24.1 acres east of Etiwanda Avenue in Fontana for $1.5 million; sold a Napa condominium for $200,000, sold certain property in Napa, California for $600,000, sold a 5-acre parcel along Mulberry Avenue in Fontana for $600,000, sold 30.7 acres South of Slover Avenue in Fontana for $1.1 million, and miscellaneous fabrication equipment for $.4 million. In September, 1986, the Company also sold its 33.4 acres of real estate under its Fontana Plate Fabrication Shop for $2.7 million. The sale involved a three-year lease-back provision which was prepaid out of the proceeds from the sale. In October, the Company's bulk-loading facility at Los Angeles Harbor was sold for $6.8 million. In December, the Company sold its 46% interest in Lytle Creek Land and Resources Co., a real estate holding company, for $7.5 million. The Company also sold its interest in Bullwinkle Constructors, a joint venture between the Company and Gulf Marine Fabricators, Inc., a subsidiary of Peter Kiewit Sons, Inc., for $4 million.

All of the proceeds of the 1984 and early 1985 sales were applied to the Company's debt to Citibank, N.A. After April 1985, 50% of the sale proceeds were paid to reduce the Company's indebtedness to Meritor and the balance was used for working capital, including TIPS payments and other payments to insiders.

5. Reasons for Filing Bankruptcy.

After the January 7, 1987 change in control, it was determined by the newly constituted Board of Directors that the Company could not continue in its present form and that the assets of the Company, with the exception of the Kaiser Fontana Properties, should be liquidated. On February 11, 1987, Kaiser and Cottonwood Canyon Land Co., a wholly owned subsidiary, filed petitions for relief under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the District of Colorado. On February 13, 1987, Kaiser Coal Corporation, Kaiser Coal Corporation of York Canyon, Kaiser Coal Corporation of Sunnyside, Kaiser Coal Corporation of Utah and Kaiser Coal Corporation of New Mexico, all wholly owned subsidiaries of the Company, filed petitions for relief under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the District of Colorado. On February 17, 1987, Kaiser Steel Tubing, Inc., KT Realty, Incorporated, Myers Drum Company, Lake Tamarisk Development Corporation and Union Steel Company, all wholly-owned subsidiaries of the Company, also filed petitions for relief under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the District of Colorado. All of these petitions for relief are being jointly administered by the Bankruptcy Court for the District of Colorado, although separate creditors committees were appointed for the companies comprising the Steel Group and the companies comprising the Coal Group. The Company, as debtor-in-possession, is presently operating its businesses under the Bankruptcy Court's jurisdiction. The Company filed a report on Form 8-K with the S.E.C. regarding the bankruptcy filings on February 25, 1987.

The filings were precipitated by the prolonged downturn in the industry which not only adversely affected the markets of both of the Company's steel and coal operating segments, but depressed the realizable value of certain of the Company's assets which it held for sale. The filings were also precipitated by the many millions of dollars of cash taken from the Company under the 1984 LBO, the April 1985 Exchange, the West End transaction and the payments made to the Rial-Perma Group and the Frates Group and other related parties on various transactions, including the Transaction Incentive Program, consulting agreements and management agreements. The Company's financial condition was also seriously affected by ongoing liabilities for pensions and Retiree health care benefits relating to its discontinued steel-making and finishing operations.

Under Chapter 11, substantially all litigation and claims pending against the Company were stayed and the officers and directors of the Company were authorized to continue to operate its businesses in the ordinary course of business as a debtor-in-possession. Transactions outside of the ordinary course of business have been brought to the bankruptcy Court for approval.

B. SIGNIFICANT EVENTS DURING THE REORGANIZATION.

1. Post-Bankruptcy Asset Sales.

Following the filing of the Chapter 11 Petitions, the Company continued to liquidate its assets. In 1987, the Company sold two promissory notes for a discounted amount of approximately $4.0 million, a house in Oklahoma for $150,000, a condominium in Palm Desert, California for $250,000, property in Torrance, California for $846,000, and the Napa fabrication equipment and large diameter pipe equipment for $16 million.

Since March 1, 1988 sales include: (i) the sale of the Fontana Plate Fabricating Facility and equipment for $1.35 and the sale of work-in-process for approximately $1.0 million to be used for working capital purposes; (ii) sale of the Vallejo equipment and real estate for approximately $6.5 million; and (iii) contract for sale of iron ore properties owned by Kaiser Steel in Arizona for $0.9 million. Under the Agreement with GATX described in paragraph 2 below, GATX is to receive one-half of the proceeds of the sale of the Arizona real estate and the Vallejo equipment and real estate, with the remainder going to the Company.

The IMACC Preferred Stock, received by Debtors in the sale of Myers Drum, has been converted into a secured note for $3.5 million, which figure includes interest (the "IMACC Note") maturing December 31, 1989 and $300,000 cash. Proceeds are being held in escrow pending the resolution of the disputed Class 2M claim of the San Francisco law firm of Thelen, Marrin, Johnson & Bridges for legal fees allegedly secured by the IMACC Preferred Stock. One-half of the IMACC Note, subject to the existing security interests, will be assigned to the Retiree Pension Trust for distribution in accordance with the PBGC Settlement Agreement discussed below at Section IV. B. 4. In addition, promissory notes issued by IMACC management to Kaiser totalling $700,000 (including accrued interest) have been paid in full.

All of these transactions were approved in advance by the Bankruptcy Court. Pending confirmation of the Plan, the Company will continue to actively market the remaining Steel Assets.For a description of the remaining Steel Assets, see Section IV. C. 2.

2. GATX Settlement Agreement.

On June 10, 1985, the Company sold its ocean-going launch barge for $20 million under a sale-leaseback arrangement with GATX Leasing Corporation ("GATX"). In connection with the sale-leaseback, the Company granted a second security interest in certain of the Company's Fontana, Napa and Vallejo, California real property and equipment and its Fontana Union Water Company stock to GATX. The Company defaulted under the Lease for the barge due to the Company's failure to make scheduled lease payments and to provide additional letters of credit as required under the terms of the Agreement. On September 10, 1987, GATX and the Company entered into a Compromise and Post-Petition Financing and Security Agreement (the "GATX Settlement Agreement"). The GATX Settlement Agreement was approved by the BANKRUPTCY COURT. The following summarizes the principal terms of the GATX Settlement Agreement:

- **GATX's Claim.** Under the GATX Settlement Agreement, GATX compromised its secured claim of over $24.2 million down to $23.7 million to which GATX agreed to apply credits for: (a) $5.896 million in proceeds of letters of credit drawn and to be drawn; (b) $.756 million in cash collateral held by GATX;

and (c) $4.0 million attributable to the Barge which was under subcharter to the Company but to be returned to GATX for disposition under the Agreement. After those deductions, the Company and GATX agreed that GATX's Liquidated Net Claim totalled $13.051 million which the Company agreed to repay with interest by December 31, 1988 out of proceeds of the disposition of the Barge and of collateral described below.

- **Disposition of Barge.** The Company agreed to return the Barge to GATX for disposition. If GATX disposes of the Barge and realizes proceeds greater than the $4.0 million credit given the Company (plus certain expenses and interest specified in the Agreement), those excess proceeds will be allocated to Kaiser Holdings under a sharing formula.

- **Collateral and Sale of Collateral.** The Company granted GATX security interests in the Lake Tamarisk property, certain mineral rights in Arizona and California, the IMACC preferred stock and the stock of Kaiser Coal Corporation. The Company expected to sell certain California properties promptly, including those located in Torrance, Fontana (fabrication facility only), Napa County, and Vallejo. Meritor Savings Bank claims a first security position on these properties, while GATX has a second security position on all but Torrance. The Agreement describes a sale program for this property (as well as Lake Tamarisk property, certain mineral rights in Arizona and California, and the IMACC Preferred Stock) including the sharing of proceeds. Generally, proceeds are allocated to pay off Meritor's first lien, reduce GATX's Liquidated Net Claim and to provide $7.0 million to the Retiree Medical Benefits Trust as a settlement of the Retiree Priority Claim "Metzenbaum" Class Action, to fund health, life and long-term disability benefit payments to the Company's Retirees.

- **Line of Credit/Terms.** The Agreement provides Kaiser with a line of credit up to $2,000,000 for working capital and $250,000 for maintenance on the barge. The working capital line can only be drawn down by Kaiser if (a) GATX's net claim is less than $4,800,000, and (b) Kaiser's accountants certify the need therefor. This line of credit expires July 1, 1988. Kaiser has drawn down $790,000 thus far. This line is due not later than December 31, 1988, and bears interest at 4% over Wells Fargo Bank's prime rate.

As of July 1, 1988 the total amount owing to GATX had been reduced to approximately $1.3 million and by September 1, 1988, the obligation to GATX is expected to be reduced to less than $0.5 million. The Plan reserves the option on the part of the Debtors, in consultation with the Steel Committee, to either treat the GATX Allowed Claim in accordance with the GATX Settlement Agreement or in accordance with Article II. B.2, Class 2B, of the Plan.

3. Retiree Priority Claim ("Metzenbaum") Settlement.

At the time of the filing of the bankruptcy petition, there was federal legislation in place which arguably required all Chapter 11 debtors to continue to pay all Retiree medical, pension and other group benefits while in Chapter 11.[5] Sponsored by Senator Howard R. Metzenbaum, D. Ohio, this legislation is commonly known as the "Metzenbaum Amendments" to Chapter 11. Just prior to the filing of the bankruptcy, the Company had terminated all funding of Retiree medical, pension and group benefits. Immediately upon the appointment by the United States Trustee of the Retiree Subcommittee, the Subcommittee demanded that the Company resume benefit payments but it declined on several grounds, including an assertion that there were simply insufficient funds and/or saleable assets available to do so at prior levels. This assertion was subsequently verified by Coopers & Lybrand, accountants for the Company and the Steel Committee, in a report to all parties. The Proponents now agree that a literal enforcement of the "Metzenbaum Amendments" by the Bankruptcy Court would have forced the Company to liquidate under Chapter 7 of the Bankruptcy Code.

[5]This legislation expired on October 15, 1987. Congress has reenacted superseding legislation (The Retiree Benefits Bankruptcy Protection Act of 1988) reviving and expanding the "Metzenbaum" legislation and making it applicable to this case.

Because the Retiree Subcommittee felt that a continued Chapter 11 reorganization held the only real hope for any substantial recovery by Retirees of their lost benefits, a settlement of this dispute was reached, dated September 10, 1987, which provided that the Company would pay to the Retiree Subcommittee, as representatives of the class of all Retirees, the sum of $7.0 million to be further distributed within that class pursuant to a renewed or "interim" medical benefits program. The Retiree Subcommittee agreed under the Settlement that the Court's order approving the Settlement would be binding on all Retirees and that the payment of the $7.0 million sum would be in full and complete satisfaction of all claims of the members of the class for an administrative priority under the Metzenbaum Amendments until June 1, 1988 or whenever the $7.0 million was exhausted, whichever came later. The Settlement was presented to the Bankruptcy Court, with notice to all Retirees, as an adversary proceeding entitled *Rickard et al. v. Kaiser Steel Corp.* On November 12, 1987, the Court issued an order (1) certifying the Retiree Subcommittee as representatives of the class consisting of all persons who retired from Kaiser on or prior to February 11, 1987, (2) ordering that there would be no opt out from the class and ruling that all members of the class were bound by the court's orders, and (3) approving the Settlement. The $7.0 million (which is a portion of the proceeds from the sale of the Napa Pipe Mill (see Section IV. B. 1) was placed in an escrow account under the control of an escrow agent (an attorney for the Retiree Subcommittee), a GATX officer, and a Kaiser officer. These funds have now been turned over to the Trust itself.

On March 2, 1988, again after notice to all Retirees, the Bankruptcy Court approved the establishment of a trust to use the $7.0 million to fund an interim medical benefits plan developed by Coopers & Lybrand and the Retiree Subcommittee. This trust will become the Retiree Medical Benefits Trust under the Plan and will receive all Distributions on account of Retiree Medical Benefits Claims. Under the Plan, the interim medical benefits plan initially funded with the $7.0 million will continue and, in the discretion of the Trust, may be enhanced with the Cash and New Common Stock to be distributed to it under the Plan.

4. PBGC Settlement Agreement.

The Employee Retirement Income Security Act of 1974 ("ERISA") requires the PBGC to pay, up to certain limits, retirement pension benefits to Kaiser's Retirees, even though the assets of Kaiser's several pension plans are not sufficient for this purpose. ERISA gives the PBGC the right to collect from the Company the difference between the benefits it must pay and the value of the assets in the plans, also subject to certain limits. The PBGC has also asserted the right to claim and collect, for the benefit of Retirees, up to 75% of the non-guaranteed pension amounts owing to Retirees, pursuant to ERISA Section 4049, which requires the creation of a trust for this purpose.[6] The PBGC filed claims in the Bankruptcy cases totalling in excess of $366 million, including both Administrative and Priority Claims and Unsecured Claims.

The Proponents have negotiated what they believe to be an extremely beneficial agreement with the PBGC to resolve most of the PBGC Claims. This agreement has been approved by the Bankruptcy Court by Order dated May 25, 1988. The PBGC contended that its Priority Claim, which, under the Bankruptcy Code would have to be paid in Cash on the Effective Date of any Plan, approached or exceeded $300 million. Although the Debtors disputed most of this Claim as a priority, if the PBGC and Debtors had not reached a settlement, the ensuing litigation could have led to either a conversion of the cases to a Chapter 7 liquidation if the Debtors lost or, even if the Debtors won, in whole or in part, a potential delay to creditors in receiving any Distributions. The settlement described below substantially reduces the amount of the PBGC Claim that will receive priority treatment. Furthermore, in response to an objection filed by the USWA, the PBGC has agreed to extend the termination of the Kaiser Steel Pension Plan (the "Steelworkers Plan") and the Kaiser Steel Southern California Fabricating Division Pension Plan (the "Fabricating Division Pension Plan") for 2½ months, with the benefits to Retirees at full pre-PBGC levels being paid out of pension plan assets rather than assets of the Debtors.

[6]Section 4049 of ERISA (29 U.S.C. § 1349) was repealed by Congress effective December 17, 1987, but may nonetheless apply to the Debtors' Chapter 11 cases.

The following is a summary of the key terms of the Settlement Agreement between the Debtors and PBGC as presented to the Bankruptcy Court.

a. *PBGC Priority Claim.* The PBGC will be allowed a general Priority Claim against Kaiser in an amount not to exceed $1.0 million arising from termination of certain of the Debtors' pension plans (the Steelworkers Plan, the Kaiser Steel Napa Pension Plan and the Fabricating Division Pension Plan) with the final accounting of that amount to be agreed upon by and between the Debtors, the Creditors' Committee and the PBGC. If agreement cannot be reached, the matter will be submitted to the Bankruptcy Court. Any excess over $1.0 million will be added to the PBGC Special Priority Claim in paragraph b below.

b. *PBGC Special Priority Claim.* The PBGC will be allowed a Special Priority Claim arising from the Steelworkers Plan in the amount of $4.0 million plus interest at 8% from the Effective Date of the Plan. This PBGC Special Priority Claim will be paid out of the first ten percent of Distributable Proceeds. Those payments will continue until the Claim has been satisfied in full. Although security interests in the Litigation Proceeds will be given to all Class 4 Claims, such security interests will not impair this ten percent distribution priority to the PBGC. In addition, any Allowed Claims of the PBGC entitled to priority under § 507(a)(7) of the Bankruptcy Code (taxes) will be added to the $4 million amount. The Debtors believe the amount of these additional potential claims will be zero.

c. *PBGC Unsecured Claim.* All other Claims of the PBGC against the Debtors are agreed to be Class 4C Unsecured Claims. The PBGC and Coopers & Lybrand have calculated the PBGC Unsecured Claim at $203 million. Although not a part of the PBGC Settlement Agreement, it is the intent of the Proponents under the Plan that all Claims of the PBGC under ERISA § 4049 be treated and satisfied through the Retiree Pension Trust.

d. *Non-Guaranteed Benefit Payment.* The PBGC has agreed to a termination date of the Steelworkers Plan and the Fabricating Division Pension Plan that will result in a retroactive payment to certain Retirees of an additional two and one-half month's non-guaranteed benefits (including but not limited to the $400 per month supplements) out of pension plan assets rather than funds of the Company. These retroactive payments will be added to and included in the PBGC Unsecured Claim but will not change the treatment afforded to that Claim under the Plan. Other plans will have their current termination dates.

e. *IMACC Note Assignment.* The Retiree Pension Trust will receive, subject to existing security interests, an assignment of one-half of the $3.5 million IMACC Note. To the extent that payments are received on account of the Note and distributed to the USWA Supplemental Benefit Retirees, approximately 50 USWA Retirees with special pensions resulting from the settlement of grievances, and Salaried Retirees as contemplated by the Settlement, the Trust will credit that Distribution against future Distributions, if any, to be made to the Retiree Pension Trust on behalf of those same Retirees.

f. *Plan Administration.* The PBGC will assume administration of all of the Debtors' pension plans.

5. Settlement With New York Life Insurance Company.

Prior to the commencement of its reorganization case, the Company provided certain benefits to its current and former employees through contracts with New York Life Insurance Company ("NYLIC"). These contracts (the "KSC-NYLIC Contracts") were terminated prior to the commencement of the case.

In January, 1988, NYLIC filed a claim against the Company in the aggregate amount of $7,235,945.00, comprising a $3,854,573.39 "Pre-Petition Claim", and a $3,381,371.61 "Post-Petition Claim." The Post-Petition Claim consists principally of medical benefits provided to retired and former employees of the Company (and their spouses and eligible dependents). NYLIC has asserted that the entire Post-Petition Claim is entitled to priority as an administrative expense, by virtue of the so-called "Metzenbaum Legislation" and the Retiree Benefits Bankruptcy Protection Act of 1988 (*see* Section IV. B. 3. above). This legislation requires debtors-in-possession to continue to pay retiree benefits after the commencement of the case. NYLIC has further asserted that of the Pre-Petition Claim, which consists principally of unpaid pre-petition premiums, $1,452,141.52 is entitled to priority under 11 U.S.C. § 507(a)(4).

The Proponents and NYLIC have negotiated a settlement of NYLIC's claim. Under the settlement, which shall be submitted to the Bankruptcy Court for approval, NYLIC will be allowed an Administrative Expense claim in the amount of $3,100,000 and an Unsecured Claim in Class 4A of $4,135,945.00. NYLIC has agreed, if necessary, to consent to the deferred payment of its allowed Administrative Expense on terms substantially similar to the terms on which deferred professional fees will be paid.

The Proponents believe that if NYLIC's claim were litigated, NYLIC would probably obtain an allowed priority claim of at least $3,100,000. Furthermore, if NYLIC were to demand payment in full of its priority claim at confirmation, the lack of funds for payment would make the reorganization substantially more difficult and perhaps impossible. Accordingly, the Proponents believe that the proposed settlement is fair and reasonable under the circumstances and in the best interests of the estate. Court approval of the proposed settlement is a condition of NYLIC's obligation to partially fund the Prescription Drug Plan.

6. Kaiser Fontana Environmental Cleanup Agreements.

Significant environmental concerns exist with respect to the site of the Kaiser's former steel-making, coke production and related operations on the Fontana properties. Federal and state programs relating to water quality and waste disposal impose obligations on Kaiser for the costs of remedial actions and could ultimately result in Kaiser Holdings' exposure to significant liabilities. Since the inception of Kaiser's operations in 1941, the steel-making, coke production and ancillary by-products generation at the site of Kaiser's earlier steel-making operations at Fontana have used and/or produced substances which are currently defined as hazardous by federal and California regulations.

Certain of these substances were released as a result of accidental spillages or from leaks. Kaiser reported the existence of three unlined tar pits to the United States Environmental Protection Agency (the "EPA") in accordance with federal law. Kaiser previously operated for two to three years chrome waste storage ponds which may have had some minor leaks. In addition, some by-products and process materials which were deposited on the property or left in the old steel-making facility and which have remained on the property since termination of production operations may be classified as hazardous waste. In 1982, a wrecking company purchased the coke plant, the by-products plant and three blast furnaces located on the old steel mill site. Between 1982 and 1985, the wrecking company dismantled and removed tanks, pipes and containers which had been previously drained by Kaiser. During the dismantling process, solid organic compounds which had been deposited over time in the tanks, pipes and containers were spilled on the ground. Kaiser has filed suit against the wrecking company and is, among other things, seeking damages for such spillages. The wrecking company has subsequently filed for relief under Chapter 11 of the United States Bankruptcy Code.

The Debtors anticipate that significant cleanup costs will be incurred as part of the industrial park project or in connection with federal or state requirements. The Debtors anticipate that in excess of $30 million will need to be made available by the joint venture partner for this environmental cleanup.

Kaiser retained an engineering consultant to recommend a program of site assessment on the former steel mill property. Submittal of the consultant's recommendations to regulatory authorities led to negotiations with the DOHS culminating in a Consent Order detailing a site assessment and remedial investigation program discussed below.

a. *Soil—DOHS Consent Order*. The Company intends to enter into a Consent Order with the DOHS ("Consent Order"). The Consent Order addresses possible air, soil, surface water and groundwater contamination at the former steel mill property owned by the Company. It establishes a site assessment and remediation program compatible with the Company's objectives for development of the site as an industrial park. The Consent Order is an umbrella document contemplating a number of future agreements. It allows the Company to develop the least contaminated portions of the site and use the funds generated from such development to cleanup and develop more contaminated sections of the site. The Consent Order requires that all cleanup work be completed within 10 years. Pursuant to the

Consent Order, a work plan and implementation schedule are to be submitted by the Company which calls for a Preliminary Assessment Report and a Site Inspection Report to be completed. A Master Work Plan is required to be submitted within 90 days of DOHS's written approval of the Site Inspection Report. The Consent Order requires the Company to submit a Remedial Investigation and Feasibility Study Work Plan and implementation schedule for all the activities necessary to conduct a complete remedial investigation and feasibility study of each portion of the facility and any associated areas where there is a release or threatened release of hazardous substances from the facility. Within 30 days of DOHS approval of each Feasibility Study report, the Company is to prepare and submit to DOHS for review and approval a draft Remedial Action Plan ("RAP"). Following DOHS approval of each draft RAP, the Company is to submit a final RAP for approval. Upon DOHS approval, the Company is to implement the final RAP in accordance with the approved RAP Work Plan and Schedule.

b. *Groundwater—CRWQCB Cleanup Order.* There are four operable water wells located on the Company's property in Fontana. Periodic tests of water quality in these wells have over time shown varying concentrations of total dissolved solids. In 1983 the Company began a well testing and groundwater evaluation program to determine the nature and extent of total dissolved solids in the groundwater. These tests indicated elevated salinity in some of the Company's wells. In June 1983, the Company entered into an agreement with an engineering consulting firm to do additional well testing and to undertake a computer modeling study of the groundwater underlying the Fontana facility. The report covering the first two phases of the study was received in December 1983, and confirmed high salinity in certain areas below the plant site. The report also concluded that it is likely that the Company's steel-making operations over the years contributed to the observed levels of salinity.

The third phase of work was completed in March 1986. The report covering this phase confirmed the presence of a plume of elevated salinity in the groundwater as well as the presence in one sampling well of benzene, an organic compound, in concentrations slightly above the state action level but not in concentrations exceeding currently proposed federal drinking water standards. The report also presents computer projections which indicate that the plume of elevated salinity is moving off of the Company's property in a southwesterly direction.

The report, which also recommends that off-site groundwater sampling and testing be conducted to verify the computer projections, was submitted to the staff of the California Regional Water Quality Control Board—Santa Ana Region ("CRWQCB-SAR"). In August 1987, the Company agreed to Cleanup and Abatement Order No. 87-121 with the CRWQCB-SAR. The Order requires that the Company commence work on the Phase IV investigation and submit a draft report of the results, an analysis of remedial action alternatives, a proposed preferred alternative for implementation and estimated time schedule for execution of that alternative. Within 30 days of approval of the Phase IV report, the Company is required to implement the remedial action alternative in accordance with a time schedule approved by the CRWQCB-SAR.

c. *EPA-PCB Consent Agreement.* In June 1986, the EPA filed an administrative action against the Company seeking $127,000 in penalties for (i) alleged improper storage, maintenance, labeling and record keeping of drums and transformers containing PCB's on the Company's property in Fontana; and (ii) PCB spillage and soil contamination with respect to such drums and transformers. In August 1987, the Company entered into a Consent Agreement with the EPA Region 9 office in San Francisco, California. Under the Consent Agreement and Final Order, the Company is to pay a penalty of $15,000 and is obligated to spend at least $250,000 to phase out PCB transformers beginning not later than August 7, 1989, and ending not later than August 7, 1991.

C. ASSETS

For purposes of the Plan, the company's assets are divided into three general categories: the "Kaiser Fontana Properties," the "Steel Assets" and the "Litigation." Each of these classifications is discussed separately below.

1. The Kaiser Fontana Properties.

The "Kaiser Fontana Properties" consist of three principal properties and certain other assets:

a. *The Fontana Steel Mill Site.* This consists of between 857 and 1167 acres of land (depending on recoveries from the Litigation) near Fontana, California (the former steel mill site).

b. *The Fontana Waste Treatment Facility.* This is the facility at Fontana, California which treats liquid hazardous waste, primarily generated by California Steel Industries, Inc. (CSI).

c. *The Eagle Mountain Mine Properties.* The Eagle Mountain mine properties are located 150 miles east of Fontana, California and include the companies' iron ore mines, related assets, and a railroad running from Ferrum, California to the Eagle Mountain mines.

d. *Other Assets.* There are additional assets to be retained under the Plan by Kaiser Holdings and employed in the redevelopment efforts. They include a controlling stock interest in the Fontana Union Water Company, a claim in the Chapter 11 bankruptcy case of MC Acquisition Corp. with respect to a building in Los Angeles, rights relating to a joint venture with a French company with respect to the development of certain land in Ensenada, Mexico, litigation claims involving less than $1.0 million and insurance claims and other assets relating to the Kaiser Fontana Properties including insurance claims for environmental damage or cleanup. The Kaiser Fontana Properties are described in more specificity on Exhibit A to the Plan itself.

Under the Plan, the Kaiser Fontana Properties would be retained by Kaiser Holdings and redeveloped to generate value for shareholders. Ninety percent of the New Common Stock of this company will be distributed under the Plan to creditors.

2. The Steel Assets.

The Steel assets consist of those assets of the Debtors not necessary to the redevelopment effort, and therefore not included in the Kaiser Fontana properties, which will be liquidated under the Plan. A significant portion of the Steel assets have already been sold and the proceeds have been used to pay claims of secured creditors with liens against those assets and ongoing expenses.

a. *Tax Refunds.* The Company has pending in the Bankruptcy Court against the California Franchise Tax Board claims for tax refunds totaling nearly $16 million involving issues of whether the Company's sales of its interests in two companies with foreign operations should be treated as business income for purposes of California's state income tax. If the sales are treated as business income, then a percentage of Kaiser's income from its sale of its interests in those companies would be excluded from the state income tax calculation resulting in a significant California tax refund. The Franchise Board has claimed that the Debtors owe $11 million.

The State of California auditors for the Board of Equalization are also currently auditing certain claims for refund of sales and use taxes paid in the late 1960's, 1970's and early 1980's. If the auditor finds favorably for the Company, a sales tax refund of up to $2.5 million will be paid to the Company in late 1988 or early 1989.

3. The Litigation.

The Debtors have commenced lawsuits seeking to recover money and property transferred from the Company over the last several years, principally relating to the 1984 LBO, the 1985 Exchange, TIPS employee incentive payments and actions of Directors and professionals in approving the 1984 LBO. These lawsuits are referred to as the "Litigation." All net cash proceeds recovered in these suits will become "Distributable Proceeds" payable to creditors in accordance with the Plan. The principal actions now pending are described below. Recoveries in the Litigation are expected to be the principal source of Cash Distributions to unsecured creditors. If the Litigation cases are minimally or not successful, there may be only nominal or no Cash Distribution to unsecured creditors. There can be no assurance that any of the Litigation cases will be successful.

a. *1984 Leveraged Buyout Litigation (the "1984 LBO Case").* Case No. 87 B 137. This lawsuit involves the 1984 leveraged buyout ("1984 LBO") of Kaiser. Kaiser filed a Complaint against certain recipients of the approximately $162 million paid to shareholders for Kaiser common stock, as well as in excess of $40 million paid out as dividends on preferred stock and $14.5 million paid for an option to acquire stock from an investor group led by Irwin L. Jacobs (the "Jacobs Group"). The Complaint alleges that the initial transfers and dividends paid to the defendants, and the obligations incurred by Kaiser, were for less that fair consideration (1) while Kaiser was insolvent or rendered insolvent by the transaction; (2) when the property remaining in Kaiser's hands was an unreasonably small amount of capital with which to engage in business; and, alternatively, (3) when Kaiser knew, intended to incur or believed that debts would be incurred in its business beyond its ability to repay as they matured. The transfers were thus alleged to constitute fraudulent conveyances within the meaning of the California Uniform Fraudulent Conveyance Act and/or § 548 of the Bankruptcy Code.

