UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2007
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-3610

ALCOA INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	25-0317820
(State of incorporation)	(I.R.S. Employer Identification No.)

390 Park Avenue, New York, New York 10022-4608
(Address of principal executive offices) (Zip code)

Registrant's telephone numbers:

Investor Relations------------- (212) 836-2674
Office of the Secretary-----------(212) 836-2732

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00	New York Stock Exchange

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [ü] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

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

The aggregate market value of the outstanding common stock, other than shares held by persons who may be deemed affiliates of the registrant, as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $35 billion. As of February 12, 2008, there were 814,370,863 shares of common stock, par value $1.00 per share, of the registrant outstanding.

Documents incorporated by reference.

Parts I, II and IV of this Form 10-K incorporate by reference certain information from the registrant's 2007 Annual Report to Shareholders (Annual Report). Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement for its 2008 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A (Proxy Statement).

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Note on Incorporation by Reference

In this Form 10-K, selected items of information and data are incorporated by reference to portions of the Annual Report and Proxy Statement. Unless otherwise provided herein, any reference in this report to disclosures in the Annual Report or Proxy Statement shall constitute incorporation by reference of only that specific disclosure into this Form 10-K.

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ALCOA INC.

Formed in 1888, Alcoa Inc. is a Pennsylvania corporation with its principal office in New York, New York. In this report, unless the context otherwise requires, “Alcoa” or the “company” means Alcoa Inc. and all subsidiaries consolidated for the purposes of its financial statements.

The company’s Internet address is http://www.alcoa.com. Alcoa makes available free of charge on or through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (SEC). The SEC maintains an Internet site that contains these reports at http://www.sec.gov.

PART I

Item 1. Business.

Description of the Business

Information describing Alcoa’s businesses can be found in the Annual Report at the indicated pages:

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Overview

Alcoa is the world leader in the production and management of primary aluminum, fabricated aluminum, and alumina combined, through its active and growing participation in all major aspects of the industry: technology, mining, refining, smelting, fabricating, and recycling. Aluminum is a commodity that is traded on the London Metal Exchange (LME) and priced daily based on market supply and demand. Aluminum and alumina represent approximately three-fourths of Alcoa’s revenues, and the price of aluminum influences the operating results of Alcoa. Nonaluminum products include precision castings, industrial fasteners, consumer products, food service and flexible packaging products, plastic closures, and electrical distribution systems for cars and trucks. Alcoa's products are used worldwide in aircraft, automobiles, commercial transportation, packaging, consumer products, building and construction, and industrial applications.

Alcoa is a global company operating in 44 countries. Based upon the country where the point of sale occurred, North America and Europe generated 57% and 25%, respectively, of Alcoa's sales. In addition, Alcoa has investments and activities in Australia, Brazil, China, Iceland, Jamaica, Guinea, and Russia, all of which present opportunities for substantial growth. Governmental policies and other economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates, affect the results of operations in these countries.

Alcoa's operations consist of six worldwide segments: Alumina, Primary Metals, Flat-Rolled Products, Extruded and End Products, Engineered Solutions, and Packaging and Consumer.

The Alumina segment primarily consists of a series of affiliated operating entities referred to as Alcoa World Alumina and Chemicals (AWAC). Alcoa owns 60% and Alumina Limited owns 40% of these individual entities. For more information on AWAC, see Exhibit Nos. 10 (a) through 10(f)(1) to this report.

Recent Developments

In October 2007, Alcoa announced that it had reviewed strategic alternatives related to its Electrical and Electronic Solutions business (formerly the Alcoa Fujikura Limited wire harness business) and approved a targeted restructuring plan to improve future returns and profitability.

In November 2007, Alcoa completed the sale of its automotive castings business to Compass Automotive Group, LLC, a portfolio company of Monomoy Capital Partners, L.P. The Alcoa business had 2006 revenues of approximately $150 million and employed approximately 530 employees in two operating locations: Fruitport, MI and Farsund, Norway. Alcoa will continue to operate its other automotive businesses globally, including its facility in Soest, Germany.

In December 2007, Alcoa agreed to sell its packaging and consumer businesses to New Zealand's Rank Group Limited for $2.7 billion in cash. The transaction is expected to be completed by the end of the first quarter 2008. Alcoa's packaging and consumer businesses include Closure Systems International, Consumer Products, Flexible Packaging and Reynolds Food Packaging. These businesses generated approximately $3.3 billion in revenues in 2007 and employed approximately 9,300 employees in 22 countries around the world. Alcoa will continue to operate its flat-rolled can sheet products business serving the packaging market.

On February 1, 2008, Alcoa announced that the company joined with the Aluminum Corporation of China to acquire 12% of the U.K. common stock of Rio Tinto plc (RTP) for approximately $14 billion. Of this amount, Alcoa contributed $1.2 billion on February 6, 2008. The investment was made through a special purpose vehicle called Shining Prospect Pte. Ltd. (SPPL), which is a private limited liability company, created for the purpose of acquiring the RTP shares. The RTP shares were purchased on the open market through an investment broker.

Bauxite Interests

Aluminum is one of the most plentiful elements in the earth's crust. Aluminum is produced primarily from bauxite, an ore containing aluminum in the form of aluminum oxide, commonly referred to as alumina. Aluminum is made by extracting alumina from bauxite and then removing oxygen from the alumina. Alcoa processes most of the bauxite that it mines into alumina. The company obtains bauxite from resources held by AWAC, from the company's interests in the countries listed in the chart below, and under both long-term and short-term contracts and mining leases. In 2007, Alcoa consumed 34.8 million metric tons (mt) of bauxite from its own resources, 5.9 million mt from related third parties and 3.5 million mt from unrelated third parties. Alcoa's present sources of bauxite are sufficient to meet the forecasted requirements of its alumina refining operations for the foreseeable future. The following table provides information regarding the company's bauxite interests:

Alcoa Active Bauxite Interests[1]

Country	Project	Owners' Mining Rights (% Entitlement)	Expiration Date of Mining Rights
Australia	Darling Range Mines	Alcoa of Australia Limited (AofA)[2] (100%)	2045
Brazil	Poços de Caldas	Alcoa Aluminio S.A. (Aluminio) (100%)	2020[3]
	Trombetas	Mineração Rio do Norte S.A. (MRN)[4] (100%)	2046[3]
Guinea	Boké	Compagnie des Bauxites de Guinée (CBG)[5] (100%)	2038[6]
Jamaica	Clarendon/Manchester Plateau	Alcoa Minerals of Jamaica, L.L.C.[7] (55%) Clarendon Alumina Production Ltd.[8] (45%)	2042
Suriname	Caramacca	BHP Billiton (45%) Suriname Aluminum Company, L.L.C. (Suralco)[7] (55%)	2012[9]
	Coermotibo	BHP Billiton (45%) Suralco (55%)	2033[9]
	Kaimangrasi	BHP Billiton (45%) Suralco (55%)	2033[9]
	Klaverblad	BHP Billiton (45%) Suralco (55%)	2033[9]

1 Alcoa also has interests at the following locations that are bauxite resources or do not currently produce bauxite: Cape Bougainville and Mitchell Plateau in Australia and Juruti in Brazil (currently scheduled for completion in late 2008 and expected to initially produce 2.6 million mt per year (mtpy)) as well as Brownsberg, Coermotibo DS, Lely Mountains, and Nassau, all in eastern Suriname.

2 AofA is part of the AWAC group of companies and is owned 60% by Alcoa and 40% by Alumina Limited.

3 Brazilian mineral legislation does not establish the duration of mining concessions. The concession remains in force until the complete exhaustion of the deposit. The company estimates that (i) the concessions at Poços de Caldas will last at least until 2020 and (ii) the concessions at Trombetas will last until 2046. Depending, however, on actual and future needs, the rate at which the deposits are explored and government approval, the concessions may be extended to (or expire at) a later (or an earlier) date.

4 Aluminio holds an 8.6% interest, Abalco S.A. (Abalco) holds a 4.6% interest and Alcoa World Alumina LLC (AWA LLC) holds a 5% interest in MRN. Abalco and AWA LLC are both part of the AWAC group of companies and are owned 60% by Alcoa and 40% by Alumina Limited. MRN is jointly owned with affiliates of Rio Tinto Alcan Inc. (formerly Alcan Inc.), Companhia Brasileira de Aluminio, Companhia Vale do Rio Doce, BHP Billiton Plc (BHP Billiton) and Norsk Hydro. Aluminio, Abalco, and AWA LLC purchase bauxite from MRN under long-term supply contracts.

5 AWA LLC owns a 45% interest in Halco (Mining), Inc. Halco owns 100% of Boké Investment Company, a Delaware company, which owns 51% of CBG. The Guinean Government owns 49% of CBG, which has the exclusive right through 2038 to develop and mine bauxite in certain areas within a 10,000 square-mile perimeter in northwestern Guinea.

6 AWA LLC has a bauxite purchase contract with CBG that will provide Alcoa with bauxite through 2011.

7 This entity is part of the AWAC group of companies and is owned 60% by Alcoa and 40% by Alumina Limited.

8 Clarendon Alumina Production Ltd. is a wholly-owned subsidiary of the Government of Jamaica.

9 In addition to the other named Suriname interests, Lelydorp was an active site until the mine was exhausted and closed in February 2007. While mining rights at Caramacca extend until 2012 and rights at the remaining Suriname locations extend until 2033, it is likely that all Suriname bauxite resources will also be exhausted within the next several years. Alcoa is evaluating alternate sources of bauxite including resources located in western Suriname.

Alumina Refining Facilities and Capacity

Alcoa is the world's leading producer of alumina. Alcoa's alumina refining facilities and its worldwide alumina capacity are shown in the following table:

Alcoa Worldwide Alumina Refining Capacity

Country	Facility	Owners (% of Ownership)	Nameplate Capacity[1] (000 MTPY)	Alcoa Consolidated Capacity[2] (000 MTPY)
Australia	Kwinana	AofA[3] (100%)	2,150	2,150
	Pinjarra	AofA (100%)	4,234[4]	4,234
	Wagerup	AofA (100%)	2,500	2,500
Brazil	Poços de Caldas	Aluminio (100%)	390	390
	São Luís (Alumar)	Abalco[3] (18.9%) Rio Tinto Alcan Inc.[5] (10%) Aluminio (35.1%) BHP Billiton[5] (36%)	1495	807
Jamaica	Jamalco	Alcoa Minerals of Jamaica, L.L.C.[3] (55%) Clarendon Alumina Production Ltd.[6] (45%)	1421	784
Spain	San Ciprián	Alúmina Española, S.A.[3] (100%)	1,500	1,500
Suriname	Suralco	BHP Billiton[5] (45%) Suralco[3] (55%)	2,207	1,214
U.S.	Point Comfort, TX	Alcoa World Alumina LLC[3] (100%)	2,305[7]	2,305
TOTAL			18,202	15,884

1 Nameplate capacity is an estimate based on design capacity and normal operating efficiencies and does not necessarily represent maximum possible production.

2 The figures in this column reflect Alcoa's share of production from these facilities. For facilities owned by AWAC entities, Alcoa takes 100% of the production.

3 This entity is part of the AWAC group of companies and is owned 60% by Alcoa and 40% by Alumina Limited.

4 In 2004, Alcoa received the Western Australian Government's environmental approval for its previously announced Pinjarra alumina refinery efficiency upgrade, which increased production at the facility by 657,000 mtpy. Full production was achieved in the fourth quarter of 2006. Ramp up to full production at the Pinjarra refinery was impacted in December 2006 and 2007 due to a power failure at the refinery and de-bottlenecking requirements related to the upgrade.

5 The named company or an affiliate holds this interest.

6 In August 2007, production at the Clarendon refinery was temporarily curtailed as part of safety precautionary measures in advance of Hurricane Dean. The bauxite mine and refinery suffered little damage from the storm, but the refinery was temporarily shut down due to loss of power. The Rocky Point port from which Jamalco ships alumina sustained substantial damage and required significant repairs, as well as temporary logistical support for shipping alumina while repair work was completed. Repair work included preparing storage for alumina which resulted in limiting production from the facility to 50 percent of capacity. Alcoa declared force majeure to its customers. The refinery has restarted and is expected to achieve pre-shutdown production levels in the 2008 first quarter. The port has been temporarily repaired and shipments are currently being made from that facility. Permanent repairs to the port are expected to be completed during 2008.

7 Production at Point Comfort was temporarily affected during the first quarter 2007 due to a general labor disturbance in Guinea that closed the port from which the Guinea Boké mine supplies this facility with bauxite.

In January 2005, Alcoa and the Government of the Republic of Ghana announced the signing of a Memorandum of Understanding (MOU), under which the parties would evaluate the possible development of an integrated aluminum industry in Ghana, including bauxite mining, alumina refining, aluminum production, and rail transportation infrastructure upgrades. The parties are no longer pursuing the contemplated projects.

In September 2005, Alcoa announced that its Board of Directors approved plans to make further investments in the company's Brazilian "upstream" operations. Investments include (i) a 2.1 million mtpy expansion of the Alumar consortium alumina refinery in São Luís, state of Maranhão (expected to increase the refinery's current capacity to approximately 3.5 million mtpy in 2009, with Alcoa's share of the total facility output more than doubling to 1.89 million mtpy based on its 54% ownership stake through Aluminio and AWAC) and (ii) the modernization of the Poços de Caldas aluminum smelter, in the state of Minas Gerais.

In November 2005, Alcoa World Alumina LLC (AWA LLC) and Rio Tinto Alcan Inc. announced the signing of a Basic Agreement with the Government of Guinea that sets forth the framework for development of a 1.5 million mtpy alumina refinery in Guinea. The Basic Agreement was approved by the Guinean National Assembly in May of 2006 and was promulgated into law by decree of the President of Guinea in July of 2006.

In April 2006, AWAC signed an MOU with Vietnam National Coal-Minerals Industries Group (Vinacomin) under which the parties will explore the feasibility of creating a joint venture to develop a bauxite mine and alumina refinery in the Dak Nong province of Vietnam. The cooperation between AWAC and Vinacomin is subject to approval by the Government of Vietnam. The Government of Vietnam issued a Master Plan for the aluminum industry in November 2007. The investment model stipulated in the Master Plan is a Joint Stock Company. If established, the venture would be 51% owned by Vinacomin, with the ownership share of AWAC to be agreed.

In September 2006, Alcoa received environmental approval from the Government of Western Australia for expansion of the Wagerup alumina refinery to a maximum capacity of 4.7 million mtpy, a potential increase of over 2 million mtpy. This approval includes a variety of environmental conditions that must be satisfied before Alcoa can seek construction approval for the project. The environmental approval paves the way for Alcoa to proceed to the next stage of project design, the feasibility study. The pre-feasibility phase of the project has been extended into 2008.

In 2007, Jamalco completed the Early Works Program at its Clarendon, Jamaica refinery, which added 146,000 mtpy of production, increasing the total capacity to 1.421 million mtpy. As a result of the Early Works Program, AWAC's ownership in Jamalco has increased to approximately 55%, with the Government of Jamaica owning approximately 45%.

The 1.5 million mtpy planned expansion of Jamalco's Clarendon, Jamaica refinery is subject to supply of natural gas by the Government of Jamaica and acceptable market conditions. As of December 31, 2007, AWAC has capitalized approximately $84 million of engineering costs related to this project (Alcoa's share of these costs is approximately $50 million).

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Primary Aluminum Facilities and Capacity

The company's primary aluminum smelters and their respective capacities are shown in the following table:

Alcoa Worldwide Smelting Capacity

Country	Facility	Owners (% Of Ownership)	Nameplate Capacity[1] (000 MTPY)	Alcoa Consolidated Capacity[2] (000 MTPY)
Australia	Point Henry	AofA (100%)	190	190[3]
	Portland	AofA (55%) CITIC (22.5%) Marubeni (22.5%)	358	197[3]
Brazil	Poços de Caldas	Aluminio (100%)	96	96
	São Luís (Alumar)	Aluminio[4] (60%) BHP Billiton (40%)	447	268
Canada	Baie Comeau, Que.	Alcoa (100%)	438	438
	Bécancour, Que.	Alcoa (74.95%) Rio Tinto Alcan Inc.[5] (25.05%)	407	305
	Deschambault, Que.	Alcoa (100%)	254	254
Iceland	Fjarðaál	Alcoa (100%)	344	344[6]
Italy	Fusina	Alcoa (100%)	44	44
	Portovesme	Alcoa (100%)	150	150
Spain	Avilés	Alcoa (100%)	93	93
	La Coruña	Alcoa (100%)	87	87
	San Ciprián	Alcoa (100%)	228	228
U.S.	Evansville, IN (Warrick)	Alcoa (100%)	309[7]	309[7]
	Frederick, MD (Eastalco)	Alcoa (100%)	195[8]	195[8]
	Badin, NC	Alcoa (100%)	60[9]	60[9]
	Massena West, NY	Alcoa (100%)	130	130
	Massena East, NY	Alcoa (100%)	125	125
	Mount Holly, SC	Alcoa (50.33%) Century Aluminum Company (49.67%)	229	115
	Alcoa, TN	Alcoa (100%)	215[10]	215[10]
	Rockdale, TX	Alcoa (100%)	267[11]	267[11]
	Ferndale, WA (Intalco)	Alcoa (100%)	279[12]	279[12]
	Wenatchee, WA	Alcoa (100%)	184[13]	184[13]
TOTAL			5,129	4,573

1 Nameplate capacity is an estimate based on design capacity and normal operating efficiencies and does not necessarily represent maximum possible production.

2 The figures in this column reflect Alcoa's share of production from these facilities.

3 Figures include the minority interest of Alumina Limited in facilities owned by AofA. From these facilities, Alcoa takes 100% of the production allocated to AofA.

4 In March 2006, Aluminio completed a 30% expansion of the capacity of its share of the São Luís (Alumar) aluminum smelter, increasing Aluminio's share of smelting capacity there by 62,000 mtpy and Aluminio's share of smelter output from 53.66% to 60%.

5 Owned through Rio Tinto Alcan Inc. subsidiary Pechiney Reynolds Quebec, Inc.

6 In April 2007, Alcoa began production at its new Fjarðaál aluminum smelter in east Iceland. Full production is expected to be achieved in the 2008 first quarter.

7 The Warrick facility currently has one idled potline.

8 At the end of 2005, all production was temporarily curtailed at the Eastalco smelter located in Frederick, Maryland. In July 2006, Alcoa acquired the minority interest in this smelter from Mitsui & Co. Ltd. resulting in Alcoa owning 100% of the facility.

9 The Badin, North Carolina facility has been idled since August 2002. In addition, one of the two idled potlines was fully decommissioned in 2007 and will not be returned to service. The decommissioning has reduced Nameplate and Alcoa Consolidated Capacities by 60,000 mtpy.

10 A power line failed during a severe storm at Tennessee Operations in April 2007. Although full power was quickly restored, one of the two potlines, representing approximately 107,000 mpty, remained idle until late May 2007. Production on the line increased throughout 2007 and is expected to be fully restored by the end of the first quarter of 2008**.**

11 In May 2007, one potline was temporarily idled at Rockdale, Texas. The restart of the line was completed during the fourth quarter of 2007.

12 In July 2006, Alcoa acquired the minority interest in the Intalco smelter from Mitsui & Co. Ltd. resulting in Alcoa owning 100% of the facility. Intalco had been operating at one-third of its capacity but re-energized a second of its three potlines in February 2007, increasing annual production to approximately 190,000 mtpy.

13 Wenatchee is operating at approximately one-half of its capacity.

Alcoa currently has 452,000 mtpy of idle capacity against total Alcoa Consolidated Capacity of 4,573,000 mtpy.

In February 2006, Alcoa signed an Agreement in Principle with the Government of the Republic of Trinidad and Tobago to build a 341,000 mtpy aluminum smelter in the Cap-de-Ville area in southwestern Trinidad. This agreement followed the signing of an MOU in May 2004 for participation by Alcoa in the development of an aluminum industry in Trinidad and Tobago. In December 2006, the Government advised Alcoa of its intention to relocate the smelter. Although the parties had expected to resume negotiations in 2007, they have not done so.

Alcoa and the Government of Iceland have begun detailed feasibility studies for the development of a 250,000 mtpy aluminum smelter at Bakki near Húsavík in north Iceland. Additionally, separate MOU agreements between Alcoa and Landvirkjun and Alcoa and Landsnet covering development of power generation and transmission for this smelter project were signed in May 2006. If the feasibility studies prove the viability of the proposed smelter, it is expected that ground would not be broken before 2010.

In May 2007, Alcoa and Greenland Home Rule Cabinet entered into an MOU regarding cooperation on a feasibility study for an aluminum smelter with a 340,000 mtpy capacity in Greenland. The MOU also encompasses a hydroelectric power system and related infrastructure improvements, including a port. Under the MOU, the parties will begin site selection, environmental studies, engineering assessments, and other aspects of the project. If the viability of the project is proved, ground breaking for the hydroelectric power system would be expected in 2010 and for the smelter in 2012.

In September 2007, Alcoa opened a new 280,000 mtpy anode plant in Mosjøen, Norway. The facility, built together with Elkem Aluminium ANS which has a 36% share in the plant, will produce anodes for Alcoa's Fjarðaál, Iceland and Elkem Aluminium ANS' Mosjøen, Norway smelters. Anodes were delivered to both smelters during the third quarter of 2007. Elkem Aluminium ANS is a partnership owned 50% by Alcoa and 50% by Orkla ASA, through Orkla's subsidiary Elkem AS, as further described in the "Joint Ventures and Investments" section below.

In January 2008, Alcoa and the Brunei Economic Development Board signed an MOU to enable more detailed studies into the feasibility of establishing a modern, gas-powered aluminum smelter in Brunei Darussalam. The MOU extends a memorandum signed originally in 2003. Phase one of the feasibility study will determine scope and dimensions of the proposed facility, power-delivery strategy, location, as well as an associated port and infrastructure. At completion of phase one, the parties will determine whether a more detailed phase two study is warranted. If completed, it is expected that the smelter would have an initial operating capacity of 360,000 mtpy with the potential for future increase.

Alcoa owns interests in the following primary aluminum facilities that are accounted for on the equity or cost basis method. The capacity associated with these facilities is not included in Alcoa's consolidated capacity.

Country	Facility	Owners (% Of Ownership)	Nameplate Capacity[1] (000 MTPY)
Ghana	Tema	Alcoa (10%) Government of the Republic of Ghana (90%)	200[2]
Norway	Lista	Alcoa (50%) Elkem AS (50%)	94
	Mosjøen	Alcoa (50%) Elkem AS (50%)	188
Venezuela	Alcasa	Alcoa (<1%) Corporación Venezolana de Guayana (CVG) and Japanese Interests (>99%)	210

1 Nameplate capacity is an estimate based on design capacity and normal operating efficiencies and does not necessarily represent maximum possible production.

2 In 2003, the smelter at the Tema facility was idled due to shortage of available power. As of year-end 2005, two potlines had been restarted. Throughout 2006, however, the smelter operated at approximately 38% capacity due to limited power availability resulting from low water levels at Lake Volta. In April 2007, the facility was fully idled again. Ghana continues to be subject to power limitations and future production of the smelter will be subject to energy availability.

Energy

Alcoa produces aluminum from alumina by an electrolytic process requiring large amounts of electric power. Electric power accounts for approximately 30% of the company's primary aluminum costs. Alcoa generates approximately 24% of the power used at its smelters worldwide and generally purchases the remainder under long-term arrangements. The paragraphs below summarize the sources of power and the long-term power arrangements for Alcoa's smelters.

North America – Electricity

The company's wholly-owned subsidiary, Alcoa Power Generating Inc. (APGI), generates approximately 25% of the power requirements for Alcoa's North American smelters. The company generally purchases the remainder under long-term contracts. APGI owns and operates two hydroelectric projects, Tapoco and Yadkin, consisting of eight dams under Federal Energy Regulatory Commission (FERC) licenses. APGI hydroelectric facilities provide electric power for the aluminum smelters at Alcoa, Tennessee and Badin, North Carolina. The Tennessee smelter also purchases power from the Tennessee Valley Authority under a contract that extends to 2010.

APGI received a renewed 40-year FERC license for the Tapoco project in 2005. The relicensing process is well underway for the Yadkin hydroelectric project license that is up for renewal in 2008. In May 2007, APGI filed with FERC a Relicensing Settlement Agreement with the majority of the interested stakeholders that broadly resolved open issues. The National Environmental Policy Act process is underway, with a draft environmental impact statement having been issued in September 2007. This process is expected to be completed during 2008, with a new project license issued shortly thereafter. With the Badin smelter idled, power generated from APGI's Yadkin system is largely being sold to an affiliate, Alcoa Power Marketing LLC, and then sold into the wholesale market.

In the Pacific Northwest, Alcoa has a contract with Chelan County Public Utility District (Chelan PUD) located in the State of Washington that is sufficient to supply about half of the capacity of the Wenatchee smelter through October 2011. In December 2007, the Chelan PUD Commissioners approved the terms of an agreement under which Alcoa and Chelan PUD would enter into a new contract beginning in November 2011 and running through October 2028 under which Alcoa would receive approximately 25% of the hydropower output of Chelan PUD's Rocky Reach and Rock Island dams. Definitive agreements are expected to be finalized in the course of the year. In addition, Alcoa has a contract through September 2011 with the Bonneville Power Administration under which Alcoa is receiving financial benefits to reduce the cost of power purchased from the market to partially operate the Intalco smelter.

The company, through APGI, generates substantially all of the power used at its Warrick smelter using nearby coal reserves. In May 2005, Alcoa acquired mining rights to the nearby Friendsville, Illinois coal reserves and subsequently hired Vigo Coal Company, Inc to manage and operate the mine. The mine is producing approximately one million tons of coal per year, 45% of the Warrick power plant’s requirements. The balance of the coal used is purchased principally from local Illinois basin coal producers pursuant to term contracts of varying duration. In April 2001, under the terms of an operating agreement, the company assumed from Vectren (formerly Southern Indiana Gas & Electric Company) operation of the power plant that supplies the Warrick smelter. In July 2005, Alcoa announced its plans to invest approximately $525 million at the Warrick power plant to improve environmental performance and operational efficiency, as well as to lower costs. This project is well underway.

Power for the Rockdale smelter was historically generated by company-owned generating units and TXU Generation Company LP (TXU)-owned generating units, both of which used lignite supplied by the company’s Sandow Mine. Upon completion of lignite mining in the Sandow Mine in 2005, lignite supply transitioned to the company-owned Three Oaks Mine. The company retired its three wholly-owned generating units in late 2006, and transitioned to an arrangement under which TXU supplies all of the Rockdale smelter’s electricity requirements under a long-term power contract that does not expire until at least the end of 2038, with the parties having the right to terminate the contract after 2013 if there has been an unfavorable change in law or after 2025 if the cost of the electricity exceeds the market price. In August 2007, TXU and Alcoa closed on the definitive agreements under which TXU will construct, own and operate a new circulating fluidized bed power plant adjacent to the existing Sandow Unit Four Power Plant, and in September 2007, on the sale of the Three Oaks Mine to TXU.

In the northeast, the purchased power contracts for both the Massena East and Massena West smelters in New York expire not earlier than June 30, 2013, following their extension in 2003 for 10 years upon New York Power Authority (NYPA) having relicensed its St. Lawrence-FDR Hydro Project. In December 2007, Alcoa and NYPA reached agreement in principle on a new energy contract to supply the Massena East and Massena West smelters for 30 years, beginning on July 1, 2013. Work on a definitive agreement is underway.

The Deschambault and Bécancour smelters in Quebec purchase electricity under long-term contracts with Hydro-Quebec that expire in 2014, subject to extension provisions. The smelter located in Baie Comeau, Quebec purchases approximately 65% of its power needs under the Hydro-Quebec contract and receives the remainder from a 40%-owned hydroelectric generating company, Manicouagan Power Company.

The Mt. Holly smelter in South Carolina purchases electricity from Santee Cooper under a contract that expires December 31, 2015, subject to certain extension provisions.

At the end of 2005, all production was temporarily curtailed at the Eastalco smelter located in Frederick, Maryland. The curtailment coincided with the expiration of the smelter’s power contract on December 31, 2005, as a competitively-priced replacement power supply could not be obtained. Alcoa continues efforts to find an alternative power source for Eastalco.

Australia – Electricity

Power is generated from extensive brown coal deposits covered by a long-term mineral lease held by AofA, and that power currently provides approximately 40% of the electricity for the company’s smelter in Point Henry, Victoria. The State Electricity Commission of Victoria provides the remaining power for this smelter and all power for the Portland smelter, under contracts with AofA that extend to 2014 and 2016, respectively.

