KAISER GROUP HOLDINGS, INC.
AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2008 and 2007

(UNAUDITED)

KAISER GROUP HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	September 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 57,208	$ 48,553
Certificates of deposit	3,288	3,433
Marketable securities — available for sale	—	8,865
Restricted cash and cash equivalents	208	747
Prepaid expenses and other current assets	117	194
Income taxes receivable	5,192	4,798
Total Current Assets	66,013	66,590
Other Assets		
Investment in and advances to joint venture	897	897
Deferred tax assets	—	6
Total Other Assets	897	903
Total Assets	$ 66,910	$ 67,493
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 170	$ 96
Deferred tax liabilities	92	—
Post retirement benefit plan obligation	270	301
Other accrued expenses	1,471	1,630
Total Current Liabilities	2,003	2,027
Commitments and Contingencies	—	—
Shareholders' Equity		
Common stock, par value $.01 per share:		
Authorized—3,000,000 shares		
Issued and outstanding—1,787,577 and 1,792,890 shares at September 30, 2008 and December 31, 2007, respectively	18	18
Capital in excess of par	11,688	11,851
Retained earnings	53,161	53,557
Accumulated other comprehensive income	40	40
Total Shareholders' Equity	64,907	65,466
Total Liabilities and Shareholders' Equity	$ 66,910	$ 67,493

See notes to consolidated financial statements.

KAISER GROUP HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	For the Three Months Ended September 30 (unaudited)		For the Nine Months Ended September 30, (unaudited)	
	2008	**2007**	**2008**	**2007**
Gross Revenue	$ —	$ —	$ —	$ —
Operating Expenses				
Administrative expenses	497	849	1,643	2,901
Operating Loss	(497)	(849)	(1,643)	(2,901)
Other Income:				
Interest income	325	450	951	1,418
Impairment loss on investment in affiliates	—	(1,800)	—	(1,800)
Loss Before Income Tax	(172)	(2,199)	(692)	(3,283)
Income tax benefit	88	937	296	1,342
Net Loss	($84)	($1,262)	($396)	($1,941)
Basic and Diluted Loss Per Common Share:	($0.05)	($0.70)	($0.22)	($1.08)
Weighted average shares for basic and diluted loss per common share	1,787	1,791	1,787	1,791

See notes to consolidated financial statements

KAISER GROUP HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Nine Months ended September 30, 2008	2007
	(Unaudited)	
Operating Activities		
Net loss	$ (396)	$ (1,941)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred taxes	98	2,179
Impairment loss on investment in affiliates	—	1,800
Changes in operating assets and liabilities:		
Accounts receivables, net	—	35
Prepaid expenses and other current assets	77	235
Income taxes receivable	(394)	(3,521)
Accounts payable and accrued expenses	(116)	(6,358)
Stock based compensation	25	—
Other operating activities	(24)	(118)
Net Cash Used in Operating Activities	(730)	(7,689)
Investing Activities		
Distributions from 50% owned joint venture	—	1,500
Proceeds from redemptions of marketable securities	8,865	—
Purchases of certificates of deposit	(3,271)	(1,632)
Maturity of certificates of deposit	3,433	—
Net Cash Provided by (Used in) Investing Activities	9,027	(132)
Financing Activities		
Dividends paid	—	(10,745)
Purchase and retirement of common stock	(188)	—
Transfer from restricted cash	546	2,700
Net Cash Provided by (Used in) Financing Activities	358	(8,045)
Increase (Decrease) in Cash and Cash Equivalents	8,655	(15,866)
Cash and Cash Equivalents at Beginning of Period	48,553	55,779
Cash and Cash Equivalents at End of Period	$ 57,208	$ 39,913

See notes to consolidated financial statements.