The lawsuit seeks to declare all of the transfers fraudulent and void as against the Company as debtor-in-possession, to set aside the transactions and order each defendant to account for and return all monies received, or alternatively, for judgment against the defendants in an amount equal to the value of the property received. Numerous factual and legal defenses have been asserted by various defendants and it is too early to accurately estimate the range of potential recoveries.

b. *Kaiser Steel v. Frates/Rial-Perma ("1985 Exchange Case").* Case No. 87 E 135. This lawsuit challenges three groups of transactions: the "April 1985 Exchange," the "West End Property Transactions" and the "Cottonwood Transaction."

(1) The "April 1985 Exchange." In this transaction, the Rial-Perma Group and Frates Group obtained from Kaiser through the Perma/Frates Joint Venture real property (including the western portion of the Fontana mill site known as the "West End Property"), with a value in excess of $45 million, plus $5.0 million in cash, and a Promissory Note in the amount of $5.0 million. The Company assumed liabilities of the Rial-Perma Group incurred in connection with Colorado coal properties held by the Perma/Frates Joint Venture in the amount of approximately $23 million, of which $12 million was paid out simultaneously or within several weeks of the April 1985 Exchange. In addition, the Company paid approximately $10 million to professionals, advisors and participants in the April 1985 Exchange and related financings. As part of the transaction, the Company received from the Perma/Frates Joint Venture certain worthless coal properties located in Colorado and a Letter of Intent previously entered into between Perma and Southwestern Public Service Co. ("SPS") regarding the possible supply of coal to an unbuilt electric generating facility. Within weeks of the Exchange, SPS was denied permission to build the proposed generating facility, and has not purchased any coal from Kaiser or undertaken any steps to build the generating facility.

(2) The "West End Property Transactions." In the West End Property Transactions, the Company paid to or on behalf of the Rial-Perma Group and its affiliates an amount in excess of $5 million for an option to reacquire the West End Property from Perma Pacific. Perma Pacific subsequently entered into a $12 million loan with First Interstate Bank, secured by the West End Property, which obligation was further secured by an agreement to "put"[7] the property to an entity known as "ASIC," which is a wholly-owned subsidiary of Southern California Edison Company, for the original principal amount of the First Interstate mortgage. Under the terms of the option agreement between Perma Pacific and Kaiser, Kaiser agreed to and did make Perma's payments to ASIC and First Interstate and Perma's real estate tax and insurance payments. In addition to the amounts paid under the option agreement, Kaiser transferred cash to Perma Pacific under the guise of rent on the structural shop building located on the West End Property.

(3) The "Cottonwood Transaction." In the Cottonwood Transaction, the Company borrowed $2.2 million from Northern Cimmaron Resources Company, another wholly-owned subsidiary of Southern California Edison Company. In connection with the loan, Kaiser gave Cimmaron not only

[7]A "put" gives the owner of property a right to require another party to purchase the property at a specific price, usually for or at a specified time.

a second mortgage in the amount of the loan, but also a pledge of 100% of the common stock of Cottonwood Canyon Land Co. (a wholly-owned Kaiser subsidiary) and transferred a 1/3 fee interest in the property and agreed to pay Cimmaron's portion of debt payments due on the property.

In the 1985 Exchange Case, the Company is challenging these three transactions and attempting to recover either the monies or properties transferred or their value, and/or avoid the liens and other interests granted to the defendants. The defendants in the lawsuit are the members of the Rial-Perma and Frates Groups and their affiliates that received transfers of assets and payments in connection with the above-described transactions; the members of the Company's Board of Directors that approved, ratified or failed to object to the transfers and payments described above; Donaldson, Lufkin & Jenrette Securities Corporation which issued a fairness opinion to the Company in connection with the April 1985 Exchange transaction; and Dean Witter Reynolds, Inc., which issued a fairness opinion to the Company in connection with a portion of the West End Property and the Cottonwood Transaction. Also included as defendants are Southern California Edison Company and its subsidiaries as a result of their involvement in the West End Property Transactions and Cottonwood Transaction.

The Complaint alleges that the Kaiser directors committed various breaches of fiduciary duty in connection with the approval, ratification and failure to object to these transactions and alleges that certain interested party directors breached their duties by receiving and accepting property and assets from the Company. The Company alleges the transactions were fraudulent conveyances and that the Company was insolvent at the time of or was rendered insolvent by these transactions. The Complaint also alleges that the investment banking firms in rendering the fairness opinions were negligent and breached their duties to Kaiser, its creditors and preferred shareholders.

This matter is set to commence trial March 15, 1989.

c. *Kaiser Steel v. Rial, et al. (the "TIPS Case").* Case No. 87 M 437. In this lawsuit, the Company seeks to set aside and recover various payments and transfers made to members and affiliates of the Frates Group and the Rial-Perma Group during the period from March 1984 through January 1987. The Complaint alleges, in part, that Kaiser transferred funds to various persons and entities related to holders of common stock in an amount in excess of $24 million without receiving adequate consideration in return. These transfers were made in connection with the "Transaction Incentive" or "TIPS" bonus program, various consulting arrangements entered into between the Company and affiliates of the Rial-Perma and Frates Groups, payments made in connection with the 1984 LBO acquisition of Kaiser common stock by the Rial-Perma and Frates Groups, payments made to Perma Mining over and above the amounts due under the Perma Mining management contracts, various payments made to F.C.D. Oil and Perma Resources in connection with oil and gas exploration and officer and director compensation.

Named as defendants in the lawsuit are the directors of Kaiser who were in office at the time of these transactions and the persons and entities affiliated with the Frates and Rial-Perma Groups who received payments. Kaiser seeks to void all of the transfers as fraudulent conveyances on the ground that the Company did not receive fair consideration for the transfer of approximately $24 million to the Rial-Perma and Frates Groups and that the Company was insolvent at the time of or was rendered insolvent by these transactions. The Complaint alleges that the Kaiser directors were negligent and breached their fiduciary duty in approving, ratifying or failing to object to these transactions and that the defendant directors violated their duties in receiving and accepting these transfers. The Company seeks to obtain damages in the amount of all transfers plus interest.

Discovery in the April 1985 Exchange and TIPS cases is currently scheduled to be completed this year. If this schedule is maintained, it is anticipated that the trial of the April 1985 Exchange and the TIPS cases will commence March 15, 1989.

The Company believes that there may be $25 million available in three separate policies of director and officer insurance coverage in connection with the 1985 Exchange and TIPS cases. The two issuers of the excess policies ($5 million and $15 million) have denied coverage or reserved defenses that the policies do not provide coverage. The Company also believes that certain of the defendants have significant assets to satisfy any judgment.

d. *The Chase Action.* Case No. 88-Z-0254. This is an action filed by the Company and some of the Coal Companies seeking to avoid the lien of Chase Manhattan Bank, Meritor Savings Bank, and other lenders, in certain assets of the Steel and Coal Companies and to recover amounts previously paid and other damages. The Complaint alleges, among other things, that the liens granted are avoidable under the Bankruptcy Code and other applicable law as fraudulent transfers, in part because the proceeds of the loan were used to fund the payments made in connection with the April 1985 Exchange and the TIPS Payments. The Complaint asks that the liens be avoided, subordinated, and/or that damages be paid. The Complaint has been served, but not yet answered. The Debtors anticipate that the defendants will vigorously contest the relief requested. Any recoveries by the Coal Companies will be administered in their respective bankruptcy proceedings and not under this Plan.

e. *The Directors Action.* Case No. 88 A 462. This is an action to recover monies from officers and directors of Kaiser Steel at the time of the 1984 LBO paid out as a result of that transaction. Claims are made for officers and director's negligence, breach of fiduciary duties, constructive fraud, fraudulent conveyance and violation of Delaware Corporation law. The Complaint has been served but not answered. The Debtors anticipate the defendants will vigorously contest the relief requested.

4. Value of the Assets.

Other than the Steel Assets, the value of the assets of the Company available for reorganization is extremely difficult to ascertain. The Proponents have consulted with various professionals in the case about asset values, and the best estimate available to the Proponents of the asset values in a liquidation is set forth in the table "Estimated Liquidation Values," Section IX. B.

This table projects a potential $19.5 million net value, in liquidation, for all of the assets of the Debtors, excluding the Litigation. While in excess of $300 million is sought as a claimed recovery in the Litigation, it is impossible to predict what the actual recovery, if any, will be. The reason that a more precise value cannot be estimated for the Kaiser Fontana Properties is due to the unquantifiable environmental claims to which those properties are subject. If the Plan of Reorganization is consummated, and Kaiser Holdings complies with the various environmental consent orders entered into after receiving funding from a joint venture partner for this purpose, substantial values will, in the view of the Proponents, be created. However, if these orders are not complied with, or if funds are not forthcoming to enable the Debtors to do so, the Proponents believe that there will be virtually no value in any of the Kaiser Fontana Properties since the governmental agencies responsible for enforcement of the environmental laws would apply the value of the properties to pay for their clean-up.

In the reorganization context, if the Plan is confirmed, the Debtors have projected asset values and liabilities and cash flow projections which are attached to this Disclosure Statement as Exhibits C(a) and C(b). The Proponents believe that the value of the assets in reorganization is substantially greater than the value of the assets in liquidation, as set forth in Section IX. B. Although the Company was once an extremely large concern with hundreds of millions of dollars worth of assets, the above-described assets are all that now remain due to the many transactions engaged in by the Company prior to the filing of the bankruptcy. As noted above, the Company's Coal Group subsidiaries are not included in these analyses.

D. LIABILITIES AND CLAIMS

1. General

The liabilities of the Debtors have been alluded to in previous sections of this Disclosure Statement, and are set forth in the aggregate in the Distribution Summary table attached hereto as Exhibit B. The Debtors anticipate these liabilities to break down roughly as follows:

Administrative and Priority Claims	$ 19,650,000.00
Kaiser Fontana Environmental Claims	$ 20,000,000.00 to $ 40,000,000.00
Secured Claims (Cash Only)	$ 378,000.00
Retiree Medical Benefits Claims	$300,000,000.00 to $500,000,000.00
PBGC Unsecured Claim	$203,000,000.00
Retiree Pension Claims	$ 37,000,000.00
General Unsecured Claims	$150,000,000.00 to $250,000,000.00
Preferred Stock Claims	(Unknown)
Common Stock Claims	(Unknown)*
Inter-Company Claims	(Unknown)*
Subordinated Claims	(Unknown)*

*These claims will receive no Distributions under the Plan.

If confirmed, all of these liabilities of the company would be discharged completely in return for the Distributions to be provided under the Plan. As noted above, the Claims filed with the Bankruptcy Court in the category of "General Unsecured Claims" greatly exceed the $150 to $250 million estimated for those Claims, but the proponents believe that many of these Claims would be disallowed by the Bankruptcy Code. However, *it is impossible to estimate with any precision at this time the total amount of the Debtors' potential unsecured liabilities.* Based on the foregoing, however, the Proponents believe that the ultimate total amount of *allowable* liabilities would fall somewhere between $700 million and $1 billion. Even if this ultimately turns out not to be the case, however, the percentage allocations as confirmed by the Court will not be changed once the Plan is confirmed.

2. Environmental Claims and Cleanup Costs.

As the result of its steel making and other operations prior to the filing of the bankruptcy, the Company is subject to substantial, but unquantifiable Environmental Claims. The Proponents believe that the most serious of these claims are dealt with through the DOHS Consent Order and the CRWQCB Clean-Up Order described above. Even if the claims are discharged in this fashion, however, there will still be substantial costs associated with compliance by the Company with these orders. Under the Plan, all Environmental Claims not relating to the Kaiser Fontana properties are treated as Class 4(a) general Unsecured Claims. The costs of complying with the DOHS Consent Order and the CRWQCB Clean-Up Order must be borne by the Reorganized Debtors and/or their joint venture partners.

a. *Other Environmental Claims (Class 4A)*

(1) **EPA RCRA Claim.** The EPA has inspected the Fontana Property to assess compliance with the Federal Resource Conservation and Recovery Act of 1976 ("RCRA"). Based on that inspection, in June 1986, the EPA notified Kaiser of its conclusion that violations of RCRA exist on the Fontana property. Those alleged violations include failure to conduct groundwater monitoring, failure to achieve compliance with interim standards, and failure to develop and fund a closure plan for hazardous waste sites on the property. EPA has proposed listing the property on its Superfund List. No enforcement action has yet been commenced by the EPA or the DOHS regarding those alleged violations.

(2) **Myers Drum Claim.** In July 1986, the DOHS notified the Company that its wholly-owned subsidiary, Myers Container Corporation, now Myers Drum Company ("Myers"), had been identified as a potential responsible party regarding a hazardous waste site at 1212 Thomas Avenue, San Francisco.

Myers operated a drum reconditioning plant on leased property at the location from 1965 until 1971. Kaiser purchased Myers in 1968 and subsequently terminated the subject lease in 1971. Kaiser has advised the DOHS that it finds no basis for its being a potential responsible party on this matter.

In November 1986, Myers was notified by the DOHS that its drum reconditioning site in Emeryville, California is considered to contain areas contaminated with hazardous waste based on a site inspection conducted in July 1985. The Company sold the assets of Myers to IMACC Corporation in December 1984. Myers is now a division of IMACC Corporation. Myers has been directed by the DOHS to devise a plan for site assessment and remedial investigation followed by a cleanup and disposal plan.

(3) Monterey Park Superfund Claim. In January 1987, the EPA informed the Company that it considers the Company a potentially responsible party at the Operating Industries, Inc., waste disposal site in Monterey Park, California. The Operating Industries, Inc., site is on the National Priorities list of "Superfund" sites. The Company's Steel Manufacturing Division in Fontana, its Automotive Stamping Division in Montebello, California, and its wholly-owned subsidiary, Kaiser Steel Tubing, Inc., in Vernon, California, have all at one time or another disposed of wastes at the Operating Industries, Inc. site. Most of these wastes were classified as hazardous wastes under California law, but are not so designated under the rules and regulations of the EPA. A site investigation has not yet been completed. This Claim of the EPA would be a Class 4A Unsecured Claim under the Plan.

Additionally, numerous other generators of the hazardous waste disposed at the Monterey Park site have filed claims against Debtors for indemnification and contribution. There may also be other environmental claims of which the Debtors and the Proponents are unaware at this time which could jeopardize the ability of the Reorganized Debtors to consummate the Plan, despite the intention of the Plan to discharge the Debtors from all such claims.

b. *Cleanup Costs.*

(1) Off Site Groundwater Cleanup. Off site groundwater cleanup costs will be unknown until (A) completion and CRWQCB-SAR approval of the fourth phase investigation in late 1988, (B) completion of the Company's remediation plan in 1989, and (C) completion in late 1989 of negotiations between the Company and the CRWQCB-SAR as to the remediation. The engineering consulting firm's report for the third phase of the investigation estimated the costs of remedial action to be between $1 million to $14 million in 1985 dollars. However, the Company currently believes the cost will be approximately $8 million to $10 million. There is no assurance, however, that actual costs will be within these estimates.

(2) On Site Soil Cleanup. The approximate costs of soil remediation on the Fontana properties will be unknown until completion of the Company's remedial investigation which is expected to take approximately 2 years. The cost of the remedial investigation itself is estimated to be approximately $2.5 million. The ultimate costs of cleanup cannot possibly be determined until the remedial investigation is completed.

The Company has been reviewing its insurance policies and certificates of insurance for possible coverage claims for environmental damage. A complaint against various insurance companies was filed (but not served) in 1985. A number of insurance companies were notified of possible claims for environmental damage in May 1986. The Company is currently analyzing its legal position and, if it proves to be meritorious, will pursue actions against the appropriate insurance companies for costs of environmental cleanup. There can be no assurance that such actions will be successful.

3. Tax Claims.

The IRS has filed a claim against the Debtors for an amount in excess of $92 million. Approximately $72 million of the claim pertains to the Company's failure to properly fund its pension obligations. The remaining approximately $20 million pertains to alleged underpayment of taxes for the years 1981 through 1986. The Company believes that the IRS claim pertaining to pension claims is subordinated and that its income tax obligations are not in excess of $5.0 million. Under the Plan, an allowed tax claims having priority under § 507(a)(7) of the Bankruptcy Code would be satisfied by a Tax Note payable over a period not exceeding six (6) years from the date of assessment of such tax. Subordinated unsecured tax claims in Class 8 will receive no Distributions. Allowance of the IRS Claim(s) in the full amount claimed, however, could jeopardize or defeat the Plan.

The California Franchise Tax Board ("the Board") has filed a priority claim for $11 million. The Debtors dispute this claim and instead claim a $16 million tax refund. Even if the Board has a claim, the Debtors dispute any priority status. The matter is pending in the Bankruptcy Court. Allowance of the Board's full claim as a priority claim might affect feasibility.

Other taxing authorities have filed claims for $1.6 million. The Debtor has not reviewed all claims but believes many are valid only against the Coal Companies. Ultimate resolution of these claims should not affect feasibility.

4. Asbestos Litigation.

The Company is named, along with many other defendants, in approximately 218 asbestos cases which have been stayed by the Chapter 11 filing. These cases generally allege either exposure to asbestos during employment with a shipyard which was an alleged corporate predecessor to the Company, exposure elsewhere to asbestos materials incorporated in ships produced at the shipyard, or that the Company or its alleged predecessor was a manufacturer of asbestos or asbestos containing materials. Recover is sought for unspecified general and punitive damages. Most of the complaints are so vague that the allegations against the Company cannot be ascertained. The amount of the Company's exposure is uncertain at this time and the Company believes any exposure will, in any event, be covered by insurance. These claims will be discharged upon confirmation.

SECTION V. FUTURE OF THE REORGANIZED COMPANY

The Debtors will be reorganized under the Plan as "Kaiser Holdings, Inc." ("Kaiser Holdings"), which corporation together with its subsidiaries will be the successor of the Debtors and entitled to a discharge under Section 1141 of the Bankruptcy Code. Under the Plan, Kaiser Holdings and its subsidiaries will (1) liquidate the Steel Assets and prosecute the Litigation to generate Distributable Proceeds for creditors; and (2) through joint ventures or other agreements with third parties (a) develop, own and operate an industrial park, (b) upgrade and expand the existing industrial hazardous waste treatment facility, and (c) develop the Eagle Mountain mine property primarily as a solid waste disposal site.

The liquidation of the Steel Assets and the prosecution of the Litigation have been described above. This section will focus on the activities of Kaiser Holdings in connection with the redevelopment of the Kaiser Fontana Properties into the three business ventures described as (a), (b) and (c) above. These business ventures are the result of extensive study by the Debtors and outside consultants.

A. INDUSTRIAL PARK.

The Fontana, California real estate owned by the Company is a unique property for the development of an industrial park due to its current zoning and its hazardous waste treatment facility. It is located in one of the fastest growing counties in the United States; an area which has experienced substantial residential, apartment, office, warehouse, and industrial and commercial projects over the law few years.

The site is located five (5) miles from the Ontario Airport, which is scheduled to be upgraded to a 12,000,000 passenger per year facility. The site is served by two of the major rail carriers in Southern California, the Santa Fe and Southern Pacific, with tracks on either side of the property and spurs from each line coming into the property itself. The site is located close to the major interchange of I-10 and I-15, the major north-south and east-west freeways that connect both coasts and Mexico and Canada.

Water is a scarce commodity in Southern California and one of the requirements for a real estate development. Kaiser Holdings will have access to in excess of 25,000 acre feet of water through water rights appurtenant to its property and through its majority ownership of shares in Fontana Union Water Company.

Electric power is also a major requirement for real estate development. The site is currently supplied by Southern California Edison Company through a 66,000 volt transmission line from a major substation and generating station immediately west of the site. Distribution facilities within the site will need to be added.

The industrial park property is not saleable "as is" and cannot be quickly liquidated for cash. Impediments to be addressed include:

a. The site has a number of environmental cleanup liabilities of unknown magnitude;

b. There is a 40 foot "mountain" containing millions of tons of slag and other by-products of decades of steel manufacturing which needs to be either leveled through sales and/or used as part of the infrastructure of the industrial park;

c. Ownership of certain properties advantageous to the development (such as the "West End Property") is uncertain and in litigation;

d. Most remaining areas are covered with partly demolished blast furnaces, coke ovens, piers, foundations, and the like which will be costly to remove;

e. There are miles of underground and overhead pipes and conduits that could be an asset but might also become a demolition and removal liability;

f. There are topography and access problems;

g. Money for capital improvements must come from joint venture partners and profits from initial sales; and

h. The property is perceived in the marketplace as a "distressed situation" that lacks credibility.

To create a unique industrial park which can offer something different from other industrial properties in the area, Kaiser Holdings together with the necessary joint venture partner, will endeavor to do the following:

a. Develop a specific plan which will identify types of industry which require a hazardous waste disposal system. This will include companies in high tech, defense, metal processing, and others.

b. Process an Environmental Impact Report (EIR) which will identify all necessary remedial action required to support pre-permitting for tenants/purchasers.

c. Develop a master grading plan for the slag deposits to provide for removal or incorporation and the lowest cost environmental cleanup of the site.

d. Upgrade the existing waste treatment facility to handle waste from the tenants of the industrial park.

The industrial park will be developed over approximately 15 years. This approach will allow the environmental remedial action, grading and new infrastructure to be accomplished in phases. If successful, each phase would provide positive cash flow for the following phase. The DOHS Consent Order discussed in Section IV. B. 6. allows up to ten years to complete remedial environmental action on the site.

Demolition and site clearance is continuing with the removal of saleable materials. It is necessary to remove asbestos prior to selling some of the remaining steel. Also, in the coke plant and by-products area, certain environmental assessment is required before further removal of facilities can proceed. Contracts have been let and demolition has begun to clear the remaining blast furnace and related facilities from the site. Leasing efforts continue for the rental of the remaining portion of miscellaneous buildings on a short-term basis so that they will not interfere with the industrial park development.

Kaiser has entered into an agreement with The Lusk Company ("Lusk") to joint venture the development of the mill site. Pursuant to those agreements, Lusk will fund the costs necessary to conduct a complete environmental assessment of the property and will reimburse Kaiser for certain of its employee expenses during this time. At the conclusion of the environmental assessment, which Kaiser estimates to be approximately 30 months, Lusk will have an option to create a joint venture relationship with Kaiser. Kaiser will be required to contribute the mill site property to the joint venture and will receive a capital credit of approximately 52 million dollars for the 870 acres that would be contributed by Kaiser. Lusk would guarantee financing in the amount of approximately 42 million dollars for the cleanup of this property and the 240 acre West End property that the Company is attempting to reacquire in litigation against Perma Pacific Properties.

To the extent that the cleanup costs for the property do not exceed 42 million dollars, Lusk has agreed to make the difference available to the reorganized company for a possible early distribution to its shareholders.

Assuming the environmental cleanup costs do not exceed the 42 million dollar budget, the profits from the resale of the property after development will be split on a 50-50 basis between Kaiser and Lusk.

In addition, Lusk has agreed to provide an earlier distribution of 3 million dollars within 10 days after Kaiser's confirmation to assist the reorganized company in meeting its expenses until such time that the reorganized company's joint ventures become profitable.

In the event that the environmental assessment that is being financed by Lusk indicates an amount so large that development of the property would not be economical, there is no obligation for Lusk to exercise its option to become Kaiser's joint venture partner. In that event, the reorganized company would seek other joint venture partners in an attempt to obtain financing for the cleanup and development.

B. WASTE TREATMENT FACILITY.

One of the Kaiser Fontana Subsidiaries will operate an industrial liquid hazardous waste treatment facility which will be designed to meet the regulations that exist today for the treatment and disposing into a non-reclaimable wastewater line of liquid industrial wastes classified as hazardous. The residual solids will be recycled or transported to an off-site disposal facility. This business will start with the existing on-site industrial liquid waste treatment facility. The ability of Kaiser Holdings to upgrade the hazardous waste treatment facility is dependent to a large degree on the ability of Kaiser Holdings to enter into a satisfactory joint venture relationship regarding the financing and operation of that facility. There is no assurance that such a satisfactory joint venture agreement can be achieved in regard to that facility. However, the Company has held discussions with several interested parties and has no reason to believe at this time that such a successful agreement cannot be achieved.

A key asset is the Company's waste discharge capacity rights in the non-reclaimable wastewater line of 2.7 million gallons per day, of which CSI (the principal customer at this time) uses 800,000 gallons per day.

The Southern California Hazardous Waste management Authority has identified a need for hazardous waste treatment facilities in Southern California of unprecedented proportions. This need was created by recent legislation requiring diversion of nearly all of the Los Angeles area's liquid industrial wastes away from the existing Class I landfills by mid-1990. The Southern California Hazardous Waste management Authority Board of Directors, in June 1986, passed a resolution supporting the basic concept of Kaiser's proposed upgraded facility and offered to assist in the permitting and in the development of a public awareness program.

The existing facility is being managed by the Debtor. Planning for the upgrading has also been managed by the Debtors with assistance from Metcalf & Eddy (M & E), a national engineering firm with experience in the design and operation of waste treatment plants. M & E has performed a market study and the initial engineering of a possible upgrade. A third party will probably be hired to operate waste treatment plan if the plant is upgraded.

The initial market study completed by M & E found the current cost for off-site treatment averages $1.50—$1.60 per gallon, and projected 10 million gallons for treatment per year at start-up of the expanded facility. Other opportunities included metal containing sludge treatment, metals recycle, acid recovery, and a regional transfer station to assemble small shipments for transfer to other disposal facilities.

Initial permitting started in November 1985 when the application for site approval/land use was filed with San Bernardino County. The county determined that an EIR was required and the EIR is being prepared. A public hearing on the draft EIR is expected to occur by mid-August 1988. The final site approval will require that the upgraded plant be designed and operated to meet all regulations and that all necessary permits and approval for the construction and operation of the upgrade facility be obtained.

C. EAGLE MOUNTAIN MINE PROPERTY

The Kaiser Eagle Mountain Mine property consists of approximately 10,000 acres located 108 rail miles from the Fontana site near the community of Desert Center, California. During the active years of the steel manufacturing plant at Fontana, Eagle Mountain was the source of iron ore for the blast furnaces of Kaiser. Mining operations ceased in early 1982. However, shipments from existing iron ore stockpiles continued to the steel mill and then to other customers until 1983.

Approximately 50% of the 10,000 acres at Eagle Mountain are held by Kaiser in patented claims. A patented claim is equivalent to title held in fee. The balance of the property is held through unpatented claims, campsite claims, and millsite claims. These claims can generally be defined as claims held for the specific purpose of conducting mining operations. In most cases these claims contain a "reverter clause," that is, if mining and associated operations are discontinued, these claims could revert to the U.S. Government after seven years. The Company is actively pursuing strategies to maintain title to these claims; i.e. petitioning the Bureau of Land Management ("BLM") for special use rights, and negotiating with mining companies to explore and extract precious metals on the site.

Another important asset associated with the Eagle Mountain property is the railroad. This track spans a 55-mile distance from the mine to the main Southern Pacific line at Ferrum, California. This rail line is destined to be a key factor in the economic development of Eagle Mountain Mine. While a portion of the railroad right-of-way is over land controlled by entities such as the BLM and U. S. Navy, management is currently working on extending these right-of-way agreements.

The most significant source of potential revenue at Eagle Mountain is the Solid Waste Disposal Project; however, the Debtors believe there are other projects under development or discussion which would also contribute to the generation of revenue from Eagle Mountain, as discussed below.

1. Eagle Mountain Solid Waste Disposal Project.

Considering the public opposition to waste-to- energy projects in Southern California and the difficulty of permitting additional landfill sites adjacent to metropolitan areas, the Debtors believe that a rail-haul, solid-waste management project at Eagle Mountain has significant potential. During the course of mining operations, in excess of 1.2 billion tons of rock and ore were removed leaving 3 tremendous pits. The combined landfill capacity of these pits indicates a useful life in excess of 50 years.

The Debtors have received the initial support for the project from Riverside County. Once an EIR has been approved, the Debtors believe that Riverside County will actively assist in securing the necessary land use and environmental permits. Preliminary discussions with the City of Los Angeles and the San Gabriel Valley League of Cities indicate that a market is present and growing.

This project is extremely capital intensive, and will require major investments in heavy equipment, permitting and engineering, site preparation, operating reserves and working capital. The total preliminary estimated project cost is over $66 million, which will have to be provided by a joint venture partner.

The Company has proposed an agreement with Mine Reclamation Corporation ("MRC") for the development of the Eagle Mountain iron ore mine site as a solid waste disposal facility. The agreement will be presented to the Bankruptcy Court for approval, but such approval has not yet been received.

The agreement with MRC provides that Kaiser will lease to MRC for a term of 100 years the pits and immediately surrounding area located at Eagle Mountain. Kaiser will receive from MRC a royalty of 8% of MRC's gross collections for waste collected by MRC and deposited at the facility. In no event, however, is the 8% fee to be less than $2.00 per ton.

In addition, as an inducement to MRC to develop the property as a waste disposal facility rapidly, the reorganized company will receive within 95 days after confirmation an advance rental payment of $1,500,000.00. Further, at a date not later than 36 months after confirmation, MRC will begin to pay the reorganized company a minimum rent of $100,000.00 a month for two years as advance payments and thereafter minimum rent of $200,000.00 per month.