Brazil – Electricity

The Alumar smelter is supplied by Eletronorte (Centrais Elétricas do Norte do Brasil S.A.) through a long-term power purchase agreement expiring in June 2024. Eletronorte has supplied the Alumar smelter from the beginning of its operations in 1984.

Aluminio participates in a consortium that owns the Machadinho hydroelectric power plant in southern Brazil, which began to generate power at full capacity in 2002. Aluminio receives its share of the plant's output, which is sufficient to cover 55% of its operating needs at the Poços de Caldas smelter. In January 2007, Aluminio exercised pre-emptive rights to acquire an additional ownership interest of 4.67% in Machadinho. This additional investment provides an additional 15 megawatts of assured energy. This transaction was approved by the Brazilian Energy Agency, antitrust regulators, and other third parties. In September 2007, Aluminio's ownership interest of 31.89% was reduced by 0.9% due to the admission of a new investor to the Machadinho consortium.

Aluminio also has a 42.18% interest in Energética Barra Grande S.A. – BAESA, which built the Barra Grande hydroelectric power plant in southern Brazil. Barra Grande began operating in November 2005, and reached full generating capacity in 2006. Aluminio's share of the project covers a substantial portion of its remaining needs at the Poços de Caldas smelter.

With Machadinho and Barra Grande, Aluminio's current power self-sufficiency is approximately 40%, to meet a total energy demand of approximately 690 megawatts from Brazilian primary plants.

Aluminio is also participating in a number of other Brazilian hydropower projects. Two of these projects have received the Environmental Installation License from the Federal Government and started construction in 2007:

- *Estreito*, northern Brazil – Aluminio's share is 25.49%
- *Serra do Facão*, in the southeast of Brazil – Aluminio's share is 34.97%

Serra do Facão and Estreito generation of power is expected to begin in 2010.

A third project, Pai Querê in southern Brazil (Aluminio share is 35.00%), is still in the process of obtaining necessary environmental licenses.

If these projects are completed, the power will be used in Aluminio's smelters or sold into the Brazilian grid.

In December 2007, Aluminio concluded the sale of its 42% participation in ETAU, a Brazilian company that holds and operates an electric transmission line in southern Brazil.

Europe – Electricity

The company purchases electricity for its smelters at Portovesme and Fusina, Italy in the recently deregulated market, under contracts expiring in December 2009 for both locations. A new law went into effect on May 14, 2005, that extends through December 2010 the special tariff conditions applicable to the Italian smelters. That measure provides a competitive power supply to the primary aluminum industry and is not considered state aid by the Italian Government. However, in July 2006 the European Union (EU) opened an ongoing investigation into whether this provision should be considered unlawful state aid, which may not be compatible with European legislation. It is Alcoa's understanding that the Italian Government's continuation of the electricity tariff was done in conformity with all applicable laws and regulations. While Alcoa believes that any additional cost would only be assessed prospectively from the date of the decision of the EU Commission (EC) on this matter, it is possible that the EC could rule that the assessment must be retroactively applied to January 2006. A decision by the EC is not expected until late in 2008. On November 29, 2006, Alcoa filed an appeal before the European Court of First Instance seeking the annulment of the decision of the EC to open the investigation alleging that such decision did not follow the applicable procedural rules. This appeal, which may be withdrawn by Alcoa at any time, is expected to be resolved late in 2008, as well.

The company's smelters at San Ciprián, La Coruña and Avilés, Spain purchase electricity from the power grid at the lowest applicable industrial tariff rate under regulations expiring in January 2009. On January 25, 2007, the EC announced that it has opened an investigation to establish whether the regulated electricity tariffs granted by Spain comply with EU state aid rules. Alcoa has been operating in Spain for more than nine years under a power supply structure approved by the Spanish Government in 1986, an equivalent tariff having been granted in 1983. The investigation is limited to the year 2005 and it is focused both on the energy-intensive consumers and the distribution companies. It is Alcoa's understanding that the Spanish tariff system for electricity is in conformity with all applicable laws and regulations, and therefore no state aid is present in that tariff system. A decision by the EC is not expected until late 2008. If the EC's investigation concludes that the regulated electricity tariffs for industries are unlawful, Alcoa will have an opportunity to challenge the decision in the EU courts.

Iceland – Electricity

As noted above, Alcoa's new Fjarðaál smelter in eastern Iceland began operation in 2007. Central to those operations is a 40-year power contract under which Landsvirkjun, the Icelandic national power company, built the Kárahnjúkar dam and power project, and supplies competitively priced electricity to the smelter. First power was supplied to the Fjarðaál smelter in April 2007, and with the completion of the Kárahnjúkar project in late 2007, the smelter is now ramping up to full production, expected to be completed in the first quarter of 2008.

Minority Interests – Electricity

The smelters in Ghana, Norway and Venezuela, in which Alcoa has only an equity stake and is not the operational manager, have made a variety of electricity purchase arrangements, through their respective managing or majority partners. Power for the smelter in Ghana is provided under an interim power rate agreement with the Volta River Authority. The other contracts are up for renewal at various times, the majority of them in the period from 2011 to 2020.

Canada & U.S. – Natural Gas

In order to supply its refineries and smelters in the U.S. and Canada, the company generally procures natural gas on a competitive bid basis from a variety of sources including producers in the gas production areas and independent gas marketers. For Alcoa's larger consuming locations in Canada and the U.S., the gas commodity as well as interstate pipeline transportation is procured to provide increased flexibility and reliability. Contract pricing for gas is typically based on a published industry index or New York Mercantile Exchange (NYMEX) price. The company may choose to reduce its exposure to NYMEX pricing by hedging a portion of required natural gas consumption.

Australia – Natural Gas

AofA holds a 20% equity interest in a consortium that bought the Dampier-to-Bunbury natural gas pipeline in October 2004. This pipeline transports gas from the northwest gas fields to Alcoa's alumina refineries and other users in the Southwest of Western Australia. AofA uses gas to co-generate steam and electricity for its alumina refining processes at the Kwinana, Pinjarra and Wagerup refineries.

Sources and Availability of Raw Materials

The major purchased raw materials in 2007 for each of the company's segments are listed below.

Alumina
bauxite
caustic soda
electricity
fuel oil
natural gas

Primary Metals
alloying materials
alumina
aluminum fluoride
calcined petroleum coke
cathode blocks
electricity
liquid pitch
natural gas
silicon carbide

Flat-Rolled Products
alloying materials
aluminum scrap
coatings
electricity
natural gas
primary aluminum (rolling ingot, high purity, P1020)

Extruded and End Products
coatings
cobalt
electricity
fabricated aluminum
natural gas
nitrogen
polypropylene resin
polyvinyl chloride resin compound
primary aluminum (billet)

Engineered Solutions
cobalt
copper
electricity
natural gas
nickel
nitrogen
platinum
polyvinyl chloride resin compound
primary aluminum (billet)
steel
tabular alumina
titanium

Packaging and Consumer
aluminum
electricity
natural gas
paper
polyethylene resin compound
polyethylene terephthalate (PET) resin compound
polypropylene resin
polystyrene resin compound

Other materials generally are purchased from third party suppliers under competitively-priced supply contracts or bidding arrangements. The company believes that the raw materials necessary to its business are and will continue to be available.

Joint Ventures and Investments

The company's principal alliances and joint ventures are included in its "upstream" operating segments (alumina and primary metals) as shown in the tables above relating to those segments.

Alcoa's other significant joint ventures and investments are as follows:

Alcoa Bohai Aluminum Industries Company Limited. In October 2005, Alcoa inaugurated a restructured joint venture with China International Trust & Investment (CITIC), its equity partner, to produce aluminum rolled products in Qinghuangdao, China. Alcoa is the managing partner in the new venture, holding a 73% stake, with CITIC holding a 27% stake. The joint venture operates existing aluminum cold rolling and foil facilities and is undertaking a major expansion, which includes a hot rolling mill and related equipment. The expansion is expected to start at 40,000 tons in 2008 and reach full capacity of 150,000 tons in 2010.

Alcoa Kunshan Aluminum Products Company Ltd. In September 2006, Alcoa completed the acquisition of its 70% interest in the aluminum brazing sheet venture in Kunshan City, China. Alcoa is the managing partner in the venture, with the remaining 30% shares held by Shanxi Yuncheng Engraving Group. Kunshan Aluminum is designed to produce 50,000 mtpy of aluminum brazing sheet primarily for the Asian automotive market. It is the third flat-rolled products facility managed by Alcoa in China including those owned and operated by Alcoa Bohai Aluminum Industries Company Limited and Alcoa (Shanghai) Aluminum Products Limited.

Elkem Aluminium ANS. This Norwegian partnership is owned 50% by Alcoa and 50% by Elkem AS, one of Norway's largest industrial companies and a leading supplier of metals and materials, with Elkem as managing partner. The partnership is the second largest aluminum producer in Norway and operates two smelters: Mosjøen and Lista. These facilities supply extrusion billets, rolling ingots and foundry ingots to leading rolling mills, extrusion plants and foundries in Europe.

In 2007, Alcoa formed or sold the following joint ventures and investments:

Aluminum Corporation of China Limited (Chalco). In November 2001, Alcoa entered into a strategic alliance with Chalco and its parent company, Aluminum Corporation of China (Chinalco). Under this alliance, in 2001 Alcoa became a strategic investor in Chalco's global offering and listing on the New York Stock Exchange and The Stock Exchange of Hong Kong. Chinalco is the largest shareholder in Chalco and Alcoa was the largest holder of the shares of Chalco listed on stock exchanges outside China. In September 2007, Alcoa disposed of its interest in Chalco through a placement of the shares.

Orkla ASA (Orkla) and SAPA AB (Sapa). In 2006, Alcoa and Orkla signed a letter of intent to create a joint venture with Orkla's subsidiary Sapa, to be majority owned and operated by Sapa, to combine Alcoa's soft alloy extrusion business with Sapa's extruded aluminum business. Alcoa's soft alloy extrusion business then operated 22 facilities in eight countries; Sapa's profiles business consisted of 18 facilities in 12 countries. This transaction was completed in the second quarter of 2007. Alcoa will continue to own and operate its hard alloy extrusion business which serves the aerospace, automotive, and selected other markets.

Patents, Trade Secrets and Trademarks

The company believes that its domestic and international patent, trade secret and trademark assets provide it with a significant competitive advantage. The company's rights under its patents, as well as the products made and sold under them, are important to the company as a whole and, to varying degrees, important to each business segment. The patents owned by Alcoa generally concern particular products or manufacturing equipment or techniques. Alcoa's business as a whole is not, however, materially dependent on any single patent, trade secret or trademark.

The company has a number of trade secrets, mostly regarding manufacturing processes and material compositions that give many of its businesses important advantages in their markets. The company continues to strive to improve those processes and generate new material compositions that provide additional benefits.

The company also has a number of domestic and international registered trademarks that have significant recognition at the consumer level, and others that have significant recognition within the markets that are served. Examples include

Alcoa and the Alcoa Symbol for aluminum products, Howmet metal castings, Huck® fasteners, Kawneer building panels and Dura-Bright® surface treatments. Presto® storage bags, Cut-Rite® wax paper, Baco® household wraps, Reynolds® plastic wrap and Reynolds Wrap® aluminum foil are expected to be assigned to Rank Group Limited upon completion of its purchase of Alcoa's packaging and consumer business. The company's rights under its trademarks are important to the company as a whole and, to varying degrees, important to each business segment.

Competitive Conditions

Alcoa is subject to highly competitive conditions in all aspects of its aluminum and nonaluminum businesses. Competitors include a variety of both U.S. and non-U.S. companies in all major markets. Price, quality and service are the principal competitive factors in Alcoa's markets. Where aluminum products compete with other materials – such as steel and plastics for automotive and building applications; magnesium, titanium, composites and plastics for aerospace and defense applications; steel, plastics and glass for packaging applications – aluminum's diverse characteristics, particularly its light weight, recyclability and flexibility, are also significant factors. For Alcoa's segments that market products under Alcoa's brand names, brand recognition and brand loyalty also play a role.

Research and Development

Alcoa, a technology leader in the aluminum industry, engages in research and development programs that include process and product development, and basic and applied research. Expenditures for R&D activities were $249 million in 2007, $213 million in 2006 and $192 million in 2005.

Most of the major process areas within the company have a Technology Management Review Board (TMRB) consisting of members from various worldwide locations. Each TMRB is responsible for formulating and communicating a technology strategy for the corresponding process area, developing and managing the technology portfolio and ensuring the global transfer of technology. Certain business units alternatively conduct these activities and research and development programs within the worldwide business unit, supported by the Alcoa Technical Center. Technical personnel from the TMRBs, the Technical Center and such business units also participate in the corresponding Market Sector Lead Teams. In this manner, research and development activities are aligned with corporate and business unit goals.

During 2007, the company continued work on new developments for a number of strategic projects in all business segments. In Primary Metals, progress was made on inert anode technology. Progress has been successful in many respects as a result of full pot testing of anode assemblies, although there remain technical and cost targets to achieve. Technical targets include optimization of pot operating conditions and maintenance of metal purity. If the technology proves to be commercially feasible, the company believes that it would be able to convert its existing potlines to this new technology, resulting in significant operating cost savings. The new technology would also generate environmental benefits by reducing and eliminating certain emissions, especially carbon dioxide. No timetable has been established for commercial use. Progress was also made on carbothermic projects, which if commercially feasible may reduce capital and energy costs, as well as provide environmental benefits related to waste reduction.

In the semi-fabrication businesses, new alloys including Aluminum-Lithium (Al Li) and a very high strength alloy were developed and applied to aerospace products. The combined Al Li alloy development and application was awarded the global R&D 100 award, given annually by R&D magazine to the world's 100 most significant innovations, for its enabling ability to significantly reduce aircraft weight. In the manufacturing arena, the "simultaneous multi-alloy casting" process was developed with plans to commercialize it in 2008. The company has also moved from the research and development stage to "pilot scale" on its continuous cast-rolled products process. In addition, a number of low grade scrap use technologies were developed and implemented providing both cost and environmental benefits.

A number of products were commercialized in 2007 such as those included in the "Dura Bright® wheels with XBR™ Technology" brand and "Reynobond® brand products co-branded with Kevlar®-" brand products, unique surface sheet for the consumer electronics market, lightweight armor applications for the defense market and high performance products for the oil and gas markets. For the aerospace market, new multi-material technologies have been developed to compete effectively with composites.

The company currently has at least 60 new products in various development stages. As a result of product development and technological advancement, the company continues to pursue patent protection in jurisdictions throughout the world.

Environmental Matters

Information relating to environmental matters is included in three areas of the Annual Report: under Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading "Environmental Matters" on pages 35 and 36, in Note A to the financial statements under the caption "Environmental Expenditures" on pages 50 through 54, and in Note Y to the financial statements beginning on page 77.

Employees

Total worldwide employment at year-end 2007 was 107,000 employees in 44 countries. About 60,000 of these employees are represented by labor unions. The company believes that relations with its employees and any applicable union representatives generally are good.

In the United States, 14,000 employees are represented by various labor unions. The master collective bargaining agreement between Alcoa and the United Steelworkers covering 14 locations and approximately 9,000 United States employees is scheduled to expire on May 31, 2010. There are 43 other collective bargaining agreements in the United States with varying expiration dates. Various collective bargaining agreements with varying expiration dates cover about 23,000 employees in Europe, 9,000 employees in Mexico, 7,000 employees in South America, 4,000 employees in Australia and 3,000 employees in Canada.

Cautionary Statements under the Private Securities Litigation Reform Act of 1995

Forward-Looking Statements

This report and the portions of the Annual Report incorporated by reference herein contain (and oral communications made by Alcoa may contain) statements that relate to future events and expectations and, as such, constitute forward-looking statements. Forward-looking statements include those containing such words as "anticipates," "believes," "estimates," "expects," "hopes," "targets," "should," "will," "will likely result," "forecast," "outlook," "projects" or other words of similar meaning. All statements that address Alcoa's expectations or projections about the future, including statements about Alcoa's strategy for growth, cost reduction goals, expenditures and financial results, are forward-looking statements. Forward-looking statements are based on Alcoa's estimates, assumptions and expectations of future events and are subject to a number of risks, uncertainties and other factors that may cause actual results, performance or achievements of Alcoa to be different from those expressed or implied in the forward-looking statements. Therefore, Alcoa cannot guarantee that these estimates, assumptions and expectations are accurate or will be realized. Alcoa disclaims any intention or obligation (other than as required by law) to update or revise any forward-looking statements.

Item 1A. Risk Factors.

In addition to the factors discussed elsewhere in this report and in Management's Discussion and Analysis in the Annual Report, the following are some of the important factors that could cause Alcoa's actual results to differ materially from those projected in any forward-looking statements:

Alcoa is subject to cyclical fluctuations in LME prices, economic conditions generally, and aluminum end-use markets.

The aluminum industry is highly cyclical, with prices subject to worldwide market forces of supply and demand and other influences. Prices can be volatile. Alcoa uses contractual arrangements with customers, as well as forward, futures and options contracts, to manage its exposure to the volatility of LME-based prices as market conditions warrant from time to time, and is product and segment diversified. However, Alcoa's results of operations could be affected by material adverse changes in economic or aluminum industry conditions generally or in the markets served by Alcoa, including the transportation, building and construction, distribution, packaging, industrial gas turbine and other markets.

Alcoa's operations consume substantial amounts of energy; profitability may decline if energy costs rise or if energy supplies are interrupted.

Alcoa consumes substantial amounts of energy in its operations. Although Alcoa generally expects to meet the energy requirements for its alumina refineries and primary aluminum smelters from internal sources or from long-term contracts, the following could affect Alcoa's results of operations:

- significant increases in electricity costs rendering smelter operations uneconomic;
- significant increases in natural gas prices;
- unavailability of electrical power or other energy sources due to droughts, hurricanes or other natural causes;
- unavailability of energy due to energy shortages resulting in insufficient supplies to serve consumers;
- interruptions in energy supply due to equipment failure or other causes; or
- curtailment of one or more refineries or smelters due to inability to extend energy contracts upon expiration or negotiate new arrangements on cost-effective terms.

Alcoa's profitability could be adversely affected by increases in the cost of raw materials.

Alcoa's results of operations will be affected by increases in the cost of raw materials, including caustic soda, calcined petroleum coke and resins, and freight costs associated with transporting raw materials to refining and smelting locations, in addition to energy. Alcoa may not be able to offset fully the effects of higher raw material costs or energy costs through price increases, productivity improvements or cost reduction programs.

Union disputes and other employee relations issues could adversely affect Alcoa's financial results.

Some of Alcoa's employees are represented by labor unions in a number of countries under various collective bargaining agreements with varying durations and expiration dates. Alcoa may not be able to satisfactorily renegotiate collective bargaining agreements in the United States and other countries when they expire. In addition, existing collective bargaining agreements may not prevent a strike or work stoppage at Alcoa's facilities in the future. Alcoa may also be subject to general country strikes or work stoppages unrelated to our business or collective bargaining agreements. Any such work stoppages (or potential work stoppages) could have a material adverse effect on our financial results.

Alcoa may not be able to successfully implement its growth strategy.

Alcoa has an organic growth strategy focused on its "upstream" businesses. Significant expansion or growth projects are in various stages of development or negotiation in several countries including Australia, Brazil, Brunei, Greenland, Guinea, Iceland, Jamaica and Trinidad. These projects may not be completed or may be completed at higher cost than expected due to shortages of labor or materials, inability to obtain energy sources at competitive rates, inability to negotiate favorable contracts, inability to finance the construction of projects at favorable rates of interest, currency fluctuations, political unrest, regulatory developments and commercial risks, including but not limited to adverse developments in the global supply and demand for alumina and aluminum.

As part of its strategy for growth, Alcoa has made and may continue to make acquisitions and divestitures and form strategic alliances. There can be no assurance that these will be completed or beneficial to Alcoa or that targeted completion dates will be met.

Alcoa's operations are exposed to business and operational risks, changes in conditions and events beyond its control in the countries in which it operates.

Alcoa has investments, activities and expansion projects in numerous countries outside the U.S. and in emerging markets, including Australia, Brazil, Canada, China, member countries of the European Union, Ghana, Greenland, Guinea, Iceland, India, Jamaica, Korea, Mexico, Norway, Russia, Suriname, and Vietnam. Changes in the laws or governmental policies in the countries in which Alcoa operates could affect its business in such countries and Alcoa's results of operations.

Alcoa is exposed to fluctuations in foreign currency exchange rates and interest rates, as well as inflation and other economic factors in the countries in which it operates.

Economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates, and competitive factors in the countries in which Alcoa operates, could affect its revenues, expenses and results of operations. Changes in the valuation of the U.S. dollar against other currencies, particularly the Brazilian real, Canadian dollar, Euro and Australian dollar, may affect profitability as some important raw materials are purchased in other currencies, while products generally are sold in U.S. dollars.

The influence of China may negatively impact our results in the event of a slowdown in consumption.

The Chinese market has become a significant source of global demand for commodities. China now represents in excess of 25 percent of aluminum demand. China's demand for aluminum has more than doubled in the last five years. Consequently, in response to its increased demand for commodities, China is increasingly seeking self-sufficiency in key commodities, including investments in additional developments in other countries. These investments may impact future demand and supply balances and prices.

Alcoa faces significant price competition from other aluminum producers and end-use markets for certain Alcoa products that are highly competitive, such that customers may be willing to accept substitutes for products sold by Alcoa.

The markets for most aluminum products are highly competitive. In addition, aluminum competes with other materials, such as steel, plastics, composites, and glass, among others, for various applications in Alcoa's key markets. See also "Competitive Conditions" above. The willingness of customers to accept substitutions for the products sold by Alcoa, the ability of large customers to exert leverage in the marketplace to affect the pricing for fabricated aluminum products, or other developments by or affecting Alcoa's competitors or customers could affect Alcoa's results of operations.

Further metals industry consolidation could impact our business.

The metals industry has experienced consolidation over the past several years and there may be further industry consolidation in the future. Although current industry consolidation has not negatively impacted our business, further consolidation in the aluminum industry could possibly have negative impacts that we cannot reliably predict.

Alcoa could be adversely affected by changes in the business or financial condition of a significant customer or customers.

A significant downturn in the business or financial condition of a key customer or customers supplied by Alcoa could affect Alcoa's results of operations in a particular period. Alcoa's customers may experience delays in the launch of new products due to technical and design difficulties and if Alcoa is not successful in replacing business lost from such customers, profitability may be adversely affected.

Alcoa may not be able to successfully implement its productivity and cost-reduction initiatives.

Alcoa has undertaken and may continue to undertake productivity and cost-reduction initiatives to improve performance, including deployment of company-wide business process models, such as the Alcoa Business System and the Alcoa Enterprise Business Solution, an initiative designed to build a common global infrastructure across Alcoa for data, processes and supporting software. There can be no assurance that these initiatives will be completed or beneficial to Alcoa or that any estimated cost savings from such activities will be realized.

Alcoa may not be able to successfully develop and implement new technology initiatives.

Alcoa is working on new developments in advanced smelting process technologies, including inert anode and carbothermic technology, in addition to multi-alloy casting processes. There can be no assurance that such technologies will be commercially feasible or beneficial to Alcoa.

Alcoa is subject to a broad range of environmental laws and regulations in the jurisdictions in which it operates and may be exposed to substantial costs and liabilities associated with such laws.

Alcoa's operations worldwide are subject to numerous complex and increasingly stringent environmental laws and regulations. The costs of complying with such environmental laws and regulations, including participation in assessments and cleanups of sites, as well as internal voluntary programs, are significant and will continue to be so for the foreseeable future. Alcoa's results of operations or liquidity in a particular period could be affected by certain environmental matters, including remediation costs and damages related to several sites.

Climate change, climate change regulations and greenhouse effects may adversely impact our operations and markets.

Energy is a significant input in a number of Alcoa's operations. There is growing recognition that energy consumption is a contributor to global warming, greenhouse effects and potentially climate change.

A number of governments or governmental bodies have introduced or are contemplating regulatory change in response to the potential impacts of climate change. There is also current and emerging regulation, such as the mandatory renewable energy target in Australia, or potential carbon trading regimes that will affect energy prices. Alcoa will likely see changes in the margins of greenhouse gas-intensive assets and energy-intensive assets as a result of regulatory impacts in the countries in which the company operates. These regulatory mechanisms may be either voluntary or legislated and may impact Alcoa's operations directly or indirectly through customers. Inconsistency of regulations may also change the attractiveness of the locations of some of the company's assets. Assessments of the potential impact of future climate change regulation are uncertain, given the wide scope of potential regulatory change in countries in which Alcoa operates.

The potential physical impacts of climate change on the company's operations are highly uncertain, and will be particular to the geographic circumstances. These may include changes in rainfall patterns, water shortages, changing sea levels, changing storm patterns and intensities, and changing temperature levels. These effects may adversely impact the cost, production and financial performance of Alcoa's operations.

Alcoa may be exposed to significant legal proceedings, investigations or changes in law.

Alcoa's results of operations or liquidity in a particular period could be affected by new or increasingly stringent laws, regulatory requirements or interpretations or significant legal proceedings or investigations adverse to Alcoa, including product liability, safety and health and other claims.

Alcoa could be required to make additional contributions to its defined benefit pension plans as a result of adverse changes in interest rates and the capital markets.

Alcoa's estimates of liabilities and expenses for pensions and other postretirement benefits incorporate significant assumptions including the rate used to discount the future estimated liability, the long-term rate of return on plan assets and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age and mortality). Alcoa's results of operations, liquidity or shareholders' equity in a particular period could be affected by a decline in the rate of return on plan assets, the rate used to discount the future estimated liability or changes in employee workforce assumptions.

Unexpected events may increase Alcoa's cost of doing business or disrupt Alcoa's operations.

Unexpected events, including fires or explosions at facilities, natural disasters, war or terrorist activities, unplanned outages, supply disruptions, or failure of equipment or processes to meet specifications, may increase the cost of doing business or otherwise impact Alcoa's financial performance. Further, existing insurance arrangements may not provide protection for all of the costs that may arise from such events.

The above list of important factors is not all-inclusive or necessarily in order of importance.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Alcoa has active plants and holdings under the following segments[1] and in the following geographic areas:

ALUMINA

Bauxite: See the table and related text in the **Bauxite Interests** section on pages 4-5.

Alumina: See the table and related text in the **Alumina Refining Facilities and Capacity** section on pages 6-7.

PRIMARY METALS

See the table and related text in the **Primary Aluminum Facilities and Capacity** section on pages 8-10.

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FLAT-ROLLED PRODUCTS

Sheet and Plate:	Asia:	3 locations in 1 country.
	Australia:	2 locations.
	Europe:	8 locations in 6 countries.
	South America:	1 location.
	United States:	7 locations in 7 states.
Foil Products:	Asia:	3 locations in 1 country.
	Australia:	1 location.
	Europe:	2 locations in 1 country.
	South America:	1 location.
	United States:	2 locations in 2 states.
Can Reclamation:	Australia:	1 location.
	United States:	2 locations in 1 state.

EXTRUDED AND END PRODUCTS

Extrusion, Tube:	Europe:	2 locations in 1 country.
	South America:	2 locations in 1 country.
	South Korea:	1 location.
	United States:	5 locations in 4 states.
Architectural Products:	Africa:	1 location.
	Canada:	2 locations in 2 provinces.
	Europe:	4 locations in 2 countries.
	South America:	2 locations in 1 country.
	United States:	4 locations in 4 states.

ENGINEERED SOLUTIONS

Aerospace:	Canada:	2 locations in 2 provinces.
	Europe:	8 locations in 4 countries.
	Mexico:	1 location.
	South Korea:	1 location.
	United States:	16 locations in 13 states.
Automotive Components:	Asia:	1 location.
	Australia:	2 locations.
	Canada:	1 location.
	Europe:	2 locations in 2 countries.
	Mexico:	2 locations.
	South America:	1 location.
	United States:	11 locations in 8 states.
Alcoa Electrical & Electronic Solutions (AEES):	Asia:	1 location.
	Canada:	1 location.
	Central America:	2 locations in 1 country.
	Europe:	12 locations in 7 countries.
	Mexico:	5 locations.
	South America:	1 location.
	United States:	8 locations in 4 states.