KAISER GROUP HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Presentation: Kaiser Group Holdings, Inc. ("Kaiser Group Holdings" or the "Company") is a Delaware corporation that was formed on December 6, 2000 for the purpose of owning all of the outstanding stock of Kaiser Group International, Inc. ("Old Kaiser"), which in turn continues to own the stock of its remaining subsidiaries. On June 9, 2000, Old Kaiser and 38 of its domestic subsidiaries voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code in the District of Delaware (case nos. 00-2263 to 00-2301). Old Kaiser emerged from bankruptcy with an approved plan of reorganization (which was its Second Amended Plan of Reorganization and is referred to in this report as the "Plan of Reorganization") that was effective on December 18, 2000 (the "Effective Date"). A summary of the Plan of Reorganization for Old Kaiser can be found in a Current Report on Form 8-K dated December 5, 2000 filed by Old Kaiser. In this report, unless the context states otherwise, the terms "we", "our" and "Kaiser" refer to Kaiser Group Holdings (including Old Kaiser as its predecessor) and its subsidiaries.

As of September 30, 2008, apart from resolving remaining bankruptcy issues, the Company had only a limited number of activities, assets and liabilities, primarily consisting of:

- the ownership of a 50% interest in Kaiser-Hill Company, LLC ("Kaiser-Hill"), which serves as the general contractor at the U.S. Department of Energy's ("DOE") Rocky Flats site near Denver, Colorado for the performance of a contract for the closure of the site (the "Closure Contract") (See Note 3).
- the closeout of a completed contract for the engineering and construction of a steel mini-mill in the Czech Republic for Nova Hut ("Nova Hut") (See Note 7).
- a wholly-owned captive insurance company that has not been issuing new policies since October 1, 2000 and has solely been involved in resolving remaining claims made against previously issued policies. In the fourth quarter of 2004, the Company received regulatory approval and finalized the formation documents of a sponsored captive subsidiary, MS Builders Insurance Company, to enable our wholly-owned captive insurance company to offer derivative captive insurance services to third party clients. As of September 30, 2008, MS Builders Insurance Company has not written any policies.
- an ongoing obligation to fund a capped, post-retirement medical benefit plan for a fixed number of retirees (See Note 7).

The Company adopted fresh start reporting in its consolidated balance sheet as of December 31, 2000. The American Institute of Certified Public Accountants' Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"), requires under certain circumstances resulting from a bankruptcy the creation of a new entity for financial reporting purposes upon the emergence of an entity from bankruptcy. Accordingly, the value of the reorganized enterprise becomes the established amount for the emerging balance of shareholders' equity, and any accumulated deficit of the predecessor entity is offset against available capital in excess of par, resulting in an emerging retained earnings of zero. Additionally, assets and liabilities are recorded at their fair values.

The value of the emerged enterprise used for fresh start reporting as of December 31, 2000 was $87.5 million. It was determined by management with the assistance of independent advisors. The methodology employed involved estimation of the enterprise value taking into consideration a discounted cash flow analysis. The discounted cash flow analysis was based on a seven-year cash flow projection prepared by management, taking into consideration the terminal value of its assets and liabilities as of immediately prior to its emergence from bankruptcy on December 18, 2000. Terminal values of assets and liabilities were determined based either on contracted amounts, actuarial present values and/or management's estimates of the outcome of certain operating activities. Net after-tax cash flows, assuming a 40% effective tax rate, were discounted at 17% in order to take into consideration the risks and uncertainties inherent in such projections. The cash flow projections were based on estimates and assumptions about circumstances and events that had not yet taken place. Estimates and assumptions regarding individual retained matters which form the collective composition of the overall enterprise value as of December 18, 2000 are inherently subject to significant economic and competitive uncertainties and contingencies beyond the control of the Company. Accordingly, there may be differences between projections and actual results because events and circumstances frequently do not occur as expected and may be significant. More specifically, assumptions within the

valuation related to the amount and timing of the ultimate performance and related cash flows of the Company's investment in Kaiser-Hill have the greatest impact on the overall enterprise valuation.

Principles of Consolidation: The consolidated financial statements include all majority-owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated. Investments in unconsolidated affiliated companies and joint ventures are accounted for using the equity method.

Marketable Securities: The Company classifies all of its marketable securities as available-for-sale.

Available-for-sale securities are recorded at fair value, determined at a specific point in time based on quoted market prices. Unrealized gains and losses, net of the related tax effect, on securities classified as available-for-sale are excluded from the determination of net income and are reported as a separate component of shareholders' equity, within other comprehensive income, until realized. Declines in the fair value of marketable securities below their cost that are other than temporary are reflected in net income as realized.