It is anticipated that the initial tipping fee in 1991 will be approximately 40 dollars per ton and that the company would receive approximately $3.20 per ton as its royalty. Assuming an average volume of 4,000 tons a day, this royalty would amount to approximately $4.7 million dollars annually.

Major "political" risks include public and government acceptance of waste disposal at the mine's remote location in Riverside County, location of transfer stations in urban areas, and the crossing of certain locales by the unitized trains. Major competitive risks include changes in technology and pollution controls for waste-to-energy plants and other rail-haul projects in nearby desert areas, including Imperial County. Areas remaining to be addressed include site geology, gross capacity and specific capacities within the site, railroad operations and costs of conforming the site and proposed functions with landfill environmental standards.

2. Management Training Corporation ("MTC").

The Company in September 1987 entered into a lease contract with MTC for a 200-bed, minimum security, "Return-to-Custody" facility to be located at Eagle Mountain. MTC, a private corporation, has a contract with the California Department of Corrections to supply such a facility. The lease is for a 5-year term with an option for a 5-year renewal. Rent is $33,000 per month with an increase each year. During the first twelve months of the lease, the rent is reduced by $100,000 of construction costs incurred by MTC for the modification to certain structures at the Eagle Mountain site. Included in this lease are 30 residences in the campsite to house the staff workers. In addition, MTC purchases water and sewer service from Kaiser.

3. Kiewit Mining Group.

There is some geological evidence to indicate the presence of gold-bearing deposits at Eagle Mountain. Management is in the final stages of negotiation with the Kiewit Mining Group and the Draco Gold Mines, Inc., of a precious metals exploration agreement, with option to lease. Kiewit would do the exploration and, if gold is present in economically feasible quantities, conduct the mining operation.

4. Lake Tamarisk Properties.

Lake Tamarisk is a community located between Desert Center and Eagle Mountain, developed by Kaiser and now operated by a special services area of Riverside County. Kaiser owns 80 improved lots including 7 houses in Lake Tamarisk. Kaiser also owns approximately 320 acres of unimproved land directly across the street from the main gate into Lake Tamarisk. This property will be developed or sold and could represent a significant asset if the other projects at Eagle Mountain provide a renewed economic vitality to the area.

D. INCOME PROJECTIONS.

As with any start-up venture, income projections for the three business ventures proposed above are difficult to predict. Attached to this Disclosure Statement as Exhibits C(a) and C(b) are post-confirmation asset and liability schedules and projected cash flows for the Reorganized Debtors following confirmation of the Plan. In reviewing these exhibits, careful attention should be paid to the footnotes which reference certain assumptions that have been made which may or may not materialize. Most importantly, the projections assume that for each of the businesses, except the waste treatment plant, both an acceptable joint venture partner and adequate financing will be obtained, at the level indicated above, to enable the projects to proceed. In the absence of a joint venture partner and/or financing, the assets dedicated to the particular business venture in question would have to be liquidated. The Debtors do not anticipate that any substantial values would be generated through liquidation.

The cash flow projections in Exhibit C(b) are based upon terms of proposed joint venture agreements which are now in the process of being negotiated by the Debtors. However, because these agreements have not yet been finalized or approved by the Bankruptcy Court, the terms and conditions of these agreements may change, and these changes may be material. Exhibits C(a) and C(b) were prepared by the Debtors' own personnel and have not been subject to audit or verification by either other Proponents of the Plan or third parties. It is entirely possible that one or more of the proposed business ventures will not generate the anticipated income projected on these exhibits. It is also possible that one or more of these business ventures will fail entirely and need to be liquidated by the Reorganized Debtors. Creditors and parties in interest are cautioned that, while every effort has been made by the Debtors to be realistic in these projections, the Debtors cannot predict the future and one or more of the assumptions upon which the projections are based will almost certainly either change in a material way or fail to materialize as assumed. Nonetheless, the Proponents believe that the redevelopment of the Kaiser Fontana Properties into the three business ventures proposed above represents by far the greatest potential for return to creditors from these assets.

E. DIRECTORS AND MANAGEMENT OF THE REORGANIZED COMPANY.

1. New Board of Directors.

The Proponents of the Plan have agreed that most of the initial Board of Directors shall be appointed by the Steel Committee and the Retiree Subcommittee. The majority of the initial Directors of Kaiser Holdings have been selected by the Retiree Subcommittee. The Claims of Retirees, in the aggregate, are the largest claims against the estates and therefore Retirees have the greatest interest in the continued success of the Reorganized Debtors and of the Litigation. The PBGC, which has the next largest claim against the estates, shall select one director. The hourly members of the Subcommittee have selected three of the five Retiree directors and the salaried members of the Subcommittee have selected two directors. The other (non-Retiree) members of the Steel Committee have selected two directors. The ninth member of the Board of Directors will be Bruce E. Hendry, the current Chairman of the Board. If the Plan is confirmed, these directors will entirely replace the current board and shall serve an initial term of three years.[8]

The initial directors who will serve following confirmation of the Plan are:

Directors Nominated by Hourly Members of the Retiree Subcommittee:

1. Thomas S. Rabone
2. Vern W. Maxie
3. Cass D. Alvin

Directors Nominated by Salaried Members of the Retiree Subcommittee:

4. Nicholas L. Rickard
5. Reynold MacDonald

---

[8]The members of the current board are: Bruce E. Hendry (Chairman), James L. Marvin, Stonie Barker, Jr., John C. Davis, James A. Potter, William R. Dimeling, Monty H. Rial, Miles G. Yeagley, and Frank Anglin.

Directors Nominated by Non-Retiree Members of the Steel Committee:

6. William R. Amos

7. John W. Kluesener

Director Nominated by the PBGC:

8. Not yet nominated.

Current Chairman

9. Bruce E. Hendry

Thomas Rabone is an hourly Retiree and a member of the Retiree Subcommittee. Mr. Rabone worked for Kaiser from 1950 to 1983 in the steel mill. Since his retirement from Kaiser in 1983, he has been employed as a realtor. During his time at Kaiser, Mr. Rabone served on many committees and negotiation groups for the USWA and the Company. He has also served on the Fontana Unified School District Board of Education and other community service groups.

Vern W. Maxie is an hourly Retiree, having retired in 1979 after 36 years with Kaiser Steel. Mr. Maxie held many offices with USWA Local 2869 during that time, and also served on negotiating groups. Mr. Maxie is serving his fourth 2-year term as a senior Senator for San Bernardino County in the California Senior Legislature.

Cass D. Alvin is a retired Public Relations and Education Director for the USWA, Western Region. Mr. Alvin was employed by the USWA from 1946 to 1986 and now serves as Vice President at Large for the California Labor Federation AFL-CIO. Mr. Alvin has chaired many union negotiating committees and has been actively involved in representing the interests of labor throughout the western United States. Mr. Alvin has also served as a member of the California Waste Management Board and has served as a member of the California Toxic Substances Repository and Hazard Alarm Commission.

Nicholas L. Rickard is a salaried Retiree of Kaiser and a member of the Retiree Subcommittee. Mr. Rickard worked for Kaiser from 1959 to 1983. He served as a superintendent of Kaiser's various steel making operations during that time, including start-up of the new steel making facility in 1980. Mr. Rickard now serves as a private consultant to industry in areas of manufacturing and organization, and is a member of the faculty of California State University at San Bernardino lecturing in management science.

Reynold MacDonald has worked for Kaiser from 1946 to 1963 as an industrial engineer and superintendent of various steel making operations. Since then, he has been with Lone Star Steel Company, and Inter Lake, Inc., where he was president, chairman and chief executive officer. He now serves as chairman of Acme Steel Company, a spin-off of Inter Lake, Inc. Mr. MacDonald is a member of the Board of Directors of Parker Hannifin Corp., ARA Services Corp., and Lennox International, Inc.

William R. Amos is a senior vice president of Fidelity and Deposit Company of Maryland, a creditor of the Debtors, and is a member of the Steel Committee.

John W. Kluesener is a Vice President and Project Manager for Bechtel Environmental, Inc. Dr. Kluesener is an accomplished project manager with 17 years experience including design, construction, management, startup, and operation of projects over $200 million dollars in value. He has managed site investigations, feasibility studies, and remedial design, and construction management at several sites in Regions IX and X.

Bruce E. Hendry is the current chairman and was chief executive officer of the Company who assumed control in the 1987 proxy contest referred to in Section IV. A. 2. c above. Mr. Hendry has served in this position during the course of the Chapter 11 proceedings. Under an agreement approved by the Bankruptcy Court, Mr. Hendry has resigned as CEO, and will resign as chairman after confirmation, but will continue to serve as a member of the Board of Directors. Mr. Hendry is an officer of the Minneapolis brokerage firm of Craig-Hallum, Inc., and has been active in several reorganization and turn-around situations, including Erie-Lackawanna Railroad, Wickes Company, Inc., and a private country club in Minneapolis, Minnesota.

The new Chief Executive Officer will be an *ex officio* member of the Board and will preside at meetings as acting Chairman of the Board.

Outside directors of the Company are currently paid $1,000 per month plus $1,000 per meeting. Inside directors, that is, individuals, who are on salary, do not receive any directors' fees over and above their normal compensation. All directors are reimbursed for their direct out-of-pocket expenses. It is anticipated that the outside directors who are not salaried by the Company will receive $500 per meeting. The retiree directors have agreed to waive their monthly and per meeting director fees.

2. New Management.

The following individuals are expected to be the Executive Officers of Kaiser Holdings following confirmation of the Plan. Their respective titles and their initial annual cash compensation are as follows:

Richard E. Stoddard Chief Executive Officer	$250,000.00
Claude A. Bradford Senior Vice President Administration and Chief Financial Officer (part time)	$ 60,000.00
Daniel Larson Executive Vice President and Litigation Manager	$100,000.00

Mr. Stoddard was, until June 1, 1988, a partner with Roath & Brega in Denver, Colorado. He is a business lawyer and while his firm represented the Retiree Subcommittee he served as a business consultant for the Steel Committee and became totally familiar with the Companies' business plans. Mr. Stoddard's employment is pursuant to an agreement currently before the Bankruptcy Court for approval. That agreement provides for his salary and certain stock options.

Mr. Bradford has served as senior vice president, administration and chief financial officer of the Company since May 1987. He was vice president and treasurer of the Company from September 1985 to May 1987, a vice president from August 1985 to September 1985, and corporate director, financial planning and accounting from April 1984 to August 1985.

Mr. Stoddard will have the authority normally vested by Delaware law in the chief executive officer of a Delaware corporation to hire and fire personnel and to appoint or remove additional officers, with the consent of the new board of directors. In the event that certain existing personnel are replaced under certain circumstances, they may, under agreements previously approved by the Bankruptcy Court, be entitled to certain compensation from the Company in the nature of severance payments. These individuals are Claude A. Bradford, Hooite Rugge, Gerry A. Fawcett, Robert D. Wight, and James P. Fox. These agreements have already been approved by the Bankruptcy Court. The agreements basically provide for one of three alternative severance payments based upon the employee's monthly salary, or a fraction thereof, depending upon whether the employee is terminated involuntarily, or voluntarily terminates, and when termination occurs. The maximum possible severance benefit (in the case of involuntary termination only) is one year's base salary.

3. Litigation Manager.

Dan Larson, the Litigation Manager, will be responsible for the overall coordination of the prosecution of the Litigation by the attorneys hired by Kaiser. Mr. Larson will have the authority to coordinate and negotiate settlements, subject to the approval of the Bankruptcy Court and the Reorganized Creditors' Committee. The Litigation Manager will work closely with the Reorganized Creditors' Committee in structuring these activities, so as to obtain the maximum possible recovery for Creditors from the Litigation.

4. Claims Manager.

The Claims Manager will be responsible for the resolution of all Claims against the estate, except for Retiree Medical Benefits Claims, Retiree Pension Claims, and the Claims of the PBGC. The Claims Manager will also work closely with the Reorganized Creditors' Committee in this process. The Claims Manager will have the authority to object to any Claims felt to be without legal or factual basis, and/or to request the Bankruptcy Court to estimate such Claims under § 502 of the Bankruptcy Code. In the case of Claims over $500,000, the objections may be prosecuted by counsel for the Reorganized Creditors' Committee, if the Reorganized Creditors' Committee determines that it is appropriate for the objection to be prosecuted by their counsel. The Claims Manager will be James Fox. Mr. Fox is a former Associate Judge for the Illinois Seventh Judicial Circuit, which includes a 7-county area surrounding Springfield, Illinois. Mr. Fox has also served as a chief public defender, an assistant state's attorney, and a legal officer in the United States Navy. Mr. Fox began work for Kaiser's legal department in July of 1987.

5. Transactions With Management.

As Chief Executive Officer, Bruce E. Hendry received an annual salary of $234,615 in 1987. Based upon an agreement between Mr. Hendry and the Steel Committee, Mr. Hendry's salary is being voluntarily reduced as of March 1, 1988 to an annual rate of $90,000 until confirmation of the Plan. Thereafter, the agreement provides that Mr. Hendry will resign as Chief Executive officer and will receive no further compensation. Additionally, under the agreement, Mr. Hendry is to receive 2% of the new Common Stock in the form of Stock Options or warrants immediately exercisable following confirmation for nominal or no consideration. Under the agreement, any preference claims as to certain amounts estimated at approximately $135,000 paid to or on behalf of Mr. Hendry for proxy fight reimbursement are waived by the Company and the Steel Committee. This Agreement was approved by the Bankruptcy Court on June 9, 1988.

SECTION VI. RISK FACTORS

The paragraphs set out below discuss certain specific risks, but are not intended to be a complete enumeration of all risks associated with the Plan or with the development of the industrial park, the waste treatment facility or the Eagle Mountain Mine property. Additional risks are referred to in other sections of this Disclosure Statement.

Kaiser Holdings, a newly created entity, will have no significant assets other than the Kaiser Fontana Properties and will have no significant sources of income other than monies received in the future from sales, the development of the industrial park, waste treatment facility and Eagle Mountain Mine property, and joint venture partners.

The cash flow projections contained in Exhibit C(b) are based upon assumptions made by the Debtors. However, some assumptions will inevitably not materialize, and unanticipated events and circumstances may occur; **therefore, the actual results achieved during the forecast periods will vary from the forecast, and the variations may be material.**

Additionally, the Plan assumes that expenses will be at the level set forth in the cash flow projections. The Proponents cannot represent that actual expenses will not materially exceed the indicated levels. In particular, agreements with the IRS and the California Franchise Tax Board have not yet been finalized, but are hoped to be finalized prior to confirmation. The failure of the proponents to successfully resolve the claims of the IRS and the California Franchise Tax Board could make the Plan not feasible.

Finally, the viability of Kaiser Holdings and the three projects is dependent upon general economic conditions, inflation, interest rates and other factors affecting the economy generally.

A. STEEL ASSETS.

The only risks which the Debtors reasonably believe to be associated with the liquidation of the Steel Assets are that the Steel Assets may not bring the values which are projected by the Debtors. In this event, the Debtors may not have sufficient funds to discharge certain Secured Claims, which would then, under the Plan, become Secured Claims against the Kaiser Fontana Properties. If Kaiser Holdings could not discharge these Secured Claims, the secured creditors would, pursuant to certain provisions of the Plan, be entitled to foreclose their liens for the remaining amounts of their Claims at certain specified times. There are numerous factors which could affect the ability of the Debtors to liquidate the Steel Assets, including market conditions, overall economic conditions, environmental issues, and damage to the properties.

B. THE LITIGATION.

The principal risk factor associated with the Litigation is that there may not be any recovery from the litigation despite the expenditure of significant funds by the Company, principally for the fees and costs of attorneys and other professionals necessary to the prosecution of the Litigation. While the Company believes that the claims advanced in the Litigation have merit under the facts and the law, the defendants in all of the cases have denied the right of the Company to recover and raised many defenses. The cases are complex and involve a great many defendants. Even if judgment is obtained, it is possible that certain defendants will either file bankruptcy or otherwise be unable to pay funds to the Company on account of such judgments.

The cost of these lawsuits is substantial. If certain assumptions made by the Company in connection with the cash flow analyses set forth in Exhibit C(b) do not materialize, it is possible that at some point the Company could be left without sufficient funds to continue to fully or completely prosecute the lawsuits effectively. It is also possible that certain defendants will agree to settlements of the lawsuits. Negotiations are already under way in this regard, but there can be no assurance that any settlements will be obtained. All proposed settlements will be subject to the approval of the Bankruptcy Court, even after confirmation of the Plan. It is possible that the Bankruptcy Court would refuse to approve a settlement. Under the Plan, if a settlement is obtained, the Company has the right to set aside a certain fund from the settlement proceeds to pay for reasonably anticipated future costs of prosecuting the remainder of the Litigation. The overall costs of the Litigation, of course, reduce the amount of any recoveries that will become Net Distributable Proceeds to be distributed to creditors under the Plan.

C. KAISER FONTANA PROPERTIES.

The ability of Kaiser Holdings to develop the industrial park, the hazardous waste treatment facility and the Eagle Mountain Mine property is dependent upon the ability of Kaiser Holdings to enter into satisfactory joint venture relationships with joint venture partners providing sufficient equity funds and operating expertise for the developments. There can be no assurance that such satisfactory joint venture agreements will be achieved.

Environmental cleanup costs could exceed the ability of Kaiser Holdings to pay such costs. The approximate costs of soil remediation on the Fontana properties will be unknown until completion of the company's remedial investigation which is expected to take approximately two years. With respect to off-site ground water cleanup, the engineering consulting firm's report for the third phase of the investigation estimated the costs of the remedial action to be between $1 million to $14 million in 1985 dollars. However, the Company currently believes the cost would be approximately $8 million to $10 million. There is no assurance, however, that actual costs would be within these estimates and costs may greatly exceed these estimates.

The development of the industrial park and especially the hazardous waste treatment facility is dependent upon obtaining numerous governmental permits and authorizations. There can be no assurance that these permits and authorizations will be obtained, nor that they can be obtained in a timely manner before Kaiser Holdings has expended all available funds.

The industrial park development faces competition from existing area industrial parks and other waste treatment companies. The industrial park could also face additional competition in the future as a result of the development of other industrial parks in the area. Other impediments to development have been described in Section V. A above.

The occurrence of any of the following events, or other unanticipated events, could adversely affect the operations of Kaiser Holdings:

- Reinstatement of or establishment of mandatory governmental wage, rent or price controls.
- Inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies and other expenses, without being able to obtain corresponding increases in revenues from users of the hazardous waste treatment facility or purchasers of the industrial park properties.
- Employee strikes and other adverse labor actions which could result in a substantial increase in expenditures without a corresponding increase in revenues.
- Adoption of other federal, state or local legislation or regulations having an adverse effect on the future operations or financial performance of Kaiser Holdings.

SECTION VII. DESCRIPTION OF NEW COMMON STOCK AND RESALE OF NEW COMMON STOCK

A. NEW COMMON STOCK.

The Plan contemplates that the authorized number of shares of New Common Stock of Kaiser Holdings, Inc., $.01 par value, will be 40 million shares, so as to permit the issuance of 30 million shares of New Common Stock pursuant to the Plan, and to provide Kaiser Holdings with additional authorized shares to be issued for such future business purposes as may be determined by its Board of Directors. The 30 million shares to be issued under the plan will be issued as follows:

(1) 4,590,000 shares to the holders of Class 4A Claims;

(2) 14,850,000 shares to the holders of Class 4B Claims;

(3) 7,560,000 shares to the holders of Class 4C Claims;

(4) 260,000 shares to the holders of Class 5A Claims;

(5) 340,000 shares to the holders of Class 5B Claims; and

(6) 2,400,000 shares to be held by Kaiser Holdings for issuance upon exercise of such stock options as may be granted by and at the discretion of the Board of Directors to current and future employees, including the options to be issued to Bruce E. Hendry to acquire 600,000 shares of New Common Stock for a nominal sum under his Agreement, to compensate him for his efforts, costs and expenses in the 1987 proxy contest and the reorganization effort.

The amount of these Distributions of shares may change if the Bankruptcy Court finds the percentage allocations proposed in the Plan to be unconfirmable, as noted in Sections III. D. 4 and E.2 above. New Common Stockholders will be entitled to cast one vote for each share held of record.

B. OWNERSHIP AND RESALE OF NEW COMMON STOCK.

Debtors anticipate that the New Common Stock will be traded on the Pacific Exchange, but registration has not yet been accepted.

Pursuant to Section 1145 of the Bankruptcy Code, issuance of the New Common Stock to creditors and Stock Options or warrants to current management will be exempt from registration under the Securities Act of 1933, as amended (the "Act"), or under any state or local securities laws. In general, the New Common

Stock may be resold by their holder without registration under the Act or other laws, unless the holder is an "underwriter" with respect to such new Common Stock. An "underwriter" is defined by the Bankruptcy Code as an entity who (i) purchases a claim against or interest in Debtors with a view to the distribution of the New Common Stock received on account of such claim or interest, (ii) offers to sell New Common Stock on behalf of the holders thereof; or (iii) offers to buy the New Common Stock with a view to the distribution thereof pursuant to an agreement made in connection with the Plan or (iv) is an affiliate, except as described below. An "affiliate" is defined by the securities laws as a person who controls, is controlled by or is under common control with Kaiser. This definition may include, depending upon the facts and circumstances, officers, directors and substantial shareholders, as well as others with a control relationship with Kaiser following the Effective Date. According to the Securities and Exchange Commission, affiliates will not be considered to be underwriters if they make resales in compliance with the volume limitations, manner of sale requirements and current public information requirements of Rule 144 under the Act. These restrictions permit an affiliate to resell New Common Stock if (a) the amount sold in any three-month period does not exceed the greater of one percent (1%) of the outstanding New Common Stock or the average weekly trading volume of the New Common Stock in the four weeks prior to the sale, (b) sales are made in "broker's transactions" as defined in Rule 144 or transactions with a marketmaker, and (c) certain current information regarding Kaiser Holdings is publicly available. Affiliates not complying with these restrictions and underwriters must register their shares for resale, or rely upon a valid exemption from registration.

It is the intention of the Proponents under the Plan that neither Retirees, the Retiree Pension Trust, the Retiree Medical Benefits Trust, the PBGC or general Unsecured Creditors shall be considered either affiliates or underwriters; however, the Proponents cannot guarantee that such parties may not later be determined to have been or acted as affiliates or underwriters. The Proponents believe, however, that this is unlikely.

SECTION VIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. GENERAL.

Certain significant federal income tax consequences of the Plan under the Internal Revenue Code of 1986, as amended (the "Tax Code"), are described below. **THE DISCUSSION WHICH FOLLOWS IS GENERAL, AND CREDITORS AND STOCKHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS FOR SPECIFIC TAX CONSEQUENCES OF THE PLAN AS TO EACH CREDITOR OR STOCKHOLDER, INCLUDING STATE AND LOCAL TAXES.**

B. TAX CONSEQUENCES TO DEBTORS.

With the exception of Kaiser Steel Corporation and Lake Tamarisk Development Corporation, it is contemplated that the assets of the Debtor corporations may be sold in fully taxable transactions. Lake Tamarisk Development Corporation will continue its existence and will not be subject to a taxable event as a result of the tax reorganization. Whether Kaiser Holdings will be subject to adverse tax consequences depends upon whether the reduction of Debtors' overall indebtedness will create a tax consequence, and whether the Debtors can fully utilize their consolidated net operating loss carryovers against the projected gain from the sale of the coal properties. As discussed below, the reorganization has been structured to avoid adverse tax consequences to Kaiser Holdings.

(1) Reduction of Debtors' Indebtedness.

As a result of implementation of the Plan, the face amount of the Debtors' aggregate outstanding indebtedness will be substantially reduced. In general, the Tax Code provides that a taxpayer that realizes a "discharge of indebtedness" must include the amount of discharged indebtedness in taxable gross income to the extent that the indebtedness discharged exceeds any consideration given for such discharge. The Tax Code further provides, however, that if a taxpayer is in a Chapter 11 case and discharge of indebtedness is pursuant to a plan approved by the Bankruptcy Court, such discharge of indebtedness is not required to be included in gross income.

Accordingly, the Debtors will not be required to include in income any amounts resulting from any discharge of Debtors' indebtedness. However, the Tax Code further provides that amounts so excluded from gross income may reduce certain tax attributes of the taxpayer, including net operating loss ("NOL") carryovers. The discussion below summarizes those portions of the Plan which may give rise to a discharge of indebtedness affecting certain of the tax attributes of Debtors. (Any amount of potential discharge of indebtedness for federal income tax purposes will be referred to herein as a "Debt Discharge Amount.")

(a) *Stock-For-Debt Exception.* Additional Debt Discharge Amounts may arise with respect to those creditors who receive in partial satisfaction of their claims consideration consisting of New Common Stock. Section 108(e)(8) of the Tax Code provides, in effect, that a Debt Discharge Amount satisfied by the issuance of stock, irrespective of the value of the stock, does not result in a reduction of tax attributes. Committee Reports for the Bankruptcy Tax Act of 1980, which added § 108(e)(8) to the Tax Code, further provides that, for purposes of determining the amount of a claim satisfied for stock, when both stock and cash and other property are issued in satisfaction of the claim, the amount of the claim considered to be satisfied by cash and other property is limited to the amount of cash and the value of other property, with the balance of the claim being attributed to the stock. The result of this allocation rule, which attributes a disproportionate amount of the claim to the stock component of the total consideration package, is that no discharge of indebtedness income (and therefore no reduction in tax attributes) arises when stock and other consideration is issued in satisfaction of debt, subject to two de minimis exceptions that Debtors believe do not apply. Although the language contained in the Committee Reports is explicit on this point, regulations under § 108(e)(8) have not yet been issued and therefore the actual applicability of this allocation rule may be subject to question.

(2) Debtors Net Operating Loss Carryover.

For federal income tax purposes, certain of the Debtors currently have substantial NOL carryovers. The adjusted consolidated NOL for the Debtors and the Coal Companies as of the last tax return filed for the year ended December 31, 1986 totalled approximately $74 million. Debtors estimate that an additional approximate $83.5 million of NOL was created from losses incurred in fiscal 1987, bringing the total estimated NOL as of December 31, 1987 to approximately $157.5 million. The Debtors estimate that of that amount, approximately $31.5 million relates to the Coal Companies. The Debtors further estimate that the sales of the New Mexico and Utah coal properties could generate approximately $70 million of gain which may have the effect of reducing the NOL. Operating losses incurred in fiscal 1988 will increase the amount of the NOL by the amount of the operating losses. The foregoing estimates are subject to the following limitations.

The availability of Debtors' NOL carryovers for use against the coal sale gains and any other gains and income of the affiliated group is subject to the limitations provided by § 382 of the Tax Code. Under the Tax Reform Act of 1986 (the "TRA"), complex, substantial changes were made to § 382, effective January 1, 1987. Following certain changes in the ownership of more than 50% of the value of stock in a loss corporation over a three year testing period, the amount of a loss corporation's taxable income that can be offset by existing NOL's cannot exceed an amount equal to the value of the loss corporation multiplied by a prescribed rate of return. A 50% ownership change should occur as a result of consummation of the Plan when the creditors of the Debtors receive New Common Stock of Kaiser Holdings.

It is important to the reorganization plan that the Debtors can fully utilize their NOL's against the gains from the sale of the new Mexico and Utah coal properties. However, the tax laws are unclear as to whether this can be done when the reorganization occurs in the same tax year of the Debtors as the sale. In order to resolve this uncertainty, the tax reorganization will not occur before the earlier of (a) the receipt of a favorable ruling from the Treasury, (b) a mechanism discontinuing consolidated returns, or (c) in the Debtor's tax year following the year in which the coal properties are sold. Thus, for example, if the coal properties were sold during 1988, the tax reorganization could occur in January 1989. Moreover, the Debtors will make an election under § 382(e)(5)(H) of the Tax Code to have certain insolvency rules apply. To the extent the coal sale gains do not fully utilize the Debtors' NOL's, the limitation provisions of § 382 will apply to the balance of the NOL.

C. TAX CONSEQUENCES TO UNSECURED CREDITORS.

The tax consequences of the implementation of the Plan to an unsecured creditor will depend upon whether the creditor's present debt claim constitutes a "security" of Kaiser Steel Corporation for federal income tax purposes, whether an unsecured creditor is on the accrual or cash method of accounting, and whether the creditor has taken a bad debt deduction or increased the reserve for bad debts for all or a portion of the amount due. A "security" generally requires the issuance of a debt instrument with a term of at least five years and generally over ten years. The Debtors do not believe that any of the claims of the unsecured creditors qualify as a security of Kaiser Steel Corporation for federal income tax purposes.

An unsecured creditor whose existing claims do not constitute tax securities will recognize gain or loss on the exchange of his existing claims (other than claims for accrued interest) for cash and New Common Stock received equal to the difference between (i) the "amount realized" in respect of such claims and (ii) the creditor's tax basis in such claims. The "amount realized" will be equal to the sum of the cash and the fair market value of the New Common Stock received, less any amounts allocable to interest.