Castings:	Asia:	1 location.
	Canada:	2 locations in 2 provinces.
	Europe:	6 locations in 4 countries.
	Mexico:	1 location.
	United States:	9 locations in 7 states.
Auto Engineering:	Europe:	5 locations in 4 countries.
	United States:	3 locations in 3 states.
Fasteners:	Asia:	1 location.
	Australia:	1 location.
	Europe:	10 locations in 4 countries.
	Mexico:	1 location.
	United States:	9 locations in 5 states.

PACKAGING AND CONSUMER

Consumer Products:	Europe:	1 location.
	United States:	9 locations in 7 states.
Flexible Packaging:	United States:	5 locations in 3 states.
Closures:	Africa:	1 location.
	Asia:	4 locations in 3 countries.
	Canada:	1 location.
	Central America:	1 location.
	Europe:	4 locations in 4 countries.
	Indonesia:	1 location.
	Mexico:	2 locations.
	Middle East:	1 location.
	South America:	4 locations in 4 countries.
	United States:	4 locations in 4 states.
Foodservice Packaging:	Canada:	3 locations in 2 provinces.
	Europe:	2 locations in 2 countries.
	United States:	4 locations in 4 states.
Polymerization and Extrusion:	Europe:	1 location.
	United States:	4 locations in 4 states.

1 Facilities that serve multiple product categories may be listed in more than one segment.

Alcoa's principal office is located at 390 Park Avenue, New York, New York 10022-4608. Alcoa's corporate center is located at 201 Isabella Street, Pittsburgh, Pennsylvania 15212-5858. The Alcoa Technical Center for research and development is located at 100 Technical Drive, Alcoa Center, Pennsylvania 15069.

Alcoa leases some of its facilities; however, it is the opinion of management that the leases do not materially affect the continued use of the properties or their values.

Alcoa believes that its facilities are suitable and adequate for its operations. Although no title examination of properties owned by Alcoa has been made for the purpose of this report, the company knows of no material defects in title to any such properties. See Notes H and N to the financial statements for information on properties, plants and equipment and lease expense.

Item 3. Legal Proceedings.

In the ordinary course of its business, Alcoa is involved in a number of lawsuits and claims, both actual and potential, including some that it has asserted against others. While the amounts claimed may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. It is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. Management believes, however, that the disposition of matters that are pending or asserted will not have a material adverse effect on the financial position of the company.

Environmental Matters

Alcoa is involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act, also known as Superfund (CERCLA) or analogous state provisions regarding the usage, disposal, storage or treatment of hazardous substances at a number of sites in the U.S. The company has committed to participate, or is engaged in negotiations with federal or state authorities relative to its alleged liability for participation, in clean-up efforts at several such sites.

As previously reported, since 1989, Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa's Massena, New York plant site, under order from the U.S. Environmental Protection Agency (EPA) issued under Section 106 of CERCLA. Sediments and fish in the river contain varying levels of polychlorinated biphenyl (PCB). In early 2002, Alcoa submitted a revised Analysis of Alternatives Report to EPA. This Report identified potential remedial actions related to PCB contamination of the river, including additional remedial alternatives that may be required by EPA. It also reflected certain recent studies and investigations on the river, including pilot tests of sediment capping techniques and other remediation technologies. The range of costs associated with the remedial alternatives evaluated in the 2002 Report was between $2 million and $525 million. Alcoa believes that rational, scientific analysis supports a remedy involving the containment of sediments in place via natural or man-made processes. Because the selection of the $2 million alternative (natural recovery) was considered remote, the company adjusted the reserve for the Grasse River in 2002 to $30 million representing the low end of the range of possible alternatives, as no single alternative could be identified as more probable than the others. In June 2003, based on then recent river observations, EPA requested that Alcoa gather additional field data to assess the potential for sediment erosion from winter river ice formation and breakup so that it could be factored into the range of remedial alternatives being considered. The results of these additional studies, submitted in a report to EPA in April of 2004, suggest that this phenomenon has the potential to occur approximately every 10 years and may impact sediments in certain portions of the river under all remedial scenarios. Those evaluations were submitted to EPA along with a proposal to perform additional pilot remedial studies in the river. In May 2004, EPA approved Alcoa's proposed Remedial Options Pilot Study (ROPS) that includes sediment removal and capping, the installation of an ice control structure, and significant monitoring. At the same time, Alcoa adjusted the reserve for the river to include the $35 million estimated cost of the ROPS, in addition to the $30 million previously reserved. Most of the construction work for the ROPS was completed in 2005 with monitoring proposed through 2008. The findings from the ROPS program and from these additional investigations will be incorporated into a revised Analysis of Alternatives Report that is expected to be submitted in 2008. EPA will use this information to develop a remedy for the river. With the exception of the natural recovery remedy, none of the existing alternatives in the 2002 Analysis of Alternatives Report is more probable than the others and the results of the ROPS are necessary to revise the scope and estimated cost of many of the current alternatives. EPA's ultimate selection of a remedy could result in additional liability. Alcoa may be required to record a subsequent reserve adjustment at the time EPA's Record of Decision is issued, which is expected in 2009 or later.

As previously reported, representatives of various U.S. federal and state agencies and a Native American tribe, acting in their capacities as trustees for natural resources, have asserted that Alcoa and Reynolds Metals Company (Reynolds) may be liable for loss or damage to such resources under federal and state law based on Alcoa's and Reynolds' operations at their Massena, New York and St. Lawrence, New York facilities. While formal proceedings have not been instituted, the company continues to actively investigate these claims. The company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

As previously reported, in September 1998, Hurricane Georges struck the U.S. Virgin Islands, including the St. Croix Alumina, L.L.C. facility on the island of St. Croix. The wind and rain associated with the hurricane caused material at the location to be blown into neighboring residential areas. Various clean-up and remediation efforts were undertaken by or on behalf of St. Croix Alumina, L.L.C. A Notice of Violation was issued by the Division of Environmental Protection of the Department of Planning and Natural Resources of the Virgin Islands Government, and has been contested by the company. A civil suit was commenced in the Territorial Court of the Virgin Islands by certain residents of St. Croix in February 1999 seeking compensatory and punitive damages and injunctive relief for alleged personal injuries and property damages associated with "bauxite or red dust" from the St. Croix Alumina, L.L.C. facility. The suit, which has been removed to the District Court of the Virgin Islands, names St. Croix Alumina, L.L.C., Alcoa Inc. and Glencore Ltd. as defendants, and in August 2000 was accorded class action treatment. The class is defined to include persons in various defined neighborhoods who "suffered damages and/or injuries as a result of exposure during and after Hurricane Georges to red dust and red mud blown during Hurricane Georges." All of the defendants have denied liability, and discovery and other pretrial proceedings have been underway since 1999. In October 2003, the defendants received plaintiffs' expert reports. These reports also claim that the material blown during Hurricane Georges consisted of bauxite and red mud, and contained crystalline silica, chromium and other substances. The reports go on to claim, among other things, that the population of the six subject neighborhoods as of the 2000 census (a total of 3,730 people) has been exposed to toxic substances through the fault of the defendants, and hence will be able to show entitlement to lifetime medical monitoring as well as other compensatory and punitive relief. These opinions have been contested by the defendants' expert reports, that state, among other things, that plaintiffs were not exposed to the substances alleged and that in any event the level of alleged exposure does not justify lifetime medical monitoring. In August 2005, Alcoa and St. Croix Alumina, L.L.C. moved to decertify the plaintiff class, and in March 2006, the assigned magistrate judge issued a recommendation that class certification be maintained for liability issues only, and that the class be decertified after liability issues have been resolved. This recommendation has been adopted by the assigned district judge. Alcoa and St. Croix Alumina, L.L.C. have turned over this matter to their insurance carriers who are providing a defense. Glencore Ltd. is jointly defending the case with Alcoa and St. Croix Alumina, L.L.C. and has a pending motion to dismiss. The company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

As previously reported, on September 26, 2003, EPA Region VI filed an Administrative Complaint, Compliance Order and Notice of Opportunity for Hearing against the Wichita Falls, Texas facility of Howmet Corporation (Howmet) for violations of hazardous waste regulations relating to shipments of used potassium hydroxide to a fertilizer manufacturer from 1997 until 2000. The Complaint proposes a penalty of $265,128. In addition, EPA ordered Howmet to cease sending used potassium hydroxide to fertilizer manufacturers or employing used potassium hydroxide in any use constituting disposal and to certify compliance with hazardous waste regulations within 30 days. On October 22, 2003, EPA Region II issued an almost identical Complaint, Compliance Order and Notice of Opportunity for Hearing against Howmet's Dover, New Jersey facility, seeking $180,021 in penalties. Howmet filed its Answers to EPA Region VI's and EPA Region II's Complaints. Howmet's Answers denied the substance of EPA's Complaints, requested that no penalties be imposed and requested Hearings on both the hazardous waste allegations and the Compliance Orders. On April 25, 2005, the administrative Court granted EPA's motions for partial accelerated decision with respect to both cases, finding that Howmet violated the cited regulatory provisions alleged in the Complaint and moved the case to the penalty phase. The Court rejected Howmet's interlocutory appeal of this decision on May 16, 2005. On September 2, 2005, EPA and Howmet stipulated to a penalty amount of $309,091 for the consolidated matters should the finding of liability be upheld and Howmet appealed the administrative Court's decision to the Environmental Appeals Board on September 28, 2005. On May 24, 2007, the Environmental Appeals Board upheld the administrative Court's liability finding against Howmet and assessed the parties' stipulated penalty of $309,091. On July 23, 2007, Howmet appealed the Environmental Appeals Board decision to the United States District Court for the District of Columbia.

As previously reported, in May 2005**,** Alcoa World Alumina LLC and St. Croix Alumina, L.L.C. were among the defendants listed in a lawsuit brought by the Commissioner of the Department of Planning and Natural Resources, Dean Plaskett, in his capacity as Trustee for Natural Resources of the Territory of the United States Virgin Islands in the District Court of the Virgin Islands, Division of St. Croix. The complaint seeks damages for alleged injuries to natural resources caused by alleged releases from an alumina refinery facility in St. Croix that was owned by St. Croix Alumina, L.L.C. from 1995 to 2002. Also listed in the lawsuit are previous and subsequent owners of the alumina refinery and the owners of an adjacent oil refinery. Claims are brought under CERCLA, U.S. Virgin Islands law, and common law. The plaintiff has not specified in the complaint the amount it seeks in damages. The defendants have filed motions to dismiss and, in September 2006, filed a motion for an order staying discovery pending resolution of those motions. All of these motions are pending and discovery has not begun. In September 2007, the court asked the parties to brief the issue of whether the natural resource provisions of the federal Superfund law preempted territorial statutory and common law claims in the case. The parties have complied. In October 2007, the plaintiff and St. Croix Renaissance Group, L.L.L.P. (SCRG) filed a joint Agreement and Consent Decree to resolve SCRG's liability in the lawsuit, along with any CERCLA liability it may have with respect to the facility. The remaining defendants each filed objections to the Agreement and Consent Decree. This litigation is in its preliminary stages and the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

As previously reported, in August 2005, Dany Lavoie, a resident of Baie Comeau in the Canadian Province of Quebec, filed a Motion for Authorization to Institute a Class Action and for Designation of a Class Representative against Alcoa Canada Inc., Alcoa Limitee, Societe Canadienne de Metaux Reynolds Limitee and Canadian British Aluminum in the Superior Court of Quebec in the District of Baie Comeau. Plaintiff seeks to institute the class action on behalf of a putative class consisting of all past, present and future owners, tenants and residents of Baie Comeau's St. Georges neighborhood. He alleges that defendants, as the present and past owners and operators of an aluminum smelter in Baie Comeau, have negligently allowed the emission of certain contaminants from the smelter, specifically Polycyclic Aromatic Hydrocarbons or "PAHs", that have been deposited on the lands and houses of the St. Georges neighborhood and its environs causing damage to the property of the putative class and causing health concerns for those who inhabit that neighborhood. If allowed to proceed as a class action, plaintiff seeks to compel additional remediation to be conducted by the defendants beyond that already undertaken by them voluntarily, seeks an injunction against further emissions in excess of a limit to be determined by the court in consultation with an independent expert, and seeks money damages on behalf of all class members. A hearing on plaintiff's motion for class certification was held on April 24-26, 2007. On May 23, 2007, the court issued its ruling which granted the motion in part and authorized a class action suit to include only people who suffered property damage or personal injury damages caused by the emission of PAHs from the smelter. On September 13, 2007, the plaintiff filed its claim against the original defendants, which the court had authorized in May. This litigation is in its preliminary stages and the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

As previously reported, on December 5, 2005, Alcoa received service of a lawsuit filed in the United States District Court for the Northern District of New York and styled as Margaret George, et al., v. General Motors Corporation and Alcoa Inc., Docket No. 05-CV-1482. The complaint alleges personal injury and damages arising from exposure to PCB released from the defendants' industrial facilities in Massena, New York and seeks certification of a class of plaintiffs comprised of individual Mohawk Indians residing on the Akwesane Territory, a Mohawk Indian Reservation, situated along the St. Lawrence River in the United States and Canada. The suit alleges that approximately 12,000 individuals reside on the reservation. The company is investigating the allegations and has filed an answer denying liability. The defendants' substantial defenses to liability have now become evident to plantiffs, facilitating settlement negotiations based on cost of defense valuations. A settlement is likely and an appropriate reserve has been established.

As previously reported, in January 2006, in Musgrave v. Alcoa, et al, Warrick Circuit Court, County of Warrick, Indiana; 87-C01-0601-CT-0006, Alcoa Inc. and a subsidiary were sued by an individual, on behalf of himself and all persons similarly situated, claiming harm from alleged exposure to waste that had been disposed in designated pits at the Squaw Creek Mine in the 1970s. During February 2007, class allegations were dropped and the matter now proceeds as an individual claim.

Also as previously reported, in October 2006, in Barnett, et al. v. Alcoa and Alcoa Fuels, Inc., Warrick Circuit Court, County of Warrick, Indiana; 87C01-0601-PL-499, forty-one plaintiffs sued Alcoa Inc. and a subsidiary, asserting claims similar to the Musgrave matter, discussed above. On November 19, 2007, Alcoa Inc. and its subsidiary filed motions to dismiss both the Musgrave and Barnett cases. The Musgrave and Barnett matters are in their preliminary stages and the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

As previously reported, on April 5, 2006, Alcoa was notified by the Court of Venice (Tribunal di Venezia) that Alcoa Trasformazioni S.r.l., Fusina site (Venice), was sued by the Italian Minister of Environment and Minister of Public Works for an alleged liability for environmental damages. The plaintiffs asserted that Alcoa, as present owner of the site contaminated by previous activities, had the duty to act promptly to prevent the site from contaminating the Venice Lagoon and its surrounding natural resources. Alcoa Trasformazioni denies responsibility for the pre-existing condition and for failing to eliminate or circumscribe the pollution which was already the object of initiatives by the public authorities and a clear duty of the previous owner and plant seller. Alcoa has sued Alumix and Efim (the sellers of the Fusina site) before the Court of Rome for indemnification against any liability related to the pollution of former Alumix sites, purchased by Alcoa in 1996. Plaintiffs seek compensation for damages to the environment plus costs of installing a physical barrier along the plant's border with the Lagoon. This litigation is in its preliminary stages and the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

As previously reported, in December 2006, St. Croix Alumina, L.L.C. was sued by the Commissioner of the Department of Planning and Natural Resources (DPNR), U.S. Virgin Islands, in the Superior Court of the Virgin Islands, Division of St. Croix. The plaintiff alleges violations of the Coastal Zone Management Act and a construction permit issued thereunder. The complaint seeks a civil fine of $10,000 under the Coastal Zone Management Act, civil penalties of $10,000 per day for alleged intentional and knowing violations of the Coastal Zone Management Act, exemplary damages, costs, interest and attorney's fees, and "other such amounts as may be just and proper." This litigation is in its preliminary stages and the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

As previously reported, in December 2006, St. Croix Alumina, L.L.C. (SCA), along with unaffiliated prior and subsequent owners, were sued by the Commissioner of the DPNR, U.S. Virgin Islands, in the Superior Court of the Virgin Islands, Division of St. Croix. This second suit alleges violations by the defendants of certain permits and environmental statutes said to apply to the facility. The complaint seeks the completion of certain actions regarding the facility, a civil fine from each defendant of $10,000 under the Coastal Zone Management Act, civil penalties of $50,000 per day for each alleged violation of the Water Pollution Control Act, $10,000 per day for alleged intentional and knowing violations of the Coastal Zone Management Act, exemplary damages, costs, interest and attorney's fees, and "other such amounts as may be just and proper." In October 2007, Plaintiff and defendant SCRG entered into a settlement agreement resolving claims against SCRG. Plaintiff filed a notice of dismissal with the court, and the court entered an order dismissing SCRG on November 2, 2007. SCA objected to the dismissal and requested that the court withdraw its order, and the parties have briefed SCA's objection and request. A decision from the court is pending. This litigation is in its preliminary stages and the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

As previously reported, on January 22, 2007, the City of Point Comfort, Texas filed suit against Alcoa World Alumina LLC (AWA) in the United States District Court for the Southern District of Texas, Victoria Division. Served on January 31, 2007, the suit alleges that air emissions from AWA's Point Comfort facility have caused personal injury and property damage to the city and its residents. The complaint seeks injunctions prohibiting operation and unspecified damages. The parties are currently engaged in settlement discussions. This litigation is in its preliminary stages and the company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

Other Matters

As previously reported, along with various asbestos manufacturers and distributors, Alcoa and its subsidiaries as premises owners are defendants in several hundred active lawsuits filed on behalf of persons alleging injury predominantly as a result of occupational exposure to asbestos at various company facilities. In addition, an Alcoa subsidiary company has been named, along with a large common group of industrial companies, in a pattern complaint where the company's involvement is not evident. Since 1999, several thousand such complaints have been filed. To date, the subsidiary has been dismissed from almost every case that was actually placed in line for trial. Alcoa, its subsidiaries and acquired companies, all have had numerous insurance policies over the years that provide coverage for asbestos based claims. Many of these policies provide layers of coverage for varying periods of time and for varying locations. Alcoa believes that between its reserves and insurance it is adequately covered for its known asbestos exposure related liabilities. The costs of defense and settlement have not been and are not expected to be material to the financial condition of the company.

As previously reported, during the first quarter of 2005, in the context of an informal investigation being conducted by the staff of the Securities and Exchange Commission (SEC) relating to certain trade payables financing, the company received a request for the voluntary provision of documents and related information concerning the classification and disclosure of certain trade accounts payable transactions for periods beginning after December 31, 2002 that involve, directly or indirectly, an intermediary. The SEC staff has advised the company that the inquiry should not be construed as an indication by the SEC or its staff that any violations of law have occurred, or as an adverse reflection upon any person or security. During the second quarter of 2005, Alcoa completed its production of documents and information in response to the SEC's request. The company has had no further contact from the SEC since that time. Accordingly, the company now considers this matter closed.

As previously reported, in the 2006 second quarter, Alcoa Aluminio S.A. (Alcoa Aluminio) received a Notice of Violation and Fine from Brazil's Federal Revenue Department seeking payment of an isolated fine for alleged non-anticipation of payment of annual Corporate Income (CI) and Social Contribution Taxes (SCT), calculated under the presumed monthly taxable income mechanism. The claim was based on Alcoa Aluminio not qualifying for the alternative method of anticipation of payment of CI and SCT used by the company, consisting of calculating such anticipations based on the actual taxable income mechanism, in accordance with applicable legislation. The claim sought payment of Brazilian real $669 million and encompassed fiscal years from 2000 to 2005. On September 4, 2006, a favorable first administrative level decision was rendered finding the claim against Alcoa Aluminio to be without merit. On September 12, 2007, a favorable second administrative level decision was rendered finding the claim against Alcoa Aluminio to be without merit. In early January 2008, the Federal Revenue Department informed Alcoa that the claim against Alcoa has been fully cancelled. Accordingly, the company now considers this matter closed.

As previously reported, on July 20, 2006, the European Commission (EC) announced that it has opened an investigation to establish whether an extension of the regulated preferential electricity tariff granted by Italy to some energy intensive industries complies with European Union state aid rules. The new Italian power tariff modifies the preferential tariff that was in force until December 31, 2005 and extends it through 2010. Alcoa has been operating in Italy for more than 10 years under a power supply structure approved by the EC in 1996. That measure, like the new one, was based on Italian state legislation that provides a competitive power supply to the primary aluminum industry and is not considered state aid by the Italian Government. The EC's announcement states that it has doubts about the measure's compatibility with European Union legislation and concerns about distortion of competition in the European market of primary aluminum, where energy is an important part of the production costs. The opening of an in-depth investigation gives interested parties the opportunity to comment on the proposed measures. It does not prejudge the outcome of the procedure. It is Alcoa's understanding that the Italian Government's continuation of the electricity tariff was done in conformity with all applicable laws and regulations. Alcoa believes that the total potential impact from a loss of the tariff would be approximately $20 million (pre-tax) per month in higher power costs at its Italian smelters. The estimated total potential impact has increased since 2006 due predominantly to the weakening of the U.S. dollar, as the liability would be payable in Euros in the event of a negative outcome. While Alcoa believes that any additional cost would only be assessed prospectively from the date of the EC's decision on this matter, it is possible that the EC could rule that the assessment must be retroactively applied to January 2006. If the EC's investigation concludes that extension of the regulated preferential electricity tariff is unlawful, Alcoa will follow through with the appeal it filed before the Court of First Instance in Luxembourg in November of 2006 in response to the investigation.

As previously reported, on November 17, 2006, in Curtis v. Alcoa Inc., Civil Action No. 3:06cv448 (E.D. Tenn.), a class action was filed by plaintiffs representing approximately 13,000 retired former employees of Alcoa or Reynolds Metals Company and spouses and dependents of such retirees alleging violation of the Employee Retirement Income Security Act ("ERISA") and the Labor-Management Relations Act by requiring plaintiffs, beginning January 1, 2007, to pay health insurance premiums and increased co-payments and co-insurance for certain medical procedures and prescription drugs. Plaintiffs allege these changes to their retiree health care plans violate their rights to vested health care benefits. Plaintiffs additionally allege that Alcoa has breached its fiduciary duty to plaintiffs under ERISA by misrepresenting to them that their health benefits would never change. Plaintiffs seek injunctive and declaratory relief, back payment of benefits and attorneys' fees. Alcoa has consented to treatment of plaintiffs' claims as a class action. During the fourth quarter, following briefing and argument, the court ordered consolidation of the plaintiffs' motion for preliminary injunction with trial, certified a plaintiff class, bifurcated and stayed the plaintiffs' breach of fiduciary duty claims, struck the plaintiffs' jury demand, but indicated it would use an advisory jury, and set a trial date of September 17, 2008. Alcoa estimates that, in the event of an unfavorable outcome, the maximum exposure would be an additional postretirement benefit liability of approximately $300 million and approximately $40 million (includes an interest cost component) of expense annually, on average, for the next 11 years. Alcoa believes that it has valid defenses and intends to defend this matter vigorously. However, as this litigation is in its preliminary stages, the company is unable to predict the outcome.

As previously reported, on January 25, 2007, the EC announced that it has opened an investigation to establish whether the regulated electricity tariffs granted by Spain comply with EU state aid rules. Alcoa has been operating in Spain for more than nine years under a power supply structure approved by the Spanish Government in 1986, an equivalent tariff having been granted in 1983. The investigation is limited to the year 2005 and it is focused both on the energy-intensive consumers and the distribution companies. The investigation provided 30 days to any interested party to submit observations and comments to the EC. With respect to the energy-intensive consumers, the EC is opening the investigation on the assumption that prices paid under the tariff in 2005 were lower than the pool price mechanism, therefore being, in principle, artificially below market conditions. Alcoa has submitted comments in which the company has provided evidence that prices paid by energy-intensive consumers were in line with the market, in addition to various legal arguments defending the legality of the Spanish tariff system. Therefore, it is Alcoa's understanding that the Spanish tariff system for electricity is in conformity with all applicable laws and regulations, and therefore no state aid is present in that tariff system. While Alcoa believes that any additional cost would only be assessed for the year 2005, it is possible that the EC could extend its investigation to later years. Alcoa believes that the total potential impact from an unfavorable decision would be approximately $11 million (pre-tax) for 2005. If the EC's investigation concludes that the regulated electricity tariffs for industries are unlawful, Alcoa will have an opportunity to challenge the decision in the EU courts.

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

No matters were submitted to a vote of the company's security holders during the fourth quarter of 2007.

Item 4A. Executive Officers of the Registrant.

The names, ages, positions and areas of responsibility of the executive officers of the company as of February 15, 2008 are listed below.

Alain J. P. Belda, 64, Director, Chairman of the Board and Chief Executive Officer. Mr. Belda was elected to Alcoa's Board of Directors in September 1998 and became Chairman in January 2001. He has been Chief Executive Officer since May 1999. He was President and Chief Executive Officer from May 1999 to January 2001, and President and Chief Operating Officer from January 1997 to May 1999. He served as Vice Chairman from 1995 to 1997.

William F. Christopher, 53, Executive Vice President – Alcoa and Group President, Engineered Products and Solutions. In January 2003, Mr. Christopher assumed responsibility for Alcoa's global automotive market and since September 2002, has been Group President for Alcoa's Aerospace and Commercial Transportation Group. He also led the customer and marketing initiatives for growth for the company until January 2006. In 2001, he assumed responsibility for the global deployment of the Alcoa Business System and the company's customer and quality initiatives. Mr. Christopher was elected a Vice President of Alcoa in 1999 and Executive Vice President in 2001. He was President of Alcoa Forged Products from 1996 to 2001.

Klaus Kleinfeld, 50, Director, President and Chief Operating Officer. Mr. Kleinfeld was elected to Alcoa's Board of Directors in November 2003 and was elected President and Chief Operating Officer of Alcoa in August 2007, effective October 1, 2007. Mr. Kleinfeld was President and Chief Executive Officer of Siemens AG from January 2005 to June 2007. He served as Deputy Chairman of the Managing Board and Executive Vice President of Siemens AG from 2004 to January 2005. He was President and Chief Executive Officer of Siemens Corporation, the U.S. arm of Siemens AG, from 2002 to 2004, and was Chief Operating Officer of Siemens Corporation from January to December 2001. He had been a member of the Managing Board of Siemens AG since 2002.

Charles D. McLane, Jr., 54, Executive Vice President and Chief Financial Officer. Mr. McLane was elected an Alcoa Executive Vice President in September 2007 and was elected Vice President and Chief Financial Officer of Alcoa in January 2007. He was elected Vice President and Corporate Controller in October 2002. He joined Alcoa in May 2000 as director of investor relations, following Alcoa's merger with Reynolds Metals Company. He became Assistant Treasurer of Reynolds in 1999 and Assistant Controller of that company in 1995.

Lawrence R. Purtell, 60, Executive Vice President and General Counsel; Chief Compliance Officer. Mr. Purtell joined Alcoa as Executive Vice President and General Counsel in November 1997. He became Chief Compliance Officer in April 2002.

Bernt Reitan, 59, Executive Vice President – Alcoa and Group President, Global Primary Products. Mr. Reitan was named Group President, Global Primary Products in October 2004 and was elected an Alcoa Executive Vice President in November 2004. He was named Group President, Alcoa Primary Products in January 2004. He was elected Vice President of Primary Metals in 2003. He was named President of Alcoa World Alumina and Chemicals and was elected a Vice President of Alcoa in July 2001. He joined Alcoa in 2000 as general manager of Alcoa World Alumina in Europe. Before joining Alcoa, Mr. Reitan held a series of positions with Elkem in Norway over a 20-year period, serving as Senior Vice President of Materials and Technology and managing director of Elkem Aluminium ANS from 1988 to June 2000.

Tony R. Thene, 47, Vice President and Controller. Mr. Thene was elected to his current position effective January 18, 2008. He joined Alcoa in 1989 and served in a series of financial management positions from that time to the present. He was director of investor relations of Alcoa from January 2006 to January 2008. He served as chief financial officer of Alcoa's Global Mill Products from November 2004 to January 2006. He became vice president, finance, of Alcoa World Alumina and Chemicals in 2002 and was manager of Alcoa's corporate financial analysis and planning group in 2001. He served as division controller for the Alcoa Forging business from 1998 to 2001.