The Company held marketable securities of $0.0 million and $8.9 million at September 30, 2008 and December 31, 2007, respectively. Marketable securities at December 31, 2007 consisted of floating rate municipal government debt securities with a carrying value of $8.9 million and maturities exceeding 10 years. Unrealized gains and losses were not material for any of the periods presented. At December 31, 2007, the carrying value of marketable securities approximates their fair value. The Company redeemed all of the marketable securities at face value in the first quarter of 2008.

Income Taxes: Deferred tax assets and liabilities represent the tax effects of differences between the financial statement carrying amounts and the tax bases carrying amounts of the Company's assets and liabilities. These differences are calculated based upon the statutory tax rates in effect in the years in which the differences are expected to reverse. The effect of subsequent changes in tax rates on deferred tax balances is recognized in the period in which a tax rate change is enacted. The Company evaluates its ability to realize future benefit from all deferred tax assets and establishes valuation allowances for amounts that may not be realizable.

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized $1.0 million liability for unrecognized tax benefits, which was accounted for as a component of income tax benefit. The Company does not expect that unrecognized tax benefits will significantly increase or decrease within the next twelve months. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax benefit. The Company had approximately $0.3 million of accrued interest and penalties at September 30, 2008.

Earnings Per Share: Basic earnings per share ("EPS") is computed by dividing net (loss) income by the weighted average number of common shares outstanding for the period. Diluted EPS normally includes the weighted-average effect of dilutive securities outstanding during the period. Pursuant to the Plan of Reorganization that was effective as of December 18, 2000, all then-outstanding common stock equivalents were cancelled. As a result, the Company has no dilutive common stock equivalents as of September 30, 2008.

Cash Equivalents and Restricted Cash: The Company considers all highly liquid financial instruments purchased with maturities of three months or less at date of purchase to be cash equivalents. The Company maintains cash and cash equivalent balances with financial institutions in excess of federally insured limits. Restricted cash balances consisted of the following (in thousands):

	September 30, 2008	**December 31, 2007**
Cash reserved for future claim settlements and accumulated dividends	$102	$102
Cash balances of wholly owned insurance subsidiary	106	645
	$208	$747

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosed amounts of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses recognized during the reporting period. Such estimates include those related to allowances for contract and accounts receivable, deferred tax assets and related valuation allowances, investments, and assumptions used to determine the retiree medical obligation and the remaining unresolved claims. Actual results could differ

from those estimates.

Concentrations of Credit Risk: Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, and certificates of deposit. The Company's cash and cash equivalents and certificates of deposit are maintained in accounts held in major U.S. banks.

Reclassifications: Certain reclassifications have been made to the prior period financial statements contained herein in order to conform them to the 2008 presentation.

Recent Accounting Pronouncements

Pronouncements adopted:

In September 2006, the FASB issued Statements of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies to existing accounting pronouncements that require or permit fair value measurements in which FASB had previously concluded fair value is the most relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption encouraged. On January 1, 2008, the Company adopted SFAS 157 and determined that it did not have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. Effective January 1, 2008, the Company is able to elect the fair value option for certain assets and liabilities but, has not yet elected to do so, and therefore SFAS 159 did not have a significant impact on the Company's consolidated financial statements.

Pronouncements issued but not yet effective:

In December 2007, the FASB issued SFAS 141, Revised 2007 (SFAS 141R), *"Business Combinations"*. SFAS 141R's objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after December 15, 2008. The Company does not expect the implementation of SFAS 141R to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS 160, *"Noncontrolling Interests in Consolidated Financial Statements"*. SFAS 160's objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." This statement changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We have not yet determined the effect that the application of SFAS No. 161 will have on our consolidated financial statements.

2. General Terms of Plan and Status of Bankruptcy Distributions

The effectiveness of the Plan of Reorganization as of December 18, 2000 did not, in and of itself, complete the bankruptcy process. The process of resolving claims initially filed in the bankruptcy is ongoing.