The aggregate tax basis in the New Common Stock received by an unsecured creditor will equal the amount realized in respect of such stock (other than amounts allocated to any accrued interest). Should the creditor subsequently recognize any gain on the sale or exchange of the new Common Stock received pursuant to the Plan, the gain recognized by such creditor on such sale or exchange will be treated as ordinary income to the extent of any bad debt deduction attributable to his claim, or ordinary loss claimed by him with respect to the exchange of his claim for New Common Stock pursuant to the Plan (to the extent property attributable to such sale) and, thereafter, as capital gain, provided that the New Common Stock constitutes a capital asset in the creditor's hands. Under the Tax Reform Act of 1986, there is no tax rate differential between ordinary income and capital gain after 1987.

The holding period for the New Common Stock will begin on the day following the exchange.

The Bankruptcy Tax Act of 1980 reversed prior law by providing that income attributable to accrued but unpaid interest will be treated as ordinary income, regardless of whether the creditor's existing claims are capital assets in his hands and the exchange is pursuant to a tax reorganization.

An unsecured creditor, who, under his accounting method, was not previously required to include in income accrued but unpaid interest attributable to his existing claims, and who exchanges his interest claim for cash and New Common stock pursuant to the Plan will be treated as receiving ordinary interest income to the extent of any consideration so received allocable to such interest, regardless of whether that creditor realizes an overall gain or loss as a result of the exchange of his existing claims. The extent to which consideration distributable under the Plan is allocable to such interest is uncertain. A creditor who had previously included in income accrued but unpaid interest attributable to his existing claims will recognize a loss (generally deductible in full against ordinary income) to the extent such accrued but unpaid interest is not satisfied in full. For purposes of the above discussion, "accrued" interest means interest which was accrued while the underlying claim was held by the creditor.

D. TAX CONSEQUENCES TO RETIREE MEDICAL BENEFITS TRUST.

The Retiree Medical Benefits Trust will not recognize taxable income upon the receipt of New Common Stock, the rights to share in distributions from cash received from the sale of the Steel Assets and the disposition of the Litigation, or on the actual receipt of cash related to the sale of Steel Assets or disposition of the Litigation. On the sale of New Common Stock or receipt of dividends relative to the new Common Stock, the Retiree Medical Benefits Trust may recognize unrelated business taxable income to the extent that gain on the sale of the new Common Stock or dividend income related thereto plus other income does not qualify as exempt function income.

Medical benefits and subsidies and life insurance benefits derived from the Retiree Medical Benefits Trust should not be includable in the Retirees' (or beneficiaries') gross income. Long term disability payments received under the Retiree Medical Benefits Trust may be includable in the Retiree's gross income but may be subject to certain exclusions and/or credits dependent upon the nature of the disability. Retirees, particularly Retirees who receive long term disability benefits, are urged to consult their individual tax advisors.

E. TAX CONSEQUENCES TO RETIREE PENSION TRUST.

The Retiree Pension Trust will not recognize taxable income upon either the receipt of new Common Stock, the rights to share in distributions from cash received from the sale of the Steel Assets and disposition of the Litigation, or from actual cash distributions from such sources. Upon distribution by the Retiree Pension Trust to the individual pension holders of either the New Common Stock, cash proceeds from the sale of the New Common Stock, or cash proceeds from the Steel Assets and the disposition of the Litigation, the Retiree pension holders will be required to include such amounts as ordinary income.

F. TAX CONSEQUENCES TO PBGC.

The PBGC is an exempt organization and incurs no tax liability with respect to any amounts recovered in the discharge of its duties.

G. TAX CONSEQUENCES TO PREFERRED SHAREHOLDERS OF KAISER STEEL CORPORATION.

The Preferred Shareholders of Kaiser Steel who will exchange all of their Preferred Stock for New Common Stock of Kaiser Holdings will not be subject to a taxable event and will receive a basis in the New Common Stock received equal to the adjusted bases which they had in their Preferred Stock. They will receive a holding period in the New Common Stock received equal to their holding period in the Preferred Stock exchanged.

H. TAX CONSEQUENCES TO PRIOR COMMON SHAREHOLDERS OF KAISER STEEL CORPORATION.

On the effective date, all pre-existing common stock of Kaiser Steel Corporation shall be cancelled. The owners of the common stock will have a tax loss in the amount of the adjusted basis in their stock. The loss will be a capital loss if the stock constitutes a capital asset in their hands, and will be an ordinary loss if the stock is not a capital asset.

SECTION IX. ACCEPTANCE AND CONFIRMATION

In order to confirm the Plan, the Bankruptcy Code requires that the Bankruptcy Court make a series of determinations concerning the Plan, including: (i) that the Plan has classified creditor and stockholder interests in a permissible manner; (ii) that the contents of the Plan comply with the technical requirements of Chapter 11 of the Bankruptcy Code; (iii) that the Debtors have proposed the Plan in good faith; and (iv) that the Debtors' disclosures concerning the Plan have been adequate and have included information concerning all payments made or promised in connection with the Plan and the bankruptcy cases, as well as the identity, affiliations and compensation to be paid to all officers, directors and other insiders. The Proponents believe that all of these conditions have been met and will seek rulings of the Bankruptcy Court to this effect at the hearing on confirmation of the Plan.

The Bankruptcy Code also requires that the Plan be accepted by requisite votes of creditors and stockholders, that the Plan be feasible, and that confirmation of the Plan be in the "best interests" of all creditors and stockholders. To confirm the Plan, the Bankruptcy Court must find that all of these conditions are met. Thus, even if the creditors and stockholders of the Debtors accept the Plan by the requisite votes, the Bankruptcy Court must make independent findings respecting the Plan's feasibility and whether it is in the best interests of the Debtors' creditors and stockholders before it may confirm the Plan. The classification, best interests and feasibility conditions to confirmation are discussed below.

A. CLASSIFICATION OF CLAIMS AND INTERESTS.

The Bankruptcy Code requires that a plan of reorganization place each creditor's Claim and each equity security holder's Interest in a class with other Claims or Interests which are "substantially similar." The Proponents have separately classified each Secured Claim into a separate class in compliance with the requirements of the Bankruptcy Code.

Unsecured Claims have been grouped into three classes. The Proponents believe the classification of Unsecured Creditors into three groups is necessary and appropriate in this case. First, the Retiree Medical Benefits Claims as actuarially determined by the accounting firm of Coopers & Lybrand are subject to large variances if actuarial assumptions are modified only slightly. Additionally, new legislation affords enhanced status to these claims. The same actuarial statement is true, although to a somewhat lesser degree, for the Retiree Pension Claims and the PBGC Unsecured Claim. By agreement among the Proponents, separate classification avoids the need for lengthy litigation over claim amounts which would only serve to greatly delay Distributions to all creditors, would cost the Debtors' estates large legal fees and is necessary for the administration of these cases. Second, allocating a percentage of Distributions to the PBGC and the Retiree Pension Claims avoids litigation over actuarial assumptions used to calculate these claims as well. Finally, separate classification of trade Claims and other Unsecured Claims is justifiable where there is a rational basis for the separate classification. The Retiree Medical Claims and Retiree Pension Claims each present separate and distinct types of Claims which are materially different from the Claims of normal trade credit and breach of contract creditors.

Class 5A and 5B claims (Preferred Stock) are separately classified because of the different liquidation values of the two classes of stock.

B. BEST INTERESTS OF CREDITORS AND EQUITY SECURITY HOLDERS.

Notwithstanding acceptance of the Plan by creditors and stockholders, in order to confirm the Plan the Bankruptcy Court must independently determine that the Plan is in the best interests of all classes of Creditors and stockholders. The "best interests" test requires that the Court find that the Plan provides to each member of each impaired class of Claims and Interests a recovery which has a present value at least equal to the present value of the Distribution which each such person would receive from his respective Debtor if such Debtor were instead liquidated under Chapter 7 of the Bankruptcy Code.

THE PROPONENTS BELIEVE THAT THE PLAN IS IN THE BEST INTERESTS OF EACH CLASS OF CREDITORS AND EQUITY SECURITY HOLDERS.

To calculate what members of each impaired class of Unsecured Claims and Interests would receive if each Debtor were liquidated, the Bankruptcy Court must first determine the dollar amount that would be generated from each liquidation (referred to as "Liquidation Proceeds"). The Liquidation Proceeds of each Debtor would consist of the proceeds from the disposition of the assets of such Debtor, plus any cash held by that Debtor and recoveries on actions against third parties. The Liquidation Proceeds would then be reduced by the costs of the liquidation. A Debtor's costs of liquidation under Chapter 7 would likely include the fees of a trustee, as well as those of counsel and other professionals that might be retained by each Debtor's trustee; selling expenses; any unpaid expenses incurred by the Debtor during its reorganization proceeding under Chapter 11 (such as fees for attorneys, financial advisors and accountants which are allowed in the Chapter 7 proceeding); and Claims arising by reason of the trustee's rejection of obligations incurred by such Debtor during the pendency of the Chapter 11 case. These Claims and such other Claims as might arise in the liquidation or result from the current reorganization proceedings, would be paid in full out of the Liquidation Proceeds before the balance of the Liquidation Proceeds would be made available to pay unsecured claims. The present value of the Distributions out of the Liquidation Proceeds (after subtracting the amounts described above) are then compared with the present value offered to each of the classes of Unsecured Claims and Interests under the Plan to determine if the Plan is in the best interest of each such class.

The Proponents have undertaken to determine a range of probable liquidation values for each of the Debtors. The table below sets forth the Proponents' best estimate of the Liquidation Values of the Debtors under a Chapter 7.

KAISER STEEL CORPORATION
ESTIMATED LIQUIDATION VALUE
SEPTEMBER 30, 1988
(in thousands)

ASSETS

Cash*	$ 2,200
Miscellaneous receivables	500
Waste treatment facility and other equipment	2,500
Land—former steel mill site	—
Eagle Mountain	1,500
Tamarisk and Union Steel real estate	500
Ore—mine properties	—
Office equipment and other	100
Fontana Union Water Company stock	10,000
IMACC note receivable	2,000
Other note receivable	200
Total Liquidation Proceeds	**$19,500
	***

*The difference between liquidation basis cash and going-forward value cash balance on Exhibit C(a) results from the assumption that Directors' and Officers' insurance premiums will not be paid if the Company is liquidated.

**Secured Creditors' Claim @ $5 million of these proceeds. (GATX, Meritor, Bank of America, etc.) The Debtors dispute most of these claims.

***Excludes Litigation Proceeds which cannot be adequately quantified and claimed tax refunds totalling up to $20 million. The Proponents believe, however, that these proceeds may be less in a Chapter 7 than under the Plan where the Company remains in existence. These items are also excluded on Exhibit C(a) so that comparison of liquidation and reorganization will be consistent.

There are a number of other factors which compel the conclusion that in a Chapter 7 liquidation all impaired classes of creditors and equity interest holders would receive even smaller values than those suggested by the foregoing table.

First and foremost, the Liquidation Proceeds would be significantly reduced in paying the costs of liquidation, and the Priority and Administrative Claims referred to above.

Second, it is possible that Claims and Interests in a Chapter 7 case would not be classified as they are under the Plan. In the absence of a contrary determination by the Bankruptcy Court, Distributions would be Pro Rata according to the amount of the Claim or Interest held by each creditor. The Debtors believe that the probable outcome of such proceedings would be to impose the absolute priority of distributions so that Preferred Shareholders (Classes 5A and 5B) would receive no distributions in a Chapter 7 case. Unsecured Creditors could also receive no Distributions if the PBGC and Tax Claims were afforded priority status in the full amounts claimed.

Third, before distributions by a Chapter 7 trustee could begin, the Bankruptcy Court would have to determine the effect of intercompany assumptions of indebtedness and indemnity claims and resolve other legal issues. Such suits would likely result in a delay of any distributions of Liquidation Proceeds.

Fourth, Debtors believe that Unsecured Claims in a liquidation would be significantly greater than will be the case if the Plan is confirmed, thereby diminishing individual recoveries. Principally, the Proponents believe all Environmental Claims could be afforded priority in a Chapter 7 liquidation and as a result creditors would receive no Distributions until the environmental cleanup was completed, probably by government agencies. The CRWQCB Cleanup Order and the DOHS Consent Order negotiated by the Debtors therefore have significant value to the creditors if this Plan is confirmed. Additionally, many contracts and leases which Debtors propose to assume pursuant to the Plan would probably be rejected in a liquidation and would give rise to claims against the Liquidation Proceeds. Other potential claims against the Liquidation Proceeds would be based on nonperformance under post-Chapter 11 contractual commitments or rejection of obligations to employees.

Finally, Debtors believe that the value of any distributions from the Liquidation Proceeds to each class of Allowed Claims and interests of each Debtor would be less than the value of Distributions under the Plan because distributions from the Liquidation Proceeds would not occur until after the completion of the liquidation of each Debtor. Although each Debtor would be liquidated separately, such liquidations probably would take several years, both because of the environmental cleanup and other complications referred to above and because of certain controversies surrounding Claims by Debtors and certain Creditors which are resolved under the Plan. Consequently, it is likely that no Distribution would be made to any holder of Allowed Claims or Interests against any Debtor for several years after the commencement of the liquidations.

After considering the effect that a Chapter 7 liquidation would have on the value of each Debtor, including the costs of a Chapter 7 liquidation, the adverse effect of a forced sale on the prices which could be realized for the assets of each Debtor, the adverse impact on the Debtors' business of the departure of the Debtors' employees, and the delay in the distribution of Liquidation Proceeds, THE PROPONENTS BELIEVE THAT EVERY IMPAIRED CLASS OF CLAIMS AND THE PREFERRED STOCK INTERESTS WILL RECEIVE DISTRIBUTIONS UNDER THE PLAN WHICH HAVE A SIGNIFICANTLY GREATER VALUE THAN THAT WHICH SUCH CLASSES WOULD RECEIVE IN CHAPTER 7 LIQUIDATIONS OF THE DEBTORS.

C. FEASIBILITY.

(1) General.

As a condition to confirmation, the Bankruptcy Code requires that confirmation is not likely to be followed by the liquidation of the reorganized company or the need for further financial reorganization. For purposes of determining whether the Plan meets this feasibility standard, the Proponents have analyzed the ability of Kaiser Holdings to meet its obligations under the Plan while retaining a sufficient amount of cash to carry on its operations. As part of this analysis, the Proponents and Debtors have cash projections of Kaiser Holdings' for the periods (i) September through December 1988, and (ii) the fiscal years ending December 31, 1989, 1990, 1991, 1992 and 1993 (the "Projection Period") which are attached hereto as Exhibit C(b). BECAUSE THESE PROJECTIONS HAVE BEEN PREPARED BY DEBTORS' MANAGEMENT SOLELY FOR PURPOSES OF EVALUATING THE PLAN'S FEASIBILITY BASED UPON THE CURRENT ASSETS AND PROJECTED BUSINESSES OF KAISER HOLDINGS, THEY HAVE NOT BEEN PRESENTED IN ACCORDANCE WITH AICPA GUIDELINES. THESE PROJECTIONS ARE UNAUDITED AND HAVE NOT BEEN REVIEWED BY INDEPENDENT AUDITORS. BECAUSE KAISER HOLDINGS MAY ELECT TO REDEPLOY CERTAIN ASSETS, THE PROJECTIONS DO NOT NECESSARILY REFLECT THE RESULTS OF OPERATIONS OF KAISER HOLDINGS DURING THE PROJECTION PERIOD. MOREOVER, IT IS NOT DEBTORS' POLICY TO MAKE PUBLIC FINANCIAL PROJECTIONS RESPECTING ITS OPERATIONS. ACCORDINGLY, DEBTORS DO NOT ANTICIPATE THAT KAISER HOLDINGS WILL FURNISH UPDATED FINANCIAL PROJECTIONS IN DOCUMENTS REQUIRED TO BE FILED WITH THE SEC OR OTHERWISE MAKE SUCH PROJECTIONS PUBLIC.

(2) Discussion of Cash Flow Projections.

The projections divide the Company's operations into four categories: the Industrial Park; Waste Treatment; Eagle Mountain; and Corporate Administration. The Proponents believe the most significant projections are the cash flow projections rather than the projected asset values and liabilities. The cash flow projections indicate that if the assumptions set forth in the footnotes to the cash flow projections materialize, the Plan will be feasible. [See, however, Section VI above as to Risk Factors.]

Each of the three projects are independent and may be pursued even if one or another of the projects is not pursued. If any particular project does not materialize, Kaiser Holdings may elect to sell the assets which would have been utilized for such project, and, under the Plan, those proceeds will be used for the benefit of the holders of New Common Stock as determined by the Board of Directors. For example, the proceeds of such sales could be used for the other projects or distributed to shareholders.

For the Plan to be feasible, the Debtors must either accumulate sufficient cash to pay Administrative Expenses and Priority Claims as of the Effective Date or negotiate with the holders thereof to pay those amounts over time. The projections indicate that the Debtors will have to defer approximately $8.6 million of Administrative Expenses into the December, 1988 period or beyond, unless the Debtors receive tax refunds and/or reimbursement of Litigation expenses prior to the Effective Date.

Numerous other assumptions have been made in preparing these projections which may not materialize to the extent indicated, if at all.

(3) Discussion of Projected Asset Values and Liabilities of Kaiser Holdings.

The Projected Asset Values and Liabilities of Kaiser Holdings immediately following confirmation is attached as Exhibit C(a). The Post-Confirmation Projection of Asset Values and Liabilities shows projected assets will be approximately $89.7 million, projected liabilities will be approximately $20.5 million. These numbers could vary dramatically depending upon the many financial contingencies resulting from the various proposed joint venture agreements and the unknown environmental liabilities. As a result, meaningful projected balance sheets and income statements for subsequent periods cannot be prepared at this time.

D. CONFIRMATION WITHOUT ACCEPTANCE BY ALL IMPAIRED CLASSES.

The Bankruptcy Code contains provisions for confirmation of a plan even if the plan is not accepted by all impaired classes, as long as at least one impaired class of claims has accepted it. These "cram-down" provisions for confirmation of a plan despite the non-acceptance of one or more impaired classes of claims or interests are set forth in Section 1129(b) of the Bankruptcy Code.

If a class of Secured Claims rejects the Plan, the Plan may still be confirmed so long as the Plan provides (i) that the lien securing the claims of members of the class is to be left in place and the holders of the claims will receive deferred cash payments of a present value equal to the lesser of the amount of such claims or the value of the collateral securing such claims; (ii) that the collateral securing the claims be sold free of the lien with the lien attaching to the proceeds and with such lien on the proceeds being treated under one of the two other standards described in this paragraph; or (iii) a treatment for the claim that is the "indubitable equivalent" of the claim. The Proponents believe that the Plan meets this test and therefore that the Plan can be confirmed even it if it rejected by holders of Class 2 Allowed Claims.

If a class of Unsecured Claims rejects the Plan, it may still be confirmed so long as the Plan provides that (i) each holder of a claim included in the rejecting class receive or retain on account of that claim property which has a value, as of the Effective Date, equal to the allowed amount of such claim; or that (ii) the holder of any claim or interest that is junior to the claims of such class will not receive or retain on account of such junior claim or interest any property at all. The Proponents believe the Plan could be amended to meet the "cram-down" requirements by eliminating Distributions to Classes 5A and 5B.

E. EFFECT OF CONFIRMATION.

Except as provided in the Plan, on the Confirmation Date the Debtors will be vested with all of the property specified in the Plan free and clear of all Claims, liens, charges and other interests of creditors and equity security holders arising prior to the filing date. Under Section 1141(d) of the Bankruptcy Code the Debtors will be discharged from all debts that arose before the Confirmation Date. Notwithstanding the discharge of such obligations, the Bankruptcy Court will retain jurisdiction for certain limited purposes, including the resolution of claims, allowance of priority and administrative expenses, resolution of disputes under the Plan, determination of Litigation and other purposes.

F. ALTERNATIVES TO CONFIRMATION.

The Proponents believe the Plan provides creditors with the earliest and greatest possible value that can be realized on their respective Claims and Interests. The alternatives to confirmation of the Plan are the submission of an alternative plan or plans of reorganization by the Debtors, the Proponents or any party in interest, or the liquidation of the Debtors. If the Plan is not confirmed, the Proponents believe that the Debtors may be liquidated due to the limited availability of cash to fund continued operations. Even if the Plan is not accepted by the requisite votes, the Proponents could attempt to modify the Plan, primarily by eliminating Distributions to Preferred Shareholders, and seek approval of the Plan under the Bankruptcy Code's "cram-down" standards discussed above.

Alternatively, a liquidation of the Debtors could be conducted [see Section IX. B]. Although proceeds may be more or less than the amounts indicated in Section IX. B, the Proponents believe the Plan offers a greater potential recovery for the unsecured creditors and therefore urge you to vote to "ACCEPT" the Plan.

SECTION X. ADDITIONAL INFORMATION

A. CONFIRMATION HEARING.

The Bankruptcy Court will hold a hearing on confirmation of the Plan commencing on September 7, 1988, at 10:00 a.m., in the United States Courthouse, 1929 Stout Street, Denver, Colorado.

Any objections to confirmation of the Plan must be in writing and must state the grounds therefor and must be filed with the Bankruptcy Court and received by the Proponents on or before August 26, 1988. Counsel on whom objections must be served are listed in the Notice of Hearing to Consider Confirmation of the Plan.

Additional copies of this Disclosure Statement may be obtained by calling the Information Agent.

DATED: July 13 1988.

KAISER STEEL TUBING, INC.,
Debtor

UNION STEEL COMPANY, Debtor

MYERS DRUM COMPANY, Debtor

KT REALTY, INCORPORATED, Debtor

COMMITTEE OF UNSECURED CREDITORS OF KAISER STEEL CORPORATION, ET AL.

RETIREE SUBCOMMITTEE OF THE COMMITTEE OF UNSECURED CREDITORS OF KAISER STEEL CORPORATION, ET AL.

KAISER STEEL CORPORATION,
Debtor

COTTONWOOD CANYON LAND CO.,
Debtor

LAKE TAMARISK DEVELOPMENT CORPORATION, Debtor

UNITED STEELWORKERS OF AMERICA, AFL-CIO-CLC

EXHIBIT A

UNITED STATES BANKRUPTCY COURT
DISTRICT OF COLORADO

In re:	Chapter 11 Case Nos.
Kaiser Steel Corporation	87-B-01553-E
Cottonwood Canyon Land Co.	87-B-01552-E
Kaiser Steel Tubing, Inc.	87-B-01705-E
KT Realty, Incorporated	87-B-01707-E
Myers Drum Company	87-B-01708-E
Lake Tamarisk Development Corporation	87-B-01709-E
Union Steel Company	87-B-01710-E
Debtors.	Jointly Administered under Case No. 87-B-01552-E

SECOND AMENDED JOINT PLAN OF REORGANIZATION

ATTORNEYS FOR DEBTORS

Craig A. Christensen
Harold G. Morris, Jr.
Harrie F. Lewis
SHERMAN & HOWARD
633 Seventeenth Street
Suite 3000
Denver, Colorado 80202
(303) 297-2900

and

Daryle L. Uphoff
Donald C. Swenson
Mark R. Johnson
LINDQUIST & VENNUM
4200 IDS Center
80 South Eighth Street
Minneapolis, Minnesota 55402
(612) 371-3211

ATTORNEYS FOR THE UNSECURED CREDITORS COMMITTEE

Michael E. Katch
Britt C. Anderson
KATCH, ANDERSON & WASSERMAN
1999 Broadway
Suite 2305
Denver, Colorado 80202
(303) 296-1999

ATTORNEYS FOR THE RETIREE SUBCOMMITTEE

Carl A. Eklund
John Edward Maas
ROATH & BREGA, P.C.
900 Republic Plaza
370 Seventeenth Street
Denver, Colorado 80202
(303) 893-5800

ATTORNEYS FOR THE UNITED STEELWORKERS OF AMERICA, AFL-CIO-CLC

David W. Furgason
Randall J. Feuerstein
WELBORN DUFFORD BROWN & TOOLEY, P.C.
1700 Broadway
Suite 1100
Denver, Colorado 80290-1199
(303) 861-8013

TABLE OF CONTENTS

ARTICLE		PAGE

Kaiser Steel Corporation, Kaiser Steel Tubing, Inc., Union Steel Company, Myers Drum Company, KT Realty, Incorporated, Cottonwood Canyon Land Co., Lake Tamarisk Development Corporation (collectively, DEBTORS and Debtors in Possession), the Official Unsecured Creditors Committee of Kaiser Steel Corporation, the Retiree Subcommittee of the Official Unsecured Creditors' Committee of Kaiser Steel Corporation, and the United Steelworkers of America, AFL-CIO-CLC hereby propose the following joint plan of reorganization.

ARTICLE I

DEFINITIONS

A. DEFINED TERMS

The following terms have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined) whenever used in the PLAN.

1. **ADMINISTRATIVE EXPENSE** means a CLAIM allowed under § 503(b) and § 507(a)(1) of the BANKRUPTCY CODE and fees and charges assessed against the DEBTOR'S estates under 28 U.S.C. 1930.

2. **ALLOWED CLAIM, ALLOWED SECURED CLAIM, ALLOWED PRIORITY CLAIM** or **ALLOWED INTEREST** mean, respectively, a **CLAIM, SECURED CLAIM, PRIORITY CLAIM,** or an INTEREST against or in any of the DEBTORS to the extent that:

(a) a proof of such CLAIM or INTEREST was

(i) timely filed;

(ii) deemed filed pursuant to 1111(a) of the BANKRUPTCY CODE; or

(iii) late filed with leave of the BANKRUPTCY COURT after notice and opportunity for hearing given to the DEBTORS and the STEEL COMMITTEE; and

(b) (i) which is not a DISPUTED CLAIM; or

(ii) which is allowed (and only to the extent allowed) by a FINAL ORDER.

3. **BANKRUPTCY CODE** means title 11 of the United States Code, as amended.

4. **BANKRUPTCY COURT** means the United States Bankruptcy Court for the District of Colorado or, in the event such court ceases to exercise jurisdiction over these Chapter 11 cases, the court having jurisdiction over these Chapter 11 cases.

5. **BOARD OF DIRECTORS** means the Board of Directors of KAISER HOLDINGS as constituted pursuant to ARTICLE VI, paragraph A, subparagraph 2 of the PLAN.

6. **BUSINESS DAY** means any day other than a Saturday, a Sunday or a day on which banking institutions in the State of Colorado are not open to conduct business.

7. **CASH** means cash and cash equivalents, including, but not limited to, bank deposits, checks and other similar items.

8. **CHASE PRIME RATE** means the rate of interest announced by The Chase Manhattan Bank, N.A., as its "prime" rate, as such rate may change from time to time.

9. **CLAIM** means a claim as such term is defined in § 101(4) of the BANKRUPTCY CODE.

10. **CLAIM BAR DATE** means January 31, 1988, or such other date as established by the BANKRUPTCY COURT.

11. **CLAIMS MANAGER** means the individual retained by KAISER HOLDINGS to perform the duties described in ARTICLE IX, paragraph D below.

12. **COAL COMPANIES** means Kaiser Coal Corporation, Kaiser Coal Corporation of Utah, Kaiser Coal Corporation of New Mexico, Kaiser Coal Corporation of Sunnyside and Kaiser Coal Corporation of York Canyon.

13. **CONFIRMATION DATE** means the date on which the CONFIRMATION ORDER is entered.

14. **CONFIRMATION ORDER** means the order of the BANKRUPTCY COURT confirming the PLAN pursuant to § 1129 of the BANKRUPTCY CODE.

15. **CRWQCB CLEANUP ORDER** means that certain Cleanup and Abatement Order No. 87-121 of the California Regional Water Quality Control Board, Santa Ana Region, for Kaiser Steel Corporation, dated August 26, 1987, as approved and authorized by the BANKRUPTCY COURT.

16. **DEBTORS** means Kaiser Steel Corporation, Kaiser Steel Tubing, Inc., Union Steel Company, Myers Drum Company, KT Realty Incorporated, Cottonwood Canyon Land Co., and Lake Tamarisk Development Corporation, but does not include the COAL COMPANIES.

17. **DISCLOSURE STATEMENT** means the disclosure statement that is approved by the BANKRUPTCY COURT after notice and hearing, and which accompanies the PLAN.

18. **DISPUTED CLAIM** means an asserted CLAIM against or equity interest in any of the DEBTORS, (i) to which an objection has been filed, or (ii) which has been scheduled as disputed, contingent or unliquidated and which has not been resolved or allowed by FINAL ORDER, estimation or pursuant to this PLAN.

19. **DISTRIBUTION** means, as the context may require, the CASH and/or NEW COMMON STOCK required by the PLAN to be distributed to the holders of ALLOWED CLAIMS or ALLOWED INTERESTS, or any distribution thereof to such parties.

20. **DISTRIBUTABLE PROCEEDS** means (a) after payment of ADMINISTRATIVE EXPENSES the remaining net proceeds received from the sale or collection of any of the STEEL ASSETS after (i) the payment or reserve for payment of all expenses of sale or collection, and (ii) the delivery, when required under this PLAN, of such proceeds to any creditor having a valid security interest in the asset sold, and (b) LITIGATION PROCEEDS.