Paul D. Thomas, 51, Executive Vice President – Alcoa and Group President, Alcoa Packaging and Consumer Products. Mr. Thomas was named to his current position in April 2006. He was named Executive Vice President – Alcoa, with responsibility for People, ABS and Culture in October 2004, and was elected an Alcoa Executive Vice President in November 2004. He was named Group President, North American Fabricated Products in January 2003. He was named President of Alcoa Mill Products in 2001 and President of Alcoa's Engineered Products business in January 1998. He was elected a Vice President of Alcoa in September 1998.

Helmut Wieser, 54, Executive Vice President – Alcoa and Group President, Global Rolled Products, Hard Alloy Extrusions & Asia. Mr. Wieser was elected an Alcoa Executive Vice President in November 2005 and was named Group President, Global Rolled Products, Hard Alloy Extrusions and Asia at that time. Mr. Wieser was named Group

President, Mill Products Europe/North America in October 2004 and was elected a Vice President of Alcoa in November 2004. He joined Alcoa in October 2000 as Vice President of Operations in Europe and in 2004 he became President of Alcoa's flat-rolled products business in Europe. Before joining Alcoa, Mr. Wieser worked for Austria Metall Group, where he was an executive member of the board and chief operating officer from 1997 to 2000.

The company's executive officers are elected or appointed to serve until the next annual meeting of the Board of Directors (held in conjunction with the annual meeting of shareholders) except in the case of earlier death, retirement, resignation or removal.

PART II

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

a) The information required by Item 201(e) of Regulation S-K is set forth under the caption "Stock Performance Graphs" of the Annual Report. Such information is not incorporated by reference and shall not be deemed to be "filed". Dividend per share data, high and low prices per share, the principal exchanges on which the company's common stock is traded, and the estimated number of holders of common stock are set forth on page 81 of the Annual Report and are incorporated by reference.

c) Issuer Purchases of Equity Securities:

Period	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs (b)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (b)
January 1 – January 31, 2007	15,980	$ 30.56	-	87,000,000
February 1 – February 28, 2007	2,031,109	$ 34.65	2,000,000	85,000,000
March 1 – March 31, 2007	553,153	$ 33.81	550,000	84,450,000
Total for quarter ended March 31, 2007	2,600,242	$ 34.45	2,550,000	84,450,000
April 1 – April 30, 2007	1,078,200	$ 34.92	1,050,000	83,400,000
May 1 – May 31, 2007	506,405	$ 37.85	200,000	83,200,000
June 1 – June 30, 2007	3,161,804	$ 40.54	2,996,146	80,203,854
Total for quarter ended June 30, 2007	4,746,409	$ 38.97	4,246,146	80,203,854
July 1 – July 31, 2007	5,095,727	$ 43.81	3,800,000	76,403,854
August 1 – August 31, 2007	25,400,000	$ 35.57	25,400,000	51,003,854
September 1 – September 30, 2007	6,498,828	$ 35.24	6,487,254	44,516,600
Total for quarter ended September 30, 2007	36,994,555	$ 36.57	35,687,254	44,516,600
October 1 – October 31, 2007	9,505,500	$ 37.96	9,505,500	164,945,986
November 1 – November 30, 2007	15,723,789	$ 37.31	15,723,789	149,222,197
December 1 – December 31, 2007	4,908	$ 37.66	-	149,222,197
Total for quarter ended December 31, 2007	25,234,197	$ 37.56	25,229,289	149,222,197

(a) This column includes (i) purchases under Alcoa's publicly announced share repurchase program described in (b) below and (ii) the deemed surrender to the company by plan participants of shares of common stock to satisfy the exercise price related to the exercise of employee stock options, in each case to the extent applicable during the period indicated. The shares used to satisfy the exercise price related to stock options are not considered part of the publicly announced share repurchase program approved by Alcoa's Board of Directors as described in (b) below.

(b) On October 8, 2007, Alcoa's Board of Directors approved a new share repurchase program, which was publicly announced by Alcoa on October 9, 2007. The new program authorizes the purchase of up to 25% (or approximately 217 million shares) of the outstanding common stock of Alcoa at December 31, 2006, in the open market or through privately negotiated transactions, directly or through brokers or agents, and expires on December 31, 2010. This new program supersedes the share repurchase program that was approved by Alcoa's Board of Directors and publicly announced on January 19, 2007. That program authorized the repurchase of up to 87 million shares of Alcoa common stock of which almost 43 million shares had been repurchased through September 30, 2007. The shares repurchased through September 30, 2007 under the January 19, 2007 program count against the shares authorized for repurchase under the new program.

Item 6. Selected Financial Data.

The comparative table showing selected financial data for the company is on page 24 of the Annual Report and is incorporated by reference.

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

Management's review and comments on the consolidated financial statements are on pages 25 through 43 of the Annual Report and are incorporated by reference.

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

The information regarding quantitative and qualitative disclosures about market risk is on page 34 of the Annual Report and is incorporated by reference.

Item 8. Financial Statements and Supplementary Data.

The company's consolidated financial statements, the notes thereto, selected quarterly financial data and the report of the independent auditors are on pages 45 through 78 of the Annual Report and are incorporated by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Alcoa's Chief Executive Officer and Chief Financial Officer have evaluated the company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this report, and they have concluded that these controls and procedures are effective.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management's Report on Internal Control over Financial Reporting is on page 44 of the Annual Report and is incorporated by reference.

(c) Attestation Report of the Registered Public Accounting Firm

The effectiveness of Alcoa's internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is on page 45 of the Annual Report and is incorporated by reference.

(d) Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the fourth quarter of 2007, that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 401 of Regulation S-K regarding directors is contained under the captions "Item 1 – Election of Directors" and "Transactions with Related Persons" of the Proxy Statement and is incorporated by reference. The information required by Item 401 of Regulation S-K regarding executive officers is set forth in Part I, Item 4A of this report under "Executive Officers of the Registrant" and is incorporated by reference.

The information required by Item 405 of Regulation S-K is contained under the caption "Alcoa Stock Ownership – Section 16(a) Beneficial Ownership Reporting Compliance" of the Proxy Statement and is incorporated by reference.

The company's Code of Ethics for the CEO, CFO and Other Financial Professionals is publicly available on the company's Internet website at http://www.alcoa.com under the section "About Alcoa – Corporate Governance." The remaining information required by Item 406 of Regulation S-K is contained under the captions "Corporate Governance" and "Corporate Governance – Business Conduct Policies and Code of Ethics" of the Proxy Statement and is incorporated by reference.

The information required by Items 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is included under "Nominating Candidates for Election to the Board" and "Corporate Governance – Committees of the Board – Audit Committee" of the Proxy Statement and is incorporated by reference.

Item 11. Executive Compensation.

The information required by Item 402 of Regulation S-K is contained under the captions "Executive Compensation" (excluding the information under the caption "– Compensation Committee Report"), "Director Compensation", "Potential Payments upon Termination or Change in Control" and "Corporate Governance – Recovery of Incentive Compensation" of the Proxy Statement. Such information is incorporated by reference.

The information required by Items 407(e)(4) and (e)(5) of Regulation S-K is contained under the captions "Corporate Governance – Compensation Committee Interlocks and Insider Participation" and "Executive Compensation – Compensation Committee Report" of the Proxy Statement. Such information (other than the Compensation Committee Report, which shall not be deemed to be "filed") is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table gives information about Alcoa's common stock that could be issued under the company's equity compensation plans as of December 31, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	*(b)*	*(c)*
Equity compensation plans approved by security holders[1]	58,923,160[1]	$ 35.01	39,669,855[2]
Equity compensation plans not approved by security holders[3, 4]	0	0	0
Total	58,923,160[1]	$ 35.01	39,669,855[2]

1 Includes the 2004 Alcoa Stock Incentive Plan (approved by shareholders in April 2004) (2004 ASIP), Alcoa Stock Incentive Plan (approved by shareholders in 1999) and the former Alcoa Long Term Stock Incentive Plan (last approved by shareholders in 1992 and amendments thereto approved by shareholders in 1995). Table amounts are comprised of the following:

- 51,463,515 stock options
- 834,015 performance options (320,586 granted at target)
- 5,593,071 stock awards
- 1,032,559 performance share awards (396,625 granted at target)

2 The 2004 ASIP authorizes, in addition to stock options, other types of stock-based awards in the form of stock appreciation rights, contingent stock, performance shares and performance units and stock or other awards. The shares that remain available for issuance under the 2004 ASIP may be issued in connection with any one of these awards. Included in the 2004 ASIP approved plan were additional share reserves of 30 million stock options and stock appreciation rights and 10 million for other awards. In addition, the 2004 ASIP provides the following are available to grant under the 2004 ASIP: (i) shares subject to awards under the 2004 ASIP or prior plan that are forfeited, settled for cash, expire or otherwise terminate without issuance of shares and (ii) shares tendered in payment of the purchase price of an option award under the 2004 ASIP or prior plan or tendered or withheld to pay required withholding taxes. Table amounts are comprised of the following:

- 35,289,553 stock options and stock appreciation rights
- 4,380,302 other awards

3 In connection with its acquisitions of Alumax, Cordant Technologies Inc., Howmet and Reynolds, Alcoa assumed stock options outstanding under these companies' stock option plans. An aggregate of 1,469,223 shares of Alcoa common stock are to be issued upon exercise of the outstanding options. The options have a weighted-average exercise price of $30.63. No grants of stock options under these plans have been made since the year of Alcoa's acquisition of the particular company, nor will any such grants be made in the future.

4 The Alcoa Fee Continuation Plan for Non-Employee Directors, adopted in 1990, provided fee continuation payments for persons who met a minimum service requirement as a non-employee director. Each of the eligible participants (ten at December 31, 2007) was entitled to receive such cash and stock payments for life upon retirement from the Board based upon the cash retainer fee for directors and an annual stock grant under the company's former Stock Plan for Non-Employee Directors. In 1995, the Board froze future annual payments to eligible directors at a maximum of $30,000 and 2,000 shares (or a lesser proportion based on service). In 2006, the Plan was amended to provide that all payments would be made in cash rather than stock and cash, at the equivalent value of the payments the eligible participants would have received in stock and cash. Prior to the 2006 Amendment, Alcoa's practice had been to use treasury shares for the share payments. All current fees and other compensation for directors are outlined under the caption "Director Compensation" of the Proxy Statement.

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The information required by Item 403 of Regulation S-K is contained under the captions "Alcoa Stock Ownership – Stock Ownership of Certain Beneficial Owners" and "– Stock Ownership of Directors and Executive Officers" of the Proxy Statement and is incorporated by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 404 of Regulation S-K is contained under the captions "Executive Compensation" (excluding the information under the caption "Compensation Committee Report"), "Potential Payments upon Termination or Change in Control", "Corporate Governance – Transactions with Directors' Companies" of the Proxy Statement and is incorporated by reference.

The information required by Item 407(a) of Regulation S-K regarding director independence is contained under the captions "Item 1 – Election of Directors", "Corporate Governance", "Corporate Governance – Where to Find Corporate Governance Information", "Corporate Governance – Director Independence", "Corporate Governance – Committees of the Board" and "Corporate Governance – Transactions with Directors' Companies" of the Proxy Statement and is incorporated by reference.

Item 14. Principal Accountant Fees and Services.

The information required by Item 9(e) of Schedule 14A is contained under the captions "Item 2 – Proposal to Ratify the Independent Auditor – Audit and Non-Audit Fees" and "– Policy on Pre-Approval of Audit Services" of the Proxy Statement and in Attachment B (Pre-Approval Policies and Procedures adopted by the Audit Committee for Audit and Non-Audit Services) thereto and is incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The consolidated financial statements, financial statement schedule and exhibits listed below are filed as part of this report.

(1) The company's consolidated financial statements, the notes thereto and the report of the Independent Registered Public Accounting Firm are on pages 45 through 78 of the Annual Report and are incorporated by reference.

(2) The following report and schedule should be read with the company's consolidated financial statements in the Annual Report:

Report of PricewaterhouseCoopers LLP dated February 15, 2008 on the company's financial statement schedule filed as a part hereof for the fiscal years ended December 31, 2007, 2006 and 2005.

Schedule II – Valuation and Qualifying Accounts For the Years Ended December 31, 2007, 2006 and 2005.

(3) Exhibits

Exhibit Number	Description*
3(a).	Articles of the Registrant as amended, incorporated by reference to exhibit 3(a) to the company's Quarterly Report on Form 10-Q (Commission file number 1-3610) for the quarter ended June 30, 2000.
3(b).	By-Laws of the Registrant as amended, incorporated by reference to exhibit 3 to the company's Current Report on Form 8-K dated September 20, 2007.
4(a).	Articles. See Exhibit 3(a) above.
4(b).	By-Laws. See Exhibit 3(b) above.

4(c).	Form of Indenture, dated as of September 30, 1993, between Alcoa and The Bank of New York Trust Company, N.A., as successor to J. P. Morgan Trust Company, National Association (formerly Chase Manhattan Trust Company, National Association), as successor Trustee to PNC Bank, National Association, as Trustee (undated form of Indenture incorporated by reference to exhibit 4(a) to Registration Statement No. 33-49997 on Form S-3).
4(c)(1).	First Supplemental Indenture dated January 25, 2007 between Alcoa Inc. and The Bank of New York Trust Company, N.A., as successor to J.P. Morgan Trust Company, National Association (formerly Chase Manhattan Trust Company, National Association), as successor Trustee to PNC Bank, National Association, as Trustee, incorporated by reference to exhibit 99.4 to the company's Current Report on Form 8-K dated January 25, 2007.
10(a).	Alcoa's Summary of the Key Terms of the AWAC Agreements, incorporated by reference to exhibit 99.2 to the company's Current Report on Form 8-K (Commission file number 1-3610) dated November 28, 2001.
10(b).	Charter of the Strategic Council executed December 21, 1994, incorporated by reference to exhibit 99.3 to the company's Current Report on Form 8-K (Commission file number 1-3610) dated November 28, 2001.
10(c).	Amended and Restated Limited Liability Company Agreement of Alcoa Alumina & Chemicals, L.L.C. dated as of December 31, 1994, incorporated by reference to exhibit 99.4 to the company's Current Report on Form 8-K (Commission file number 1-3610) dated November 28, 2001.
10(d).	Shareholders Agreement dated May 10, 1996 between Alcoa International Holdings Company and WMC Limited, incorporated by reference to exhibit 99.5 to the company's Current Report on Form 8-K (Commission file number 1-3610) dated November 28, 2001.
10(e).	Side Letter of May 16, 1995 clarifying transfer restrictions, incorporated by reference to exhibit 99.6 to the company's Current Report on Form 8-K (Commission file number 1-3610) dated November 28, 2001.
10(f).	Enterprise Funding Agreement, dated September 18, 2006, between Alcoa Inc., certain of its affiliates and Alumina Limited, incorporated by reference to exhibit 10(f) to the company's Annual Report on Form 10-K for the year ended December 31, 2006.
10(f)(1).	Amendments to Enterprise Funding Agreement, effective January 25, 2008, between Alcoa Inc., certain of its affiliates and Alumina Limited.
10(g).	Five-Year Credit Agreement, dated as of October 2, 2007, incorporated by reference to exhibit 10 to the company's Current Report on Form 8-K dated October 5, 2007.
10(h).	Acquisition Agreement, dated December 21, 2007, between Alcoa Inc. and Rank Group Limited.
10(i).	Alcoa Stock Acquisition Plan, effective January 1, 1999, incorporated by reference to exhibit 10(a) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1999.
10(i)(1).	Amendments to Alcoa Stock Acquisition Plan, effective September 1, 2000, incorporated by reference to exhibit 10(a)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2000.
10(i)(2).	Amendments to Alcoa Stock Acquisition Plan, effective January 1, 2005, incorporated by reference to exhibit 10(i)(2) to the company's Annual Report on Form 10-K for the year ended December 31, 2005.

10(j).	Employees' Excess Benefit Plan, Plan A, incorporated by reference to exhibit 10(b) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1980.
10(j)(1).	Amendments to Employees' Excess Benefit Plan, Plan A, effective January 1, 2000, incorporated by reference to exhibit 10(b)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2000.
10(j)(2).	Amendments to Employees' Excess Benefit Plan, Plan A, effective January 1, 2002, incorporated by reference to exhibit 10(j)(2) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2002.
10(j)(3).	Amendments to Employees' Excess Benefit Plan, Plan A, effective December 31, 2007.
10(k).	2004 Summary Description of the Alcoa Incentive Compensation Plan, incorporated by reference to exhibit 10(g) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10(k)(1).	Incentive Compensation Plan of Alcoa Inc., as revised and restated effective November 8, 2007.
10(l).	Employees' Excess Benefit Plan, Plan C, as amended and restated effective December 31, 2007.
10(m).	Deferred Fee Plan for Directors, as amended effective July 9, 1999, incorporated by reference to exhibit 10(g)(1) to the company's Quarterly Report on Form 10-Q (Commission file number 1-3610) for the quarter ended June 30, 1999.
10(n).	Restricted Stock Plan for Non-Employee Directors, as amended effective March 10, 1995, incorporated by reference to exhibit 10(h) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1994.
10(n)(1).	Amendment to Restricted Stock Plan for Non-Employee Directors, effective November 10, 1995, incorporated by reference to exhibit 10(h)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1995.
10(o).	Fee Continuation Plan for Non-Employee Directors, incorporated by reference to exhibit 10(k) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1989.
10(o)(1).	Amendment to Fee Continuation Plan for Non-Employee Directors, effective November 10, 1995, incorporated by reference to exhibit 10(i)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1995.
10(o)(2).	Second Amendment to the Fee Continuation Plan for Non-Employee Directors, effective September 15, 2006, incorporated by reference to exhibit 10.2 to the company's Current Report on Form 8-K dated September 20, 2006.
10(p).	Deferred Compensation Plan, as amended effective October 30, 1992, incorporated by reference to exhibit 10(k) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1992.
10(p)(1).	Amendments to Deferred Compensation Plan, effective January 1, 1993, February 1, 1994 and January 1, 1995, incorporated by reference to exhibit 10(j)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1994.
10(p)(2).	Amendment to Deferred Compensation Plan, effective June 1, 1995, incorporated by reference to exhibit 10(j)(2) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1995.
10(p)(3).	Amendment to Deferred Compensation Plan, effective November 1, 1998, incorporated by reference to exhibit 10(j)(3) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1999.

10(p)(4).	Amendments to Deferred Compensation Plan, effective January 1, 1999, incorporated by reference to exhibit 10(j)(4) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1999.
10(p)(5).	Amendments to Deferred Compensation Plan, effective January 1, 2000, incorporated by reference to exhibit 10(j)(5) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2000.
10(p)(6).	Amendments to Deferred Compensation Plan, effective January 1, 2005, incorporated by reference to exhibit 10(q)(6) to the company's Annual Report on Form 10-K for the year ended December 31, 2005.
10(p)(7).	Amendments to Deferred Compensation Plan, effective November 1, 2007.
10(q).	Summary of the Executive Split Dollar Life Insurance Plan, dated November 1990, incorporated by reference to exhibit 10(m) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1990.
10(r).	Amended and Restated Dividend Equivalent Compensation Plan, effective January 1, 1997, incorporated by reference to exhibit 10(h) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10(s).	Form of Indemnity Agreement between the company and individual directors or officers, incorporated by reference to exhibit 10(j) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1987.
10(t).	2004 Alcoa Stock Incentive Plan, as amended through November 11, 2005, incorporated by reference to exhibit 10.1 to the company's Current Report on Form 8-K dated November 16, 2005.
10(u).	Alcoa Supplemental Pension Plan for Senior Executives, as amended and restated effective December 31, 2007.
10(v).	Deferred Fee Estate Enhancement Plan for Directors, effective July 10, 1998, incorporated by reference to exhibit 10(r) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1998.
10(w).	Alcoa Deferred Compensation Estate Enhancement Plan, effective July 10, 1998, incorporated by reference to exhibit 10(s) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1998.
10(w)(1).	Amendments to Alcoa Deferred Compensation Estate Enhancement Plan, effective January 1, 2000, incorporated by reference to exhibit 10(s)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1999.
10(w)(2).	Amendments to Alcoa Deferred Compensation Estate Enhancement Plan, effective January 1, 2000, incorporated by reference to exhibit 10(s)(2) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2000.
10(w)(3).	Amendments to Alcoa Deferred Compensation Estate Enhancement Plan, effective January 1, 2005, incorporated by reference to exhibit 10(x)(3) to the company's Annual Report on Form 10-K for the year ended December 31, 2005.
10(x).	Alcoa Inc. Change in Control Severance Plan, as amended and restated effective November 8, 2007.
10(y).	Form of Agreement for Stock Option Awards, effective January 1, 2004, incorporated by reference to exhibit 10(a) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

10(z).	Form of Agreement for Stock Awards, effective January 1, 2004, incorporated by reference to exhibit 10(b) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10(aa).	Form of Agreement for Performance Share Awards, effective January 1, 2004, incorporated by reference to exhibit 10(c) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10(bb).	Stock Option Award Rules, revised January 1, 2004, incorporated by reference to exhibit 10(d) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10(cc).	Stock Awards Rules, effective January 1, 2004, incorporated by reference to exhibit 10(e) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10(dd).	Performance Share Awards Rules, effective January 1, 2004, incorporated by reference to exhibit 10(f) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
10(ee).	2005 Deferred Fee Plan for Directors, incorporated by reference to exhibit 10.1 to the company's Current Report on Form 8-K dated January 10, 2005.
10(ff).	Global Pension Plan, effective January 1, 1998, incorporated by reference to exhibit 10(jj) to the company's Annual Report on Form 10-K for the year ended December 31, 2004.
10(ff)(1).	Amendments to Global Pension Plan, incorporated by reference to exhibit 10(jj)(1) to the company's Annual Report on Form 10-K for the year ended December 31, 2004.
10(ff)(2).	Amendments to Global Pension Plan, effective January 1, 2005, incorporated by reference to exhibit 10(gg)(2) to the company's Annual Report on Form 10-K for the year ended December 31, 2005.
10(ff)(3).	Amendments to Global Pension Plan, effective December 1, 2005, incorporated by reference to exhibit 10(gg)(3) to the company's Annual Report on Form 10-K for the year ended December 31, 2005.
10(gg).	Form of Executive Severance Agreement between Alcoa Inc. and Eligible Key Executives, incorporated by reference to exhibit 10(a) to the company's Current Report on Form 8-K dated December 23, 2004.
10(hh).	Description of Non-Employee Director Compensation incorporated by reference to exhibit 10 to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.
10(ii).	Executive Financial Planning Program, incorporated by reference to exhibit 10(oo) to the company's Annual Report on Form 10-K for the year ended December 31, 2004.
10(jj).	Income Tax Preparation Program, incorporated by reference to exhibit 10(pp) to the company's Annual Report on Form 10-K for the year ended December 31, 2004.
10(kk).	Form of Award Agreement for Stock Options, effective January 1, 2006, incorporated by reference to exhibit 10.2 to the company's Current Report on Form 8-K dated November 16, 2005.
10(ll).	Form of Award Agreement for Stock Awards, effective January 1, 2006, incorporated by reference to exhibit 10.3 to the company's Current Report on Form 8-K dated November 16, 2005.
10(mm).	Form of Award Agreement for Performance Share Awards, effective January 1, 2006, incorporated by reference to exhibit 10.4 to the company's Current Report on Form 8-K dated November 16, 2005.
10(nn).	Form of Award Agreement for Performance Stock Options, effective January 1, 2006, incorporated by reference to exhibit 10.5 to the company's Current Report on Form 8-K dated November 16, 2005.

10(oo).	Summary Description of Equity Choice Program for Performance Equity Award Participants, dated November 2005, incorporated by reference to exhibit 10.6 to the company's Current Report on Form 8-K dated November 16, 2005.
10(pp).	Reynolds Metals Company Benefit Restoration Plan for New Retirement Program, as amended through December 31, 2005, incorporated by reference to exhibit 10(rr) to the company's Annual Report on Form 10-K for the year ended December 31, 2005.
10(qq).	Summary of Expatriate Benefit Arrangements, incorporated by reference to exhibit 10(ss) to the company's Annual Report on Form 10-K for the year ended December 31, 2005.
10(rr).	Global Expatriate Employee Policy (pre-January 1, 2003), incorporated by reference to exhibit 10(uu) to the company's Annual Report on Form 10-K for the year ended December 31, 2005.
10(ss).	Form of Special Retention Stock Award Agreement, effective July 14, 2006, incorporated by reference to exhibit 10.3 to the company's Current Report on Form 8-K dated September 20, 2006.
10(tt).	Omnibus Amendment to Rules and Terms and Conditions of all Awards under the 2004 Alcoa Stock Incentive Plan, effective January 1, 2007.
10(uu).	Summary of Terms of Relocation for Helmut Wieser, effective January 1, 2007, incorporated by reference to exhibit 10(vv) to the company's Annual Report on Form 10-K for the year ended December 31, 2006.
10(vv).	Summary of Relocation Benefits for Paul D. Thomas, incorporated by reference to exhibit 10(ww) to the company's Annual Report on Form 10-K for the year ended December 31, 2006.
10(ww).	Letter Agreement, dated August 14, 2007, between Alcoa Inc. and Klaus Kleinfeld, incorporated by reference to exhibit 10(b) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
10(xx).	Executive Severance Agreement, dated February 15, 2008, between Alcoa Inc. and Klaus Kleinfeld.
12.	Computation of Ratio of Earnings to Fixed Charges.
13.	Portions of Alcoa's 2007 Annual Report to Shareholders.
21.	Subsidiaries and Equity Entities of the Registrant.
23.	Consent of Independent Registered Public Accounting Firm.
24.	Power of Attorney for certain directors.
31.	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Exhibit Nos. 10(i) through 10(xx) are management contracts or compensatory plans required to be filed as Exhibits to this Form 10-K.

Amendments and modifications to other Exhibits previously filed have been omitted when in the opinion of the Registrant such Exhibits as amended or modified are no longer material or, in certain instances, are no longer required to be filed as Exhibits.

No other instruments defining the rights of holders of long-term debt of the Registrant or its subsidiaries have been filed as Exhibits because no such instruments met the threshold materiality requirements under Regulation S-K. The Registrant agrees, however, to furnish a copy of any such instruments to the Commission upon request.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors
of Alcoa Inc.:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 15, 2008 appearing in the 2007 Annual Report to Shareholders of Alcoa Inc. and its subsidiaries (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
February 15, 2008

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31,
(in millions)

Col. A	Col. B	Col.C Additions		Col. D	Col. E
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts(A)	Deductions(B)	Balance at end of period
Allowance for doubtful accounts:					
2007	$ 68	$ 9	$ 9	$ 14	$ 72
2006	$ 55	$ 9	$ 9	$ 5	$ 68
2005	$ 55	$ 7	$ 5	$ 12	$ 55
Income tax valuation allowance:					
2007	$ 536	$ (19)	$ —	$ —	$ 517
2006	$ 467	$ 120	$ (14)	$ 37	$ 536
2005	$ 461	$ 20	$ 7	$ 21	$ 467

Notes: (A) Amounts related to the allowance for doubtful accounts represent collections on accounts previously written off, acquisition/divestiture of subsidiaries and foreign currency translation adjustments. Amounts related to the income tax valuation allowance relate to goodwill adjustments.

(B) Amounts related to the allowance for doubtful accounts are due to the write-off of uncollectible accounts. Amounts related to the income tax valuation allowance are primarily due to the utilization of tax loss carryforwards.

The financial information of all prior periods presented has been reclassified to reflect assets held for sale.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALCOA INC.

February 15, 2008

By /s/ Tony R. Thene
Tony R. Thene
Vice President and Controller
(Also signing as Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Alain J. P. Belda Alain J. P. Belda	Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Director)	February 15, 2008
/s/ Charles D. McLane, Jr. Charles D. McLane, Jr.	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 15, 2008

Kathryn S. Fuller, Carlos Ghosn, Joseph T. Gorman, Judith M. Gueron, Klaus Kleinfeld, James W. Owens, Henry B. Schacht, Ratan N. Tata, Franklin A. Thomas and Ernesto Zedillo, each as a Director, on February 15, 2008, by Donna C. Dabney, their Attorney-in-Fact.*

*By /s/ Donna C. Dabney
Donna C. Dabney
Attorney-in-Fact

Exhibit 10(f)(1)

Amendment Agreement

Alcoa Inc

Alumina Limited

Alcoa Australian Holdings Pty Ltd

Alcoa of Australia Limited

Enterprise Partnership

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Date January 2008

Parties

1. **Alcoa Inc** of Alcoa Corporate Center, 201 Isabella Street, Pittsburgh, Pennsylvania, United States of America;
2. **Alumina Limited** (ABN 85 004 820 419) of Level 12, IBM Centre, 60 City Road, Southbank, Victoria, Australia (***Alumina***);
3. **Alcoa Australian Holdings Pty Ltd** (ABN 33 096 987 370) of corner Davy and Marmion Streets, Booragoon, Western Australia, Australia (***AAH***);
4. **Alcoa of Australia Limited** (ABN 93 004 879 298) of corner Davy and Marmion Streets, Booragoon, Western Australia, Australia; and
5. **Enterprise Partnership** between AAH and Alumina constituted by the Partnership Agreement dated 18 September 2006.