By far the largest class of claims ("Class 4") was made up of creditor claims other than trade creditor or equity claims. Class 4 claims included holders of Old Kaiser's senior subordinated notes due 2003. Holders of Class 4 claims allowed by the Bankruptcy Court received a combination of cash and Company preferred ("New Preferred") and common stock ("Kaiser Common Stock") in respect of their claims. Each Class 4 claimant was entitled to receive one share of New Preferred and one share of Kaiser Common Stock for each $100 of claims, subject to a reduction in the number of shares of New Preferred issued to such claimant by one share for each $55.00 of cash received by the claimant. In November 2005, the Company redeemed all of the remaining outstanding shares of New Preferred held by non-affiliates. As a result, at December 31, 2005, after consideration of shares in treasury of 101,471, the Company had no shares of New Preferred outstanding. In January 2006, pursuant to approval by the Company's Board, the treasury shares were cancelled leaving no shares outstanding in treasury.

Pursuant to the terms of the Plan of Reorganization, the Company was required to complete its initial bankruptcy distribution within 120 days of the Effective Date. Accordingly, to satisfy approximately $136.8 million of allowed Class 4 claims, the Company effected its initial distribution on April 17, 2001. The amount of unresolved Class 4 claims remaining at April 17, 2001 was approximately $130.5 million. To address the remaining unresolved claims, the Bankruptcy Court issued an order on March 27, 2001 establishing an Alternative Dispute Resolution ("ADR") procedure whereby the remaining claimants and Old Kaiser produced limited supporting data relative to their respective positions and engaged in initial negotiation efforts in an attempt to reach an agreed claim determination. If necessary, the parties were thereafter required to participate in a non-binding mediation before a mediator pre-selected by the Bankruptcy Court. All unresolved claims as of March 27, 2001 are subject to the ADR process. Since April 17, 2001, the date of the initial distribution, all asserted Class 4 claims have been now withdrawn, negotiated or mediated to an agreed amount, resulting in cash payments approximating $2.8 million and issuances of 683 shares of New Preferred (all of which have been redeemed) and 823 shares of Kaiser Common Stock. As demonstrated by the claim settlements completed since April 17, 2001, and based on the belief that it is in the best interest of the Company and its current stockholders, the Company has been settling certain remaining Class 4 claims entirely for cash payments in lieu of the combination of cash and New Preferred and Kaiser Common Stock as contemplated in the Plan of Reorganization. The Company has resolved the remaining claims in the third quarter of 2008. Upon such final resolution, the Company expects to take the necessary steps to close the bankruptcy cases. Upon such closing, the Bankruptcy Court would no longer be involved in the administration of the Company's affairs, and the Company's obligation to pay certain fees and submit periodic reports to the Bankruptcy Court would be terminated. Since closing of the cases requires resolution of all outstanding matters and such resolution is somewhat out of the Company's control, there is a possibility that the cases will not be closed within the anticipated time period.

3. Investment in and Advances to Joint Venture

The Company's net investment in and advances to joint venture totaled $0.9 million at September 30, 2008 and December 31, 2007, and consisted solely of the Company's investment in the Kaiser-Hill. The Company accounts for its 50% ownership in Kaiser-Hill using the equity method.

On October 13, 2005, Kaiser-Hill declared physical completion of the cleanup and closure of the DOE's Rocky Flats site. On December 8, 2005, the DOE affirmed Kaiser-Hill's declaration as required under the Closure Contract and the DOE authorized Kaiser-Hill to invoice all remaining performance fees less a retained amount equaling $5.0 million. On January 11, 2006, Kaiser-Hill received payment for all fees except for the retained amount. The project total fee expected to be earned by Kaiser-Hill pursuant to the Contract is $510.9 million based on Kaiser-Hill's cost to complete the site closure of $3.44 billion. Through September 30, 2008, Kaiser-Hill has received $510.8 million of such fee from the DOE.

Kaiser-Hill recognized a substantial amount of the fee income from the DOE upon the declaration of physical completion on October 13, 2005 and, accordingly, the Company's proportionate share of such income was recorded in Equity Income in Earnings of Joint Venture in its consolidated statement of operations for the year ended December 31, 2005. As a result, upon the receipt of the $85.0 million cash distributions from Kaiser-Hill in 2006, the Company made a corresponding reduction of $85.0 million in its investment in Kaiser-Hill on its balance sheet as of December 31, 2006. The Company received an additional distribution of $1.5 million from Kaiser-Hill on February 27, 2007 and made a corresponding reduction of $1.5 million in its investment in Kaiser-Hill on its consolidated balance sheet as of December 31, 2007.