21. **DOHS CONSENT ORDER** means that certain Consent Order between Kaiser Steel Corporation and the California State Department of Health Services ("DOHS") as authorized and approved by the BANKRUPTCY COURT.

22. **EFFECTIVE DATE** means the later of (a) the fifth BUSINESS DAY following the CONFIRMATION DATE, or (b) the date on which the REORGANIZED DEBTORS have sufficient CASH to pay all ADMINISTRATIVE EXPENSES and PRIORITY CLAIMS required to be paid, provided, however, that at the election of the DEBTORS, after consultation with the STEEL COMPANIES, the EFFECTIVE DATE shall not occur before the earlier of (i) the DEBTORS obtaining a favorable ruling from the treasury to the effect that their loss carryovers can be used, without limitation, against any gains from the sale(s) of the properties of the COAL COMPANIES, or that consolidated tax returns with the COAL COMPANIES are no longer required, or (ii) January 31, 1989. If the EFFECTIVE DATE is later than the fifth BUSINESS DAY after the CONFIRMATION DATE, the DEBTORS shall, not later than thirty (30) days thereafter, file a notice of the EFFECTIVE DATE with the BANKRUPTCY COURT which shall in no event be later than January 31, 1989.

23. **ENVIRONMENTAL CLAIM** means any and all CLAIMS of government agencies, units, authorities and other governmental entities responsible for or having standing with respect to environmental matters, including, without limitation, the California State DOHS and the United States Environmental Protection Agency ("EPA"), which arise from or relate, directly or indirectly, to environmental matters.

24. **FILING DATE** means February 11, 1987 as to Kaiser Steel Corporation and Cottonwood Canyon Land Co., and February 17, 1987 as to Kaiser Steel Tubing, Inc., KT Realty, Incorporated, Myers Drum Company, Lake Tamarisk Development Corporation and Union Steel Company.

25. **FINAL ORDER** means an order of the BANKRUPTCY COURT as to which (a) any appeal that has been taken has been finally determined or dismissed; (b) the time for appeal has expired and no notice of appeal has been filed; or (c) if an appeal, reargument, *certiorari,* or rehearing thereof has been sought, such order has not been stayed.

26. **GATX** means the GATX Leasing Corporation, a Delaware corporation.

27. **IMACC NOTE** means that certain promissory note dated June 27, 1988 issued by IMACC Corporation to Kaiser Steel Corporation together with all rights in collateral pledged as security therefor, whether by deeds of trust, security agreements, pledges, assignments or otherwise.

28. **INTANGIBLE ASSETS** means: (i) all water rights appurtenant to the KAISER FONTANA PROPERTIES; (ii) pollution credits and any other permits, licenses, and similar government approvals appurtenant to the KAISER FONTANA PROPERTIES; (iii) all contracts, leases, and other legal agreements assumed by Kaiser Fontana pursuant to this PLAN which are appurtenant to or related to the KAISER FONTANA PROPERTIES; (iv) all causes of action, claims or suits of the DEBTORS, including claims arising under the Bankruptcy Code, for amounts less than $1 Million, excluding the LITIGATION; (v) the contracts, leases and agreements set forth in Exhibit A-6; and (vi) all claims against insurance companies relating to or arising out of environmental claims.

29. **INTEREST** means the rights of the owners and holders of the issued and outstanding Kaiser Steel Corporation common stock, SERIES A PREFERRED STOCK, SERIES B PREFERRED STOCK, or the common stock of any of the DEBTORS other than Kaiser Steel Corporation.

30. **KAISER FONTANA ENVIRONMENTAL CLAIMS** means all ENVIRONMENTAL CLAIMS relating to or arising from the KAISER FONTANA PROPERTIES.

31. **KAISER FONTANA PROPERTIES** means: all of the DEBTORS' right, title and interest in and to (i) the INTANGIBLE ASSETS; (ii) the Eagle Mountain Property described on Exhibit A-1; (iii) the Fontana Real Estate described on Exhibit A-2; (iv) the Lake Tamarisk Property described on Exhibit A-3; (v) the Chino Basin outfall units described on Exhibit A-4; (vi) the Ferrum-Eagle Mountain railroad described on Exhibit A-5; (vii) the Contracts, Leases and Agreements described on Exhibit A-6; (viii) those certain properties previously owned by Kaiser Steel Corporation and described on Exhibit A-7, the transfer of which is being contested by DEBTORS in this case, if and when recovered by the DEBTORS or REORGANIZED DEBTORS; (ix) all personal property and equipment appurtenant to, acquired in connection with, or currently located on the KAISER FONTANA PROPERTIES; (x) the Fontana Waste Treatment Facility; (xi) stock owned by DEBTORS in Fontana Union Water Company; (xii) insurance claims relating to any of the foregoing, except such insurance claims as may apply to the LITIGATION.

32. **KAISER FONTANA SUBSIDIARIES** means three (or more) subsidiaries or affiliates of KAISER HOLDINGS, being either current subsidiaries of Kaiser Steel Corporation or newly formed corporations, partnerships or joint ventures among and in which, at the discretion of the BOARD OF DIRECTORS and after the CONFIRMATION DATE, the KAISER FONTANA PROPERTIES will be vested, and which will develop and/or operate the KAISER FONTANA PROPERTIES and endeavor to create value for the holders of NEW COMMON STOCK through such means as the Board of Directors of the KAISER FONTANA SUBSIDIARIES and KAISER HOLDINGS shall determine.

33. **KAISER HOLDINGS** means Kaiser Steel Corporation, as reorganized pursuant to this PLAN, which corporation, together with its subsidiaries, shall be the successor of the DEBTORS and entitled to a discharge under § 1141 of the BANKRUPTCY CODE.

34. **KSC-NYLIC CONTRACTS** means those policies, contracts, and other agreements between Kaiser Steel Corporation and NYLIC pursuant to which the DEBTORS provided life, medical, disability and other benefits to certain of their active and former employees prior to the commencement of these reorganization cases.

35. **LIQUIDATING ENTITY** means KAISER HOLDINGS and/or any wholly-owned subsidiaries thereof, in which, after the CONFIRMATION DATE, the STEEL ASSETS and LITIGATION will be vested, and which shall have the obligation to liquidate the STEEL ASSETS and prosecute and collect proceeds of the LITIGATION, pursuant to the PLAN.

36. **LITIGATION** means all causes of action of the DEBTORS, including without limitation (i) *Kaiser Steel Corp. v. Joseph A. Frates, et al.,* Case No. 87-E-135; (ii) *Kaiser Steel Corp. v. Irwin L. Jacobs, et al.,* Case No. 87-E-137; (iii) *Kaiser Steel Corp. v. Monty Rial, et al.,* Case No. 87-E-437; and (iv) any and all other causes of action, claims or suits that any of the DEBTORS may have, including those arising under the BANKRUPTCY CODE or other applicable law, for amounts greater than $1 Million; but excluding any insurance claims with respect to environmental claims, regardless of amount.

37. **LITIGATION MANAGER** means the person or entity retained by the LIQUIDATING ENTITY to perform the duties described in ARTICLE IX, paragraph B below. The LITIGATION MANAGER shall be selected prior to the CONFIRMATION DATE with the approval of the STEEL COMMITTEE.

38. **LITIGATION PROCEEDS** means the net proceeds received by the DEBTORS or REORGANIZED DEBTORS from the LITIGATION, whether by judgment or settlement, after the payment, repayment or reserve for payment in a reasonable amount of all current and anticipated costs and expenses of the LITIGATION and claims resolution, including, without limitation, attorney fees.

39. **MERITOR** means Meritor Savings Bank.

40. **NET DISTRIBUTABLE PROCEEDS** means the DISTRIBUTABLE PROCEEDS remaining after first paying any deferred ADMINISTRATIVE EXPENSE and then the payment of any amounts required to be paid under this PLAN on account of the PBGC SPECIAL PRIORITY CLAIM.

41. **NEW ARTICLES** means the new or amended and related certificate, articles or other documents of incorporation and bylaws of KAISER HOLDINGS. The NEW ARTICLES shall be approved by the BANKRUPTCY COURT at the hearing on confirmation of the PLAN, and thereafter shall be filed in the Office of the Secretary of State of the State of Delaware.

42. **NEW COMMON STOCK** means the 30,000,000 shares of $.01 par value common stock of KAISER HOLDINGS which will be issued or issuable under the PLAN. The NEW ARTICLES shall authorize a total of 40,000,000 shares of NEW COMMON STOCK and shall set forth the rights and privileges thereof.

43. **NYLIC** means New York Life Insurance Company, an insurance company organized under the laws of the State of New York.

44. **NYLIC SETTLEMENT AGREEMENT** means the settlement agreement between NYLIC and the PROPONENTS, which shall be submitted to the BANKRUPTCY COURT for approval and which shall provide that NYLIC shall have an ALLOWED ADMINISTRATIVE EXPENSE in the amount of $3,100,000.00 and an ALLOWED UNSECURED CLAIM in the amount of $4,135,945.00.

45. **OUTSTANDING SECURITIES** means all securities of the DEBTORS which were issued and outstanding as of the FILING DATE, including, but not limited to, Kaiser Steel Corporation Common Stock, SERIES A PREFERRED STOCK, SERIES B PREFERRED STOCK, and all stock options, warrants and stock rights and the like.

46. **PBGC** means the Pension Benefit Guaranty Corporation.

47. **PBGC PRIORITY CLAIM** means the CLAIM of the PBGC against the DEBTORS arising from the termination of the Kaiser Steel Retirement Plan, the Kaiser Steel Napa Pension Plan, and the Kaiser Steel Southern California Fabricating Division Pension Plan as provided for in and subject to the terms of the PBGC SETTLEMENT AGREEMENT, up to a maximum of $1,000,000.

48. **PBGC SETTLEMENT AGREEMENT** means that certain agreement between the PBGC and the PROPONENTS as approved by the BANKRUPTCY COURT on May 25, 1988 and as set forth in the Motion for Approval of Settlement Agreement filed with the Court on April 28, 1988.

49. **PBGC SPECIAL PRIORITY CLAIM** means the CLAIM of the PBGC against the DEBTORS consisting of (i) $4,000,000 arising from the termination of the Kaiser Steel Corporation Pension Plan; (ii) any amount by which the PBGC PRIORITY CLAIM exceeds $1,000,000; and (iii) the amount of any CLAIM of the PBGC allowed against the DEBTORS pursuant to § 507(a)(7) of the BANKRUPTCY CODE, as provided in and subject to the terms of the PBGC SETTLEMENT AGREEMENT.

50. **PBGC UNSECURED CLAIM** means any and all ALLOWED CLAIMS of the PBGC other than the PBGC PRIORITY CLAIM, PBGC SPECIAL PRIORITY CLAIM, and RETIREE PENSION CLAIMS, as provided for in and subject to the terms of the PBGC SETTLEMENT AGREEMENT.

51. **PLAN** means this SECOND AMENDED JOINT PLAN OF REORGANIZATION, together with any modifications, alterations or amendments thereto as may be filed by all PROPONENTS prior to confirmation.

52. **PREFERRED SHAREHOLDERS** shall means the holders of SERIES A PREFERRED or SERIES B PREFERRED STOCK.

53. **PRESCRIPTION DRUG PLAN** means the Prescription Drug Plan that will be implemented by the RETIREE MEDICAL BENEFITS TRUST, as set forth in Section III. E. 4. below.

54. **PRIORITY CLAIMS** means the CLAIMS specified in § 507(a)(2) through (7), inclusive, of the BANKRUPTCY CODE, except the CLAIMS of the PBGC.

55. **PRO RATA** means proportionately, so that the ratio of the amount of a particular ALLOWED CLAIM or ALLOWED INTEREST in a class to the total amount of all ALLOWED CLAIMS or ALLOWED INTERESTS in such class is the same as the ratio of the amount of consideration distributed on account of such CLAIM or INTEREST to the consideration distributed on account of all ALLOWED CLAIMS or ALLOWED INTERESTS of such class.

56. **PROPONENTS** means the DEBTORS, the STEEL COMMITTEE, the RETIREE SUBCOMMITTEE, and the USWA.

57. **REORGANIZED CREDITORS' COMMITTEE** means the STEEL COMMITTEE as restructured after the CONFIRMATION DATE, as set forth in ARTICLE VII below.

58. **REORGANIZED DEBTORS** means KAISER HOLDINGS and all of its subsidiaries and/or affiliates, including, without limitation, the KAISER FONTANA SUBSIDIARIES and the LIQUIDATING ENTITY, but excluding the RETIREE MEDICAL BENEFITS TRUST, THE RETIREE PENSION TRUST, and the COAL COMPANIES, from and after the CONFIRMATION DATE.

59. **RETIREE** means any person who is entitled to receive, now or in the future, retirement benefits from any of the DEBTORS.

60. **RETIREE MEDICAL BENEFITS CLAIMS** means all CLAIMS of RETIREES for medical benefits, life insurance benefits and disability benefits.

61. **RETIREE MEDICAL BENEFITS TRUST** means the New Kaiser Voluntary Employees Beneficiary Association Trust ("VEBA") established either pursuant to the PLAN or in accordance with the RETIREE class action litigation pending in the BANKRUPTCY COURT captioned *Rickard, et al. v. Kaiser Steel Corp.*, Adversary No. 87J695, for the purpose of collecting and distributing all DISTRIBUTION to and for the benefit of holders of RETIREE MEDICAL BENEFITS CLAIMS.

62. **RETIREE SUBCOMMITTEE** means the Retiree Subcommittee of the STEEL COMMITTEE.

63. **RETIREE PENSION CLAIMS** means all ALLOWED CLAIMS of RETIREES for pension benefits in amounts in excess of those amounts guaranteed and paid by the PBGC, and includes the claim of any trustee appointed pursuant to 29 U.S.C. § 1349.

64. **RETIREE PENSION TRUST** means a trust to be created under the PLAN and pursuant to 29 U.S.C. §§ 1342(i) and 1349 to collect and distribute DISTRIBUTIONS to and for the benefit of holders of RETIREE PENSION CLAIMS.

65. **SECURED CLAIM** means any CLAIM in respect of which a valid lien, security interest or encumbrance is held in any of the STEEL ASSETS or KAISER FONTANA PROPERTIES.

66. **SERIES A PREFERRED STOCK** means Kaiser Steel Corporation Series A Preferred Stock, $1.00 par value.

67. **SERIES B PREFERRED STOCK** means Kaiser Steel Corporation Series B Preferred Stock $1.00 par value.

68. **STEEL ASSETS** means all assets (and the proceeds thereof) of the DEBTORS excluding the LITIGATION and the KAISER FONTANA PROPERTIES.

69. **STEEL COMMITTEE** means the Official Unsecured Creditors' Committee of Kaiser Steel Corporation.

70. **STOCK OPTIONS** means options to purchase shares of NEW COMMON STOCK granted to current and future employees of the REORGANIZED DEBTORS upon terms as determined from time to time by the BOARD OF DIRECTORS.

71. **TAX NOTE** means a note issued to a governmental unit in the amount of and in full satisfaction of an ALLOWED PRIORITY CLAIM specified in § 507(a)(7) of the BANKRUPTCY CODE, other than a claim of the PBGC, the terms of which shall meet the requirements of § 1129(a)(9)(C). Any TAX NOTE may be prepaid without penalty.

72. **USWA** means the United Steelworkers of America, AFL-CIO-CLC.

73. **UNCLAIMED DISTRIBUTIONS** means any NEW COMMON STOCK or CASH (together with any interest or dividends attributable thereto) unclaimed by an entity thereto under this PLAN.

74. **UNSECURED CLAIMS** means all unsecured non-priority ALLOWED CLAIMS against the DEBTORS, including any deficiency claim of the holder of a SECURED CLAIM and any CLAIM arising from the rejection of any executory contract or unexpired lease of the DEBTORS and further including all ENVIRONMENTAL CLAIMS other than CLASS 3 ALLOWED KAISER FONTANA ENVIRONMENTAL CLAIMS, all RETIREE MEDICAL BENEFITS CLAIMS, all RETIREE PENSION CLAIMS, and the PBGC UNSECURED CLAIM, but excluding all CLASS 7 intercompany CLAIMS. UNSECURED CLAIMS does not include any deficiency claim of the holder of a SECURED CLAIM if said claim is non-recourse and the security is sold or tendered to the SECURED CLAIMANT.

B. UNDEFINED TERMS

A term used and not defined herein which is defined in the BANKRUPTCY CODE has the meaning given to it in the BANKRUPTCY CODE, unless the context clearly requires otherwise.

ARTICLE II

CLASSIFICATION OF CLAIMS AND INTERESTS

All ALLOWED CLAIMS and ALLOWED INTERESTS in the DEBTORS are placed in the following classes. Any CLAIM (other than CLAIMS of the PBGC) or INTEREST properly includable in more than one class is in a class to the extent it qualifies within the description of such class and in a different class to the extent it qualifies within such different class.

A. PRIORITY CLAIMS: CLASS 1

1. CLASS 1A: CLASS 1A consists of all ALLOWED CLAIMS against any of the DEBTORS entitled to priority pursuant to § 507(a)(3) of the BANKRUPTCY CODE.

2. CLASS 1B: CLASS 1B consists of all ALLOWED CLAIMS against any of the DEBTORS entitled to priority pursuant to § 507(a)(4) of the BANKRUPTCY CODE, except the CLAIMS of the PBGC.

3. CLASS 1C: CLASS 1C consists of all ALLOWED CLAIMS against any of the DEBTORS entitled to priority pursuant to § 507(a)(6) of the BANKRUPTCY CODE.

4. CLASS 1D: CLASS 1D consists of all ALLOWED CLAIMS against any of the DEBTORS that are PRIORITY CLAIMS pursuant to § 507(a)(7) of the BANKRUPTCY CODE, including CLAIMS for real property taxes, but excluding the CLAIMS of the PBGC.

5. CLASS 1E: CLASS 1E consists of the PBGC PRIORITY CLAIM.

6. CLASS 1F: CLASS 1F consists of the PBGC SPECIAL PRIORITY CLAIM.

B. SECURED CLAIMS: CLASS 2

CLASS 2 CLAIMS include all ALLOWED SECURED CLAIMS secured by certain of the KAISER FONTANA PROPERTIES or the STEEL ASSETS, to the extent of the holder's interest in such properties, as determined under § 506 of the BANKRUPTCY CODE. Any ALLOWED SECURED CLAIM not listed below shall fall into a new subclassification to be appropriately numbered upon the allowance of such CLAIM and shall be entitled to the same treatment afforded similarly situated ALLOWED SECURED CLAIMS under the PLAN.

1. CLASS 2A: CLASS 2A consists of ALLOWED SECURED CLAIMS of MERITOR.

2. CLASS 2B: CLASS 2B consists of the ALLOWED SECURED CLAIM of GATX and the ALLOWED SECURED CLAIM of Bank of America.

3. CLASS 2C: CLASS 2C consists of the ALLOWED SECURED CLAIM of General Motors Acceptance Corporation ("GMAC").

4. CLASS 2D: CLASS 2D consists of the ALLOWED SECURED CLAIM of Weyerhaeuser Mortgage Company secured by the Claremont Condominium.

5. CLASS 2E: CLASS 2E consists of the ALLOWED SECURED CLAIM of Security Pacific National Bank and Bank of America secured by homes at Lake Tamarisk.

6. CLASS 2F: CLASS 2F consists of the ALLOWED SECURED CLAIM of Western States Minerals Corporation.

7. CLASS 2G: CLASS 2G consists of the ALLOWED SECURED CLAIM of Charter Colorado Resources Company.

8. CLASS 2H: CLASS 2H consists of the ALLOWED SECURED CLAIM of Gerald R. Dilley.

9. CLASS 2I: CLASS 2I consists of the ALLOWED SECURED CLAIM of Bechtel Operating Services Corporation.

10. CLASS 2J: CLASS 2J consists of the ALLOWED SECURED CLAIM of Jelen & Sons.

11. CLASS 2K: CLASS 2K consists of the ALLOWED SECURED CLAIM of Travelers Life Insurance Company.

12. CLASS 2L: CLASS 2L consists of the ALLOWED SECURED CLAIM of Northern Cimmaron Resources Co.

13. CLASS 2M: CLASS 2M consists of the ALLOWED SECURED CLAIM of Thelen, Marrin, Johnson and Bridges.

14. CLASS 2N: CLASS 2N consists of the ALLOWED SECURED CLAIM of The Chase Manhattan Bank, N.A. secured by the common stock of the COAL COMPANIES.

15. CLASS 2O: CLASS 2O consists of the ALLOWED SECURED CLAIM of Colwell Financial Company.

16. CLASS 2P: CLASS 2P consists of the ALLOWED SECURED CLAIM of Security Pacific National Bank.

17. CLASS 2Q: CLASS 2Q consists of the ALLOWED SECURED CLAIM of Power Master, Inc.

C. ENVIRONMENTAL CLAIMS: CLASS 3

CLASS 3 consists of all ALLOWED KAISER FONTANA ENVIRONMENTAL CLAIMS, including, without limitation, CLAIMS of the EPA and the State of California DOHS.

D. UNSECURED CLAIMS: CLASS 4

1. CLASS 4A (General UNSECURED CLAIMS): CLASS 4A consists of all ALLOWED UNSECURED CLAIMS except all RETIREE MEDICAL BENEFITS CLAIMS, all RETIREE PENSION CLAIMS and the PBGC UNSECURED CLAIM.

2. CLASS 4B (RETIREE MEDICAL BENEFITS CLAIMS): Class 4B consists of all RETIREE MEDICAL BENEFITS CLAIMS.

3. CLASS 4C (PENSION CLAIMS): CLASS 4C consists of all RETIREE PENSION CLAIMS and the PBGC UNSECURED CLAIM.

E. PREFERRED STOCK: CLASS 5

1. CLASS 5A: CLASS 5A consists of all ALLOWED INTERESTS based upon SERIES A PREFERRED STOCK.

2. CLASS 5B: CLASS 5B consists of all ALLOWED INTERESTS based upon SERIES B PREFERRED STOCK.

F. COMMON STOCK: CLASS 6

1. CLASS 6A: CLASS 6A consists of all ALLOWED INTERESTS based upon the common stock, $.10 par value, of Kaiser Steel Corporation and all ALLOWED CLAIMS against any of the DEBTORS (i) for damages or rescission based upon the purchase or sale of OUTSTANDING SECURITIES, or (ii) for reimbursement, indemnity, or contribution or arising as a result of subrogation by an entity which is, or may be, liable with any of the DEBTORS on account of such CLAIMS, to the extent the BANKRUPTCY COURT shall determine that such CLAIMS shall be included in CLASS 6A.

2. CLASS 6B: CLASS 6B consists of all ALLOWED INTERESTS based upon the common stock of the DEBTORS, excluding Kaiser Steel Corporation.

G. INTERCOMPANY CLAIMS: CLASS 7

CLASS 7 consists of all intercompany CLAIMS between and among the individual DEBTORS.

H. SUBORDINATED CLAIMS: CLASS 8

CLASS 8 consists of all CLAIMS, whether secured or unsecured, for any fine, penalty or forfeiture, or for multiple, exemplary or punitive damages, to the extent that such fine, penalty or forfeiture, or damages, are not compensation for actual pecuniary loss suffered by the holder of such CLAIM.

ARTICLE III

TREATMENT OF CERTAIN UNCLASSIFIED CLAIMS

Each entity entitled to payment of an ADMINISTRATIVE EXPENSE under § 507(a)(1) of the BANKRUPTCY CODE, except the PBGC, whose CLAIMS are treated separately, shall receive CASH in the full amount thereof (i) on or as soon as practical after the later of the EFFECTIVE DATE or the date upon which it is allowed; or (ii) at the option of DEBTORS, in accordance with ordinary business terms with respect to the payment of such expenses. Notwithstanding the foregoing, the DEBTORS may agree with any professional or other entity entitled to an ADMINISTRATIVE EXPENSE to defer or compromise its payments or CLAIMS subject to BANKRUPTCY COURT approval. Upon final approval by the BANKRUPTCY COURT, the terms of the deferral or compromise shall be automatically be incorporated in the PLAN and become a part thereof. Said compromise or deferral may require payment from DISTRIBUTABLE PROCEEDS.

ARTICLE IV

DESIGNATION AND TREATMENT OF UNIMPAIRED CLASSES

The following classes of CLAIMS are unimpaired under the PLAN. In the event of a controversy as to whether any class of CLAIMS is impaired under the PLAN, the BANKRUPTCY COURT, after notice and an opportunity for a hearing, shall determine such controversy.

A. CLASSES 1A, 1B and 1C (PRIORITY CLAIMS—§§ 507(a)(3), (4) and (6)): The holders of CLASS 1A, 1B and 1C ALLOWED CLAIMS shall receive CASH in the amount of such ALLOWED CLAIMS on or as soon as practical after the EFFECTIVE DATE unless the holders thereof agree to different treatment pursuant to § 1129(a)(9) of the BANKRUPTCY CODE. CLASSES 1A, 1B and 1C are not impaired under the PLAN.

B. CLASS 1D (PRIORITY CLAIMS—§§ 507(a)(7)): Each holder of a CLASS 1D ALLOWED CLAIM shall receive on or as soon as practicable after the EFFECTIVE DATE, either (i) payment in full, or (ii) a TAX NOTE. CLASS 1D is not impaired under the PLAN.

C. CLASSES 2C, 2D, 2E, 2F, 2G, 2H, 2I, 2J, 2K, 2L, 2M, 2N, 2O, 2P, (UNIMPAIRED SECURED CLAIMS): The holders of CLASS 2C through 2P ALLOWED SECURED CLAIMS, inclusive, shall be treated in one of the following ways: (i) retention of the legal, equitable, and contractual rights against the property in which each such holder has a valid and perfected security interest to the extent of each such ALLOWED SECURED CLAIM as determined pursuant to § 506 of the BANKRUPTCY CODE; (ii) sale or disposition of the property securing any ALLOWED SECURED CLAIM, subject to the lien or free and clear of the lien and payment of the net proceeds thereof to the holder or holders of such ALLOWED SECURED CLAIMS to the extent of the value of their respective interests in such property; (iii) cure, as soon as practicable after the EFFECTIVE DATE, of all defaults with respect to such ALLOWED SECURED CLAIM and assumption of such obligation by KAISER HOLDINGS, or a subsidiary thereof, and payment in accordance with the terms of the underlying instrument; or (iv) the tender of the holder or holders of each such ALLOWED SECURED CLAIM of the property securing such CLAIM or the right to foreclose said CLAIM. The manner of treatment of each such CLAIM shall be determined by the PROPONENTS on or before the CONFIRMATION DATE, upon written notice to the holder of each such CLAIM and the BANKRUPTCY COURT. CLASSES 2C through 2P, inclusive, are not impaired under the PLAN.

D. CLASS 6B (Common Stock of Subsidiaries): ALL CLASS 6B ALLOWED INTERESTS shall be impaired pursuant to § 1124(1) of the BANKRUPTCY CODE by leaving unaltered the legal and equitable rights to which such INTEREST entitles the holders thereof.

ARTICLE V

DESIGNATION AND TREATMENT OF IMPAIRED CLASSES

The following classes are impaired under the PLAN. In the event a controversy as to whether any class of CLAIMS is impaired under the PLAN, the BANKRUPTCY COURT, after notice and an opportunity for a hearing, shall determine such controversy. All impaired classes of CLAIMS and INTERESTS shall receive the DISTRIBUTIONS set forth in this Article on account of and in complete satisfaction of all CLAIMS against the DEBTORS, and shall have no further rights or remedies against the DEBTORS, the REORGANIZED DEBTORS or any of their assets or properties, except as specifically set forth in the PLAN.

A. PBGC PRIORITY CLAIMS

1. CLASS 1E (PBGC PRIORITY CLAIM): The PBGC shall receive, on account of the PBGC PRIORITY CLAIM, the lesser of (i) the full amount of the PBGC PRIORITY CLAIM that is an ALLOWED CLAIM, or (ii) $1,000,000, in CASH, on or as soon as practicable after the EFFECTIVE DATE. To the extent that the ALLOWED PBGC PRIORITY CLAIM exceeds $1,000,000, such excess shall be added to the PBGC SPECIAL PRIORITY CLAIM. To the extent the ALLOWED PBGC PRIORITY CLAIM exceeds $1,000,000, it is impaired.

2. CLASS 1F (PBGC SPECIAL PRIORITY CLAIM): The PBGC shall receive, on account of the PBGC SPECIAL PRIORITY CLAIM, the first 10% of DISTRIBUTABLE PROCEEDS, as soon as practicable after the receipt thereof by the REORGANIZED DEBTORS, until the principal amount of the PBGC SPECIAL PRIORITY CLAIM, to the extent such CLAIM is an ALLOWED CLAIM, is paid in full, together with simple interest on the outstanding balance thereof accruing at the rate of 8% per annum from the EFFECTIVE DATE to the date of payment. CLASS 1F is impaired under the PLAN.