Recitals

A The parties are parties to an Enterprise Funding Agreement dated 18 September 2006, as amended and restated (***Funding Agreement***).

B The parties have agreed to amend the Funding Agreement in accordance with the terms of this agreement.

It is agreed as follows.

1. Interpretation

The provisions of clause 1.2 of the Funding Agreement form part of this agreement as if set out in full in this agreement.

2. Amendment of Funding Agreement

The Funding Agreement is amended in the following respects:

(a) Clause 1.1 is amended as follows:

(i) By inserting the following definitions:

(A) "***Dividend Period*** means a Quarter or, if Alcoa and Alumina agree from time to time in respect of a Dividend, a Month."

(B) "***Month*** means a calendar month (or such lesser period ending on the date of termination of this document in accordance with its terms)."

(C) "***Relevant Dividend*** means a Dividend paid or required to be paid by AofA in accordance with clauses 3.1(b), 3.3 and 3.4, or that is deemed to be a Relevant Dividend under clause 3.8(a) for the purposes of clause 3.4."

(ii) By deleting "Quarterly Dividends" from the definition of ***Excess Dividends*** and substituting the words "Relevant Dividends".

(iii) By inserting in the definition of ***Funding Period*** at the end the words ", or, if Alcoa and Alumina agree from time to time in respect of a Call, each Month as agreed by them".

(iv) By inserting in the definition of ***Initial AofA Funding Period*** at the end the words ", or such other period from the Commencement Date as Alcoa and Alumina may agree".

(v) By deleting the definition of ***Quarterly Dividend***.

(b) Clause 3.1(b) is amended by deleting "Quarterly Dividend" and substituting "Relevant Dividend".

(c) Clause 3.2(a)(iii)(c) is amended by deleting the provisions of that Clause appearing after subparagraph (B) thereof and substituting the following:

exceeding, as applicable, subparagraph (C) or (D) of this Clause 3.2(a)(iii)(c):

(C) for Financial Years ending on or before 31 December 2008, unless otherwise agreed by Alumina and AAH, 100% of the sum of (1) the Interim Net Income of AofA for the period from 1 January 2006 to the end of the Financial Year immediately preceding the Current Financial Year plus (2) the projected Interim Net Income of AofA for the Current Financial Year as reasonably and in good faith estimated by AofA; or

(D) for Financial Years ending after 31 December 2008, 85% of the sum of (1) the Interim Net Income of AofA for the period from 1 January 2009 to the end of the Financial Year immediately preceding the Current Financial Year plus (2) the projected Interim Net Income of AofA for the Current Financial Year as reasonably and in good faith estimated by AofA; or

(d) Clause 3.3 is amended by deleting the table and substituting the following table:

Timing of Declaration and Payment	Total Dividend Amount of Dividends
Within 180 days after the end of the preceding Financial Year	Amount equal to the Minimum Dividend Amount for the given Financial Year

Timing of Declaration and Payment	Total Dividend Amount of Dividends
Where the Dividend Period for the Dividend is a Quarter: Declaration: By the 20th day of the first month of each Quarter of the Financial Year Payment: On or before the last Business Day of the first month of each Quarter of the Financial Year *Where the Dividend Period for the Dividend is a Month:* Declaration and Payment: On or before the last Business Day of the Month	Amount of the Relevant Dividend in relation to the relevant Dividend Period

(e) Clause 3.4 is deleted and the following is substituted:

3.4 **Relevant Dividends**

(a) No later than:

(i) if the relevant Funding Period is a Month, the 10th day of that Month; and

(ii) otherwise, the 20th day of the first month of each Quarter,

Alcoa and Alumina will inform each other and AofA of the receipt and details of all Valid Calls received by them which relate to the Funding Period commencing during that Month or Quarter (as applicable).

(b) Subject to clause 3.2, the Dividend that is the Relevant Dividend for a Quarter or Month (as applicable) will be equal to the lowest of the following amounts:

(i) (a) (A) for Financial Years ending on or before 31 December 2008, 70% of the sum of Interim Net Income for the most recently completed Quarter or Month (as applicable) plus Interim Net Income of all prior Quarters or Months (as applicable), if any, beginning 1 January 2006; and

(B) for Financial Years ending after 31 December 2008, 55% of the sum of Interim Net Income for the most recently completed Quarter or Month (as applicable) plus Interim Net Income of all prior Quarters or Months (as applicable), if any, beginning 1 January 2009;

less

(b) (A) in the case of subparagraph (b)(i)(a)(A), the Total Dividend Amount of the Excess Dividends paid during the period beginning 1 January 2006 to the end of the most recently completed Quarter or Month (as applicable); and

(B) in the case of subparagraph (b)(i)(a)(B), the Total Dividend Amount of the Excess Dividends paid during the period beginning 1 January 2009 to the end of the most recently completed Quarter or Month (as applicable).

(ii) the aggregate amount of all Valid Calls made which relate to the Funding Period commencing during that Quarter or Month (as applicable) plus the aggregate amount of all previous Valid Calls made since the Commencement Date, less the Total Dividend Amount of the Excess Dividends paid with respect to all prior Quarters or Months (as applicable) during the term of this document; and

(iii) the amount of Available Cash on the date of declaration by AofA of the Relevant Dividend.

(f) Clause 3.7(b) is deleted and the following is substituted:

(b) (i) if the relevant Dividend Period is a Month, by the last Business Day of the Month; and

(ii) otherwise, on the 20th day of the first month of each Quarter,

details of the calculation of the amount of the relevant Dividend (if any), including (as relevant) details of the calculation of the aggregate amount of Valid Calls, Available Cash and Interim Net Income.

(g) Clauses 3.8(a)(i) and 3.8(a)(iv) are amended by deleting "Quarterly Dividends" in each case where those words appear and substituting the words "Relevant Dividends".

(h) Clause 3.8(a)(iii) is amended by inserting after "1 December 2006" the words "or such other Business Day or Business Days as Alcoa and Alumina may agree".

(i) Clause 4.2(a) is deleted and the following is substituted:

(a) be delivered to Alcoa and Alumina not later than:

(i) if the Funding Period to which it relates is a Month, the 10^{th} day of the Month; and

(ii) otherwise, the first Business Day of the month before commencement of the Funding Period to which it relates;

(j) Clause 4.3(b) is amended by inserting after "11 December 2006" the words "or such other Business Day or Business Days as Alcoa and Alumina may agree".

(k) Clause 4.4(b)(2) is amended by inserting after "1 December 2006" the words "or such other Business Day or Business Days as Alcoa and Alumina may agree".

(l) Clause 4.11(b) is amended by inserting after "30 November 2006" the words "or such other Business Day or Business Days as Alcoa and Alumina may agree".

(m) The term “Margin” in Schedule 1 is amended by deleting from the first sentence thereof the phrase “0.4% per annum (where the Borrower is AofA) and otherwise” and capitalising the following word “An”.

3. Further Assurances

Each party must do anything (including executing agreements and documents) necessary or desirable to give full effect to this agreement and the transactions contemplated by it.

4. Governing Law

This agreement is governed by the laws of Victoria, Australia.

5. Counterparts

This agreement may be executed in any number of counterparts. All counterparts together will be taken to constitute one instrument.

Executed as an agreement.

Signed for **Alcoa Inc** by its authorised representative in the presence of:

	/s/ Bernt Reitan
	Authorised Representative Signature
/s/ Colette Martin	Bernt Reitan
Witness Signature	Print Name
Colette Martin	Executive Vice President
Print Name	Position

Executed in accordance with section 127 of the *Corporations Act 2001* by **Alumina Limited**:

/s/ John Marlay	/s/ Stephen Foster
Director Signature	Director/Secretary Signature
John Marlay	Stephen Foster
Print Name	Print Name

Executed in accordance with section 127 of the *Corporations Act 2001* by **Alcoa Australian Holdings Pty Ltd:**

/s/ Anthony T. Adams	/s/ Angela J.E. Mullany
Director Signature	Director/Secretary Signature
Anthony T. Adams	Angela J.E. Mullany
Print Name	Print Name

Executed in accordance with section 127 of the
Corporations Act 2001 by **Alcoa of Australia Limited**:

/s/ Anthony T. Adams	/s/ Angela J.E. Mullany
Director Signature	Director/Secretary Signature
Anthony T. Adams	Angela J.E. Mullany
Print Name	Print Name

Signed for the **Enterprise Partnership** by its partners:

Alcoa Australian Holdings Pty Ltd:

/s/ Anthony T. Adams	/s/ Angela J.E. Mullany
Director Signature	Director/Secretary Signature
Anthony T. Adams	Angela J.E. Mullany
Print Full Name	Print Full Name

Alumina Limited:

/s/ John Marlay	/s/ Stephen Foster
Director Signature	Director/Secretary Signature
John Marlay	Stephen Foster
Print Full Name	Print Full Name

Exhibit 10(h)

ACQUISITION AGREEMENT

between

ALCOA INC.

and

RANK GROUP LIMITED

Dated as of December 21, 2007

ACQUISITION AGREEMENT
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EXHIBITS

ACQUISITION AGREEMENT (this “Agreement”) dated as of December 21, 2007, between ALCOA INC., a Pennsylvania corporation (“Seller”), and RANK GROUP LIMITED, a New Zealand company (“Purchaser”).

RECITALS

1. Seller and Purchaser desire that Purchaser purchase from Seller and Seller sell to Purchaser Seller’s Packaging & Consumer business. This business (the “Business”) consists of the design, manufacture, distribution and sale of closure and packaging products through the “Consumer Products”, “Flexible Packaging”, “Reynolds Food Packaging” and “Closure Systems International” divisions of Seller and Seller’s Subsidiaries, including:

(a) In the United States,

(i) Seller’s “Consumer Products” operations currently conducted at Appleton (Wisconsin), Beacon Falls (Connecticut), Carrollton (Texas), Hot Spring (Arkansas), Lewiston (Utah), Louisville (Kentucky), Richmond (Virginia), South Boston (Virginia) and Weyauwega (Wisconsin);

(ii) Seller’s “Flexible Packaging” operations currently conducted at Avenel (New Jersey), Bellwood (Virginia), Downingtown (Pennsylvania), Grottoes (Virginia), Hazelton (Pennsylvania), Louisville (Kentucky) and Richmond (Virginia);

(iii) Seller’s “Reynolds Food Packaging” operations currently conducted at Avenel (New Jersey), Grant Park (Illinois), Grove City (Pennsylvania), Hazelton (Pennsylvania), Manteno (Illinois), Rogers (Minnesota), Shephardsville (Kentucky), Visalia (California) and Wakefield (Massachusetts); and

(iv) Seller’s “Closure Systems International” operations currently conducted at Crawfordsville (Indiana), Olive Branch (Mississippi), Kilgore (Texas) and Randolph (New York);

(b) Outside the United States,

(i) Seller’s “Consumer Products” operations currently conducted in Stara Zagora (Bulgaria) and Amersham (United Kingdom);

(ii) Seller’s “Reynolds Food Packaging” operations currently conducted in Laval (Canada), Rexdale (Canada), Summerstown (Canada), Apodaca (Mexico), Sedgefield (United Kingdom) and Barcelona (Spain);

(iii) Seller’s “Closure Systems International” operations currently conducted in Feversham (Canada), Ensenada (Mexico), Saltillo (Mexico), Cartago (Costa Rica), Buenos Aires (Argentina), Alphaville (São Paulo, Brazil), Itapissuma (Brazil), Santiago (Chile), Santa Fe de Bogota (Colombia), Lima

(Peru), Valencia (Venezuela), West Bromwich (United Kingdom), Barcelona (Spain), Worms (Germany), Székesfehérvár (Hungary), Moscow Oblast (Russia), 6th of October City (Egypt), Manama (Bahrain), Makwampur District (Nepal), Choongbuk (Korea), Hangzhou (China), Tianjin (China), Nogi (Japan) and Laguna (Philippines); and

(iv) the selling activities of Seller's "Consumer Products", "Flexible Packaging", "Reynolds Food Packaging" and "Closure Systems International" operations that are conducted through Seller's Affiliates in Canada, Mexico, the United Kingdom, Switzerland, Italy, Hong Kong and Japan.

2. Seller and the Subsidiaries of Seller set forth in the column labeled "Stock Selling Company" in Annex 2 (the "Stock Selling Companies") will transfer all of the outstanding capital stock and other equity interests of the First Tier Transferred Subsidiaries (with respect to each First Tier Transferred Subsidiary, its "Shares", and collectively with respect to all First Tier Transferred Subsidiaries, the "Shares") referenced in Annex 2 to Purchaser or an Affiliate of Purchaser on the terms and subject to the conditions of this Agreement.

3. Seller and the Subsidiaries of Seller set forth in the column labeled "Asset Selling Company" in Annex 3 (the Seller and such Subsidiaries, collectively, the "Asset Selling Companies") will transfer the Acquired Assets and the Assumed Liabilities (other than liabilities of the Transferred Subsidiaries that constitute Assumed Liabilities) to Purchaser and Purchaser will acquire the Acquired Assets and assume such Assumed Liabilities, in each case on the terms and subject to the conditions of this Agreement.

Accordingly, the parties hereto hereby agree as follows:

ARTICLE I

Definitions

The defined terms set forth in Annex 1, when used in this Agreement (unless otherwise expressly provided herein), shall have the meanings ascribed thereto in Annex 1.

ARTICLE II

Transfer of U.S. Country Unit

SECTION 2.01. Transfer of Shares and Acquired Assets of U.S. Country Unit. (a) On the terms and subject to the conditions set forth in this Agreement, at the Initial Closing, (i) Seller shall, or shall cause the applicable Stock Selling Company to, transfer and deliver, or cause to be transferred and delivered, to Purchaser or a direct or indirect Subsidiary of Purchaser the Shares of the First Tier Transferred Subsidiaries which are part of the U.S. Country Unit (as outlined in Annex 2), and (ii) Seller shall, or shall cause the applicable Asset Selling Company to, transfer and deliver, or cause to be transferred and delivered, to Purchaser or a direct or indirect Subsidiary of Purchaser all assets constituting the Acquired Assets of the U.S. Country Unit held by it or the applicable Asset Selling Companies with respect to the U.S. Country Unit, including those assets specifically referenced in Annex 3 with respect to the U.S. Country Unit.

(b) The term "Acquired Assets" shall mean all the right, title and interest of Seller and the other Asset Selling Companies in, to and under all the following assets, in each case excluding the Excluded Assets:

(i) office and other supplies and vehicles primarily used or held for use in the operation or conduct of the Business;

(ii) tangible assets (excluding Inventory, Business Properties and Acquired Books and Records) that are located at an Operating Location and primarily used or held for use in the operation or conduct of the Business;

(iii) other tangible assets (excluding Inventory, Business Properties and Acquired Books and Records) that are exclusively used or held for use by the Covered Employees in the operation or conduct of the Business;

(iv) the Inventory;

(v) the Acquired Books and Records;

(vi) all Contracts of the Asset Selling Companies (other than those which have no continuing rights or unperformed obligations) that are primarily used or held for use in the operation or conduct of the Business, including those set forth in Section 2.01(b)(vi) of the Seller Disclosure Letter (the "Assigned Contracts");

(vii) all rights to the name, trade name and trademarks containing the name "Reynolds" or a name specified in Section 2.01(b)(vii) of the Seller Disclosure Letter (collectively, the "Acquired Marks") and all other Intellectual Property of any Asset Selling Company exclusively used or held for use in the operation or conduct of the Business, including the Intellectual Property set forth in Section 2.01(b)(vii) of the Seller Disclosure Letter (the "Acquired Intellectual Property");

(viii) all trade secrets, confidential information, inventions, know-how, formulae, processes, procedures, research records, records of inventions, test information, market surveys, marketing know-how, computer software, designs, industrial models and product specifications of any Asset Selling Company that are exclusively used or held for use in the operation or conduct of the Business (the "Acquired Technology");

(ix) all customer lists and Business specific web sites that are exclusively used or held for use in the operation or conduct of the Business;

(x) all permits, licenses, approvals, qualifications, product registrations, safety certifications and other similar authorizations issued to any Asset Selling Company by Governmental Entities, in each case which are primarily used or held for use in the operation or conduct of the Business and solely to the extent legally assignable or transferable from such Asset Selling Company (the "Acquired Permits");

(xi) all goodwill to the extent arising from the Business;

(xii) the interests of the applicable Asset Selling Company in the Business Properties, in each case together with all the applicable Asset Selling Company's right, title and interest in all buildings, improvements and fixtures thereon and all other appurtenances thereto;

(xiii) all Benefit Plan Assets;

(xiv) any asset reflected in a finally determined Closing Statement;

(xv) all telephone numbers primarily used or held for use in the operation or conduct of the Business;

(xvi) all insurance proceeds required to be remitted to Purchaser pursuant to Section 7.06;

(xvii) all claims, causes of action, choses in action, rights of recovery, rights of set-off and other rights of every nature and description (including, without limitation, (A) all rights arising under warranties, representations and guarantees made to Seller or any Asset Selling Company and all rights, regardless of whether asserted, under investigation or otherwise and (B) all rights to sue for and remedies against past infringements of Acquired Intellectual Property or Acquired Technology), and all benefits arising therefrom (collectively, "Rights and Claims"), in each case to the extent arising from the Business and not otherwise the subject of this Section 2.01;

(xviii) all Transferred Personnel Files; and

(xix) all Intracompany Arrangements and Applicable 30 Days' Trade Accounts Receivable.

(c) The term "Excluded Assets" shall mean all the following assets of the entities specified below which shall be excluded from the Acquired Assets and shall not be sold, conveyed, assigned, transferred or delivered to Purchaser pursuant to this Agreement or any Other Transaction Agreement:

(i) Unless specifically stated otherwise in the definition of Acquired Assets, the business, properties, assets, agreements, contracts, goodwill and rights of whatever kind and nature, real or personal, tangible or intangible, that are owned, leased or licensed by any Asset Selling Company and primarily used or held for use in the operation or conduct of any business of any Asset Selling Company other than the Business;

(ii) all right, title and interest in, to or under (x) owned or leased real property of Seller and its Subsidiaries (other than the Transferred Subsidiaries) other than the interests of the applicable Asset Selling Company in the Business Properties and (y) any Closed Facility;

(iii) all Rights and Claims of Seller and its Subsidiaries to the extent arising from any Excluded Liability or any Excluded Asset;

(iv) all assets of and all assets with respect to the Seller Benefit Plans, in each case, of Seller and its Subsidiaries, other than the Benefit Plan Assets;

(v) all personnel files of Seller and its Subsidiaries to the extent that they relate to the employees of the Business, other than the Transferred Personnel Files;

(vi) all records of Seller and its Subsidiaries specifically prepared for use in connection with the sale of the Business;

(vii) all corporate records of each applicable Selling Company and all financial and Tax records that form a part of the general ledger of any Selling Company;

(viii) those assets of Seller and its Subsidiaries (except as otherwise specified in Section 2.01(c)(viii) of the Seller Disclosure Letter) described in Section 2.01(c)(viii) of the Seller Disclosure Letter that are contemplated to be used by Seller and its Subsidiaries to provide services to Purchaser after the Initial Closing pursuant to the Transition Services Agreement;

(ix) (A) all names, trade names and trademarks of Seller and its Subsidiaries containing the names "Aluminum Company of America" or "Alcoa" or variations thereof (collectively, the "Excluded Marks"), (B) all Seller's and its Subsidiaries' proprietary software that is not used exclusively at an Operating Location, (C) (x) the names, trade names and trademarks of Seller and its Subsidiaries "Reynolux", "Reynobond" and "Reynolite" and (y) variations utilizing the "Reyno" prefix (other than the name "Reynolds" or a name specified in Section 2.01(b)(vii) of the Seller Disclosure Letter) in the building and construction industries (together with the Excluded Marks, the "Seller Marks") and (D) all other Intellectual Property of Seller and its Subsidiaries other than Transferred Intellectual Property;

(x) all rights of Seller and its Subsidiaries (other than the Transferred Subsidiaries) under the Transaction Agreements;

(xi) all Intercompany Arrangements due to Seller or its Subsidiaries (other than Applicable 30 Days' Trade Accounts Receivable);

(xii) all insurance policies and rights and recoveries under insurance policies of Seller and its Subsidiaries (other than the Transferred Subsidiaries);

(xiii) all Tax losses and Tax loss carry forwards of any Selling Company and rights to receive funds, credits and credit carry forwards with respect to any Taxes of any Selling Company, to the extent attributable to a Pre-Closing Date Tax Period, including interest thereon, whether or not the foregoing is derived from the Business;

(xiv) all cash and cash equivalents and marketable securities (except to the extent included in the Net Cash Balance), including bank accounts, of Seller and its Subsidiaries (other than the Transferred Subsidiaries); and

(xv) the other assets of Seller or any of its Subsidiaries listed in Section 2.01(c)(xv) of the Seller Disclosure Letter.

SECTION 2.02. Assumption of Assumed Liabilities of U.S. Country Unit. (a) On the terms and subject to the conditions set forth in this Agreement, at the Initial Closing, Purchaser shall assume and agree to pay, honor, perform and discharge, all obligations and liabilities constituting Assumed Liabilities of the U.S. Country Unit, including the obligations and liabilities related to or arising out of the assets, or otherwise referenced, in Annex 3 with respect to the U.S. Country Unit.

(b) The term "Assumed Liabilities" shall mean all of the obligations and liabilities, whether absolute or contingent, known or unknown, of Seller or the other Asset Selling Companies, to the extent arising from the operation or conduct of the Business, and of the Transferred Subsidiaries, in each case other than the Excluded Liabilities, including the following:

(i) all obligations and liabilities to the extent arising out of any Acquired Asset;

(ii) all obligations and liabilities reflected in a finally determined Closing Statement;

(iii) the Covered Employee Liabilities;

(iv) all obligations and liabilities to the extent arising from the operation or conduct of the Business on the Business Properties at any time and arising out of Environmental Law or Releases of Hazardous Substances (including Releases on or under the Business Properties or in connection with wastes generated or transported off-site from the Business Properties);

(v) all obligations and liabilities with respect to any indebtedness for borrowed money of any Transferred Subsidiary to any third party;

(vi) all obligations and liabilities to the extent arising out of any Intracompany Arrangements and all obligations and liabilities to the extent arising out of any of the Applicable 30 Days' Trade Accounts Payable of any Country Unit; and

(vii) all other obligations and liabilities to the extent arising from the operation or conduct of the Business whether before or after the applicable Closing Date.

(c) The term "Excluded Liabilities" shall mean (i) the following obligations and liabilities, whether absolute or contingent, known or unknown, of Seller or the other Asset Selling Companies:

(A) all obligations and liabilities to the extent arising from the operation or conduct of any business other than the Business;

(B) all obligations and liabilities to the extent arising out of any Excluded Asset;

(C) all obligations and liabilities with respect to any indebtedness for borrowed money of any Asset Selling Company to any third party;

(D) all obligations and liabilities with respect to Taxes of any Selling Company (whether or not related to the Business) or with respect to any Acquired Asset for a Pre-Closing Date Tax Period, including, in each case, interest thereon;

(E) all obligations and liabilities with respect to any employee of the Business, other than the Covered Employee Liabilities to the extent arising from the operation or conduct of the Business before the applicable Closing Date; and

(F) all obligations and liabilities to the extent arising out of any Intercompany Arrangements (other than the Applicable 30 Days' Trade Accounts Payable);

(ii) all obligations and liabilities, whether absolute or contingent, known or unknown, of the Transferred Subsidiaries to the extent (A) constituting a Former Site Environmental Liability, (B) arising from the operation or conduct of any business other than the Business, (C) expressly retained, or agreed to be paid, by Seller pursuant to this Agreement or (D) such obligations and liabilities are obligations and liabilities with respect to any employee of the Business, other than the Covered Employee Liabilities, to the extent arising from the operation or conduct of the Business before the applicable Closing Date;

(iii) all obligations and liabilities of Seller and its Subsidiaries in respect of (x) those litigations listed in Section 2.02(c)(iii) of the Seller Disclosure Letter and (y) any Seller SFP or Seller SFP Payable (other than Purchaser's payment obligation under Article IV in respect of Recalculated Seller SFP Payables).

SECTION 2.03. Excluded Assets and Excluded Liabilities. The Excluded Assets of the U.S. Country Unit shall not be sold, conveyed, assigned, transferred or delivered to Purchaser pursuant to this Agreement or any Other Transaction Agreement, and the Excluded Liabilities of the U.S. Country Unit shall not be assumed by Purchaser pursuant to this Agreement or any Other Transaction Agreement.

ARTICLE III

Transfer of Foreign Country Units

SECTION 3.01. Transfer of Foreign Country Units After the Initial Closing. (a) The parties expect that the transfer to Purchaser of the Foreign Country Units (including, as applicable, any Acquired Assets, Assumed Liabilities, Shares and Covered Employees relating thereto) may take place after the Initial Closing. Notwithstanding anything to the contrary contained in this Agreement, until the date that the Foreign Country Units are transferred to Purchaser, none of the assets, liabilities, Transferred Subsidiaries' Equity Interests, or employees of such Country Units shall be considered to be, as applicable, any Acquired Assets, Assumed Liabilities, Shares or Transferred Employees, respectively.

(b) From time to time after the Initial Closing, after all of the conditions set forth in Article V with respect to a Foreign Country Unit Closing have been satisfied or waived, the parties shall hold a Foreign Country Unit Closing in respect of the applicable Foreign Country Unit on the last calendar day of the month in which such conditions are satisfied (each such closing, a "Foreign Country Unit Closing"); provided that (i) if such day is not a Business Day, the Foreign Country Unit Closing shall occur on the immediately preceding Business Day, (ii) if such Foreign Country Unit Closing would otherwise occur on the last day of Seller's fiscal quarter, it shall be postponed until the first Business Day of Seller's next fiscal quarter (a "Deferred Foreign Closing") and (iii) if such Foreign Country Unit Closing would otherwise occur within five days of the satisfaction of such conditions, it shall be postponed to the last day of the next calendar month.

(c) If all the conditions set forth in Article V to a Foreign Country Unit Closing have been satisfied or waived as of the Initial Closing with respect to a Foreign Country Unit, such Foreign Country Unit shall be transferred to Purchaser at an applicable Foreign Country Unit Closing on the same date as the Initial Closing.

SECTION 3.02. Transfer of Foreign Country Units. The transfer to Purchaser of the Foreign Country Units (including, as applicable, any Acquired Assets, Assumed Liabilities, Shares and Covered Employees relating thereto) will be effected pursuant to foreign transfer agreements (the "Foreign Transfer Agreements") on a country-by-country basis. Each Foreign Transfer Agreement shall be in substantially the same form as either Exhibit A or Exhibit B to this Agreement, as applicable, in each case except (as Purchaser and Seller shall reasonably agree) for (i) the deletion of provisions which are inapplicable to such Foreign Country Unit, (ii) such changes as may be necessary to satisfy the requirements of applicable local law, (iii) such changes as may be reasonably agreed upon by Seller and Purchaser regarding employees and employee benefits matters in order to adapt such agreement to the particular circumstances of the relevant Foreign Country Unit and country (provided that such changes shall be consistent with the principles underlying the corresponding provisions of this Agreement) and (iv) such other changes as may be agreed upon by Seller and Purchaser.

SECTION 3.03. Excluded Assets and Excluded Liabilities. The Excluded Assets of any Foreign Country Unit shall not be sold, conveyed, assigned, transferred or delivered to Purchaser pursuant to this Agreement or any Other Transaction Agreement, and the Excluded Liabilities of any Foreign Country Unit shall not be assumed by Purchaser pursuant to this Agreement or any Other Transaction Agreement. At the Initial Closing and at each Foreign Country Unit Closing, the Excluded Assets and the Excluded Liabilities of each Country Unit shall be determined for purposes of such closing with reference to the portion of the Business conducted by such Country Unit and the assets and Shares of such Country Unit to be transferred at such closing. The Excluded Assets and the Excluded Liabilities shall ultimately be determined for all Closings with reference to all portions of the Business and all assets and Shares that have been sold to Purchaser.