Since Kaiser-Hill declared physical completion, many of the performance risks have been eliminated, but contract risks and uncertainties remain. As a result of declaration of physical completion in October 2005, Kaiser-Hill recognized all remaining performance fees under the Closure Contract in 2005 and has established reserves for certain risks and uncertainties related to the Closure Contract. Kaiser-Hill will reverse these reserves to the extent it is successful in mitigating or eliminating these remaining contract risks and uncertainties.

Under the Closure Contract, Kaiser-Hill is not responsible for, and the DOE pays all costs associated with any liability, including, without limitation, any claims involving strict or absolute liability and any civil fine or penalty, expense or remediation cost, but limited to those of a civil nature, which may be incurred by, imposed on, or asserted against Kaiser-Hill arising out of any act or failure to act, condition or exposure which occurred before Kaiser-Hill assumed responsibility on July 1, 1995 ("pre-existing conditions"). To the extent the acts or omissions of Kaiser-Hill constitute willful misconduct, lack of good faith, or failure to exercise prudent business judgment on the part of Kaiser-Hill's managerial personnel and cause or add to any liability, expense, or remediation cost resulting from pre-existing conditions, Kaiser-Hill is responsible, but only for the incremental liability, expense or remediation caused by Kaiser-Hill.

The Closure Contract further provides that Kaiser-Hill will be reimbursed for the reasonable cost of bonds and insurance allocable to the contract and for liabilities and expenses incidental to these liabilities, including litigation costs, to third parties not compensated by insurance or otherwise. There is an exception to this reimbursement provision applicable to liabilities caused by the willful misconduct, lack of good faith or failure to exercise prudent business judgment by Kaiser-Hill's managerial personnel.

Kaiser-Hill now operates under the closeout phase of its contract with the DOE. The closeout phase of the contract is a cost reimbursable phase and is not fee - bearing; the Company does not expect that the closeout phase will impact fees earned. Effective December 31, 2005, Kaiser-Hill terminated its remaining employees. Staff necessary to complete closeout activities is being subcontracted or provided by CH2M Hill Companies Ltd.

4. Common Stock

The Company declared a $6.00 per common share cash dividend on December 21, 2006 payable to shareholders of record on January 2, 2007. The dividend was paid on January 16, 2007. Any future determination to pay cash dividends will be at the discretion of our Board which determines our dividend policy based on our results of operations, capital requirements, and other factors that our Board deems relevant.

On October 25, 2007, the Company initiated a tender offer to purchase, at a price of $29.80 per share, all shares of its outstanding common stock held by stockholders who owned beneficially or of record fewer than 100 shares of the Company's common stock as of the close of business on October 22, 2007 and who continued to hold such shares through the expiration of the tender offer ("the Offer"). The Offer expired on January 9, 2008. Based on the final count, 6,313 shares of common stock from 414 record and beneficial holders eligible to participate in the offer were properly tendered. On January 9, 2008, the Company accepted for purchase all of the shares properly tendered at a purchase price of $29.80 per share for each share tendered, for an aggregate purchase price of $188,127. All shares participating in the tender offer were subsequently cancelled. As of September 30, 2008, there were 1,787,577 shares of the Company's common stock outstanding.

5. Related Party Transactions

The Company has invested funds in certificates of deposit at a financial institution where one of the Company's directors serves on the board. The certificates of deposits and other cash deposits at this financial institution total $0.1 million and $0.0 million at September 30, 2008 and December 31, 2007, respectively. The certificates of deposit bear a market rate of interest.

6. Stock Based Compensation

During the quarter, the Company granted 1,000 shares of common stock to the CEO as compensation for serving as a director of the Company. These shares were valued at $25 per share based on daily price quoted on the Pink Sheets.