B. IMPAIRED SECURED CLAIMS

1. CLASS 2A: MERITOR, on account of its CLASS 2A CLAIM, shall retain its legal, equitable and contractual rights against the property in which it has a valid and perfected security interest to the extent of its SECURED CLAIM as determined under § 506(a) of the BANKRUPTCY CODE, except that it shall not be permitted to foreclose or pursue its legal remedies with respect to its interests in the STEEL ASSETS until the later of the date its CLAIM is allowed or twelve (12) months following the EFFECTIVE DATE. The STEEL ASSETS in which MERITOR has a security interest shall be sold by the LIQUIDATING ENTITY, and MERITOR shall receive the net proceeds to the extent of the priority of its ALLOWED SECURED CLAIM. MERITOR shall have the right to utilize its ALLOWED SECURED CLAIM toward the purchase by it of any such STEEL ASSETS at their fair market value. In the event the net proceeds of such STEEL ASSETS do not satisfy MERITOR'S ALLOWED SECURED CLAIM in full, the remaining amount shall continue to be secured by MERITOR'S existing lien against all or some of the KAISER FONTANA PROPERTIES, as the case may be, and payable in accordance with the terms of the underlying debt instrument. However, MERITOR shall not be able to enforce such lien against such KAISER FONTANA PROPERTIES until the later of the sale of the STEEL ASSETS in which it has a valid lien or 18 months after the EFFECTIVE DATE. CLASS 2A is impaired under the PLAN.

2. **CLASS 2B: (GATX and Bank of America):** GATX, on account of its CLASS 2B ALLOWED SECURED CLAIM, shall retain its legal, equitable and contractual rights against the property in which it has a valid and perfected security interest to the extent of its SECURED CLAIM as determined under § 506(a) of the BANKRUPTCY CODE, except that it shall not be permitted to foreclose or pursue its legal remedies with respect to its interests in the STEEL ASSETS for a period of twelve (12) months following the EFFECTIVE DATE. The STEEL ASSETS in which GATX has a security interest shall be sold by the LIQUIDATING ENTITY and GATX shall receive the net proceeds to the extent of the priority of its ALLOWED SECURED CLAIM. GATX shall have the right to utilize its ALLOWED SECURED CLAIM towards the purchase by it of any such STEEL ASSETS at their fair market value. In the event the net proceeds of such STEEL ASSETS do not satisfy GATX'S ALLOWED SECURED CLAIM in full, the remaining amount shall continue to be secured by GATX'S existing lien against all or some of the KAISER FONTANA PROPERTIES, as the case may be, and payable in accordance with the terms of the underlying debt instrument. However, GATX shall not be able to enforce such lien against the KAISER FONTANA PROPERTIES until the later of the sale of the STEEL ASSETS in which it has a valid lien or 18 months after the EFFECTIVE DATE.

In the alternative, and at the election of the DEBTORS in consultation with the STEEL COMMITTEE, the CLASS 2B ALLOWED SECURED CLAIM of GATX may be treated in accordance with that certain Compromise and Post-Petition Financing and Security Agreement Between GATX Leasing Corporation and Kaiser Steel Corporation, Debtor-in-Possession, dated September 10, 1987, as approved by the BANKRUPTCY COURT, up to and including the date of expiration thereof, at which time such treatment will be superseded by the treatment afforded by the foregoing paragraph provided that all time periods contemplated therein shall begin to run as of the EFFECTIVE DATE. The DEBTORS shall provide notice of such election to GATX not less than twenty (20) days prior to the CONFIRMATION DATE. CLASS 2B is impaired under the PLAN. Bank of America shall receive the same treatment as GATX, but only commencing after GATX has been paid in full. Upon full payment, Bank of America's ALLOWED SECURED CLAIM shall have GATX's position and the time period allowed herein shall recommence.

3. **CLASS 2Q: (Power Master):** Power Master, on account of its Class 2Q ALLOWED SECURED CLAIM, shall retain its legal, equitable and contractual rights against the property in which it has a valid and perfected security interest to the extent of its ALLOWED SECURED CLAIM as determined under § 506(a) of the BANKRUPTCY CODE, except that it shall not be permitted to foreclose or pursue its legal remedies with respect to its interest in the KAISER FONTANA PROPERTIES for a period of three years following the EFFECTIVE DATE. However, in the event that the PLAN is revoked, or this case is converted to a case under Chapter 7, or dismissed, Power Master shall have an absolute right notwithstanding imposition of any stay of its foreclosure pursuant to 11 U.S.C. § 362 to pursue foreclosure of its lien.

During the three year forbearance period, Power Master's ALLOWED SECURED CLAIM will, in the same amount, be treated as an ALLOWED UNSECURED CLAIM in CLASS 4A. Any and all payments received by Power Master as a CLASS 4A creditor will be credited against the total amount of Power Master's ALLOWED SECURED CLAIM. Any and all NEW COMMON STOCK received by Power Master will be valued for this purpose as of the EFFECTIVE DATE. If, however, foreclosure is initiated by Power Master, Power Master, at its option, may either return the NEW COMMON STOCK it has received as a CLASS 4A creditor to KAISER HOLDINGS or retain the NEW COMMON STOCK and credit its value as of the EFFECTIVE DATE against the remaining balance of Power Master's ALLOWED SECURED CLAIM. Similarly Kaiser Holdings may pay the entire unpaid balance and require return of the NEW COMMON STOCK.

Power Master's ALLOWED SECURED CLAIM shall be determined as of the CONFIRMATION DATE, and Power Master shall not be entitled to further interest, costs, or attorneys' fees after the CONFIRMATION DATE.

C. KAISER FONTANA ENVIRONMENTAL CLAIMS

The holders of CLASS 3 ALLOWED CLAIMS shall be satisfied in full by the assumption and performance of the DOHS CONSENT ORDER and the CRWQCB CLEANUP ORDER by KAISER HOLDINGS and one or more of the appropriate KAISER FONTANA SUBSIDIARIES. The holders of CLASS 3 ALLOWED CLAIMS shall have recourse, in the event of breach by such KAISER FONTANA SUBSIDIARIES of either the DOHS CONSENT ORDER, or the CRWQCB CLEANUP ORDER, against the assets of such assuming KAISER FONTANA SUBSIDIARIES and against the assets of KAISER HOLDINGS, but shall have no recourse against the STEEL ASSETS, the LITIGATION or LITIGATION PROCEEDS, or other persons or entities entitled to or receiving DISTRIBUTIONS under the PLAN. All ENVIRONMENTAL CLAIMS other than KAISER FONTANA ENVIRONMENTAL CLAIMS shall be treated as CLASS 4A UNSECURED CLAIMS and shall have no right or recourse against the KAISER FONTANA PROPERTIES. CLASS 3 is impaired under the PLAN.

D. UNSECURED CLAIMS

1. **CLASS 4A (General UNSECURED CLAIMS):** Each holder of an ALLOWED CLAIM in CLASS 4A shall receive (i) subject to the provisions of ARTICLE VI, below, its PRO RATA share of seventeen percent (17%) of all NET DISTRIBUTABLE PROCEEDS, and (ii) its PRO RATA share of 4,590,000 shares of NEW COMMON STOCK, provided, however, that if the BANKRUPTCY COURT finds such percentage allocation to be unconfirmable, then the percentage shall in each case be such as is determined by the BANKRUPTCY COURT to be a fair and equitable allocation and confirmable under the BANKRUPTCY CODE. All CLASS 4 CLAIMS shall be secured by a first lien against the LITIGATION PROCEEDS.

2. **CLASS 4B (RETIREE MEDICAL BENEFITS CLAIMS):** The holders of CLASS 4B CLAIMS shall become beneficiaries of the RETIREE MEDICAL BENEFITS TRUST, which shall receive (i) subject to the provisions of ARTICLE VI, below, fifty-five percent (55%) of all NET DISTRIBUTABLE PROCEEDS and (ii) 14,850,000 shares of NEW COMMON STOCK, provided, however, that if the BANKRUPTCY COURT finds such percentage allocation to be unconfirmable, then the percentage shall in each case be such as is determined by the BANKRUPTCY COURT to be a fair and equitable allocation and confirmable under the BANKRUPTCY CODE. All CLASS 4 CLAIMS shall be secured by a first lien against the LITIGATION PROCEEDS except that such lien will require first payment to deferred ADMINISTRATIVE EXPENSES and SPECIAL PRIORITY CLAIMS. In addition, each Retiree who is entitled to receive health benefits from the RETIREE MEDICAL BENEFITS TRUST will be eligible to participate in the PRESCRIPTION DRUG PLAN.

3. **CLASS 4C (PENSION CLAIMS):**

(a) The PBGC, on account of the PBGC UNSECURED CLAIM, shall receive (i) subject to the provisions of ARTICLE VI below, twenty-four percent (24%) of all NET DISTRIBUTABLE PROCEEDS, and (ii) 6,480,000 shares of NEW COMMON STOCK, provided, however, that if the BANKRUPTCY COURT finds such percentage allocation to be unconfirmable, then the percentage shall in each case be such as is determined by the BANKRUPTCY COURT to be a fair and equitable allocation and confirmable under the BANKRUPTCY CODE.

(b) The holders of RETIREE PENSION CLAIMS shall become beneficiaries of the RETIREE PENSION TRUST, which shall receive (i) subject to the provisions of provisions of ARTICLE VI, below, four percent (4%) of all NET DISTRIBUTABLE PROCEEDS, and (ii) 1,080,000 shares of NEW COMMON STOCK, provided, however, that if the BANKRUPTCY COURT finds such percentage allocation to be unconfirmable, then the percentage shall in each case be such as is determined by the BANKRUPTCY COURT to be a fair and equitable allocation and confirmable under the BANKRUPTCY CODE.

(c) All CLASS 4 CLAIMS shall be secured by a first lien against the LITIGATION PROCEEDS.

E. PREFERRED STOCK ALLOWED INTERESTS

1. **CLASS 5A (SERIES A PREFERRED STOCK):** Each holder of a CLASS 5A ALLOWED INTEREST shall receive, on or as soon as practicable after tender of its share certificates to the REORGANIZED DEBTORS or the designated transfer agent after the EFFECTIVE DATE, its PRO RATA portion of 260,000 shares of NEW COMMON STOCK.

2. **CLASS 5B (SERIES B PREFERRED STOCK):** Each holder of a CLASS 5B ALLOWED INTEREST shall receive, on or as soon as practicable after tender of its share certificates to the REORGANIZED DEBTORS or the designated transfer agent after the EFFECTIVE DATE, its PRO RATA portion of 340,000 shares of NEW COMMON STOCK.

F. COMMON STOCK

1. **CLASS 6A (Kaiser Steel Common Stock):** The holders of CLASS 6A ALLOWED INTERESTS and ALLOWED CLAIMS, if any, shall receive no DISTRIBUTIONS or other consideration under the PLAN.

G. INTERCOMPANY CLAIMS

1. CLASS 7 CLAIMS shall be discharged and released without any payment or DISTRIBUTION of any kind.

H. SUBORDINATED CLAIMS

1. CLASS 8 CLAIMS shall be discharged and released without any payment or DISTRIBUTION of any kind.

ARTICLE VI

MEANS FOR EXECUTION OF THE PLAN

A. KAISER HOLDINGS

1. As soon as practicable after the CONFIRMATION DATE, the articles of incorporation and bylaws of Kaiser Steel Corporation shall be amended to change the name of the corporation to KAISER HOLDINGS, INC., a Delaware corporation, or such other name as the BOARD OF DIRECTORS shall select, and to provide for 40,000,000 authorized shares of common stock. The shares upon issuance to the holders of ALLOWED CLAIMS in satisfaction of their CLAIMS shall be fully paid and non-assessable in accordance with Delaware law. KAISER HOLDINGS shall create the KAISER FONTANA SUBSIDIARIES and such other subsidiaries or affiliates as it deems necessary, and shall appoint the officers and directors thereof. The REORGANIZED DEBTORS shall collectively be responsible for the funding of all of the business operations of the REORGANIZED DEBTORS contemplated and necessary to full performance under the PLAN, including, without limitation, the prosecution of the LITIGATION, the liquidation of the STEEL ASSETS, and the resolution of CLAIMS against the DEBTORS. The LIQUIDATING ENTITY, whether KAISER HOLDINGS or a subsidiary thereof, shall prosecute and collect the LITIGATION PROCEEDS and shall liquidate the STEEL ASSETS for distribution by KAISER HOLDINGS in accordance with the PLAN.

2. On the CONFIRMATION DATE, a nine (9) member BOARD OF DIRECTORS shall be appointed for KAISER HOLDINGS for an initial term of three (3) years. Thereafter, the members of the BOARD OF DIRECTORS shall be duly elected and qualified in accordance with the NEW ARTICLES. The initial members of the BOARD shall be selected as follows:

Three Directors selected by the members of the RETIREE SUBCOMMITTEE who represent hourly retirees;

Two Directors selected by the members of the RETIREE SUBCOMMITTEE who represent salaried retirees;

Two Directors selected by the members of the STEEL COMMITTEE who are not members of the RETIREE SUBCOMMITTEE;

One Director chosen by the PBGC; and Bruce Hendry.

Should any vacancy occur during the initial three (3) years, then the constituency from which that director was selected may fill the vacancy.

KAISER HOLDINGS' Chief Executive Officer shall serve as an *ex officio* member of the BOARD OF DIRECTORS. In the event the PBGC fails to select a director, then the CEO shall fill that position and be a full voting member of the BOARD OF DIRECTORS. None of the members of the BOARD OF DIRECTORS may serve simultaneously as members of the REORGANIZED CREDITORS' COMMITTEE.

B. KAISER FONTANA PROPERTIES, STEEL ASSETS, AND LITIGATION

1. On the CONFIRMATION DATE, the KAISER FONTANA PROPERTIES, the STEEL ASSETS, and the LITIGATION shall vest in and be the property of KAISER HOLDINGS, the KAISER FONTANA SUBSIDIARIES, or the LIQUIDATING ENTITY, as appropriate, free and clear of all liens, CLAIMS, and encumbrances except as set forth in the PLAN. On the CONFIRMATION DATE, all CLAIMS against the DEBTORS shall be CLAIMS against KAISER HOLDINGS and shall be discharged by the DISTRIBUTIONS to be made by KAISER HOLDINGS or performance rendered pursuant to the PLAN. The BOARD OF DIRECTORS shall appoint the initial directors and officers of each of the KAISER FONTANA SUBSIDIARIES. The CONFIRMATION ORDER shall secure all ADMINISTRATIVE EXPENSE, special priority CLAIMS, and CLASS 4 CLAIMS by granting a first lien in favor of such CLAIMS against the LITIGATION PROCEEDS. No other or further act shall be necessary to perfect or provide notice of such lien; provided, however, that the REORGANIZED DEBTORS shall comply with all reasonable requests of the REORGANIZED CREDITORS COMMITTEE with respect to documentation and recordation of such lien. No person, entity, or creditor of any one or more of the KAISER FONTANA SUBSIDIARIES may acquire any interest in or right to payment from or against the STEEL ASSETS or the LITIGATION PROCEEDS on account of any CLAIM, whether arising before or after the CONFIRMATION DATE, except as specifically provided for in the PLAN.

2. The KAISER FONTANA SUBSIDIARIES shall develop and/or operate their respective KAISER FONTANA PROPERTIES in the best interests of their shareholder(s). KAISER HOLDINGS and its subsidiaries and/or affiliates, may enter into such joint venture agreements, loan agreements, or other corporate transactions with respect to the KAISER FONTANA PROPERTIES as it deems necessary to realize the highest value for shareholders, provided that neither the LITIGATION nor LITIGATION PROCEEDS may be pledged, encumbered, or spent in connection with the development or operation of the KAISER FONTANA PROPERTIES, and shall be used only to generate DISTRIBUTABLE PROCEEDS under the terms of the PLAN.

3. The STEEL ASSETS shall be liquidated and the LITIGATION shall be prosecuted and DISTRIBUTIONS made therefrom in accordance with this PLAN. DISTRIBUTION of DISTRIBUTABLE PROCEEDS to holders of CLASS 4A, 4B and 4C CLAIMS shall constitute a restructuring of existing obligations of the DEBTORS by the designation of a specific source of funds therefor. The REORGANIZED DEBTORS may transfer the STEEL ASSETS, or any portion thereof, to a wholly-owned subsidiary of KAISER HOLDINGS, as the BOARD OF DIRECTORS of KAISER HOLDINGS in its discretion may determine. All proceeds from the liquidation of the STEEL ASSETS, less a reasonable reserve for the operations of KAISER HOLDINGS, as established by KAISER HOLDINGS after consultation with the REORGANIZED CREDITORS COMMITTEE, including the costs of the LITIGATION, shall be

distributed as DISTRIBUTABLE PROCEEDS under the PLAN. All proceeds from the LITIGATION, net only of the actual or reasonably anticipated future costs of the LITIGATION, including attorney's fees, shall be distributed as DISTRIBUTABLE PROCEEDS under the PLAN. In the event of liquidation of any or all of the KAISER FONTANA PROPERTIES, the net proceeds thereof shall be used for the benefit of the holders of NEW COMMON STOCK, as the BOARD OF DIRECTORS may determine, pursuant to the NEW ARTICLES and the law of the State of Delaware or of such other state as may be applicable.

C. NEW COMMON STOCK

1. On or as soon as practicable after the EFFECTIVE DATE, KAISER HOLDINGS will distribute 30,000,000 shares of NEW COMMON STOCK as follows: (i) 4,590,000 shares to the holders of CLASS 4A ALLOWED CLAIMS PRO RATA; (ii) 14,850,000 shares to the RETIREE MEDICAL BENEFITS TRUST on account of CLASS 4B RETIREE MEDICAL BENEFITS CLAIMS; (iii) 6,480,000 shares to the PBGC on account of the CLASS 4C PBGC UNSECURED CLAIM; (iv) 1,080,000 shares to the RETIREE PENSION TRUST on account of CLASS 4C RETIREE PENSION CLAIMS; (v) 260,000 shares to the holders of CLASS 5A ALLOWED INTERESTS, PRO RATA; (vi) 340,000 shares to the holders of CLASS 5B ALLOWED INTERESTS PRO RATA; and (vii) the remaining 2,400,000 shares to be held by KAISER HOLDINGS as authorized but unissued shares, for issuance upon such terms and conditions as the BOARD OF DIRECTORS may determine, including, without limitation, exercise of such STOCK OPTIONS as may be granted by and at the discretion of the BOARD OF DIRECTORS to current and future employees and as provided in that certain agreement among the DEBTORS, the STEEL COMMITTEE and Bruce Hendry approved by the BANKRUPTCY COURT on June 9, 1988. The STOCK OPTIONS may, in the discretion of the BOARD OF DIRECTORS, be incentive stock options as defined in § 422A of the Internal Revenue Code.

2. Each share of NEW COMMON STOCK shall have one vote.

D. RETIREE MEDICAL BENEFITS TRUST

The RETIREE MEDICAL BENEFITS TRUST, as set forth in ARTICLE I, paragraph A, subparagraph 61 of the PLAN, shall be created prior to or on the CONFIRMATION DATE. The RETIREE MEDICAL BENEFITS TRUST shall succeed to and be deemed the assignee of all RETIREE MEDICAL BENEFITS CLAIMS filed against the DEBTORS. As a result of such succession and assignment, the RETIREE MEDICAL BENEFITS TRUST shall receive all DISTRIBUTIONS under the PLAN on account of all CLASS 4B RETIREE MEDICAL BENEFITS CLAIMS. The RETIREE MEDICAL BENEFITS TRUST shall determine and make all payments and DISTRIBUTIONS to RETIREES on account of RETIREE MEDICAL BENEFITS CLAIMS. No RETIREE shall receive DISTRIBUTIONS under the PLAN on account of a RETIREE MEDICAL BENEFITS CLAIM other than by and through the RETIREE MEDICAL BENEFITS TRUST.

E. RETIREE PENSION TRUST

The RETIREE PENSION TRUST, as set forth in ARTICLE I, paragraph A, subparagraph 64 of the PLAN, shall be created prior to or on the CONFIRMATION DATE. The RETIREE PENSION TRUST shall succeed to and be deemed the assignee of all RETIREE PENSION CLAIMS, including all CLAIMS of the PBGC on account of non-guaranteed RETIREE pension benefits, and/or the CLAIMS of any Trustee appointed under 29 U.S.C. § 1349. As a result of such succession and assignment, the RETIREE PENSION TRUST shall receive all DISTRIBUTIONS on account of all RETIREE PENSION CLAIMS pursuant to the provisions for DISTRIBUTIONS to holders of CLASS 4C CLAIMS above. The RETIREE PENSION TRUST shall determine and make all payments and DISTRIBUTIONS to RETIREES on account of RETIREE PENSION CLAIMS. No RETIREE shall receive DISTRIBUTIONS under the PLAN on account of a RETIREE PENSION CLAIM other than by and through the RETIREE PENSION TRUST. In addition, the RETIREE PENSION TRUST shall receive, pursuant to the PBGC SETTLEMENT

AGREEMENT, an assignment of one-half of the IMACC NOTE, provided that all CASH actually received by the RETIREE PENSION TRUST on account of its interest in the IMACC NOTE shall, when received, be credited against the next DISTRIBUTION of NET DISTRIBUTABLE PROCEEDS on behalf of those certain Retirees who received proceeds from the payment of the IMACC Note. In making payments to RETIREES, the RETIREE PENSION TRUST shall allocate all CASH actually received on account of its interest in the IMACC NOTE, as well as all credits charged against subsequent DISTRIBUTIONS, in accordance with the PBGC SETTLEMENT AGREEMENT.

F. PROVISIONS FOR CASH DISTRIBUTIONS

Holders of ALLOWED CLAIMS in CLASSES 1A, 1B, 1C, 1D, and 1E shall receive DISTRIBUTIONS of CASH, in the amount to which each is entitled, from funds then available to the REORGANIZED DEBTORS, on or as soon as practicable after the EFFECTIVE DATE, or as otherwise set forth above.

G. PROVISIONS FOR DISTRIBUTIONS TO SECURED CREDITORS

DISTRIBUTIONS to holders of ALLOWED SECURED CLAIMS shall be made in accordance with ARTICLE IV, paragraph C, and ARTICLE V, paragraph B, above. As soon as practicable after the EFFECTIVE DATE, in accordance with good business practice and in a commercially reasonable manner, the LIQUIDATING ENTITY will dispose of the STEEL ASSETS, either by sale or abandonment. Any sale of any of the STEEL ASSETS may be free and clear of all liens, CLAIMS, and encumbrances, with any such lien, CLAIM, or encumbrance to attach to the net proceeds of the sale, after payment of the costs and expenses thereof.

The holders of ALLOWED SECURED CLAIMS against any of the STEEL ASSETS shall receive the proceeds of the sale thereof, net of the costs and expenses of sale, in the order of priority until exhausted or until such CLAIMS have been paid in full. In the event of a dispute as to the validity, extent or priority of any such security interest, the proceeds shall be placed in a separate interest-bearing account pending the resolution of the dispute.

If any ALLOWED SECURED CLAIM, secured only by a security interest in the STEEL ASSETS, remains unpaid after the sale of the STEEL ASSETS and the delivery of the proceeds thereof, the deficiency shall constitute a CLASS 4A UNSECURED CLAIM unless said CLAIM was non-recourse.

The holder of the ALLOWED SECURED CLAIM against the KAISER FONTANA-PROPERTIES (Class 2Q—Power Master) will be treated pursuant to Article V, Paragraph B 3, above.

H. PROVISIONS FOR DISTRIBUTIONS TO UNSECURED CREDITORS

DISTRIBUTIONS to holders of UNSECURED CLAIMS shall be made in accordance with ARTICLE V, paragraph D, above. As soon as practicable after the EFFECTIVE DATE, but upon not less than twenty (20) days' notice to the REORGANIZED CREDITORS' COMMITTEE, KAISER HOLDINGS shall make an appropriate initial PRO RATA DISTRIBUTION of NEW COMMON STOCK and NET DISTRIBUTABLE PROCEEDS. Subsequent DISTRIBUTIONS of NET DISTRIBUTABLE PROCEEDS shall be made on the next business day after each six-month anniversary of the EFFECTIVE DATE, provided that not less than $500,000 is available for DISTRIBUTION, subject to the provisions of paragraph I, below. KAISER HOLDINGS shall keep accurate records of all DISTRIBUTIONS and any minimum funding loans made under paragraph I below, and shall provide reports thereof to the REORGANIZED CREDITORS' COMMITTEE as soon as practicable after each such DISTRIBUTION.

Except to the extent the BANKRUPTCY COURT shall determine that a sufficient reserve for any DISPUTED CLAIM is less than the full amount thereof, the amount of PRO RATA DISTRIBUTIONS to the holders of CLASS 4A ALLOWED general UNSECURED CLAIMS shall be calculated as if each DISPUTED CLAIM in CLASS 4A were an ALLOWED CLAIM. The DISTRIBUTIONS reserved for the holders of DISPUTED CLAIMS (including interest and dividends paid on account thereof) shall be held by KAISER HOLDINGS in trust for the benefit of the holders thereof.

At such time as a DISPUTED CLAIM becomes an ALLOWED CLAIM or ALLOWED INTEREST, the DISTRIBUTIONS reserved therefor (with any interest and dividends thereon) shall be paid to the holder of such ALLOWED CLAIM or ALLOWED INTEREST. All CASH and/or NEW COMMON STOCK reserved on account of DISPUTED CLAIMS and not distributed to the holder of such DISPUTED CLAIM(S) shall not revert to the REORGANIZED DEBTORS or any other entity, but shall, after such DISPUTED CLAIM(S) are either resolved by order of the BANKRUPTCY COURT, stipulation or withdrawn, be distributed, PRO RATA, to the holders of CLASS 4A ALLOWED CLAIMS.

Notwithstanding the foregoing, any CLAIM with respect to which no written objection has been filed with the BANKRUPTCY COURT shall receive DISTRIBUTIONS as if it were an ALLOWED CLAIM until a written objection thereto is filed with the BANKRUPTCY COURT and such holder may retain the DISTRIBUTIONS received prior to any such objection being filed. Following any written objection, the holder shall receive no DISTRIBUTIONS pending allowance or disallowance of the CLAIM by the BANKRUPTCY COURT.

I. MINIMUM FUNDING LOAN PROVISION FOR RETIREE MEDICAL BENEFITS TRUST

Until such time as all NET DISTRIBUTABLE PROCEEDS have been fully distributed, such that there is no potential for future DISTRIBUTIONS thereof, it is the intention of the PROPONENTS that the RETIREE MEDICAL BENEFITS TRUST shall be funded to a minimum level of $3,500,000. Whenever the trustee of the RETIREE MEDICAL BENEFITS TRUST shall certify in writing to KAISER HOLDINGS on or within thirty (30) days of March 2, 1990 or each annual anniversary thereof that (i) the RETIREE MEDICAL BENEFITS TRUST does not have at least $3,500,000 in cash available for the next twelve-month period, and (ii) that the RETIREE MEDICAL BENEFITS TRUST has received, since March 2, 1989, DISTRIBUTIONS of NET DISTRIBUTABLE PROCEEDS totalling less than $3,500,000 multiplied by the number of twelve-month periods since said date, then, in that event, the RETIREE MEDICAL BENEFITS TRUST shall be entitled to receive the full amount of the next DISTRIBUTIONS of NET DISTRIBUTABLE PROCEEDS until the amount so received, together with the amount on hand at the time of certification, equals $3,500,000.

Whenever, in any such twelve-month period, on account of this provision, the holders of CLASS 4A ALLOWED CLAIMS and CLASS 4C ALLOWED CLAIMS receive for that period, in the aggregate less than their total allocated percentage shares of the total DISTRIBUTIONS of NET DISTRIBUTABLE PROCEEDS as provided in ARTICLE V, paragraph D, subparagraphs 1 and 3, above, then the difference between such allocated percentage shares of DISTRIBUTIONS and the total amount of DISTRIBUTIONS actually distributed to the holders of CLASS 4A ALLOWED CLAIMS and CLASS 4C ALLOWED CLAIMS shall be deemed to be a loan from KAISER HOLDINGS to the RETIREE MEDICAL BENEFITS TRUST. This loan shall be nonrecourse as to the RETIREE MEDICAL BENEFITS TRUST, and shall only be repaid through setoff against or recoupment from future DISTRIBUTIONS of NET DISTRIBUTABLE PROCEEDS made to the RETIREE MEDICAL BENEFITS TRUST.

The loan shall not be subject to repayment by any such setoff or recoupment, however, unless and until the minimum funding provisions of this section for each twelve-month period have first been satisfied, such that the RETIREE MEDICAL BENEFITS TRUST has actually received total DISTRIBUTIONS of at least $3,500,000 times each twelve-month period after March 2, 1989.

The amount of all such loans, plus simple interest thereon accruing at a rate equal to the CHASE PRIME RATE plus two percent (2%), from the last day of each twelve-month period in which any such loan is deemed to have been actually made by virtue of the provisions of this section, shall be repaid through setoff against or recoupment from that portion of each subsequent DISTRIBUTION of NET DISTRIBUTABLE PROCEEDS to which the RETIREE MEDICAL BENEFITS TRUST would otherwise be entitled under this PLAN, and such setoff or recouped amounts will be added to that portion of such DISTRIBUTION to be distributed to the holders of CLASS 4A ALLOWED CLAIMS and CLASS 4C CLAIMS, PRO RATA.