ARTICLE IV

Closings; Purchase Price Adjustments

SECTION 4.01. Initial Closing. (a) The closing (the "Initial Closing") of the purchase and sale of the U.S. Country Unit shall be held at 10:00 a.m. (New York time) on February 29, 2008; provided that (i) if the conditions set forth in Article V to the Initial Closing (excluding those conditions intended to be satisfied at the Initial Closing) shall not have been satisfied or waived by such date, then the Initial Closing shall be held at 10:00 a.m. (New York time) on the last Business Day of the month during which such conditions shall have been satisfied or waived, (ii) if the Initial Closing would otherwise occur on the last day of Seller's fiscal quarter, it shall be postponed until the first Business Day of Seller's next fiscal quarter (a "Deferred Initial Closing" and, together with a Deferred Foreign Closing, a "Deferred Closing") and (iii) in no event shall the Initial Closing Date be a date earlier than the fifth Business Day following the last day of the Debt Marketing Period, unless otherwise agreed by each of Seller and Purchaser.

(b) The Initial Closing shall take place at the offices of Cravath, Swaine & Moore LLP, Worldwide Plaza, 825 Eighth Avenue, New York, New York 10019, and each other Closing shall take place at such location or at such other location as may be reasonably designated by Seller with Purchaser's consent, which consent will not be unreasonably withheld.

(c) At the Initial Closing, (i) Purchaser shall pay or cause to be paid to Seller, in immediately available funds by wire transfer to one or more bank accounts (designated in writing by Seller at least two Business Days prior to the Initial Closing Date), cash in U.S. dollars in an aggregate amount equal to the Initial Closing Purchase Price, and (ii) Purchaser shall deliver or cause to be delivered to Seller all assumption agreements and other instruments as may be required under applicable law and such other documents as Seller may reasonably request to effect the assumption of the Assumed Liabilities of the U.S. Country Unit (and, if applicable, any Foreign Country Unit to be transferred at the Initial Closing, in which case the Initial Closing shall also constitute a Foreign Country Unit Closing) or to demonstrate satisfaction of the conditions and compliance with the covenants set forth in, and to carry out the purposes of, this Agreement (provided that in the case of (i) and (ii) Purchaser shall not be required to enter into any such requested document that expands or waives any of the representations, warranties, rights or obligations of the parties set forth in the Transaction Agreements).

(d) At the Initial Closing, Seller shall, and shall cause the applicable Selling Company to, deliver to Purchaser (i) such appropriately executed special warranty deeds, or their equivalent in local jurisdictions (in recordable form), bills of sale, assignments, stock certificates, stock powers or stock transfer forms duly endorsed in blank, and other instruments of transfer relating to the Acquired Assets and Shares of the U.S. Country Unit (and any Foreign Country Unit to be transferred at the Initial Closing) in form and substance required by applicable Law and reasonably satisfactory to Purchaser, and (ii) such other documents as Purchaser may reasonably request to demonstrate satisfaction of the conditions and compliance with the covenants set forth in, and to carry out the purposes of, this Agreement (provided that Seller shall not in the case of (i) and (ii) be required to enter into any such requested document that expands or waives any of the representations, warranties, rights or obligations of the parties set forth in the Transaction Agreements).

SECTION 4.02. Foreign Country Unit Closing. (a) At each Foreign Country Unit Closing, (i) Purchaser shall pay or cause to be paid to Seller, in immediately available funds by wire transfer to one or more bank accounts (designated in writing by Seller at least two Business Days prior to such Foreign Country Unit Closing), cash in U.S. dollars (or in such other foreign currency equivalent, converted at the current exchange rate, as may be agreed in writing by Seller and Purchaser) in an aggregate amount equal to the portion of the Worldwide Purchase Price allocated to the Foreign Country Units to be transferred at such Foreign Country Unit Closing (which amount shall be calculated based on the Appraisal conducted pursuant to Section 10.08) and (ii) Purchaser shall deliver or cause to be delivered to Seller the applicable Foreign Transfer Agreements, all assumption agreements and other instruments as may be required under Applicable Law, and such other documents as Seller may reasonably request to effect the assumption of the Assumed Liabilities of the Foreign Country Units to be transferred at such Foreign Country Unit Closing or to demonstrate satisfaction of the conditions and compliance with the covenants set forth in, and to carry out the purposes of, this Agreement (provided that in the case of (i) and (ii) Purchaser shall not be required to enter into any such requested document that expands or waives any of the representations, warranties, rights or obligations of the parties set forth in the Transaction Agreements).

(b) At each Foreign Country Unit Closing, Seller shall deliver or cause to be delivered the applicable Foreign Transfer Agreements and, to the extent applicable, the documentation set forth in Section 4.01(d) above.

(c) Seller and Purchaser shall mutually agree on a location outside the United States for each Foreign Country Unit Closing; provided that, with respect to any Foreign Country Unit Closing, if a location is not agreed upon by Seller and Purchaser, such Foreign Country Unit Closing shall take place (i) in the case of a transfer of Shares of a First Tier Transferred Subsidiary, in the country of organization of such First Tier Transferred Subsidiary, and (ii) in the case of a transfer of Acquired Assets and Assumed Liabilities, in the country where the portion of the Business conducted by such Country Unit is primarily conducted.

SECTION 4.03. Purchase Price Adjustments. (a) Closing Statement Procedure. Within 45 days after each Closing, Seller shall prepare and deliver to Purchaser a statement for each Country Unit transferred on such Closing (with respect to such Country Unit, the "Closing Statement") setting forth for such Country Unit its Working Capital, as well as the Net Cash Balance, Indebtedness Balance, Recalculated Seller SFP Payables and Workers Comp Accrual (with respect to such Country Unit, its "Closing Working Capital", "Closing Net Cash Balance", "Closing Indebtedness", "Closing Recalculated Seller SFP Payables" and "Closing Workers Comp Accrual", respectively), as of 11:59 p.m. on the applicable Closing Date (provided that (x) if the applicable Closing Date is the first Business Day of Seller's fiscal quarter, the foregoing amounts shall be determined as of 11:59 p.m. on the last day of the month immediately proceeding the month of such Closing Date and (y) if the applicable Closing Date is neither the first Business Day of Seller's fiscal quarter nor the last calendar day of the month, the foregoing amounts shall be determined as of 11:59 p.m. on the last calendar day of the month in which such Closing occurs; provided further that in either case such calculations shall be made on a pro forma basis to take into account any applicable changes occurring as a result of the consummation of the transactions contemplated by this Agreement on the applicable Closing Date, including the settlement of Intercompany Arrangements as referred to in clause (F) of Section 4.03(c)). Purchaser shall provide Seller and its independent auditors reasonable access upon reasonable notice during regular business hours to the personnel, properties, books and records of the Business to facilitate Seller's preparation of each Closing Statement.

(b) Purchaser Review and Disagreement Procedures. During the 30-day period following Purchaser's receipt of a Closing Statement, Purchaser and its independent auditors shall be permitted to review the non-proprietary working papers of Seller relating to such Closing Statement. Each Closing Statement shall become binding upon the parties and deemed finally determined on the thirtieth day following delivery thereof unless Purchaser delivers a notice of its disagreement to Seller with respect to such Closing Statement (the "Notice of Disagreement"). Any Notice of Disagreement shall specify with reasonable detail and specificity the nature of any disagreement so asserted and shall include only disagreements based on mathematical errors or based on Closing Working Capital, Closing Net Cash Balance, Closing Indebtedness, Closing Recalculated Seller SFP Payables or Closing Workers Comp

Accrual set forth on such Closing Statement not being calculated in accordance with this Section 4.03 or mathematical error; provided that in no event shall Purchaser dispute an amount of less than the WC Minimum Claim Amount with respect to any individual account balance (and such amount of less than the WC Minimum Claim Amount shall not be aggregated for purposes of Section 4.03(d)(i)(C)); provided further that one or more items arising by virtue of the same circumstances shall for these purposes be treated as one item. During the 30-day period following the delivery of a Notice of Disagreement, Seller and Purchaser shall seek in good faith to resolve in writing any differences that they may have with respect to the matters specified in the Notice of Disagreement and agree on a final determination of Closing Working Capital, Closing Net Cash Balance, Closing Indebtedness, Closing Recalculated Seller SFP Payables and Closing Workers Comp Accrual. During such period, Seller and its independent auditors shall have access to the non-proprietary working papers of Purchaser prepared in connection with the Notice of Disagreement. At the end of such 30-day period, Seller and Purchaser shall submit to an internationally recognized, independent public accounting firm (the "Accounting Firm") for resolution any and all matters that remain in dispute and that were properly included in the Notice of Disagreement, in the form of a written brief. The Accounting Firm shall be jointly selected by Seller and Purchaser or, if Seller and Purchaser are unable to agree on such selection, Seller and Purchaser shall each select an independent public accounting firm and such accounting firms shall jointly select the Accounting Firm. Seller and Purchaser shall jointly request that the Accounting Firm's work be conducted in an expedited manner, and Seller and Purchaser shall use reasonable efforts to cause the Accounting Firm to render a determination resolving the matters submitted thereto within 30 days after submission. The determination of the Accounting Firm shall be final and binding on the parties, and judgment may be entered upon the determination of the Accounting Firm in any court having jurisdiction over the party against which such determination is to be enforced. The fees and expenses of the Accounting Firm incurred pursuant to this Section 4.03 shall be borne 50% by Seller and 50% by Purchaser.

(c) Definitions. The term "Working Capital" shall mean, as of any date with respect to any Country Unit, (x) the sum of the account balances for the accounts listed in Section 4.03(c)(i) of the Seller Disclosure Letter related to (A) accounts receivable (including Applicable 30 Days' Trade Accounts Receivable, but excluding Intracompany Arrangements and Applicable Intercompany Arrangements terminated pursuant to Section 10.05(b)(i)), (B) inventory (excluding LIFO reserves, but including Inventory Reserves), and (C) prepaid and other current assets, less (y) the sum of the account balances for the accounts listed in Section 4.03(c)(i) of the Seller Disclosure Letter related to (A) accounts payable (including Applicable 30 Days' Trade Accounts Payable, but excluding any Seller SFP Payables, Intracompany Arrangements and Applicable Intercompany Arrangements terminated pursuant to Section 10.05(b)(i)) and (B) current accrued liabilities (which shall not include any amounts in respect of (1) any Closing Workers Comp Accrual or (2) any claims for which the Seller shall be responsible under Section 12.01(g)(ii) and any claims described in Section 12.01(g)(ii) to the extent that such claims are covered by insurance paid by Seller and its Affiliates and under which Purchaser will become the beneficiary as set forth in Section 12.01(g)(ii)(A)), calculated consistent (i) first with the accounting policies and procedures for such accounts employed in the preparation of the audited financial statements for December 31, 2006 referred to in Section 6.04, (ii) second, to the extent any circumstance relevant to such calculation as of the applicable Closing was not substantially addressed by such policies and procedures so employed for such audited financial statements, Seller's applicable accounting policies and procedures to the extent such policies and procedures are compliant with GAAP and (iii) third, to the extent Seller does not have an applicable accounting policy and/or procedure or such policy and/or procedure is not compliant with GAAP, an applicable policy and/or procedure selected by Seller that is compliant with GAAP, except that inventory will be valued on an average-cost or standard cost basis rather than a last-in, first-out basis. The specific accounts which will be included in the calculation of Working Capital are presented in Section 4.03(c)(i) of the Seller Disclosure Letter. The term "Net Cash Balance" shall mean, as of any date with respect to any Country Unit, all cash, cash equivalents and cash receipts of such Country Unit as of the close of business on such date, including checks received (to the extent such check is honored) and electronic funds transfer payments initiated at or prior to the close of business on such date but not yet credited for value (to the extent already received) and payments from customers not yet applied to specific invoices of the Business, less outstanding checks (checks issued but not yet presented for payment). The term "Indebtedness Balance" shall mean, as of any date with respect to any Country Unit, the unpaid principal amount of, and accrued interest on, all indebtedness for borrowed money of all Transferred Subsidiaries that are part of such Country Unit to any third party as of the close of business on such date, and all capital leases that had previously been classified by Seller as capital leases in the Audited Financial Statements; provided that Closing Indebtedness shall not include expenses, breakage, attorneys' fees and other fees and prepayment penalties, if any, payable by Seller or any Subsidiary to the extent not payable by a Transferred Subsidiary to repay such indebtedness as of the applicable Closing. The specific accounts included in the Indebtedness Balance and the Net Cash Balance are presented in Section 4.03(c)(ii) of the Seller Disclosure Letter. For the avoidance of doubt, the foregoing notwithstanding, (A) Working Capital with respect to any Country Unit shall not include any amounts included in the Net Cash Balance or Indebtedness Balance with respect to such Country Unit, (B) neither Working Capital nor the Indebtedness Balance for any Country Unit shall include any assets or liabilities related to Taxes (other than liabilities for U.S. federal, state, local and foreign payroll Taxes) or any Seller Pension Plans, (C) Working Capital shall not include any asset or liability retained by Seller and its Subsidiaries (other than the Transferred Subsidiaries) hereunder, (D) the Target Working Capital and the Closing Working Capital with respect to any JV Entity sold pursuant to Section 7.11 shall be equal to zero, (E) if any Shares of a JV Entity are sold by Seller or its Subsidiaries pursuant to Section 7.11, no adjustment shall be made pursuant to this Section 4.03 with respect to such JV Entity, (F) Net Cash Balance and Indebtedness Balance for any Country Unit shall be calculated following the settlement prior to or as of the applicable Closing of Intercompany Arrangements for such Country Unit pursuant to Section 10.05 (other than, for the avoidance of doubt, Applicable 30 Days' Trade Accounts Receivable and Applicable 30 Days' Trade Accounts Payable) and (G) with respect to any Transferred Subsidiary that is not owned 100% by a Selling Company as of the applicable Closing, the Net Cash Balance and Indebtedness Balance applicable thereto shall be the percentage of such amounts as is equal to the percentage of the outstanding equity or entitlement to earnings of such Transferred Subsidiary as is owned by such Selling Company. With respect to any Country Unit, Closing Working Capital, Closing Net Cash Balance, Closing Indebtedness Balance and Closing Recalculated Seller SFP Payables any amounts denominated in foreign currencies will be translated into U.S. dollars as of the applicable Closing at the month-end exchange rates in accordance with GAAP. The foregoing principles are referred to in this Agreement as the "Closing Statement Principles". The scope of the disputes to be resolved by the Accounting Firm shall be limited to whether calculations were done in accordance with the Closing Statement Principles and whether there were mathematical errors in the Closing Statement, and the Accounting Firm is not authorized or permitted to make any other determination. Without limiting the generality of the foregoing, the Accounting Firm is not authorized or permitted to make any determination as to the accuracy of Section 6.04 or any other representation or warranty in this Agreement or as to compliance by any Selling Company or Transferred Subsidiary with any of the covenants in this Agreement (other than this Section 4.03). Any determinations by the Accounting Firm, and any work or analyses performed by the Accounting Firm, in connection with its resolution of any dispute under this Section 4.03 may be admitted but shall not be dispositive evidence of any breach by Seller in any suit, action or proceeding between the parties other than to the extent necessary to enforce the resolution of the Accounting Firm.

(d) Adjustment of Worldwide Purchase Price. The Worldwide Purchase Price shall be adjusted as follows:

(i) Working Capital.

(A) If the Closing Working Capital within all Country Units acquired on the same Closing Date exceeds the Target Working Capital within all such Country Units, then Purchaser shall, within 5 Business Days after the Closing Statement becomes final and binding on the parties, pay to Seller by wire transfer of immediately available funds to a bank account designated by Seller cash (in U.S. dollars) in an amount equal to such excess amount, together with interest thereon at the Applicable Interest Rate from and including the Closing Date on which such Country Units were transferred to but not including the date of such payment.

(B) If the Target Working Capital within all Country Units acquired on the same Closing Date exceeds the Closing Working Capital within all such Country Units acquired on the same Closing Date, then Seller shall, within 5 Business Days after the Closing Statement becomes final and binding on the parties, pay to Purchaser by wire transfer of immediately available funds to a bank account designated by Purchaser cash (in U.S. dollars) in an amount equal to such excess amount, together with interest thereon at the Applicable Interest Rate from and including the Closing Date on which such Country Units were transferred to but not including the date of such payment.

(C) Notwithstanding the foregoing provisions of this Section 4.03(d)(i), no adjustment to the Worldwide Purchase Price pursuant to Sections 4.03(d)(i)(A) or 4.03(d)(i)(B) shall be made unless the aggregate amount of all such adjustments (whether an increase or a decrease) would exceed the WC Threshold Amount (on a cumulative basis), in which case the full amount of the adjustment, inclusive of such WC Threshold Amount, shall be made.

(ii) Closing Net Cash Balance, Closing Indebtedness Balance, Estimated Accrued German Pension Liability and Closing Recalculated Seller SFP Payables.

(A) If the sum of (1) the Closing Net Cash Balance (which shall be considered a positive number), (2) the Closing Indebtedness Balance (which shall be considered a negative number), (3) the Estimated Accrued German Pension Liability (if any) (which shall be considered a negative number) and (4) the Closing Recalculated Seller SFP Payables (which shall be considered a positive number) within a Country Unit is positive, the Worldwide Purchase Price shall be deemed increased by such amount, and Purchaser shall, within 5 Business Days after the Closing Statement becomes final and binding on the parties, pay to Seller by wire transfer of immediately available funds to a bank account designated by Seller cash in an amount equal to such increase, together with interest thereon at the Applicable Interest Rate from and including the Closing Date on which such Country Unit was transferred to but not including the date of such payment.

(B) If the sum of (1) the Closing Net Cash Balance (which shall be considered a positive number), (2) the Closing Indebtedness Balance (which shall be considered a negative number), (3) the Estimated Accrued German Pension Liability (if any) (which shall be considered a negative number) and (4) the Closing Recalculated Seller SFP Payables (which shall be considered a positive number) within a Country Unit is negative, the Worldwide Purchase Price shall be deemed decreased by such amount, and Seller shall, within 5 Business Days after the Closing Statement becomes final and binding on the parties, pay to Purchaser by wire transfer of immediately available funds to a bank account designated by Purchaser cash in an amount equal to such decrease, together with interest thereon at the Applicable Interest Rate from and including the Closing Date on which such Country Unit was transferred to but not including the date of such payment.

(iii) There shall be no adjustment to the Worldwide Purchase Price with respect to the Closing Workers Comp Accrual, and the parties acknowledge that it has been included on the Closing Statement only for the purpose of applying Section 12.01(g)(iii).

ARTICLE V

Conditions to Closing

SECTION 5.01. Conditions to Purchaser's Obligation on the Initial Closing Date. The obligation of Purchaser to consummate the Initial Closing is subject to the satisfaction (or waiver by Purchaser) as of the Initial Closing of the following conditions:

(i) (A) The representations and warranties of Seller set forth in Sections 6.03, 6.08, 6.09(b), 6.15(c), 6.16(b), 6.16(f) and 6.18 shall be true and correct in all material respects as of the Initial Closing Date as though made on such date (or, in each case, as of any earlier date as to which such representation and warranty speaks), and (B) all other representations and warranties of Seller made in this Agreement (without regard to any qualifications therein as to materiality or Business Material Adverse Effect) shall be true and correct as of the date of this Agreement and as of the Initial Closing Date as though made on such date (or, in each case, as of any earlier date as to which such representation and warranty speaks); provided that clause (B) of this condition shall be deemed satisfied unless the failure of any such other representations and warranties to be true and correct, individually or in the aggregate, on any such date has had, or is reasonably likely to have, a Business Material Adverse Effect. Seller shall have delivered to Purchaser a certificate dated the Initial Closing Date and signed by an authorized officer of Seller on behalf of Seller confirming the foregoing.

(ii) Seller shall have performed, or shall have caused its Subsidiaries to have performed, in all material respects the covenants required by the Transaction Agreements to be performed by Seller or its Subsidiaries, as the case may be, by the time of the Initial Closing. Seller shall have delivered to Purchaser a certificate dated as of the Initial Closing Date and signed by an authorized officer of Seller on behalf of Seller confirming the foregoing.

(iii) No preliminary or permanent injunction or order that would prohibit the consummation of the Initial Closing shall be in effect, and there shall be no proceeding pending or threatened by any Governmental Entity that is reasonably likely to result in such a prohibition.

(iv) The waiting periods applicable to the transaction contemplated by the Transaction Agreements under the antitrust or trade regulation laws and regulations in the jurisdictions set forth in Section 5.01(iv) of the Seller Disclosure Letter shall have expired or been terminated.

(v) Since the date of this Agreement, there shall have been no facts, changes, events, developments, circumstances or conditions which have had, or are reasonably likely to have, individually or in the aggregate, a Business Material Adverse Effect.

(vi) In connection with Seller's Avenel, New Jersey, facility and compliance with the New Jersey Industrial Site Recovery Act, Seller shall have obtained from the New Jersey Department of Environmental Protection either (A) an approval of Seller's Remediation in Progress Waiver application pursuant to N.J.A.C. 7:26B-5.4 or (B) a Remediation Agreement pursuant to N.J.A.C. 7:26B-4.1.

SECTION 5.02. Conditions to Seller's Obligation on the Initial Closing Date. The obligation of Seller to consummate the Initial Closing is subject to the satisfaction (or waiver by Seller) as of the Initial Closing of the following conditions:

(i) The representations and warranties of Purchaser made in this Agreement (without regard to any qualifications therein as to materiality or Purchaser Material Adverse Effect) shall be true and correct as of the date of this Agreement and as of the Initial Closing Date as though made on such date (or, in each case, as of any earlier date as to which such representation and warranty speaks); provided that this condition shall be deemed satisfied unless the failure of any such representations and warranties to be true and correct, individually or in the aggregate, as of such date has had, or is reasonably likely to have, a Purchaser Material Adverse Effect. Purchaser shall have delivered to Seller a certificate dated the Initial Closing Date and signed by an authorized officer of Purchaser on behalf of Purchaser confirming the foregoing.

(ii) Purchaser shall have performed in all material respects the covenants required by the Transaction Agreements to be performed by Purchaser, as the case may be, by the time of the Initial Closing. Purchaser shall have delivered to Seller a certificate dated as of the Initial Closing Date and signed by an authorized officer of Purchaser on behalf of Purchaser confirming the foregoing.

(iii) No preliminary or permanent injunction or order that would prohibit the consummation of the Initial Closing shall be in effect, and there shall be no proceeding pending or threatened by any Governmental Entity that is reasonably likely to result in such a prohibition.

(iv) The waiting periods applicable to the transaction contemplated by the Transaction Agreements under the antitrust or trade regulation laws and regulations in the jurisdictions set forth in Section 5.01(iv) of the Seller Disclosure Letter shall have expired or been terminated.

SECTION 5.03. Conditions to Foreign Country Unit Closings. (a) The obligation of Purchaser to consummate the Foreign Country Unit Closing with respect to any Foreign Country Unit is subject to the satisfaction (or waiver by Purchaser) as of such Foreign Country Unit Closing of the following conditions as they relate to the applicable Foreign Country Unit Closing:

(i) No preliminary or permanent injunction or order that would prohibit the consummation of the transfer of such Foreign Country Unit at such Foreign

Country Unit Closing shall be in effect, and there shall be no proceeding pending or threatened by any Governmental Entity that is reasonably likely to result in such a prohibition.

(ii) All material authorizations, consents, orders or approvals of, or material declarations or filings with, or expirations of material waiting periods imposed by, any Governmental Entity legally required for the consummation of the applicable Foreign Country Unit Closing shall have been obtained or filed or shall have occurred.

(b) The obligation of Seller to consummate the Foreign Country Unit Closing with respect to any Foreign Country Unit is subject to the satisfaction (or waiver by Seller) as of such Foreign Country Unit Closing of the following conditions as they relate to the applicable Foreign Country Unit Closing:

(i) No preliminary or permanent injunction or order that would prohibit the consummation of the transfer of such Foreign Country Unit at such Foreign Country Unit Closing shall be in effect, and there shall be no proceeding pending or threatened by any Governmental Entity that is reasonably likely to result in such a prohibition.

(ii) All material authorizations, consents, orders or approvals of, or material declarations or filings with, or expirations of material waiting periods imposed by, any Governmental Entity legally required for the consummation of the applicable Foreign Country Unit Closing shall have been obtained or filed or shall have occurred.

(iii) For purposes of a Closing with respect to any Transferred Subsidiary that is a JV Entity, each stockholder or other equity interest holder of such Transferred Subsidiary shall have waived any and all consent and pre-emptive or similar rights that would otherwise be exercisable by such stockholder or equity interest holder in connection with the purchase by Purchaser or its Affiliates of interests in such JV Entity or such rights shall have expired by their terms.

SECTION 5.04. Frustration of Closing Conditions. Neither Purchaser nor Seller may rely on the failure of any condition set forth in this Article V to be satisfied if such failure was caused by such party’s failure to act in good faith or to use its reasonable best efforts to cause each Closing to occur, as required by Section 10.03.

ARTICLE VI

Representations and Warranties of Seller

Except as set forth in the disclosure letter of Seller delivered to Purchaser immediately prior to the execution and delivery of this Agreement, which letter shall refer to the relevant Articles and Sections of this Agreement (provided that disclosure of any fact or item in any portion of the letter with respect to a particular Article or Section of this Agreement shall, should the existence of the fact or item be reasonably apparent to relate to any other Article or Section of this Agreement, be deemed to be disclosed with respect to such other Article or Section of this Agreement to which it relates) (such disclosure letter, the "Seller Disclosure Letter"), Seller hereby represents and warrants to Purchaser as follows:

SECTION 6.01. Organization, Standing and Authority. (a) Seller. Seller is, and, as of each Foreign Country Unit Closing will be, a corporation duly organized, validly existing and in good standing under the laws of the State of Pennsylvania. Seller has all requisite corporate power and authority to conduct the Business in the United States in all material respects as it is currently conducted and to own, lease and operate the assets and properties used in connection therewith. Seller has all requisite corporate power and authority to enter into the Transaction Agreements to which it is a party and to consummate the transactions contemplated thereby. As of each Foreign Country Unit Closing, Seller will have all requisite corporate power and authority to consummate the transactions contemplated by the Transaction Agreements to occur on such date. All corporate acts and other proceedings required to be taken by Seller to authorize the execution, delivery and performance of the Transaction Agreements to which it is a party and the consummation of the transactions contemplated thereby have been duly and properly taken. This Agreement has been, and each of the Other Transaction Agreements to which Seller is a party will be, duly executed and delivered by Seller and this Agreement constitutes, and upon execution each Other Transaction Agreement will constitute, the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, subject as to enforceability to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws affecting creditors' rights generally from time to time in effect.

(b) Other Selling Companies. As of each applicable Closing, each relevant Selling Company (other than Seller) (i) will be, duly organized and validly existing and (except to the extent that the failure to be so organized and validly existing would not adversely affect the ability to consummate the transactions contemplated hereby on the applicable Closing Date and except to the extent that applicable law in the relevant jurisdiction does not recognize such a concept) in good standing under the laws of its jurisdiction of organization, (ii) will have, all requisite corporate or organizational power and authority to conduct the part of the Business currently conducted by it in all material respects as it is currently conducted and to own, lease and operate the assets and properties used in connection therewith, (iii) will have all requisite corporate or organizational power and authority to enter into the Transaction Agreements to which it is or is contemplated to be a party and to consummate the transactions contemplated thereby, and (iv) will have all corporate or organizational acts and other proceedings required to be taken by each relevant Selling Company (other than Seller) to authorize the execution, delivery and performance of the Transaction Agreements to which it is or is contemplated to be a party and the consummation of the transactions contemplated thereby shall have been duly and properly taken. Each of the Transaction Agreements to which a Selling Company (other than Seller) is or is contemplated to be a party when duly executed and delivered by the relevant Selling Company shall constitute the legal, valid and binding obligation of such Selling Company, enforceable against such Selling Company in accordance with its terms, subject as to enforceability to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws affecting creditors' rights generally from time to time in effect.