7. Other Contingencies

The Company has various obligations and liabilities from its continuing operations, including general overhead expenses in

connection with maintaining, operating and winding down the various entities and net assets comprising the Company. Additionally, the Company believes contingent liabilities may exist in the following areas:

Nova Hut

On May 16, 2006, the Company was informed that an arbitration panel formed under the auspices of the International Chamber of Commerce ("ICC") issued a ruling in the arbitration proceeding initiated by its subsidiary, Kaiser Netherlands B.V. ("Kaiser Netherlands") concerning the steel mini-mill that was constructed by Kaiser Netherlands for Nova Hut, a.s. (now Mittal Steel Ostrava, a.s.) ("Nova Hut") in Ostrava, the Czech Republic. The decision by the arbitration panel is not appealable. After calculation of claim and counter-claim award amounts as decided by the ICC arbitration panel, the net balance award against Kaiser Netherlands, including legal cost and interest amounts, is approximately $4.1 million in favor of Nova Hut. The Company does not believe that Nova Hut has recourse to the Company to collect this award amount. However, Nova Hut has submitted a court filing in The Netherlands to enforce the award against Kaiser Netherlands which has limited assets.

Taking into account the results of the ICC arbitration ruling against Kaiser Netherlands, in the second quarter of 2006 the Company wrote off the remaining Nova Hut contract receivable of $3.0 million by recording an additional reserve of $3.0 million.

The Company continues to evaluate its remaining options against Nova Hut and the International Finance Corporation ("IFC"). Among the options being considered are the filing of independent arbitration claims by the Company (as opposed to Kaiser Netherlands) against Nova Hut and the IFC in accordance with prior rulings of the Bankruptcy Court. The Bankruptcy Court has entered an order staying the Company's claim against the IFC pending submission of the dispute to arbitration. Similarly, the Bankruptcy Court has entered an order staying the Company's bankruptcy claim against Nova Hut pending arbitration. The Company recently filed a motion with the Bankruptcy Court to secure discovery against Nova Hut and the IFC, pending the initiation of international arbitration proceedings by the Company as previously ordered by the Bankruptcy Court. In a combined hearing held in Delaware on April 25, 2007, the Bankruptcy Court denied the Company's motion for discovery in advance of the initiation of separate arbitration proceedings against the IFC and Nova Hut, respectively. The Company has filed a motion with the District Court seeking appeal of the Bankruptcy Court's denial of the Company's discovery motion. This appeal is still pending. On April 22, 2008, Kaiser Netherlands voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code in the Western District of Pennsylvania, Pittsburgh Division (case no. 08-22623).

In December 2003, an ICC arbitration panel, under the dispute resolution provisions of the Nova Hut mini-mill subcontract between Kaiser Netherlands and the mini-mill's main equipment supplier, Tippins, Inc., issued a final award that was on balance favorable to Kaiser Netherlands. As a result of the ruling, Kaiser Netherlands was relieved of the obligation to pay retention to Tippins, and Kaiser Netherlands was awarded a net cash settlement of $2.6 million. The Company has not recorded this award due to the uncertainties regarding collectibility. However, the Company is actively pursuing collection of this award.

The continued litigation of these disputes has had, and will continue to have, a negative impact on the cash flow of the Company.

Kaiser-Hill

On October 13, 2005, Kaiser-Hill declared physical completion of the cleanup and closure of the DOE's Rocky Flats site. DOE has reviewed Kaiser-Hill's declaration as required under the Closure Contract. On December 8, 2005, the DOE accepted the physical completion declaration in accordance with the Closure Contract. The projected total fee to be earned pursuant to the Closure Contract is expected to be $510.9 million based on Kaiser-Hill's cost to complete the site closure of $3.44 billion. As of September 30, 2008, Kaiser-Hill has received $510.8 million of such fee from the DOE. A substantial portion of the received fee remains subject to audit.

Under Kaiser-Hill's contract with the DOE, Kaiser-Hill is not responsible for, and the DOE pays all costs associated with, any liability, including, without limitation, any claims involving strict or absolute liability and any civil fine or penalty, expense, or remediation cost, but limited to those of a civil nature, which may be incurred by, imposed on, or asserted against Kaiser-Hill arising out of any act or failure to act, condition, or exposure which occurred before Kaiser-Hill assumed responsibility on July 1, 1995 (pre-existing conditions). To the extent the acts or omissions of Kaiser-Hill constitute willful misconduct, lack of good faith, or failure to exercise prudent business judgment on the part of Kaiser-Hill managerial

personnel and cause or add to any liability, expense, or remediation cost resulting from pre-existing conditions, Kaiser-Hill is responsible, but only for the incremental liability, expense, or remediation caused by Kaiser-Hill.