If, after the final DISTRIBUTION of NET DISTRIBUTABLE PROCEEDS, there remains any unrecouped loan amount outstanding, neither the holders of CLASS 4A ALLOWED CLAIMS, CLASS 4C CLAIMS, nor KAISER HOLDINGS shall have any rights or recourse against the RETIREE MEDICAL BENEFITS TRUST, RETIREES, the REORGANIZED DEBTORS or any other entity with respect thereto.

J. ESTABLISHMENT AND FUNDING OF PRESCRIPTION DRUG PLAN

On or as soon as practicable after the CONFIRMATION DATE, the RETIREE MEDICAL BENEFITS TRUST will establish the PRESCRIPTION DRUG PLAN. Each Retiree who is entitled to receive health benefits from the RETIREE MEDICAL BENEFITS TRUST will be eligible to participate in the PRESCRIPTION DRUG PLAN. The PRESCRIPTION DRUG PLAN, in addition to other provisions customary in such plans, will permit participants to acquire prescription drugs either by mail order or at designated pharmacies at no charge or for significantly reduced prices, as follows:

Mail Order: No co-payment required for 30-day supply of generics
$2 co-payment required for 30-day supply of non-generics
$3 co-payment required for 90-day supply of generics
$6 co-payment required for 90-day supply of non-generics.

Pharmacy: $6 co-payment required for 30-day supply of generics
$12 co-payment required for 30-day supply of non-generics
$50 annual deductible, payable in cash before payment of any benefits for drugs purchased at a pharmacy.
50% co-payment for purchases at non-designated pharmacies.

In recognition of the hardship imposed by the DEBTORS' bankruptcy on the RETIREES, and in order to assist in alleviating that hardship, NYLIC will enter into an agreement with the RETIREE MEDICAL BENEFITS TRUST under which, for each of the first two years of the PRESCRIPTION DRUG PLAN'S operation, NYLIC will pay all costs of the PRESCRIPTION DRUG PLAN in excess of $500,000 per year, and will designate a portion of its priority claim for that purpose.

K. RELEASES AND RELATED PROVISIONS

In consideration of NYLIC's agreement to partially fund the PRESCRIPTION DRUG PLAN, and effective as of the Confirmation Date, KSC and all former employees of the DEBTORS and any other persons who have held, hold, or may hold, now or in the future, a RETIREE MEDICAL BENEFITS CLAIM or who may have been or be entitled, now or in the future, to receive benefits under the KSC-NYLIC CONTRACTS, shall forever waive, release, and discharge all rights and claims against NYLIC, and its directors, officers, employees, and agents, whether based on tort, contract, statutory law, or otherwise, and whether known or unknown, in existence now or arising in the future, with respect to any RETIREE MEDICAL BENEFITS CLAIM or arising under or related to the KSC-NYLIC CONTRACTS.

It is a condition of NYLIC's obligation to provide funding for the PRESCRIPTION DRUG PLAN that the CONFIRMATION ORDER provide that all persons who held, hold, or may hold RETIREE MEDICAL BENEFIT CLAIMS against the Debtors, or who may have been or be entitled to receive benefits pursuant to the KSC-NYLIC CONTRACTS, be permanently enjoined from commencing or continuing any action or proceeding, or taking any other action, against NYLIC, or any of its directors, officers, employees, or agents, with respect to any RETIREE MEDICAL BENEFITS CLAIM or any claim arising under or related to the KSC-NYLIC CONTRACTS. NYLIC's obligation to provide funding for the PRESCRIPTION DRUG PLAN is also conditioned upon the entry of an order of the BANKRUPTCY COURT approving the NYLIC SETTLEMENT AGREEMENT.

The release and injunctive provisions described above shall not apply with respect to any pending claims filed with NYLIC's home office prior to July 13, 1988, the administration of which has not been completed.

L. PROVISIONS FOR DISTRIBUTIONS TO PREFERRED SHAREHOLDERS

On or as soon after the EFFECTIVE DATE as is practicable, KAISER HOLDINGS shall issue 600,000 shares of NEW COMMON STOCK to PREFERRED SHAREHOLDERS, as provided in ARTICLE V, paragraph E, above. No PREFERRED SHAREHOLDER shall be entitled to a DISTRIBUTION under this PLAN unless and until such PREFERRED SHAREHOLDER shall have its INTEREST allowed and shall have surrendered to KAISER HOLDINGS or its designated agent the certificates evidencing its shares of SERIES A and/or SERIES B PREFERRED STOCK. Such certificates shall be delivered for surrender and cancellation not more than five years after the EFFECTIVE DATE and such shares of SERIES A and/or SERIES B PREFERRED STOCK after surrender shall receive no further DISTRIBUTIONS under the PLAN.

M. CANCELLATION OF EXISTING SECURITIES

On the CONFIRMATION DATE, all certificates evidencing OUTSTANDING SECURITIES of the DEBTORS, shall be deemed to be cancelled, terminated, void, rendered nugatory and of no further force and effect, and shall represent, in the case of SERIES A and SERIES B PREFERRED STOCK, only the right to receive DISTRIBUTIONS under the PLAN.

N. UNCLAIMED DISTRIBUTIONS

UNCLAIMED DISTRIBUTIONS shall be held by KAISER HOLDINGS for five years following the EFFECTIVE DATE.

At the end of five years following the EFFECTIVE DATE, the holders of ALLOWED CLAIMS or ALLOWED INTERESTS theretofore entitled to UNCLAIMED DISTRIBUTIONS shall cease to be entitled thereto. The UNCLAIMED DISTRIBUTIONS shall become the property of KAISER HOLDINGS.

O. NO DISTRIBUTION OF FRACTIONAL SHARES

Fractional shares of NEW COMMON STOCK shall not be issued or distributed. Any shares not distributed as a result of this provision shall be retained by KAISER HOLDINGS as treasury stock.

P. ACCRUAL OF *DE MINIMIS* DISTRIBUTIONS

No DISTRIBUTIONS shall be made on account of any ALLOWED CLAIM unless and until the total to be distributed is not less than $35 CASH or 50 shares of NEW COMMON STOCK. KAISER HOLDINGS shall accrue, for the benefit of the holders of ALLOWED CLAIMS subject to this provision and in an account established for such purpose, all such DISTRIBUTIONS until such time as at least $35 CASH or 50 shares of NEW COMMON STOCK has accrued for distribution, which accrued amounts shall be distributed to the holder(s) of such ALLOWED CLAIM(S) at the time of the next DISTRIBUTION of NET DISTRIBUTABLE PROCEEDS and/or NEW COMMON STOCK. All accrued DISTRIBUTIONS hereunder shall be distributed, regardless of amount, at the time of the final DISTRIBUTION of NET DISTRIBUTABLE PROCEEDS.

Q. MANAGEMENT CONTINUITY

The NEW ARTICLES shall designate the officers of KAISER HOLDINGS and shall specify their tenure.

KAISER HOLDINGS, and its subsidiaries and/or affiliates, may enter into employment contracts with its officers and other key employees. Copies of any employment contracts entered into prior to the CONFIRMATION DATE shall be filed immediately with the BANKRUPTCY COURT with a copy to the STEEL COMMITTEE.

KAISER HOLDINGS may, on or after the EFFECTIVE DATE, grant STOCK OPTIONS for shares of NEW COMMON STOCK, to be distributed to senior management and other employees of KAISER HOLDINGS and its subsidiaries and/or affiliates in such numbers, at such times, and upon such terms as the BOARD OF DIRECTORS may determine.

R. COVENANTS OF KAISER HOLDINGS

KAISER HOLDINGS is bound hereby to the following covenants and agreements pending closing of the DEBTORS' cases:

1. That it will promptly provide copies of all periodic financial statements, audited financial statements and filings of KAISER HOLDINGS or any subsidiary or affiliate, or any of their officers and directors with the Securities and Exchange Commission, to the REORGANIZED CREDITORS' COMMITTEE;

2. That it will not issue any new shares of stock, sell any material amount of its assets, or encumber or mortgage any material amount of its assets without the affirmative action of its BOARD OF DIRECTORS;

3. That it will not enter into any material joint venture agreements for the KAISER FONTANA PROPERTIES or take other similar material acts without the affirmative action of its BOARD OF DIRECTORS;

4. That it will liquidate all assets which are not reasonably necessary for the development and operation of the KAISER FONTANA SUBSIDIARIES, including, without limitation, any or all of the KAISER FONTANA PROPERTIES, when and if, in the business judgment of the BOARD OF DIRECTORS, liquidation thereof is in the best interests of the shareholders of KAISER HOLDINGS; and

5. That it will not cause the LITIGATION or LITIGATION PROCEEDS to become subject to any claim against or obligation of any of the KAISER FONTANA SUBSIDIARIES.

ARTICLE VII
REORGANIZED CREDITORS' COMMITTEE

A. REDUCED MEMBERSHIP

From and after the CONFIRMATION DATE, the REORGANIZED CREDITORS' COMMITTEE shall succeed to the duties and responsibilities of the STEEL COMMITTEE, and shall consist of five members, chosen as follows:

Two hourly RETIREES of Kaiser Steel Corporation appointed by the hourly RETIREE members of the RETIREE SUBCOMMITTEE;

One salaried RETIREE of Kaiser Steel Corporation appointed by the salaried RETIREE members of the RETIREE SUBCOMMITTEE;

One non-RETIREE creditor appointed by the non-RETIREE members of the STEEL COMMITTEE; and

One member appointed by the PBGC.

In the event of vacancy by failure to select, the properly selected members may fill any vacancy by majority vote. None of the members of the REORGANIZED CREDITORS' COMMITTEE shall simultaneously serve on the BOARD OF DIRECTORS.

B. DUTIES

The duties of the REORGANIZED CREDITORS' COMMITTEE shall be limited to the following:

1. Meeting with and monitoring the activities of the LITIGATION MANAGER with respect to the prosecution of the LITIGATION and the settlement or dismissal of any of the LITIGATION;

2. Monitoring the CLAIMS resolution activities of KAISER HOLDINGS and the CLAIMS MANAGER, including the settlement and/or other resolution of DISPUTED CLAIMS;

3. Prosecuting objections to CLAIMS where the amount in dispute exceeds $500,000, and to other CLAIMS where KAISER HOLDINGS and the REORGANIZED CREDITORS' COMMITTEE deem prosecution thereof by the REORGANIZED CREDITORS' COMMITTEE to be cost effective;

4. Reviewing and advising KAISER HOLDINGS with respect to DISTRIBUTIONS to the holders of CLASS 4A, 4B and 4C CLAIMS and the sufficiency of any reserve for DISPUTED CLAIMS;

5. Taking or initiating any action it deems appropriate with respect to matters filed or pending in the BANKRUPTCY COURT in these Chapter 11 cases, or with respect to the duties set forth in this Section B;

6. Consulting with the LIQUIDATING ENTITY with respect to the appointment, replacement or termination of the LITIGATION MANAGER; and

7. Certification with respect to the closing of these Chapter 11 cases.

C. EXPENSES; RETENTION OF PROFESSIONALS

Individual members of the REORGANIZED CREDITORS' COMMITTEE shall serve without compensation other than reimbursement of their reasonable expenses. The REORGANIZED CREDITORS' COMMITTEE may retain legal counsel. The REORGANIZED CREDITORS' COMMITTEE may retain such other professionals as may be approved by the BANKRUPTCY COURT. The expenses of the individual members of the REORGANIZED CREDITORS' COMMITTEE, and the fees of its professionals, shall be paid by the REORGANIZED DEBTORS upon receipt of monthly invoices, except that the REORGANIZED DEBTORS shall not be obligated to pay more than $10,000 for such expenses and fees incurred in any single month, excluding expenses and fees incurred in the prosecution of objections to CLAIMS, unless directed to do so by FINAL ORDER.

D. LIMITATION OF LIABILITY

The STEEL COMMITTEE, the REORGANIZED CREDITORS' COMMITTEE, the DEBTORS, and any of their members, directors, officers, and agents, including without limitation their counsel, accountants, consultants, or employees, shall not be liable to any of the DEBTORS, any holder of a CLAIM against or INTEREST in any of the DEBTORS, or any other entity for any action taken or omitted to be taken in connection with their duties in these Chapter 11 cases or under the PLAN, except that such liability may be imposed for willful misconduct. The BANKRUPTCY COURT shall have exclusive jurisdiction to resolve any questions concerning any such liability.

E. TERMINATION

The REORGANIZED CREDITORS' COMMITTEE and the retention of any professionals or other agents retained thereby will terminate upon the entry of a FINAL ORDER closing these Chapter 11 cases.

ARTICLE VIII
DISCHARGE

Except as otherwise provided in the PLAN or in the CONFIRMATION ORDER, the CONFIRMATION ORDER acts as a discharge of any and all debts of the DEBTORS and the REORGANIZED DEBTORS, as successor(s), that arose at any time before the entry of the CONFIRMATION ORDER, including all principal and any interest accrued thereon, pursuant to § 1141(d)(1) of the BANKRUPTCY CODE. The discharge of the DEBTORS and the REORGANIZED DEBTORS shall be effective as to each CLAIM, regardless of whether a proof of CLAIM therefor was filed, whether the CLAIM is an ALLOWED CLAIM, or whether the holder thereof votes to accept the PLAN.

ARTICLE IX
PROSECUTION OF THE LITIGATION AND CLAIMS RESOLUTION

A. RETENTION OF RIGHTS BY KAISER HOLDINGS

After the CONFIRMATION DATE, the LIQUIDATING ENTITY will retain all of the rights of the DEBTORS with respect to the LITIGATION, including the right to commence, prosecute, settle, or dismiss the LITIGATION or any part thereof (except that the settlement or dismissal of any LITIGATION will be subject to approval by the BANKRUPTCY COURT on notice to the REORGANIZED CREDITORS' COMMITTEE). The LIQUIDATING ENTITY shall cause the LITIGATION to be prosecuted and/or settled so as to maximize the recovery of LITIGATION PROCEEDS, consistent with reasonable business judgment and all applicable law. The LIQUIDATING ENTITY may retain or replace the attorneys currently prosecuting the LITIGATION on behalf of the DEBTORS.

B. LITIGATION MANAGER

The LIQUIDATING ENTITY shall retain a LITIGATION MANAGER for so long and on such terms as the BOARD OF DIRECTORS shall determine, who may serve on a part-time basis, if appropriate. The LITIGATION MANAGER's duties will be limited to (i) supervising the prosecution and/or settlement of the LITIGATION and all matters connected therewith, and (ii) consulting on a regular basis with the REORGANIZED CREDITORS' COMMITTEE with respect thereto.

The compensation of the LITIGATION MANAGER shall be fixed by agreement between the LITIGATION MANAGER and the LIQUIDATING ENTITY with the consent of the REORGANIZED CREDITORS' COMMITTEE. If KAISER HOLDINGS or its subsidiaries advance funds to pay the LITIGATION MANAGER, or other costs of prosecuting the LITIGATION, including attorneys fees, they may be reimbursed out of DISTRIBUTABLE PROCEEDS.

C. CLAIMS RESOLUTION

After the CONFIRMATION DATE, KAISER HOLDINGS will complete the process of reviewing and reconciling CLAIMS filed against the DEBTORS. KAISER HOLDINGS shall make all DISTRIBUTIONS on account of ALLOWED CLAIMS, and shall prosecute objections to all DISPUTED CLAIMS, if cost effective, where the amount in dispute is less than $500,000. The REORGANIZED CREDITORS' COMMITTEE shall prosecute objections to all DISPUTED CLAIMS where the amount in dispute is $500,000 or greater. If KAISER HOLDINGS or its subsidiaries advance funds to pay the CLAIMS MANAGER or other costs of claims resolution, including attorneys fees, they may be reimbursed out of DISTRIBUTABLE PROCEEDS.

D. CLAIMS MANAGER

KAISER HOLDINGS will retain a CLAIMS MANAGER whose duties will be to (i) supervise the review and reconciliation of CLAIMS; (ii) direct, supervise, and maintain records of DISTRIBUTIONS to holders of CLASS 4A ALLOWED CLAIMS; and (iii) consult on a regular basis with the REORGANIZED CREDITORS' COMMITTEE with respect to each of the above matters.

ARTICLE X

EXECUTORY CONTRACTS

All executory contracts of the DEBTORS shall be rejected pursuant to the provisions of §§ 365 and 1123 of the BANKRUPTCY CODE, except the following contracts which shall be assumed pursuant to the provisions of §§ 365 and 1123 of the BANKRUPTCY CODE: (i) all executory contracts which are the subject of separate motions, filed pursuant to § 365 of the BANKRUPTCY CODE by any of the DEBTORS prior to the commencement of the hearing on confirmation of the PLAN, and (ii) the contracts listed in the "SCHEDULE OF ASSUMED EXECUTORY CONTRACTS" attached hereto as Exhibit B. Whether or not the Memorandum of Understanding dated September 14, 1984, the Cushenbury Mine Trust dated January 1, 1985, and the Kaiser Steel Corporation Retirees' Benefit Trust dated December 28, 1987 (which are contracts or agreements under which Kaiser Steel Corporation has powers of appointment and powers of amendment), are considered executory, such contracts and agreements, as amended, shall remain in existence and such powers shall continue to be exercised by KAISER HOLDINGS to the extent approved by the BANKRUPTCY COURT as a result of the hearing currently scheduled for July 13, 1988.

ARTICLE XI

REVESTING

Except as provided in the PLAN or in the CONFIRMATION ORDER, on the CONFIRMATION DATE, the REORGANIZED DEBTORS shall be vested with all of the property specified in the PLAN free and clear of all CLAIMS, liens, charges and other interests of creditors arising prior to the CONFIRMATION DATE.

ARTICLE XII

RETENTION OF JURISDICTION

Notwithstanding confirmation of this PLAN, the BANKRUPTCY COURT shall retain jurisdiction for the following purposes:

A. Determination of the allowability of CLAIMS and INTERESTS upon objection to such CLAIMS or INTERESTS by the DEBTORS, KAISER HOLDINGS, the REORGANIZED CREDITORS' COMMITTEE, any successor to any such party, or by any party in interest;

B. Approval, pursuant to § 365 of the BANKRUPTCY CODE, of any pending motion for the assumption, assignment, or rejection of any executory contract or unexpired lease of any of the DEBTORS;

C. Determination of requests for payment of expenses entitled to priority under § 507(a)(1) of the BANKRUPTCY CODE, including compensation of parties entitled thereto;

D. Resolution of controversies and disputes regarding the interpretation or enforcement of the terms of the PLAN, any instruments issued under the PLAN, or any other documentation evidencing the terms of the PLAN;

E. Implementation of the provisions of this PLAN and entry of orders in aid of confirmation of this PLAN, including, without limitation, appropriate orders to protect the DEBTORS and their successors from creditor action;

F. Modification of this PLAN pursuant to § 1127 of the BANKRUPTCY CODE;

G. Determination of the LITIGATION, and/or the approval of any settlement or dismissal thereof; and

H. Entry of final decrees closing the DEBTORS' cases.

ARTICLE XIII

CLOSING OF CASES

Upon the joint certification of the BOARD OF DIRECTORS and the REORGANIZED CREDITORS' COMMITTEE that the LITIGATION has been completed, that all disputes with respect to CLAIMS have been resolved (except for de minimis CLAIMS), and that all DISTRIBUTIONS required hereunder have been made, the BANKRUPTCY COURT may enter an order closing these Chapter 11 cases.

ARTICLE XIV

VOTING PROVISIONS

All CLAIMS entitled to vote shall be voted by the individual holder thereof, including all RETIREES, and no CLAIM shall be voted by the RETIREE MEDICAL BENEFITS TRUST or the RETIREE PENSION TRUST.

DATED, July 13, 1988, Denver, Colorado.

KAISER STEEL TUBING INC., Debtor

By BRUCE E. HENDRY, *President*

KAISER STEEL CORPORATION, Debtor

By BRUCE E. HENDRY, *President*

UNION STEEL COMPANY, Debtor

By BRUCE E. HENDRY, *President*

COTTONWOOD CANYON LAND CO., Debtor

By BRUCE E. HENDRY, *President*

MYERS DRUM COMPANY, Debtor

By BRUCE E. HENDRY, *President*

LAKE TAMARISK DEVELOPMENT CORPORATION, Debtor

By BRUCE E. HENDRY, *President*

KT REALTY, INCORPORATED, Debtor

By BRUCE E. HENDRY, *President*

COMMITTEE OF UNSECURED CREDITORS OF KAISER STEEL CORPORATION, et al.

By EDWARD G. WENDT, JR., *Chairman*

RETIREE SUBCOMMITTEE OF THE COMMITTEE OF UNSECURED CREDITORS OF KAISER STEEL CORPORATION, et al.

By RONALD BITONTI, *Chairman*

UNITED STEELWORKERS OF AMERICA, AFL-CIO-CLC

By ROBERT GUADIANA, *Director*

EXHIBIT A-1

DESCRIPTION OF EAGLE MOUNTAIN PROPERTY

1. Mining Properties:

Eagle Mountain—10 miles N.E. of Desert Center, CA

Claims	Approximate Area
190 Patented Lode Claims	3,800 Acres
483 Unpatented Mill Site Claims	2,415 Acres
158 Unpatented Lode Claims	3,160 Acres
9 Unpatented Placer Claims	180 Acres
Property Held in Fee Simple	1,800 Acres
TOTAL	11,355 Acres

Vulcan—9 miles West of Kelso, CA

Claims	Approximate Area
5 Unpatented Lode Claims	100 Acres
12 Unpatented Lode Claims	240 Acres

Silver Lake Area—Approximately 20 Miles N.W. of Baker, CA

Iron King Claim	Approximate Area
1 Patented Lode Claim	20 Acres

Iron Mountain Claim	Approximate Area
6 Patented Lode Claims	120 Acres
1 Patented Placer Claim	20 Acres
8 Unpatented Claims	160 Acres

Morris Lode—Approximately 35 Miles East of Lucerne Valley, CA

Claims	Approximate Area
9 Patented Lode Claims	180 Acres
6 Unpatented Placer Claims	960 Acres
8 Unpatented Lode Claims	160 Acres

Bessemer—Approximately 30 Miles East of Lucerne Valley, CA

Claims	Approximate Area
9 Patented Lode Claims	180 Acres
8 Unpatented Lode Claims	160 Acres
6 Unpatented Placer Claims	960 Acres

Pikes Peak—Approximately 30 Miles N.W. of Phoenix, AZ

Claims	Approximate Area
26 Patented Lode Claims	520 Acres
40 Unpatented Lode Claims	800 Acres

and all other mining claims owned by the Debtors.

2. Other Real Estate:

Dunn Siding—Approximately 35 Miles N.E. of Baker on I-15

180 Acres—Fee Simple

Desert Center Parcel—Approximately 7.5 Miles N.E. of Desert Center, CA

40 Acres—Fee Simple

3. Structures—Eagle Mountain

A. Campsite Area

384 abandoned houses in various states of assembly or disrepair

1 School Building Complex	Unoccupied
2 Church Buildings	Unoccupied
1 Recreation Building	Unoccupied
1 Commercial Dwelling	Unoccupied
1 Administrative Office Building	Partially Occupied
1 Sewage Treatment Facility	In-Use
7 Store Front Commercial Buildings	
1 Administration Building	Currently Leased to MTC
2 Office Buildings	
23 Dormitory Buildings	

B. Millsite Area

1 Maintenance Building	
1 Warehouse Building	
1 Pellet Plant Indurator Building	Abandoned
1 Metallurgical Laboratory	Not in Use
3 Operations Office Buildings	Not in Use
2 Water Storage Tanks	
1 Concrete Reservoir	Not in Use
1 Fuel Storage & Dispensing Station	
4 Electrical Substations	
7 Portable Electrical Substations	
1 Set of Truck Scales—Permanent	
1 Booster Pump Station (4 Pumps)	
1 Railroad Switching Yard	

C. Pit Area

2 Maintenance Buildings	Not in Use
6 Water Storage Tanks	
3 Powder Storage Magazines	Not in Use
1 Equipment Service Station	Not in Use
1 Dispatching Tower	Not in Use
8 Electrical Substations	
3 Electric Water Booster Pumps	

4. Water Wells

Chuckawalla Basin

4 Deep Wells
1 Booster Dump Station (5 Pumps)

Pinto Basin

2 Deep Wells
1 Booster Pump Station (8 Pumps) Associated Equipment

5. Mobile Equipment

1 CAT D-9 Dozer
1 CAT 14-D Motorgrader
1 CAT 920 Front End Loader
1 Ford Tractor with Backhoe
1 Euclid 31-TD End Dump Truck
1 Ford 4400 Tractor with Front End Loader
2 Ford Pickup Trucks
1 Bucyrus Errie Hydrocrane
1 Hyster Fork Lift (18 Tons)
1 Pettybone Speed Swing
1 Electromatic Mark I Tamping Machine
1 Lincoln Portable 400 AMP Welder
1 FAB-TEK V-36 Mobile Platform
1 CAT Towmotor Fork Lift (18 Ton)
1 Ingersol-Rand XLE Air Compressor
1 KW Dart D-6651, 100 Ton Haul Truck
1 Dart Rimpull Water Truck
1 KW Dart D-2771 Water Truck

6. Miscellaneous:

Various tools, parts, and operating supplies, roads, gates, water lines, power lines, sewage lines.

EXHIBIT A-2

DESCRIPTION OF FONTANA PROPERTY

Land: Fontana:

1. 528.97 acres, (Parcel 231-011-07)
2. 148.5 acres, West Slag Dump, (Parcel 238-031-02)
3. 141.2 acres East Slag Dump, (Parcel 238-031-08)
4. 0.55 acre (Parcel 231-102-10).
5. 31.02 acres (Parcel 231-111-11).
6. 7.11 acres (Parcel 231-111-01)
7. 24.19 acres (Parcel 229-291-27)
8. 14.02 acres (Parcel 238-031-09)

Equipment: Fontana:

1. Trucks, mobile equipment; locomotives presently located at Fontana.
2. All remaining buildings and equipment at the Fontana site including office furniture and equipment.
3. Company automobiles presently located at Fontana.

Others:

1. Pumping rights in the Chino Basin.
2. Fontana Union Water stock owned by Debtors.
3. Storage agreements with Chino Basin Watermaster.
4. All permits related to the Fontana site.
5. All emission credits related to the Fontana site.
6. All easements related to the Fontana Site including West end properties when recaptured. Also, easements over adjacent property.
7. Easement rights for roadway crossings across Southern California Edison property.
8. Claremont Condominium.
9. All water rights appurtenant to any of the above described land.
10. Pollution credits and any other regulatory permits, licenses and the like appurtenant to any of the above described land.
11. Option to purchase northeast corner of Fontana Property.

EXHIBIT A-3

DESCRIPTION OF LAKE TAMARISK PROPERTY

Lake Tamarisk is a community located between Desert Center, California and the Eagle Mountain Mine. This community was developed by Lake Tamarisk Development Corporation ("LTDC") and is now operated by a special services area of Riverside County. LTDC owns 88 improved lots including seven houses in Lake Tamarisk. LTDC also owns approximately 320 acres of unimproved land directly across the street from the main gate into Lake Tamarisk.

EXHIBIT A-4

DESCRIPTION OF CHINO BASIN OUTFALL UNITS

Capacity rights in the non-reclaimable waste water line of 2.7 million gallons per day.

EXHIBIT A-5

DESCRIPTION OF FERRUM—EAGLE MOUNTAIN RAILROAD PROPERTY

Approximately 51 miles of railroad track and right-of-way running from Ferrum, California to Eagle Mountain, California, together with all rolling stock and railroad equipment owned by the DEBTORS and all other rights associated with the railroad. Includes land owned in fee simple by the DEBTORS along the railroad right-of-way, consisting of 13 parcels of various sizes, totalling approximately 2,694 acres.

EXHIBIT A-6

LISTING OF CONTRACTS, LEASES AND AGREEMENTS

All contracts, leases and other legal agreements appurtenant to, related to or running with the real properties described in Exhibit A1-A7 (i.e., CSI Utility agreement, Chem West lease, property leases and similar agreements).

EXHIBIT A-7

PREVIOUSLY OWNED PROPERTIES OF KAISER STEEL

1. 239.27 acres—West End Properties when recaptured.
2. 42 acres Campus Lease and fee ownership when recaptured.
3. 29 acres when recaptured.
4. Repurchase right for Koppers parcel.
5. 51 acres ± land south of 29-acre parcel, if recaptured from Perma.
6. 43 acres ± South of East Slag Dump, if recaptured from Perma-Bank of Oklahoma.
7. 19 acres ± South of I-1O, South of East Slag Dump, if recaptured from Perma.