(c) Transferred Subsidiaries. As of the applicable Closing each relevant Transferred Subsidiary (i) will be, duly organized and validly existing under the laws of its jurisdiction of organization, (ii) will have, all requisite corporate or organizational power and authority to conduct the part of the Business currently conducted by it in all material respects as it is currently conducted and to own, lease and operate the assets and properties used in connection therewith, and (iii) will be (A) in good standing under the law of its jurisdiction of organization (in so far as applicable law in the relevant jurisdiction recognizes such a concept) and (B) duly qualified to do business in each jurisdiction (where its conduct of the Business requires such qualification), except for any failure to be in good standing or so qualified which, individually or in the aggregate, is not reasonably likely to have a Business Material Adverse Effect. Seller has made available to Purchaser true and complete copies of the organizational documents, in each case as in effect on the date of this Agreement, of each Transferred Subsidiary.

SECTION 6.02. No Violation; Consents and Approvals. (a) The execution and delivery of this Agreement by Seller does not, and the execution and delivery by each of the Selling Companies of the Other Transaction Agreements to which it is a party, and the consummation of the transactions contemplated hereby and thereby and compliance with the terms hereof and thereof will not, (i) conflict with or result in any violation of any provision of the certificate of incorporation or by-laws of Seller or the comparable organizational documents of any other Selling Company, (ii) materially conflict with, result in a material violation or breach of, or constitute a material default, or give rise to any material right of termination, revocation, modification, cancellation or acceleration (whether after the filing of notice, the lapse of time or both) under, any Material Contract or result in the creation of any material Lien on any of the assets or properties of the Business or the Transferred Subsidiaries, or (iii) conflict with or result in a violation of any Law applicable to any of the Selling Companies or the Transferred Subsidiaries or to the property or assets of any of the Selling Companies, except for any such conflict or violation which, individually or in the aggregate, is not or is not reasonably likely to be material.

(b) No consent, approval, license, permit, order or authorization of, registration, declaration or filing with, or notice to, any domestic or foreign court, administrative or regulatory agency or other governmental authority (each, a "Governmental Entity") is required to be obtained or made by or with respect to any of the Selling Companies or Transferred Subsidiaries in connection with the execution and delivery of the Transaction Agreements or the consummation of the transactions contemplated thereby, other than (i) those required to be made or obtained pursuant to the HSR Act or any other antitrust or competition law or regulation, (ii) compliance with and filings under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, (iii) compliance with and filings or notices required by the rules and regulations of the New York Stock Exchange, (iv) those that may be required solely by reason of Purchaser's (as opposed to any third party's) participation in the transactions contemplated by the Transaction Agreements and (v) such other consents, approvals, licenses, permits, orders, authorizations, registrations, declarations or filings the failure of which to be obtained or made, individually or in the aggregate, is not or is not reasonably likely to be material.

SECTION 6.03. Transferred Subsidiaries' Equity Interests. (a) Except as set forth in Section 6.03(a) of the Seller Disclosure Letter, after giving effect to the transactions contemplated by the Transaction Agreements, Purchaser will own as of the applicable Closing, directly or indirectly, all equity interests in each Transferred Subsidiary, including the Shares, free and clear of Liens (other than those created by Purchaser). As of the applicable Closing, all of the Transferred Subsidiaries' Equity Interests will be validly issued, fully paid and non-assessable. All of the Transferred Subsidiaries are set forth in Annex 4 to this Agreement.

(b) As of the applicable Closing, no relevant Transferred Subsidiaries' Equity Interests shall have been issued in violation of, or shall be subject to, any preemptive or subscription rights. As of the applicable Closing, except as contemplated by this Agreement, there will be no outstanding warrants, options, convertible or exchangeable securities, subscriptions, contracts or other rights, commitments or agreements pursuant to which any relevant Transferred Subsidiary is or may become obligated to issue, transfer, sell, purchase, return, redeem or retire any shares of capital stock or other equity securities of any Transferred Subsidiary. As of the applicable Closing, the relevant Transferred Subsidiaries' Equity Interests will not be subject to any voting trust or other contract, agreement, arrangement or commitment, including any such contract, agreement, arrangement or commitment restricting or otherwise relating to the voting, dividend rights or disposition of the Transferred Subsidiaries' Equity Interests, other than as contemplated by this Agreement.

SECTION 6.04. Financial Statements. Attached to Section 6.04 of the Seller Disclosure Letter are the following financial statements of the Business (including, in the case of the Audited Financial Statements, the footnotes thereto): (i) for each of (A) the "Closure Systems International" division and (B) the "Consumer Products", "Flexible Packaging" and "Reynolds Food Packaging" divisions (on a combined basis), the audited balance sheets as of December 31, 2006 and 2005, and the related audited statements of income, comprehensive income and enterprise capital and cash flows for each of the two years in the period ended December 31, 2006, which financial statements have been reported on by, and are accompanied by the report of, PricewaterhouseCoopers LLP (collectively, the "Audited Financial Statements"), and (ii) for each of (A) the "Closure Systems International" division and (B) the "Consumer Products", "Flexible Packaging" and "Reynolds Food Packaging" divisions (on a combined basis), the unaudited balance sheet as of June 30, 2007, and the related unaudited statement of income for the six-month period ended June 30, 2007 (collectively, the "Unaudited Financial Statements"). The Audited Financial Statements have been prepared in accordance with GAAP, consistently applied, and fairly present in all material respects the financial position of the Business as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2006. The Unaudited Financial Statements fairly present in all material respects the financial position and results of operations of the Business as of the date and for the period set forth therein, as prepared in accordance with the Basis of Financial Statement Presentation set forth in Section 6.04 of the Seller Disclosure Letter, consistently applied, which conforms with GAAP, except as set forth in Section 6.04 of the Seller Disclosure Letter.

SECTION 6.05. Absence of Changes or Events. Since June 30, 2007 to the date of this Agreement, there have been no facts, changes, events, developments, circumstances or conditions which have had, or are reasonably likely to have, individually or in the aggregate, a Business Material Adverse Effect. Since June 30, 2007 to the date of this Agreement, the Selling Companies and the Transferred Subsidiaries have carried on the Business, in all material respects, in the ordinary course of business (except for the devotion of management time and attention to meetings and presentations in connection with the sale of the Business or as otherwise expressly contemplated by the Transaction Agreements). Neither Seller nor any of its Subsidiaries has taken any action between June 30, 2007 and the date of this Agreement that, if taken after the date of this Agreement, would constitute a breach of any of clauses (i), (iii), (xii), (xiii) and (xv) of Section 7.02; provided, however, that in the case of Section 7.02(iii), no such increases in compensation or benefits shall be deemed to constitute a breach of Section 7.02(iii), unless such increases in compensation or benefits are material. Neither Seller nor any of its Subsidiaries has taken any action between September 30, 2007, and the date of this Agreement that, if taken after the date of this Agreement, would constitute a breach of clause (iv) of Section 7.02.

SECTION 6.06. Brokers. No broker, investment banker, financial advisor or other person, other than Lehman Brothers, the fees and expenses of which will be paid by Seller, is entitled to any broker’s, finder’s, financial advisor’s or other similar fee or commission in connection with the Transaction Agreements or the transactions contemplated thereby based upon arrangements made by or on behalf of any Selling Company or Transferred Subsidiary.

SECTION 6.07. Taxes. Except as set forth in Section 6.07 of the Seller Disclosure Letter, (i) each of the Transferred Subsidiaries has timely filed, or caused to be timely filed on its behalf, all material Tax Returns required to be filed by it, and each such Tax Return is true, correct and complete in all material respects, (ii) each of the Transferred Subsidiaries has timely paid all material Taxes shown as due and payable on all Tax Returns described in clause (i) above, (iii) no material claim for Taxes has been asserted or threatened in writing with respect to the Transferred Subsidiaries or the Acquired Assets, (iv) no extension or waiver of the statute of limitations has been granted for any material Tax Returns reflecting the income of any Transferred Subsidiary, which statute (after giving effect to such extension or waiver) has not yet expired, (v) as of the date of this Agreement, none of the Transferred Subsidiaries or any Asset Selling Company is subject to any current audit, action, suit or proceedings with respect to any material Taxes or material Tax Returns, (vi) there are no material Tax allocation, Tax indemnification or Tax sharing agreements to which any Transferred Subsidiary is a party or that constitutes an Acquired Asset or Assumed Liability, (vii) none of the Transferred Subsidiaries is required to make any material adjustments pursuant to Section 481(a) of the Code or any similar provision of foreign, state or local law by reason of a change in accounting method or has a request pending with any Taxing Authority for permission to make any material change in accounting methods, and (viii) none of the Transferred Subsidiaries has participated in a "listed transaction" within the meaning of Treasury Regulations Section 1.6011-4(b)(2).

SECTION 6.08. Title to Assets. (a) As of the applicable Closing, Seller, another Selling Company or a Transferred Subsidiary will have good and valid title to (or valid leases in respect of) and, in the case of Seller or another Selling Company, will convey to Purchaser title to the assets reflected on the unaudited balance sheet dated as of June 30, 2007 included in the Unaudited Financial Statements or thereafter acquired, except for assets sold or otherwise disposed of in the ordinary course of business, in each case free and clear of all liens, options, charges, security interests, pledges, mortgages and other encumbrances ("Liens") except (i) mechanics', carriers', workmen's, repairmen's or other similar liens arising or incurred in the ordinary course of business on which payment is not delinquent, except for such delinquencies that occur from time to time in the ordinary course of business, (ii) conditional sales contracts and equipment leases entered into in the ordinary course of business, (iii) Liens for Taxes, assessments and other governmental charges which are not due and payable or which may thereafter be paid without penalty or which are being contested in good faith and (iv) other Liens which do not materially impair the continued use and operation of an asset as it is currently used and operated in the conduct of the Business as currently conducted (the Liens described above, together with the Liens referred to in clauses (ii) through (vi) of Section 6.18, are referred to collectively as "Permitted Liens").

(b) This Section 6.08 does not relate to matters with respect to Transferred Contracts, which are the subject of Section 6.09, Transferred Permits, which are the subject of Section 6.15, Transferred Intellectual Property, which is the subject of Section 6.16, and real estate, which is the subject of Section 6.18.

SECTION 6.09. Contracts. (a) Section 6.09 of the Seller Disclosure Letter sets forth a true and complete and correct list, as of the date of this Agreement, of each Transferred Contract (other than the Transaction Agreements and any agreements, leases and commitments expressly contemplated by the Transaction Agreements) that is:

(i) an employment, severance, change of control, consulting or similar plan, program or agreement with a Covered Employee (other than any such plan, program or agreement that is described in clause (i) or (ii) of Section 6.11(a)) which is not terminable at will without penalty or liability and which requires the payment of an amount (other than ordinary severance pay) in excess of $500,000 (or the equivalent amount in any other currency based on the Applicable Spot Rate as of the date five Business Days prior to the date of this Agreement) per annum;

(ii) an agreement containing a covenant that following the applicable Closing would by its terms (A) limit the freedom of a Transferred Subsidiary or a purchaser of the Business to compete in any line of business with any person or (B) contains exclusivity obligations or restrictions binding on a Transferred Subsidiary or a purchaser of the Business;

(iii) an agreement under which any Selling Company or Transferred Subsidiary has borrowed or loaned any money or issued any note, bond, indenture or other evidence of indebtedness or directly or indirectly guaranteed or issued a letter of credit with respect to indebtedness, liabilities or obligations of others, and any other note, bond, indenture or other evidence of indebtedness of any Selling Company or Transferred Subsidiary, in each case for an amount in excess of $1,000,000 (in each case other than endorsements for the purpose of collection in the ordinary course of business, the issuance of trade credit in the ordinary course of business and indebtedness relating to conditional sales contracts and equipment leases entered into in the ordinary course of business);

(iv) an agreement granting a Lien (other than a Permitted Lien) on any material Acquired Asset;

(v) an agreement with a third party with respect to a joint venture, partnership, limited liability company or other similar agreement or arrangement;

(vi) an agreement for the purchase of supplies or materials providing for annual payments in excess of $25,000,000;

(vii) an agreement for the sale of goods or providing for annual payments in excess of $25,000,000;

(viii) an agency, sales representation, distribution or other similar agreement providing for annual payments in excess of $25,000,000;

(ix) (A) a material license or other similar agreement with respect to material Intellectual Property exclusively used or held for use in the operation or conduct of the Business or (B) any agreement for material computer hardware or computer software maintenance or other outsourcing agreements relating to material information technology systems exclusively used or held for use in the operation or conduct of the Business;

(x) an agreement or contract for the sale of any material Acquired Asset or the grant of any preferential rights to purchase any material Acquired Asset, in each case outside the ordinary course of business;

(xi) an agreement, license, lease or commitment not made in the ordinary course of business with respect to which the aggregate amount reasonably expected to be received or paid thereunder after the date of this Agreement exceeds $5,000,000 (or the equivalent amount in any other currency based on the Applicable Spot Rate as of the date five Business Days prior to the date of this Agreement) for any calendar year; and

(xii) a collective bargaining agreement required to be listed in Section 6.13 of the Seller Disclosure Letter.

Each such Transferred Contract required to be listed in Section 6.09 of the Seller Disclosure Letter (collectively, the "Material Contracts") is valid, binding and in full force and effect and is enforceable by a Selling Company or Transferred Subsidiary, as applicable, in accordance with its terms, except for any such failure to be valid, binding, in full force and effect or enforceable that, individually or in the aggregate, is not reasonably likely to have a Business Material Adverse Effect, subject as to enforceability to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws affecting creditors' rights generally from time to time in effect. As of the date of this Agreement, the Asset Selling Companies and Transferred Subsidiaries and, to Seller's knowledge, the applicable counterparties, are in compliance with their obligations under each Material Contract, except for possible instances of noncompliance that, individually or in the aggregate, are not reasonably likely to have a Business Material Adverse Effect. As of the date of this Agreement, none of Seller, any of the other Selling Companies or any Transferred Subsidiary has received any written notice of termination under any Material Contract. As of the date of this Agreement, complete and correct copies of all the Material Contracts, together with all modifications and amendments thereto to the date of this Agreement, have been made available to Purchaser or its Representatives, except, in the case of Material Contracts described in Section 6.09(a)(i), to the extent that Seller or any of its Subsidiaries is prohibited from making such contracts available as a result of applicable laws regarding the safeguarding of data privacy or any other obligation to maintain the confidentiality of such contract in accordance with applicable law (provided that the parties will cooperate to disclose to Purchaser such information regarding any such Material Contract as would not violate any applicable Law).

(b) Except as set forth in Section 6.09(b) of the Seller Disclosure Letter, the Transferred Contracts are free and clear of Liens (other than Permitted Liens).

SECTION 6.10. Litigation. (a) Section 6.10(a) of the Seller Disclosure Letter sets forth a complete and correct list, as of the date of this Agreement, of all judicial, administrative and regulatory proceedings pending or, to the knowledge of Seller, threatened in writing during the 12-month period ending on the date of this Agreement, by or against any Selling Company or Transferred Subsidiary affecting the Business or a Business Property which involves an amount in controversy in excess of $5,000,000 (or the equivalent amount in any other currency based on the Applicable Spot Rate as of the date five Business Days prior to the date of this Agreement).

(b) Section 6.10(b) of the Seller Disclosure Letter sets forth a complete and correct list, as of the date of this Agreement, of (i) each judicial, administrative and regulatory proceeding pending or threatened in writing since January 1, 2007, that seeks injunctive or other equitable relief that, if granted, would be material to the Business, (ii) all settlement agreements or similar written agreements with any Governmental Entity which, individually or in the aggregate, are reasonably likely to have a Business Material Adverse Effect, and (iii) all outstanding orders, judgments, stipulations, decrees, injunctions, determinations or awards issued by any Governmental Entity which, individually or in the aggregate, are reasonably likely to have a Business Material Adverse Effect.

(c) This Section 6.10 does not relate to matters with respect to Taxes, which are the subject of Section 6.07, employee benefit matters, which are the subject of Section 6.11, labor matters, which are the subject of Section 6.13, environmental matters, which are the subject of Section 6.14, or matters with respect to Transferred Intellectual Property, which are the subject of Section 6.16.

SECTION 6.11. Employee and Related Matters; ERISA. (a) Each employment agreement to which a Covered Employee is a party, and each "employee pension benefit plan" (as defined in Section 3(2) of ERISA), "employee welfare benefit plan" (as defined in Section 3(1) of ERISA) and each other plan, arrangement, agreement, or policy relating to stock options, stock purchases, other equity-based compensation, compensation, bonus, incentive, deferred compensation, employment, severance, termination, fringe benefits, disability, medical, life, vacation, relocation plan or policy, employee loan, supplemental unemployment or other employee benefits or benefits provided under a collective bargaining agreement, in each case sponsored, maintained or contributed to or required to be sponsored, maintained or contributed to by the Selling Companies or any Transferred Subsidiary for the benefit of any Covered Employee or with respect to which a Selling Company (with respect to the Covered Employees) or a Transferred Subsidiary has any direct or indirect liability whether contingent or otherwise or that constitutes a Covered Employee Liability, other than any "multiemployer plan" (within the meaning of Section 3(37) of ERISA) or any plan, arrangement or policy mandated by applicable Law, is herein referred to as a "Seller Benefit Plan"; provided, however, that in no event shall any of the following be considered a Seller Benefit Plan: (i) any plan, arrangement, agreement or policy that primarily relates to benefits in the event of a change in control of Seller or (ii) any agreement or plan pursuant to which a Covered Employee may become entitled to a retention bonus payable by Seller or any of its Subsidiaries as of the applicable Closing, in each case, solely to the extent the liabilities and obligations under any such plan, arrangement, agreement or policy is payable by Seller or any of its Subsidiaries (other than a Transferred Subsidiary) and is not a Covered Employee Liability. Section 6.11(a) of the Seller Disclosure Letter contains a list, as of the date of this Agreement, of each material Seller Benefit Plan (for the avoidance of doubt, individual loans under any employee loan plan or policy in connection with any U.S. tax-qualified defined contribution plan or any relocation plan or policy, need not be listed as a material Seller Benefit Plan). Seller has made available to Purchaser a current, complete and accurate copy (or, with respect to any oral material Seller Benefit Plan, a written description) of each material Seller Benefit Plan document and any amendments thereto and copies of (A) for each material Assumed Benefit Plan (1) the most recent summary plan description (or similar document, to the extent available) and summary of material modifications (to the extent available), (2) the trust agreement (other than the Alcoa Inc Retirement Plan Master Trust, the Alcoa Inc Savings Plan Master Trust and the master trust agreement with respect to any Canadian Seller Pension Plan) any insurance contracts or other funding arrangements with respect to such plan and (3) to the extent applicable, the most recent annual report on Form 5500 (including any applicable schedules and attachments thereto) filed with the IRS or any similar material reports filed by Seller, any of its Subsidiaries or any Seller Benefit Plan with a Governmental Entity in any non-U.S. jurisdiction bearing authority over the Assumed Benefit Plan (if any such report was required by applicable Law), (B) the most recently received determination or opinion letter from the IRS, or similar approval under applicable non-U.S. Law, for each material Assumed Benefit Plan (if any), and (C) the most recently prepared actuarial valuation report and audited financial statements in connection with each material Assumed Benefit Plan for which such actuarial valuation report or audited financial statements are required to be prepared under applicable Law.

(b) Except as set forth in Section 6.11(b) of the Seller Disclosure Letter or as is not reasonably likely to have a Business Material Adverse Effect, all employer and employee contributions to each Assumed U.S. Benefit Plan have been timely made or, if applicable, accrued in accordance with GAAP, consistently applied. Each Assumed Benefit Plan has been administered in accordance with its terms and in compliance with the applicable provisions of ERISA, the Code, all other applicable Laws and the terms of all applicable collective bargaining agreements, except where the failure to be so administered, individually or in the aggregate, is not reasonably likely to have a Business Material Adverse Effect. There are no investigations by any Governmental Entity, termination proceedings or other claims (except routine claims for benefits payable) or proceedings pending or, to the knowledge of Seller, threatened against or involving any Assumed Benefit Plan or asserting any rights to or claims for benefits under any Assumed Benefit Plan that, individually or in the aggregate, are reasonably likely to have a Business Material Adverse Effect.

(c) Each Assumed U.S. Benefit Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter on a timely basis from the IRS covering all provisions of the Code applicable to such Assumed U.S. Benefit Plan for which determination letters are currently available that such Assumed U.S. Benefit Plan is so qualified, and the master trust that holds the assets with respect to each such Assumed U.S. Benefit Plan has received a determination letter from the IRS that it is exempt from U.S. federal income taxation under Section 501(a) of the Code, and Seller knows of no set of circumstances that would reasonably be expected to materially adversely affect such qualification or exemption or result in disqualification or loss of exemption. None of the Selling Companies nor any Transferred Subsidiary is subject to any material liability under Title IV of ERISA (other than for premiums payable to the Pension Benefit Guaranty Corporation (the "PBGC") or obligations to pay benefits when due under any U.S. Transferred Subsidiary DB Plan) with respect to any Assumed U.S. Benefit Plan that would reasonably be expected to become a liability of Purchaser and its Affiliates after the applicable Closing Date.

(d) The only "multiemployer plan" (within the meaning of Section 3(37) of ERISA) to which Seller and its Affiliates are obligated to contribute on behalf of any Covered Employees is the Teamsters Local No. 35 Pension Plan (the "Teamsters Pension Plan"). None of Seller or any of its Subsidiaries participates in a "multiple employer plan" within the meaning of section 4063 or 4064 of ERISA with respect to any Covered Employee. No condition exists that would reasonably be expected to subject Purchaser or the Transferred Subsidiaries to any liability because Seller or any ERISA Affiliate has at any time during the last six years contributed to or been obligated to contribute to any multiemployer or multiple employer plan (other than the Teamsters Pension Plan). To the knowledge of Seller, (i) the Teamsters Pension Plan is not in "reorganization" or "insolvent", and (ii) as of the date hereof, no condition exists and no event has occurred with respect to the Teamsters Pension Plan that presents a material risk of a complete or partial withdrawal under subtitle E of Title IV of ERISA. The aggregate withdrawal liability of Seller with respect to all Covered Employees under the Teamsters Pension Plan on the date hereof does not constitute a Business Material Adverse Effect.

(e) Except as set forth in Section 6.11(e) of the Seller Disclosure Letter or as is not reasonably likely to have a Business Material Adverse Effect, (i) all employer and employee contributions to each Assumed Foreign Benefit Plan required by applicable Law or the terms of such Assumed Foreign Benefit Plan have been timely made or, if applicable, accrued in accordance with GAAP (or if GAAP is not applicable, the generally accepted accounting principles applicable to such Assumed Foreign Benefit Plan), consistently applied, and (ii) each Assumed Foreign Benefit Plan that is required to be registered with the applicable Governmental Entity (A) has been maintained in good standing with such Governmental Entity and (B) Seller knows of no set of circumstances that would reasonably be expected to adversely affect such good standing. Except as is not reasonably likely to have a Business Material Adverse Effect, no fact or set of circumstances exists and no event has occurred that would reasonably be expected to result in any Assumed Foreign Benefit Plan being required to pay any material tax or penalty under applicable Law. Except as set forth in Section 6.11(e) of the Seller Disclosure Letter, there are no material unfunded liabilities or deficiencies with respect to any Assumed Foreign Benefit Plan that is a defined benefit plan or defined contribution plan, as determined pursuant to GAAP (or if GAAP is not applicable, determined pursuant to the generally accepted accounting principles applicable to such Assumed Foreign Benefit Plan), consistently applied, or on any other basis (i.e., solvency, wind up, going concern) on which Seller, any of its Subsidiaries or such Assumed Foreign Benefit Plan is currently required to report to a Governmental Entity with respect to such Assumed Foreign Benefit Plan or on which Seller or any of its Subsidiaries is currently required to fund such Assumed Foreign Benefit Plan under applicable Law.

(f) Except as set forth in Section 6.11(f) of the Seller Disclosure Letter, the execution, delivery and performance of this Agreement by Seller and its Subsidiaries and the consummation by Seller and its Subsidiaries of the transactions contemplated by this Agreement will not (alone or in combination with any other event) result in an increase in the amount of compensation or benefits or the acceleration of the vesting or timing of the payment of any compensation or benefits payable to or in respect of any Covered Employee or any increased or accelerated funding obligation with respect to any Assumed Benefit Plan, in each case other than any compensation, benefits or funding obligation for which Seller or the Selling Companies shall be solely responsible and retain all liability after the applicable Closing. No payment or deemed payment by Seller or any of its Subsidiaries or required under any Assumed Benefit Plan will arise or be made as a result (alone or in combination with any other event) of the execution, delivery and performance of this Agreement by Seller, or the consummation by Seller of the transactions contemplated by this Agreement, that would constitute an "excess parachute payment" for purposes of Section 280G of the Code.

(g) Each Assumed U.S. Benefit Plan that is a "nonqualified deferred compensation plan" (as defined in Section 409A(d)(1) of the Code) that is subject to Section 409A of the Code has been operated since January 1, 2005 in good faith compliance with Section 409A of the Code, the applicable regulations and guidance thereunder, other than any such instances of non-compliance that would not, individually or in the aggregate, be reasonably likely to be material to the Business.

SECTION 6.12. Compliance with Laws. (i) The Business is in compliance with all existing laws, rules, regulations, ordinances, orders, judgments and decrees that are applicable and material to the Business as it is currently conducted, (ii) as of the date of this Agreement, none of the Selling Companies or Transferred Subsidiaries has received any written communication during the 12-month period ending on the date of this Agreement from a Governmental Entity that alleges that the Business is not in compliance in any material respect with any material existing laws, rules, regulations, ordinances, orders, judgments or decrees applicable to the Business as it is currently conducted and (iii) as of the date of this Agreement, none of the Selling Companies or Transferred Subsidiaries has received any written notice that any material investigation or review by any Governmental Entity with respect to any Acquired Asset or the Business is pending or that any such investigation or review is contemplated. This Section 6.12 does not relate to matters with respect to Taxes, which are the subject of Section 6.07, employee matters, which are the subject of Section 6.11, labor matters, which are the subject of Section 6.13, environmental matters, which are the subject of Section 6.14, or matters with respect to Transferred Intellectual Property, which are the subject of Section 6.16.

SECTION 6.13. Labor Matters. As of the date of this Agreement, (i) there is not any, and during the 12-month period ending on the date of this Agreement, there has not been any and, to the knowledge of Seller, there exists no set of circumstances that would reasonably be expected to result in any, labor strike, slow down, work stoppage or lockout with respect to the Business, (ii) none of the Selling Companies or any Transferred Subsidiary is engaged in any unlawful employment practice in connection with the conduct of the Business, (iii) the Business (including all Transferred Subsidiaries) is in compliance with all applicable Laws governing or concerning labor relations, employment, union and collective bargaining, immigration, fair employment practices, employment discrimination and harassment, terms and conditions of employment, workers' compensation, occupational safety and health, plant closings, and wages and hours, and with respect to the Covered Employees, any other applicable Law that relates to the employment of the Covered Employees, (iv) there are not any unfair labor practice charges against any Selling Company or Transferred Subsidiary pending before or, to the knowledge of Seller, threatened, by the National Labor Relations Board or any similar foreign, state or local agency in connection with the conduct of the Business and (v) there are not any proceedings in connection with the conduct of the Business pending before the Equal Employment Opportunity Commission or any similar foreign, state or local agency responsible for the prevention of unlawful employment practices or enforcement of labor and employment laws, except, in the case of each of clauses (i), (ii), (iii), (iv) and (v) above, for any such action, conduct, practice or proceeding which, individually or in the aggregate, is not reasonably likely to have a

Business Material Adverse Effect. Section 6.13 of the Seller Disclosure Letter sets forth a true and complete list of each material collective bargaining agreement or other material agreement with a labor union or any employees' representative (including any applicable works council but excluding any mandatory national collective bargaining agreement or any mandatory national works council or trade union agreement) that, as of the date of this Agreement, is in effect and to which Covered Employees are subject.

SECTION 6.14. Environmental Matters. Except for any matters that, individually or in the aggregate, are not reasonably likely to have a Business Material Adverse Effect, as of the date of this Agreement, (i) (A) the Selling Companies and the Transferred Subsidiaries hold and are in compliance with all material permits, licenses, authorizations and approvals required under Environmental Laws for the operations of the Business as currently conducted and (B) all material Permits required under Environmental Laws for the operations of the Business and necessary to conduct the Business as it is currently conducted (other than any such Permit that will be held by a Transferred Subsidiary immediately following the applicable Closing) are disclosed in Section 6.14 of the Seller Disclosure Letter, (ii) the operations of the Business since January 1, 2007, have been and are in compliance with all applicable Environmental Laws and, since January 1, 2005, none of the Selling Companies or Transferred Subsidiaries has received any written notice from any Governmental Entity or other person that alleges that the Business is not in compliance with, or has any liability under, any applicable Environmental Law, (iii) no Hazardous Substances have been Released on, under or from any facility of the Business in violation of any Environmental Law or requiring investigation or remedial action, (iv) no facility of the Business is listed or formally proposed for listing on the National Priorities List under CERCLA or any similar state list, and (v) there are no proceedings pending or, to the knowledge of Seller, threatened by or against any Selling Company or any Transferred Subsidiary affecting the Business arising under any Environmental Law.