The Closure Contract further provides that Kaiser-Hill will be reimbursed for the reasonable cost of bonds and insurance allocable to the Rocky Flats contract and for liabilities and expenses incidental to these liabilities, including litigation costs, to third parties not compensated by insurance or otherwise. There is an exception to this reimbursement provision applicable to liabilities caused by the willful misconduct, lack of good faith or failure to exercise prudent business judgment by Kaiser-Hill managerial personnel.

As the contract between Kaiser-Hill and the DOE is cost-reimbursable in nature, the costs invoiced by Kaiser-Hill for reimbursement by the DOE are subject to audit by the U.S. government. Also since the inception of Kaiser-Hill, the Company invoiced certain management oversight costs to Kaiser-Hill. Government audits at Kaiser-Hill are ongoing. Although Kaiser-Hill and the Company have historically provided for their estimates of disallowed costs on cost-reimbursable contracts, uncertainties exist with regard to whether government audits will result in any disallowed costs needing to be refunded to the government customer. The continued adequacy of provisions for reserves with regard to unallowable costs is reviewed regularly. At this time, it is not possible to predict the number of years that will be required to complete the government audit process.

Kaiser-Hill now operates under the closeout phase of the DOE Rocky Flats Closure Contract, primarily resolving open administrative issues and providing support to the DOE to achieve regulatory closure of the site. The closeout phase of the contract is a cost reimbursable phase and is not fee - bearing; the Company does not expect that the closeout phase impact fees earned.

In December 2005, when the DOE accepted physical completion in accordance with the Rocky Flats contract, it authorized Kaiser-Hill to invoice all remaining performance fees less a retained amount equaling $5.0 million which was retained by the DOE for possible contract contingencies. In January 2006, Kaiser-Hill received payment for all fees except for the retained amount. As a result of this payment, in March 2006, the Company received an $80.0 million cash distribution (representing its 50% share) from Kaiser-Hill. In April 2006, $4.9 million of the remaining $5.0 million retention was released to Kaiser-Hill by the DOE. It cannot be determined at this time what portion of the remaining $0.1 million DOE retention balance will ultimately be released and when (if ever) such a release would occur. In June 2006, the Company received an additional $5.0 million cash distribution from Kaiser-Hill. And, in February 2007, the Company received another cash distribution from Kaiser-Hill in the amount of $1.5 million.

As of September 30, 2008, Kaiser-Hill has withheld approximately $3.6 million from distribution until closeout issues are resolved. The Company expects to receive its 50% share of any distribution of such funds by Kaiser-Hill.

Post-Retirement Benefit Plan Obligation

In accordance with the terms and provisions of the Plan of Reorganization for Old Kaiser, the Company remains obligated to continue to fulfill the provisions of Old Kaiser's previously curtailed benefits plan, which provides certain medical and death benefits to a group of retirees. The Company was self-insured for all benefits payable under the plan.

Since the December 2000 approval of the reorganization plan, the Company has been negotiating with the Bankruptcy Court-appointed Official Committee of Retirees ("OCR") to design and implement a benefits funding plan that would provide for all retiree benefit obligations going forward. In an adversary claim hearing in the Bankruptcy Court held on April 12, 2006, the Court accepted the Company's proposal to establish a Voluntary Employees' Beneficiary Association ("VEBA") to fund retirees' future medical and death benefits in the present value amount of approximately $6.1 million. The present value pension obligation of $0.3 million will continue to be funded directly by the Company. The VEBA was established and funded by the Company in the amount of approximately $6.1 million effective April 30, 2007. Prior to April 30, 2007, the benefits had been funded by the Company the Company through a claims administrator.

Furthermore, according to the terms of the Bankruptcy Court decision, after the VEBA has been in place for five years, the Company will be required to undertake an actuarial analysis of the projected net present value of benefits remaining to be paid out. If the remaining VEBA fund amount is then not sufficient to pay the estimated present value of future benefits obligations, then the Company will be required to contribute the estimated shortfall amount to the VEBA fund. It is not possible to predict at this time whether a shortfall in the VEBA fund will exist after a period of five years and, if so, the required amount of the Company's contribution for the shortfall.