EXHIBIT B

AGREEMENTS

FO-4452	Levand Steel & Supply Corporation—2/17/87—Purchase and Removal Agreement for oversize screenings, flue dust, precipitator dust, black filter cake, mill scale, etc. Term: As long as product remains on Kaiser's premises; not to exceed 3 years.
FO-4453	Team America Inc.—3/1/87—Lease Agreement for two acres located west of KSC Paint Shop Building 286, + nonexclusive use of railroad spur track running thru outside storage area. Premises subject to increase from time to time up to a maximum of 5 acres. Term: 3/1/87–2/29/88; may be extended for 6 months upon 60 days notice by Leasee.
FO-4456	U.S. Sprint (David Stokes)—4/27/87—Regarding Spring Account #104660684—insurance of payment on account.
FO-4466	California Steel Industries—8/17/87—Fourth amendment to services agreement between KSC and CSI.
FO-4467	California Steel Industries—8/17/87—Railroad cross-indemnity agreement between KSC and CSI.
FO-4468	Dames & Moore—8/17/87—Waste Treatment EIR—Warranty and Liability.
FO-4469	Dames & Moore, County of San Bernardino—8/31/87—Contract between KSC/County of San Bernardino/Dames & Moore for payment of environmental staff coordination fees and cost of an environmental impact report (EIR) for an industrial waste treatment facility.
FO-4475	Sharp & Fellows Construction Company—10/15/87—Removal, sorting, storing and sale of certain railroad materials located at the KSC plant in Fontana. Term: 10/87–10/89.
FO-4476	Southern California Hazardous Waste Management Authority—Consulting services to KSC regarding design of a public participation program related to the proposed aqueous hazardous waste treatment facility in Fontana.
HO-822	First Leasing Corporation—9/24/82—Fleet Vehicle Lease Agreement.
HO-868	David Joseph Abascal—8/17/83—Agreement for the assignment of a patent entitled "Adjustable Tuyere." Term: The life of the patent, issued 7/20/82 (17 years).
HO-1028	Avis Rent-A-Car—4/1/85—Car rental agreement between KSC and Avis Rent-A-Car System, Inc. Term: 90 days prior written notice.
HO-1031	Avis Car Leasing (We Try Harder, Inc.)—1. Vehicle Lease Agreement (also includes Capitalization Schedule, Rate Schedule, and Tax Certification); 2. Account Purchase Agreements for leased vehicles.
HO-1042	Leaseametric, Inc.—6/10/85—Equipment lease for computer equipment and maintenance. Term: 6/10/85–6/10/87.
HO-1149	Metcalf & Eddy—10/12/87—Professional engineering services for KSC in connection with proposal for obtaining permits including RCRA permit for the New Waste Treatment Facility in Fontana.
HO-1151	J.M. Montgomery Consulting Engineers, Inc.—10/20/87—Preliminary assessment/site inspection at Kaiser Steel plant site.

HO-1152 J.M. Montgomery Consulting Engineers, Inc.—10/20/87 Site investigation of the KSC Fontana Water Treatment Plant.

HO-1155 J.M. Montgomery Consulting Engineers, Inc.—11/4/87—Phase IV Groundwater Investigation at the KSC Fontana Plant Site.

PA-304 Metropolitan Water District—Use of Pinto Wells and right-of-way.

PA-344 California Electric Power—Grant easement?

PA-345 BLM—Radio communication site at Chuckawalla Peak.

PA-366 So. Cal. Gas Co.—Maintenance agreement, access road to Chuckawalla Peak.

PA-606 So. Cal. Gas Co.—Gasline right-of-way.

PA-627 So. Cal. Gas Co.—Gasline right-of-way across railroad tracks.

PA-715 BLM-Powerline right-of-way.

PA-791 State of California—Section 36 mining lease.

PA-800 So. Cal. Edison—Easement for powerlines in camp site.

PA-895 Southern Pacific Transportation Company—2/27/84—Industrial Track Agreement. Supersedes PA-796.

PA-909 State of California—Prospecting permit, Iron Chief Mine area.

PA-938 Shear City Iron & Metal, Inc.—Lease Agreement between Shear City Iron & Metal, Inc. & KSC for property located on the south side of San Bernardino Avenue, immediately east of and adjacent to the San Sevaine Drainage Channel. Term: 7/9/85–7/8/90.

PA-1220 Desert Center Unified School District—Lease Agreement between Lake Tamarisk Development Corp. and Desert Center Unified School District for property located in Desert Center, CA. Term: 11/1/85–11/1/88.

PA-1224 Pluess-Staufer (California) Inc.—1/1/86 Mining Lease between Cushenbury Mine Trust and Pluess-Staufer for property located in San Bernardino County. Term: 1/1/86–12/31/10.

PA-1291 Olympic Chemical Company—2/1/87—Lease Agreement for east eight bays of north portion of KSÇ Specialty Manufacturing Building 194. Term: 1/31/89 may be extended upon 90 day notice for 1 additional year to 1/31/90. First amendment 7/1/87.

PA-1292A Olympic Chemical Company—7/1/87—Amendment to increase the outside storage area on the north side of the Premises. Increase in the monthly rental payment to KSC as of 7/1/87.

RDE-0114 So. Cal. Edison—Right-of-way.

RDE-0124 Metropolitan Water District—Right-of-way.

RDE-0278 Precious Metals Recovery Processes—2/23/86—Exploration Agreement with option to lease. Term: 2/3/86–6/2/86.

Heckett Corporation—Agreement to process slag into aggregate products for sale and to prepare and sell metallics.

Heckett Corporation—Lease for the plant site, surge pile site, and processed slag pile site (Hecketts north end location).

Management Training Corporation—Lease for the "Return to Custody" facility at Eagle Mountain. (Effective 11/15/87).

BLM—Right-of-way for access to the Pikes Peak property in Arizona.

Account-A-Call—Agreement for rental of their equipment and processing to provide phone bill detail.

U.S. Leasing—Leasing of Displaywriters.

EXHIBIT B

DISTRIBUTION SUMMARY TABLE

The following table summarizes the Plan Distributions for each Class and estimates ranges of Claims, Cash Distributions of Distributable Proceeds, percentages of Net Distributable Proceeds, and Net Common Stock Distributions for each Class. It also references sections where more detailed information may be found. Actual, Allowed Claims may vary substantially from these preliminary estimates. **Furthermore, if the Bankruptcy Court determines the Plan cannot be confirmed because of the percentage allocations among Class 4 Creditors, the percentages will be amended to conform to the Bankruptcy Court findings.**

ESTIMATED CLAIMS AND DISTRIBUTIONS AS OF ASSUMED EFFECTIVE DATE OF SEPTEMBER 1, 1988 (000's Omitted)

Class	Estimated Claims as of Confirmation	Property or Cash (Classes 1, 2, and 3 Only)	Net Distributable Proceeds (Percentage)	Kaiser Holdings Net Common Stock (Shares and %)	Section Reference
ADMINISTRATIVE	$ 9,200	$ 9,200	0%	0	III C
PRIORITY					
1A—Wage	50	50	0%	0(0%)	III D 1
1B—Employee Benefits	0	0	0%	0(0%)	III D 1
1C—Deposits	0	0	0%	0(0%)	III D 1
1D—Tax	105,500(1)	5,400	0%	0(0%)	III D 1
1E—PBGC Priority	1,000	1,000	0%	0(0%)	III D 1
1F—PBGC Special	4,000	4,000(2)	0%	0(0%)	III D 1
Administrative and Priority Subtotal:	$119,200	$19,650			
SECURED					
2A—Meritor	0	0	0%	0(0%)	III D 2a
2B—GATX	150	150	0%	0(0%)	III D 2b
2C—GMAC	21	21	0%	0(0%)	III D 2c
2D—Weyerhaeuser	115	115	0%	0(0%)	III D 2c
2E—Bank of America	3,302	52	0%	0(0%)	III D 2c
2F—Western States Mineral	2,200	Property	0%	0(0%)	III D 2c
2G—Charter Colorado Resources	2,766	Property	0%	0(0%)	III D 2c
2H—Dr. G. R. Dilley	243	Property	0%	0(0%)	III D 2c
2I—Bechtel	5,229	Property	0%	0(0%)	III D 2c
2J—Jelen & Sons	1,100	Property	0%	0(0%)	III D 2c
2K—Travelers Ins.	4,974	Property	0%	0(0%)	III D 2c
2L—Northern Cimmaron	2,518	Property	0%	0(0%)	III D 2c
2M—Thelen, Marrin	843	0	0%	0(0%)	III D 2c
2N—Chase Manhattan	Unknown	Property	0%	0(0%)	III D 2c
2O—Colwell Financial	33	Property	0%	0(0%)	III D 2c
2P—Security Pacific	40	40	0%	0(0%)	III D 2c
Secured Subtotal:	$ 23,437	$ 378 (cash only)			
3—Environmental Claims	Unknown	Unknown	0%	0(0%)	III D 3

*Property includes relief from stay to foreclose or quiet title.

Class	Estimated Claims as of Confirmation	Property or Cash (Classes 1, 2, and 3 Only)	Net Distributable Proceeds (Percentage)	Kaiser Holdings Net Common Stock (Shares and %)	Section Reference
UNSECURED					
4A—*General* Unsecured Claims	$(undetermined)(3)		17%	4,590 (15.3%)	III D 4
4B—Retiree Medical Benefit Claims	$ 400,000(4)		55%	14,850 (49.5%)	III D 4 b
4C—PBGC Unsecured Claim	203,000(5)		24%	6,480 (21.6%)	III D 4 c
Retiree Pension Claims	37,000(5)		4%	1,080 (3.6%)	III D 4 c
PREFERRED STOCK					
5A—Series A Preferred Stock	7,478 Shares		0%	260 (0.9%)	III D 5 a
5B—Series B Preferred Stock	7,478 Shares		0%	340 (1.1%)	III D 5 b
COMMON STOCK					
6A—KSC Common Stock	10,000 Shares		0%	0 (0%)	III D 6 a
6B—Subsidiary Common Stock (6)	N/A		0%	0 (0%)	III D 6 b
OTHER					
7—Intercompany Claims	N/A		0%	0 (0%)	III D 7
8—Subordinated Claims	N/A		0%	0 (0%)	III D 8
Management	N/A		0%	2,400 (8%)(7)	
			100%	30,000 (100%)	

(1) Debtors dispute a $92,000,000 claim filed by the IRS on various grounds [*see* Section IV.D.3]. Debtors have estimated the Tax Note liability, for disclosure purposes only, at $5,000,000. $400,000 relates to property taxes payable on the Effective Date. The California Franchise Tax board has filed a claim for $11 million which the Debtor totally disputes and values at 0.

(2) Payable out of the first ten percent (10%) of Distributable Proceeds, but not greater than the amount of the Allowed Claim.

(3) The total amount of these claims is unknown. The Debtors estimate the range of claims between $150 million and $250 million. [For further information, *see* Section III.D.4a.]

(4) Estimated range of claims is between $300 million and $500 million.

(5) PBGC claim for guaranteed benefits has been estimated at up to $203 million and Retiree Pension Claims for non-guaranteed benefits have been estimated at $37 million.

(6) Not impaired.

(7) Stock options may be granted for up to 2.4 million shares of New Common Stock. [For more information regarding the stock options, *see* Section VII.A.]

EXHIBIT C(a)

KAISER HOLDINGS, INC.
ESTIMATED GOING-FORWARD VALUE
POST-CONFIRMATION
SCHEDULE OF POTENTIAL ASSET VALUES AND LIABILITIES
SEPTEMBER 30, 1988
(in thousands)

POTENTIAL ASSET VALUES

Short-term (Note 2):	
Cash	$ 1,860
Legal costs to be recouped from litigation proceeds	1,500
Miscellaneous receivables	500
MRC advance	1,500
Lusk receivable	3,000
Claims administration costs to be recouped from litigation proceeds	150
Potential state tax refunds (Note 5)	
Total short-term values	8,510
Long-term (Note 3):	
Waste treatment facility and other equipment	6,000
Land—former steel mill site	4,000
Eagle Mountain	30,000
Tamarisk and Union Steel real estate	750
Ore—mine properties	400
Office equipment and other	350
Fontana Union Water Company stock	27,800
Notes receivable:	
IMACC	2,900
Esconido	390
	72,590
Amounts to be recouped from litigation proceeds and potential state tax refunds in order to pay the professional fees of $5.5 million and NYLIC administration claim of $3.1 million	8,600
Total potential asset values	$89,700

LIABILITIES

Administrative expenses, priority, and secured claims:	
PBGC (Note 6)	$ 1,000
California income tax (Note 6)	-0-
Bank of America (Note 6)	-0-
Property taxes	400
GATX and Powermaster	450
Other accounts payable and accruals	600
Total administrative expenses and priority claims	2,450
IMACC note assignment	1,450
Note payable—Federal income tax	5,000
Note payable—professional fees	5,500
Note payable—Lusk	3,000
Note payable—NYLIC (Note 6)	3,100
Total other liabilities	18,050
Contingent liabilities (Note 6)	—
Total liabilities	$20,500

The accompanying notes and assumptions are an integral part of this schedule.

KAISER HOLDINGS, INC.

NOTES AND ASSUMPTIONS TO
SCHEDULE OF POTENTIAL ASSET VALUES AND LIABILITIES

NOTE 1—BASIS OF PRESENTATION:

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES HAVE NOT BEEN FOLLOWED IN THE PREPARATION OF THE SCHEDULE AND CERTAIN DISCLOSURES HAVE BEEN OMITTED AS THE INFORMATION IS NOT READILY AVAILABLE. THE SCHEDULE IS AN ATTEMPT TO QUANTIFY WHAT THE COMPANY'S POTENTIAL ASSET VALUE IS ON A GOING-FORWARD BASIS AND NOT TO PRESENT FINANCIAL POSITION IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

The accompanying unaudited schedule of potential asset values and liabilities (the "Schedule") is an estimate of going-forward values based on assumptions as described herein and actual future realizable values most likely will vary materially. The schedule is presented to reflect the consummation of the Joint Plan of Reorganization (the "Plan") as if it occurs on September 30, 1988. The Schedule should be read in conjunction with the other information set forth in this Disclosure Statement.

The Schedule has been prepared to reflect estimated going-forward values for the assets. Note 3 describes the methods used by management in determining the estimated going-forward values.

The Schedule was prepared by the management of Kaiser Steel Corporation (the "Company") on the basis of preliminary documents, estimates and assumptions which are subject to modification or change. Some assumptions and estimates inevitably will not materialize and unanticipated events may occur subsequent to July 8, 1988, the date the Schedule was prepared.

NOTE 2—SUMMARY OF PRINCIPAL ASSUMPTIONS AND ESTIMATES:

A. The Plan will be accepted under the terms as set forth in the Disclosure Statement.

B. The Company will reach an agreement with the Internal Revenue Service ("IRS") resulting in a tax liability not to exceed approximately $5 million for all tax periods through December 31, 1983. The Company has incurred significant tax losses for all subsequent periods. The IRS will accept a six-year note payable in satisfaction of this debt with principal payments beginning October 1, 1989.

C. The Company will consummate the joint venture agreement with The Lusk Company ("Lusk") and will sign the Mining Reclamation Corporation ("MRC") agreement and lease thereby receiving $1.5 million from MRC as an advance royalty and a long-term $3 million joint venture loan from Lusk. Such amounts have been included as accounts receivable at September 30, 1988.

D. Liabilities for professional fees and the NYLIC claim will be satisfied through the issuance of long-term notes payable of $8.6 million and will be paid from litigation proceeds and/or state tax refunds; accordingly, an asset for that amount has been included.

E. Cash at September 30, 1988 will approximate $1.86 million.

F. Reclamation costs, if any, for Eagle Mountain will not exceed $3 million.

G. Environmental clean-up costs for the former steel mill site will not exceed $41 million and will be assumed by Lusk.

H. Certain land in Arizona will be sold before September 30, 1988 resulting in net cash proceeds of $300,000 net of debt repayments of $300,000.

I. The miscellaneous receivable, the legal and claims administration costs to be recouped from litigation proceeds and notes receivable will be collected.

NOTE 3—SUMMARY OF METHODS USED IN ESTIMATING THE GOING-FORWARD VALUES:

Property, plant and equipment—

The estimated going-forward value of $6 million for the Waste treatment facility and other equipment was determined by management using the projected annual net cash flow, capitalized at a price/earnings ratio comparable to other waste-treatment operations.

The estimated going-forward value of Land—former steel mill site of $4 million was determined by management using a combination of appraisals and agreed-upon contribution values used in negotiations with Lusk, the Company's joint-venture partner. This value also assumes that Lusk will pay for the estimated environmental clean-up costs of approximately $41 million.

The estimated going-forward value of Eagle Mountain of approximately $30 million was determined by management using the discounted (17%) projected annual net cash flow of the project.

The estimated going-forward value of the Ore-mine properties of $400,000 and Office equipment and other of $350,000 was based on historical net book value and the assumption that there is no significant difference between the two values.

Fontana Union Water Company—

The estimated going-forward value of the Fontana Union Water Company stock of $27.8 million was based on old appraisals, combined with management's best assessment of the going-forward value of the stock.

Notes receivable—

The non-interest bearing note receivable from IMACC is due on December 31, 1989 in the amount of $3.5 million. The note was valued at its present value, $2.9 million, using an interest rate of 12%. One-half of the note has been assigned to a third party; such amount, as adjusted for present value, is included in Other liabilities in the Schedule.

NOTE 4—SPECIAL PRIORITY CLAIMS:

As more fully discussed elsewhere in this Disclosure Statement, the Pension Benefit Guarantee Corporation ("PBGC") has been granted a special priority claim for $4 million to be paid out of the first 10% of Distributable Proceeds (a defined term). No value has been assigned to the Distributable Proceeds in excess of amounts to be reimbursed to the Company as such excess amounts will be distributed directly to the creditors of Kaiser Steel Corporation.

NOTE 5—INCOME TAXES:

The Company is in the process of accumulating and analyzing the data necessary to determine its net operating tax loss carryforwards, if any. Consequently, certain income tax data is not available.

The Company has pending before the State of California claims for refunds of approximately $19 million. No value has been recorded in the Schedule for these claims. See Note 6 with regard to claims against the Company by the State of California.

KAISER HOLDINGS, INC.

NOTES AND ASSUMPTIONS TO
SCHEDULE OF POTENTIAL ASSET VALUES AND LIABILITIES—(Concluded)

NOTE 6—CONTINGENT AND OTHER LIABILITIES:

The PBGC received a $1 million Administrative expense in a settlement approved by the Bankruptcy Court on May 25, 1988.

The State of California asserts that the Company owes an additional $11 million in state income taxes which the Company has disputed and no liability has been included in the Schedule. See Note 5 with regard to potential state tax refunds.

Bank of America has a claim for approximately $3.3 million which has not been included as a liability as management believes the claim is unfounded and will not be sustained.

The Debtors and NYLIC have reached a settlement of NYLIC's Administrative claim in the amount of $3.1 million and are seeking Bankruptcy Court approval. The amount would be payable ratably with professional fees.

At the time of the filing of the bankruptcy petitions, numerous lawsuits were pending against the Company. It has been assumed that any liability resulting from these claims will be discharged at the confirmation date.

As more fully discussed in other sections of this Disclosure Statement the Company has significant environmental clean-up obligations relating to the site of the Company's former steel making operations and the site of other properties which have since been sold. With respect to the former steel making site it has been assumed that the Company's joint-venture partner, Lusk, will pay for the clean-up costs estimated to be less than $41 million.

Groundwater clean-up costs are estimated to range between $8 million to $10 million over a ten-year period. No liability has been included in the Schedule as the Debtor expects such amounts to be covered by insurance, for which there can be no assurance.

The Company is named, along with many other defendants, in approximately 218 asbestos cases which have been stayed by the Chapter 11 finding. The amount of the Company's exposure is uncertain at this time; however, the Company believes that any loss will be covered by insurance.

Thelin, Marrin, Johnson & Bridges, a law firm, has a claim for $843,000 against the Company which is allegedly secured by the note receivable from IMACC. No liability has been included as the Debtor believes that the claim has no merit.

Other priority claims have been filed primarily based on activities of the Coal Companies. No liability has been included as the Debtor believes that the claims have no merit.

EXHIBIT C(b)

KAISER HOLDINGS, INC.
SUMMARY OF PROJECTED CASH FLOWS

(in thousands)

	Three Months Ending 12/31/88	Year Ending December 31 1989	1990	1991	1992	1993
Projected Cash Receipts from Operations:						
Eagle Mountain	$ 235	$2,750	$ 856	$1,833	$4,346	$ 7,277
Industrial Park	3,655	882	728	697	676	593
Waste Treatment Facility	401	1,604	1,560	1,560	1,560	1,560
	4,291	5,236	3,144	4,090	6,582	9,430
Projected Cash Disbursements from Operations:						
Eagle Mountain	192	444	412	403	396	392
Industrial Park	202	673	695	707	718	730
Waste Treatment Facility	292	1,028	975	994	1,014	1,035
	686	2,145	2,082	2,104	2,128	2,157
Net Cash Receipts from Operations:						
Eagle Mountain	43	2,306	444	1,430	3,950	6,885
Industrial Park	3,453	209	33	(10)	(42)	(137)
Waste Treatment Facility	109	576	585	566	546	525
	3,605	3,091	1,062	1,986	4,454	7,273
Corporate Cash Flows:						
Corporate Expenses	(2,145)	(2,379)	(2,339)	(2,438)	(2,419)	(2,461)
Financing & Water Lease	75	1,417	(250)	(166)	(83)	0
Litigation and Claims Management—(Net)	(1,174)	2,824	0	0	0	0
Groundwater Remediation—(Net)	(688)	688	0	0	0	0
	(3,932)	2,550	(2,589)	(2,604)	(2,502)	(2,461)
Net Cash Flow	(327)	5,641	(1,527)	(618)	1,952	4,812
Projected Cash at the Beginning of the Period	1,860	1,533	7,174	5,647	5,029	6,981
	$1,533	$7,174	$5,647	$5,029	$6,981	$11,793

The accompanying notes are an integral part of these projections

KAISER HOLDINGS, INC.

FINANCIAL PROJECTION

OCTOBER 1, 1988 THROUGH DECEMBER 31, 1993

This financial projection has been prepared by the management of Kaiser Steel Corporation (the "Company"). The Company is solely responsible for the content of the projection and the underlying assumptions. The independent accountants for Kaiser have not examined, reviewed, or compiled this projection and have not performed audit or other procedures regarding the projection, and do not express an opinion on them.

This financial projection is intended solely for the use of parties to the Kaiser Steel Corporation (and related subsidiaries) Chapter 11 proceedings. This projection is intended to be read in conjunction with the Company's Joint Plan of Reorganization and Disclosure Statement.

CASH FLOW ASSUMPTIONS

General Assumptions

1. The Joint Plan of Reorganization is accepted by the Bankruptcy Court and Kaiser Steel Corporation is successfully reorganized as Kaiser Holdings, Inc.

2. There will be no tax liability resulting from the transactions necessary to reorganize the Company. Tax liability for the projection period had not been projected at this time due to the lack of available information. The effort to estimate taxes for the projection period is in process.

3. The professionals and NYLIC who have administrative claims on the estate will accept notes in lieu of cash payment at confirmation for a total of $8,600,000. The notes will be redeemed out of litigation proceeds, or tax refunds, when such proceeds are received.

4. Certain monetary items in the projection are expected to increase during the projection period by the expected inflation rate for the geographic area. The expected inflation rate was estimated by analyzing the rate of inflation as represented by the All Urban Consumer's Index ("CPI-U") reported for the Los Angeles metro area for the period 1983 through 1988. This analysis resulted in an estimated expected annual inflation rate for the projected period of 4.5%.

5. Cash flows resulting from sale or other use of mining claims and properties including the Vulcan claims, the Silver Lake claims, Morris Lode claims, Bessemer claims, and the Dunn Siding real estate have not been estimated.

6. Financing available using the Fontana Union Water Company ("Water") stock as collateral or cash available from potential tax refunds have not been included in this projection. The Company estimates that a loan in excess of $10 million could be obtained using the Water stock as collateral. This may be required in the event that the disputed Secured Claims or Tax Claims are upheld in full.

Eagle Mountain

1. The agreement and lease with Mine Reclamation Corporation ("MRC") are signed in substantially unchanged form from the current draft, and the $1,500,000 advance from MRC is received 95 days after confirmation as specified in the draft agreements. In addition, MRC obtains:

- Long-term contracts for transfer stations and waste disposal;
- The necessary permits; and
- Financing for the project.

2. The landfill operation is expected to commence in mid-1991 at approximately 2000 tons per day and increase to approximately 6500 tons per day by 1994.

3. The lease with Management Training Corporation ("MTC") is extended in accordance with the current option agreement through the end of the projection period and eight additional housing units are rented by 1991. Rental income is projected to increase at the expected inflation rate as specified in the current lease.

4. The Kewitt Mining Group exploration agreement and mining lease are executed in substantially unchanged form from the current draft, and advance minimum royalties are received as specified in the agreements. The advance minimum royalties are projected to increase at the expected inflation rate as provided for in the draft contract.

5. The Precious Metals Recovery Processes Inc. mining lease is executed in substantially unchanged form from the current draft contract. The advance minimum royalties from this contract are projected to increase at the expected inflation rate as provided in the draft contract.

6. Kaiser Holdings operating expenses charged to the Eagle Mountain project and reimbursed by MRC and MTC total approximately: $10,800 in fourth quarter 1988; $69,000 in 1989; $74,000 in 1990; $77,000 in 1991; $80,000 in 1992; and $83,000 in 1993.

7. Five houses at Lake Tamarisk are expected to be sold during 1989. 80 undeveloped lots at Lake Tamarisk are expected to be sold during the projection period. Unimproved land totaling 320 acres is expected to be sold in 1992.

8. Scrap sales from Eagle Mountain are expected to total $146,000 in 1988 and $350,000 in 1989.

Industrial Park

1. The West End Property will be recovered by the Lusk-Kaiser Fontana Joint Venture ("Joint Venture") and The Lusk Company ("Lusk") elects to develop the West End Property. It is also assumed that Lusk will exercise its option for Kaiser to contribute the Mill Property and Koppers Property to the Joint Venture.

2. The Joint Venture side agreement, which calls for a $3,000,000 loan to Kaiser, is executed in substantially unchanged form from the current draft of the agreement.

3. The costs of the environmental clean-up of the steel mill site, excluding groundwater remediation, will be borne by the Joint Venture.

4. The environmental clean-up costs of the mill site are expected to be less than $41,000,000. The excess Remedial Action Plan ("RAP") loan proceeds are used to repay the $3,000,000 joint venture loan and accrued interest.

5. The cash flow generated from the slag mining agreement with Hackett Engineering Co. ("Hackett") will continue at current levels during the projection period.

6. The lease and slag processing agreement with the E. L. Yeager Construction Company Inc. ("Yeager") is executed in substantially unchanged form from the current draft and production will meet projected levels.

7. No cash distributions to Kaiser from the Joint Venture operations, including sale and development of the property, have been projected with the exception of those discussed in the assumptions above.

8. Kaiser Holdings operating expenses charged to the Industrial Park and reimbursed by the Joint Venture total approximately: $35,000 in fourth quarter 1988; $146,000 in 1989; $152,000 in 1990; $158,000 in 1991; $164,000 in 1992; and $171,000 in 1993.

Waste Treatment Facility

1. The current contract with California Steel Industries ("CSI") for the treatment of liquid waste, in support of their steel finishing operations, continues through the projection period. Cash flow from this contract is expected to continue at current levels.

2. The potential cash flows from an expansion of the waste treatment facility have not been estimated or included in this projection.

Corporate Cash Flow Assumptions

1. Corporate Expenses.

a. The PGBC $1,000,000 Priority Claim, the California prepetition property tax claim of $400,000, and the GATX payable of $100,000 are paid immediately after confirmation.

b. Corporate operating expenses are based on historic cost patterns and expected operating levels.

c. Salary and benefits costs and property taxes are expected to increase during the projection period. Salary and benefits are projected to increase by 4% annually and property taxes are projected to increase by 2% annually (after adjustments for property sales).

d. Directors' and officers' insurance is obtained at an annual premium of $367,000.

2. Financing and Water Lease.

a. Management expects to lease certain water rights beginning in 1989 yielding annual cash flow of $1,000,000. This cash flow is expected to continue through the projection period.

b. Cash proceeds from the IMACC note totaling $3,500,000 will be received in 1989. Net proceeds to Kaiser from the Note will be $1,750,000 assuming that the Company wins related litigation.

c. The IRS note of $5,000,000 is amortized over a six-year period starting in 1989. Interest of 10% is paid annually.

d. Kaiser will sell its 50% interest in Australia Steel and Mining in 1988.

3. Litigation and Claims Management. It is projected that litigation and claims proceeds will be received in June 1989 in an amount sufficient to recover the following costs: the salary and benefits costs of Kaiser personnel engaged in pursuing the litigation and claims; costs incurred prior to confirmation in pursuit of the litigation and claims; the costs of continued prosecution of the litigation; and the redemption of the notes held by the Administration claimant plus interest at a 12% annual rate. Proceeds in excess of these requirements will be distributed to the creditors.

4. Groundwater Remediation.

a. The groundwater remediation necessary as a result of the seepage from the East Slag Pile will be paid for by insurance proceeds. Insurance proceeds are expected to be received starting June 1989 and will be received over the duration of the clean-up project. Total groundwater remediation costs are expected to be $7,000,000 through 1993, and are expected to be fully recovered through insurance proceeds.

b. The potential cash flow from sales of water resulting from the groundwater remediation process has not been estimated.