SECTION 6.15. Permits. (a) Section 6.15(a) of the Seller Disclosure Letter sets forth as of the date of this Agreement in general terms all material Permits that are necessary to conduct the Business as it is currently conducted (other than any such Permit that will be held by a Transferred Subsidiary immediately following the applicable Closing).

(b) As of the date of this Agreement, (i) all material Transferred Permits are validly held by a Selling Company or Transferred Subsidiary, and such Selling Company or Transferred Subsidiary has complied in all material respects with all terms and conditions thereof, and (ii) during the 12-month period ending on the date of this Agreement, none of the Selling Companies or Transferred Subsidiaries has received written notice of any proceedings relating to the revocation of any such Transferred Permit the loss of which is reasonably likely to have a Business Material Adverse Effect. This Section 6.15 does not relate to environmental matters, which are the subject of Section 6.14.

(c) Except as set forth in Section 6.15(c) of the Seller Disclosure Letter, the Transferred Permits are free and clear of Liens (other than Permitted Liens).

SECTION 6.16. Intellectual Property. (a) Section 6.16(a) of the Seller Disclosure Letter sets forth as of the date of this Agreement all material Transferred Intellectual Property (including its owner) that is applied for or registered with a Government Entity.

(b) Except as set forth in Section 6.16(b) of the Seller Disclosure Letter, a Selling Company or a Transferred Subsidiary owns, free and clear of Liens (other than Permitted Liens), or has the right to make, use, sell, offer to sell, execute, reproduce, display, perform, modify, enhance, distribute, prepare derivative works of and sublicense, without payment to any other person, the material Transferred Intellectual Property, and the consummation of the transactions contemplated hereby do not and will not conflict with, alter or impair any such rights.

(c) To the knowledge of Seller, the conduct of the Business as it is currently conducted does not violate or infringe the intellectual property rights of any other person and no other third party violates or infringes the Transferred Intellectual Property or any trade secrets included in the Transferred Technology, in each case except for any such violations or infringements that, individually or in the aggregate, are not reasonably likely to have a Business Material Adverse Effect; provided, however, that in making this representation Seller is entitled to rely entirely on representations or warranties made to any Seller or any of its Subsidiaries by third parties with respect to products, supplies, parts or components supplied to Seller or its Subsidiaries by third parties. As of the date of this Agreement, (i) no proceedings are pending against any Selling Company or Transferred Subsidiary by any person with respect to the ownership, validity, enforceability, effectiveness or use in the Business of any Transferred Intellectual Property or the use in the Business of any Transferred Technology and (ii) during the 12-month period ending on the date of this Agreement, Seller and its Subsidiaries have not received any written notice alleging that the conduct of the Business during such period violated or infringed any intellectual property rights of any person, other than proceedings or allegations which, individually or in the aggregate, are not reasonably likely to have a Business Material Adverse Effect.

(d) All confidential Transferred Technology that is material to the Business has been maintained in confidence in accordance with Seller’s customary protection procedures.

(e) Each person who has developed any of the material Transferred Intellectual Property since January 1, 2007, has validly assigned all of his, her or its rights in and to such intellectual property to the relevant Asset Selling Company or Transferred Subsidiary.

(f) To the knowledge of Seller, none of the Transferred Subsidiaries or any Asset Selling Company has pledged any rights it may have to any trade secret included in the Transferred Technology.

SECTION 6.17. Transactions with Affiliates. (a) Section 6.17(a) of the Seller Disclosure Letter sets forth (i) all material services currently provided to the

Business by Seller or its Subsidiaries (other than the Transferred Subsidiaries), and (ii) all written material Contracts between Seller or any of its Subsidiaries (other than a Transferred Subsidiary), on the one hand, and any Asset Selling Company or Transferred Subsidiary, on the other hand, in effect from and after June 30, 2007 (other than Tax sharing and cash management agreements that will be terminated upon the Initial Closing).

(b) As of the Initial Closing Date, other than as contemplated by the Transaction Agreements or as set forth in Section 6.17(b) of the Seller Disclosure Letter, no contract, agreement, arrangement or commitment shall be in effect between Seller or any other Selling Company that is being retained by Seller, on the one hand, and any Transferred Subsidiary (other than any Transferred Subsidiary that is not transferred at the Initial Closing), on the other hand.

(c) As of the applicable Foreign Country Unit Closing Date, other than as contemplated by the Transaction Agreements or as set forth in Section 6.17(c) of the Seller Disclosure Letter, no contract, arrangement or commitment shall be in effect between Seller or any other Selling Company that is being retained by Seller, on the one hand, and any Transferred Subsidiary that is transferred as of such Closing Date, on the other hand.

SECTION 6.18. Real Estate. Section 6.18 of the Seller Disclosure Letter sets forth as of the date of this Agreement a complete list of all material real property and interests in real property owned in fee by any Asset Selling Company or Transferred Subsidiary that is primarily used or held for use in the operation or conduct of the Business (individually, an "Owned Property"). Section 6.18 of the Seller Disclosure Letter also sets forth as of the date of this Agreement a complete list of all material real property and interests in real property leased by any Asset Selling Company or Transferred Subsidiary that is primarily used or held for use in the operation or conduct of the Business (individually, a "Leased Property"). An Asset Selling Company or a Transferred Subsidiary has good and valid fee title to and, in the case of an Asset Selling Company, will convey to Purchaser title to all Owned Property and an Asset Selling Company or a Transferred Subsidiary has good and valid title to and, in the case of an Asset Selling Company, will convey to Purchaser title to the leasehold estates in all Leased Property (an Owned Property or Leased Property being sometimes referred to herein, individually, as a "Business Property"), in each case free and clear of all Liens, except (i) Liens described in clause (i), (ii), (iii) or (iv) of Section 6.08(a), (ii) Liens securing or created by or in respect of any of the Assumed Liabilities, and such Liens as are set forth in Section 6.18 of the Seller Disclosure Letter, (iii) leases, subleases and similar agreements set forth in Section 6.18 of the Seller Disclosure Letter, (iv) easements, covenants, rights-of-way and other similar restrictions of record, (v) any minor title defects, and any conditions that may be shown by a current, accurate survey or physical inspection of any Business Property and (vi) (A) zoning, building and other similar restrictions, (B) Liens that have been placed by any developer, landlord or other third party on property over which any Selling Company or Transferred Subsidiary has easement rights or on any Leased Property and subordination or similar agreements relating thereto and (C) unrecorded easements, covenants, rights-of-way and other similar restrictions. None of the items set forth in clauses (iv), (v) and (vi) above, individually or in the aggregate, materially impairs, or would reasonably be expected to materially impair, the continued use and operation of the Business Property to which they relate as it is currently used and operated in the conduct of the Business as presently conducted.

SECTION 6.19. Sufficiency of Assets. (a) Upon (i) the purchase and acquisition of the Shares and the Acquired Assets in accordance with this Agreement, (ii) the receipt by Purchaser of the services and benefits available or otherwise offered by Seller to Purchaser under the Transaction Agreements, (iii) the acquisition or other receipt by Purchaser of all consents or approvals of a third party required for the transfer of the Restricted Assets, (iv) the acquisition or other receipt by Purchaser of all licenses and permits and other governmental authorizations and approvals required to operate the Business and perform the obligations under the Transferred Contracts, (v) the provision by Purchaser, any of its Affiliates or any third party of all corporate level and country headquarters level services of the type currently provided by Seller and the Selling Companies and (vi) the provision by Purchaser, any of its Affiliates or any third party of the services described in Section 6.19 of the Seller Disclosure Letter, Purchaser shall have, directly or indirectly, the assets and properties (tangible or intangible) and services sufficient for the conduct in all material respects of the Business immediately following the Closings in substantially the same manner as currently conducted.

(b) No Subsidiary of Seller, other than the Selling Companies and the Transferred Subsidiaries, is (i) engaged in any material respect in the conduct of the Business or (ii) holds any assets that would constitute material Acquired Assets but for the fact that they are held by such Affiliate rather than Seller or an Asset Selling Company.

SECTION 6.20. Insurance. Section 6.20 of the Seller Disclosure Letter lists all current, material casualty and property insurance policies (including fidelity bonds and other similar instruments) that may be available (assuming such policies remain in effect as of the Closing) to pay proceeds to Purchaser as provided in Section 7.06.

SECTION 6.21. No Other Representations or Warranties. Except for the representations and warranties contained in Article VIII or in any certificate delivered by Purchaser in connection with a Closing, Seller acknowledges that neither Purchaser nor any other person on behalf of Purchaser makes or has made any other express or implied representation or warranty with respect to the transactions contemplated by the Transaction Agreements, with respect to Purchaser or with respect to any other information provided or made available to Seller by Purchaser in connection with the transactions contemplated by this Agreement.

ARTICLE VII

Covenants of Seller

Seller covenants and agrees as follows:

SECTION 7.01. Access. (a) Other than with respect to Tax records which are the subject of Section 7.01(b), prior to the applicable Closing for each Country Unit, Seller shall, and shall cause its applicable Subsidiaries to, give Purchaser and its employees, counsel, accountants, environmental consultants, financing sources (provided such financing sources agree to keep confidential the confidential information of the Business) and other representatives and advisors (collectively, "Representatives") reasonable access, during normal business hours and upon reasonable notice, to all manufacturing facilities, offices, warehouses and other facilities used in the operation of the Business in, and personnel of, such Country Unit and to all books, records, agreements, documents, information, data and files to the extent relating to the operation of the Business in such Country Unit (other than proprietary customer and supplier information and other than information the disclosure of which is legally or contractually prohibited); provided that such access shall not include any environmental sampling work and shall not disrupt the normal operations of Seller or its Subsidiaries.

(b) Seller shall, and shall cause its applicable Subsidiaries to, give Purchaser and its Representatives reasonable access, during normal business hours and upon reasonable notice, to (and upon reasonable request, furnish copies of) all Tax Returns filed by any Transferred Subsidiary; provided that Seller shall not be required to provide any consolidated, combined or unitary Tax Returns (or copies thereof) other than any pro forma return of any Transferred Subsidiary.

SECTION 7.02. Ordinary Conduct. Except as otherwise contemplated or permitted by Section 7.03 or the Transaction Agreements or set forth in Section 7.02 of the Seller Disclosure Letter, from the date of this Agreement to the applicable Closing Date for each Country Unit, unless Purchaser otherwise consents (such consent not to be unreasonably withheld or delayed), Seller shall cause the Business conducted by such Country Unit to be conducted in all material respects in the ordinary course and shall make all reasonable efforts to preserve the relationships of such Country Unit with its customers, suppliers, employees and others having relationships with such Country Unit. In addition, during such period, insofar as the Business conducted by such Country Unit is concerned, except as otherwise contemplated or permitted by the Transaction Agreements or set forth in Section 7.02 of the Seller Disclosure Letter, unless Purchaser otherwise consents (which consent shall not be unreasonably withheld), Seller shall not, and shall not permit any of its Subsidiaries to:

(i) issue, sell or deliver any shares of capital stock of any class of a Transferred Subsidiary included in such Country Unit or any option, warrant, convertible security or other right of any kind to acquire any shares of such capital stock;

(ii) adopt or amend in any material respect any Seller Benefit Plan to the extent applicable to Covered Employees, except (A) as may be required by applicable Law (including any amendments required to be adopted prior to the applicable Closing Date to the extent necessary to reflect the requirements of Section 409A of the Code) or required under existing agreements, (B) as effected in the ordinary course of business and consistent with past practice, (C) as would relate to a substantial number of other similarly situated employees of the Selling Companies in any country or (D) for any changes for which the Selling Companies will be solely liable, provided in each case that no such adoption or amendment materially increases the cost to Purchaser or its Affiliates of any Assumed Benefit Plan;

(iii) grant to any Covered Employee any increase in compensation or benefits, or enter into, adopt or amend any employment agreement or other agreement that may increase the obligations to any Covered Employee, including upon termination of employment, in each case except (A) as may be required under existing agreements, (B) as effected in the ordinary course of business and consistent with past practice, (C) as would relate to a substantial number of other similarly situated employees of the Selling Companies in any country, (D) to the extent required by applicable Law, (E) in the event that, during such period, such employee receives a promotion based on job performance or workplace requirements, (F) with respect to newly hired Covered Employees or (G) for any such increases for which the Selling Companies will be solely liable; provided that no such increase in compensation or benefits or other obligations materially increases the cost to Purchaser and its Affiliates of such compensation, benefits and obligations, in the aggregate;

(iv) transfer employment of any person engaged primarily in the Business to any other business of Seller and its Affiliates or transfer the employment of any person engaged primarily in the business of Seller and its Affiliates (other than the Business) to the Business, in each case, other than transfers in the ordinary course of business consistent with past practice of employees not described in Section 7.02(iv)(1) of the Seller Disclosure Letter; provided that the foregoing provisions shall not be construed as a restriction on the ability to transfer employment of the employees listed in Section 7.02(iv)(2) of the Seller Disclosure Letter or to change the entity that employs an employee (so long as such change does not result in a change in such employee's engagement in the Business);

(v) subject any of the material Acquired Assets or Transferred Subsidiaries' Equity Interests to any Lien other than Permitted Liens;

(vi) waive any claims or rights of substantial value relating to the Business conducted by such Country Unit (other than pursuant to Section 10.05) except in the ordinary course of business, consistent with past practice;

(vii) acquire or agree to acquire (whether by merger, consolidation, purchase of capital stock or of a substantial portion of assets or otherwise) any business which is material, individually or in the aggregate, to the Business if a substantial portion of the assets of such business would constitute Acquired Assets;

(viii) sell, lease, abandon, license, transfer or otherwise dispose of any of the material Acquired Assets (including any material Transferred Intellectual Property or Transferred Technology) or material assets of any of the Transferred Subsidiaries outside the ordinary course of business, consistent with past practice;

(ix) with respect to any Transferred Subsidiary, make or change any Tax election, amend any Tax Return or settle or compromise any Tax audit or controversy that could have an adverse effect (other than an immaterial one) on Purchaser, any Transferred Subsidiary or any Affiliate thereof after the applicable Closing (other than the filing of Tax Returns in the ordinary course of business, consistent with past practice unless an inconsistency is required by applicable Tax laws);

(x) make outside of the ordinary course of business consistent with past practice any loans, advances or capital contributions to, or investment in, any other person (other than any Transferred Subsidiary) to the extent such loan, advance or capital contribution is made by a Transferred Subsidiary or would constitute Acquired Assets;

(xi) materially adversely change any rights, coverage or obligations of the Business and the Acquired Assets under insurance policies covering the Business in a manner inconsistent with any changes in rights, coverage or obligations made by Seller with respect to its businesses (other than the Business);

(xii) settle any legal proceeding where the terms or impact of such settlement would impose any material non-monetary obligation on the Business after the Initial Closing Date or include an admission of liability material to the Business;

(xiii) amend the organizational documents of the Transferred Subsidiaries;

(xiv) except in the ordinary course of business, enter into, materially modify, renew, extend or terminate any Material Contract or enter into any Contract that would have been a Material Contract if such Contract existed on the date of this Agreement;

(xv) engage in any material transaction with a Selling Company or Transferred Subsidiary outside the ordinary course of business, consistent with past practice, including, without limitation, with respect to the collection of intercompany receivables and the payment of intercompany payables, except as contemplated by Section 10.05;

(xvi) incur any indebtedness for borrowed money (other than capital leases), except for any indebtedness that is by its terms repayable at or prior to the applicable Closing; or

(xvii) agree, whether in writing or otherwise, to do any of the foregoing.

SECTION 7.03. Post-Signing Restructuring Actions. (a) Notwithstanding anything in Section 7.02 to the contrary, Seller shall have the right, after the date of this Agreement and prior to the applicable Closing Date, to undertake, at its own expense, those restructuring steps or other transactions in respect of any Acquired Asset or Transferred Subsidiary (including transfers of Acquired Assets or stock of Transferred Subsidiaries) or make those Tax elections in respect of any Acquired Asset or Transferred Subsidiary (including any entity classification election, effective prior to or on the applicable Closing Date, under Treasury Regulation Section 301.7701-3) that are set forth in Section 7.03 of the Seller Disclosure Letter (each such step, transaction or Tax election, a "Post-Signing Restructuring Action"); provided, however, that (i) Seller shall use its reasonable best efforts to complete the Post-Signing Restructuring Actions in Mexico and China as set forth in Section 7.03 of the Seller Disclosure Letter, (ii) Seller shall not include any rights of indemnification of Seller or any of its Affiliates (other than a Transferred Subsidiary) against a Transferred Subsidiary (other than those rights set forth in Article XIII of this Agreement) in any agreement or conveyance document to be entered into in connection with any Post-Signing Restructuring Action and (iii) to the extent any Post-Signing Restructuring Action transfers any assets or liabilities between entities, such transfers shall not result in Purchaser receiving (either directly or through a Transferred Subsidiary) fewer assets or greater liabilities than Purchaser would have received had such Post-Signing Restructuring Action not been undertaken, other than changes in the amount of cash or intercompany payables and receivables and other than changes in the legal entities conveyed at an applicable Closing.

(b) To the extent the aggregate Closing Net Cash Balance of the Transferred Subsidiaries exceeds $10,000,000 (the "Total Excess Cash"), then (notwithstanding Section 4.03) any such excess shall be excluded from the Closing Net Cash Balance (and for the avoidance of doubt Working Capital) and the adjustment of the Worldwide Purchase Price at the applicable Closing. To the extent that any cash is distributed to Purchaser or any of its Affiliates (other than a Transferred Subsidiary) from any Transferred Subsidiary (up to the amount of the Closing Net Cash Balance of such Transferred Subsidiary) (a "Covered Distribution"), Purchaser shall pay to the Seller the amount of such distribution, provided that (i) no Covered Distributions shall give rise to a payment under this Section 7.03(b) except to extent the aggregate Covered Distributions exceed $10 million and (ii) no further payments shall be made to Seller pursuant to this Section 7.03(b) once the total payments to Seller under this Section 7.03(b) plus the total Repatriation Costs equals the Total Excess Cash. "Repatriation Costs" shall mean any out-of-pocket costs (other than Taxes), withholding Taxes and U.S. Taxes arising from any Covered Distribution payable (less Repatriation Costs) to Seller under this Section 7.03(b). After an applicable Closing, Purchaser shall use reasonable best efforts (i) to cause the Transferred Subsidiaries acquired at or after such Closing to make sufficient Covered Distributions to the Purchaser so that the total payments actually made under this Section 7.03(b) to Seller plus the Repatriation Cost equal the Total Excess Cash and (ii) to minimize the Repatriation Costs attributable to any Covered Distribution payable to Seller under this Section 7.03(b), it being understood that Section 13.01(a)(ix) does not apply if and to the extent this Section 7.03(b) applies. Seller and Purchaser shall cooperate in good faith in respect of any Post-Signing Restructuring Action.

(c) Upon written request by Purchaser, Seller shall deliver without undue delay copies of all agreements and conveyance documents (including any notes) executed in connection with any Post-Signing Restructuring Action.

SECTION 7.04. Confidentiality. Except as otherwise provided in the Transaction Agreements, from and after the applicable Closing Date for each Country Unit, Seller shall keep confidential and shall cause its Subsidiaries and instruct its and their Representatives to keep confidential all nonpublic information relating to the Business conducted by such Country Unit, except for information (i) required by law or administrative process to be disclosed, (ii) available to the public on the applicable Closing Date, or thereafter becomes available to the public other than as a result of a breach of this Section 7.04, (iii) that becomes available to any Selling Company on a non-confidential basis from a source other than Purchaser or any Transferred Subsidiary or (iv) disclosed in connection with the exercise of any remedies provided in any Transaction Agreement or any suit, action or proceeding relating to the Transaction Agreements or the enforcement of rights thereunder. The covenant set forth in this Section 7.04 shall terminate three years after the Initial Closing Date.

SECTION 7.05. Resignations. On the applicable Closing Date, Seller shall cause to be delivered to Purchaser duly signed resignations, effective immediately after the applicable Closing, of all directors of the relevant Transferred Subsidiaries or shall take such other action as is necessary to cause such persons to no longer be directors of any relevant Transferred Subsidiary, as the case may be, immediately after the applicable Closing.

SECTION 7.06. Insurance. (a) If (i) any Losses are suffered between the date hereof and the applicable Closing with respect to an asset of a Transferred Subsidiary (that is not an Excluded Asset) or an asset that would constitute an Acquired Asset as of such Closing and such asset is not repaired or replaced as of such Closing or (ii) any Losses arise prior to or following the applicable Closing that constitute Assumed Liabilities (any Loss described in clause (i) or (ii), a "Covered Matter"), and claims with respect to a Covered Matter may be made against insurance policies related to the Business (other than Seller's directors' and officers' liability insurance policy) which were arranged and continue to be retained by Seller or its Affiliates and in effect following the Closing, including any policies issued by any captive insurance Affiliate of Seller (other than a Transferred Subsidiary), then Seller shall use its commercially reasonable efforts to file, provide notices regarding such claims and otherwise continue to pursue such claims on behalf of and with the cooperation of Purchaser or its Affiliates under the terms of such policies to the extent of a Covered Matter. To the extent the proceeds are not paid directly to any third party or used to repair or replace the applicable asset, as applicable, Seller agrees to promptly pay to Purchaser any such amounts or assign to Purchaser any benefits (in each case, net of any out-of-pocket costs or expenses incurred by Seller) that Seller or its Affiliates may receive in respect of such Losses under such insurance policies to the extent such amounts or benefits arise from such Covered Matter; provided that, with respect to each claim, any amount paid or benefit assigned to Purchaser shall be limited to the amount of the related Covered Matter for which such claim was made.

(b) If any insurance policies are claims-made policies and an extended reporting period is commercially and reasonably available for Seller or its Affiliates to purchase, and if Purchaser requests, Seller shall cause to be purchased (at Purchaser's expense), an extended reporting period with respect to such insurance policy for the benefit of Purchaser as an insured. From time to time, Seller will reasonably cooperate with Purchaser to provide Purchaser (at Purchaser's expense) with historical insurance claims information regarding the Business (including workers' compensation experience) to the extent reasonably necessary to enable Purchaser to establish loss experience in establishing new insurance arrangements with new carriers.

SECTION 7.07. Certain Financial Information. (a) As soon as practicable following Seller's public earning release for a fiscal quarter, Seller shall deliver to Purchaser an unaudited management financial report of the Business, as of and for such fiscal quarter, commencing with the fiscal quarter ended September 30, 2007, and for each fiscal quarter ended more than 45 days prior to the Initial Closing Date.

(b) Within 30 days following the completion of any month between December 2007 through and including the month in which the Initial Closing occurs, Seller shall deliver to Purchaser copies of such monthly financial reports regarding the Business as it may prepare in the ordinary course of business.

SECTION 7.08. Termination of Outstanding Powers of Attorney. On the applicable Closing Date, Seller shall cause to be delivered to Purchaser evidence of termination of the outstanding powers of attorney executed on behalf of the Transferred Subsidiaries to be transferred on such Closing Date and identified by Purchaser prior to the Initial Closing Date.

SECTION 7.09. Title to Intellectual Property. Prior to the Initial Closing Date, Seller shall, at its own expense, record, or shall cause its Affiliates to record, all necessary documents with the pertinent intellectual property offices to reflect the applicable Asset Selling Company or Transferred Subsidiary as the record owner of the Intellectual Property set forth in Section 7.09 of the Seller Disclosure Letter; provided that in the event that any such scheduled Intellectual Property is registered in the name of a Transferred Subsidiary except that such registration does not correctly reflect the current name of such Transferred Subsidiary, then Seller shall not be required to update such registrations to reflect such current name of the Transferred Subsidiary if Purchaser will be required to rename such entity following the applicable Closing because such entity's current name includes the name "Alcoa".

SECTION 7.10. Additional Books and Records. Seller shall provide copies of any of its books of account, ledgers and general, financial and accounting records and files that are primarily used or held for use in the Business and are not located at an Operating Location to Purchaser to the extent reasonably requested by Purchaser in connection with Purchaser's post-Closing conduct of the Business.

SECTION 7.11. Joint Ventures. If any third party which owns Shares exercises its right, triggered as a result of the transactions contemplated by this

Agreement, to purchase at or prior to the applicable Closing the Shares owned by Seller or its Subsidiaries, Seller shall remit to Purchaser on the later of (i) the Closing Date or (ii) within 5 days of receipt any amounts received by Seller or its Subsidiaries as consideration for the sale of such Shares on the applicable Closing Date.

SECTION 7.12. Certain Assets of Transferred Subsidiaries. Subject to clause (ii) of Section 17.03(a), prior to the Initial Closing Date, Seller shall have the right upon notice to Purchaser to remove from any Transferred Subsidiary any Excluded Assets and any other specific assets identified by Seller prior to the Initial Closing that are not and have not since January 1, 2005 been primarily used or held for use in the operation or conduct of the Business and that are material to the operation or conduct of another business of Seller or its Subsidiaries as such business is currently conducted; provided that the foregoing shall not include any real estate assets.

SECTION 7.13. Supplier-Financing Programs. Any Seller sponsored supplier-financing programs (the “Seller SFP”) for the benefit of the Transferred Subsidiaries or any Asset Selling Company, to the extent arising from the Business, shall be terminated on or before the applicable Closing Date.

SECTION 7.14. Lien Removal. (a) Without limiting the closing condition in Section 5.01(i)(A), Seller shall, and shall cause its Subsidiaries to, (i) use reasonable best efforts to remove prior to or as of the Initial Closing Date any Liens on Shares or assets (other than Permitted Liens on assets) set forth in Section 7.14 of the Seller Disclosure Letter, and (ii) use commercially reasonable efforts to remove prior to or as of the Initial Closing Date any Liens (other than Permitted Liens on assets) that may be identified by Purchaser prior to the Initial Closing Date (that are not set forth in Section 7.14 of the Seller Disclosure Letter) on the Shares, the Acquired Assets or the assets of Transferred Subsidiaries. It is agreed that to the extent that the removal of a Lien requires the repayment of indebtedness of a Transferred Subsidiary, Seller agrees to cooperate prior to the applicable Closing in arranging for the repayment of such indebtedness; provided that only such repayment shall occur on the applicable Closing Date using funds provided by Purchaser (it being agreed that in such event the amount of such funds provided by Purchaser shall reduce the Worldwide Purchase Price by an equal amount and such indebtedness shall not be included in the calculation of the Indebtedness Balance).

(b) Following the Initial Closing and without limiting the indemnification obligations of Seller, Seller agrees to reasonably cooperate, at the reasonable request of Purchaser, in the removal of any Liens (other than Permitted Liens on assets) identified by Purchaser after the Initial Closing Date on the Shares, the Acquired Assets or the assets of Transferred Subsidiaries.

ARTICLE VIII

Representations and Warranties of Purchaser

Purchaser hereby represents and warrants to Seller as follows:

SECTION 8.01. Organization, Standing and Authority. (a) Purchaser. Purchaser is a company duly organized and validly existing under the laws of New Zealand. Purchaser has all requisite corporate power and authority to enter into the Transaction Agreements to which it is a party and to consummate the Debt Financing and the transactions contemplated by the Transaction Agreements. All corporate and shareholder acts and other proceedings required to be taken by or with respect to Purchaser to authorize the execution, delivery and performance of the Transaction Agreements to which it is a party and the consummation of the Debt Financing and the transactions contemplated by the Transaction Agreements have been duly and properly taken. Each of the Transaction Agreements to which Purchaser is a party has been duly executed and delivered by Purchaser and constitutes the legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, subject as to enforceability to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws affecting creditors' rights generally from time to time in effect.

(b) Subsidiaries and Affiliates. Each of the Subsidiaries and Affiliates of Purchaser that will enter into any Other Transaction Agreement (together with Purchaser, the "Purchaser Entities") will, as of the applicable Closing Date and as of any earlier date on which such Purchaser Entity shall have executed and delivered any Other Transaction Agreement, (i) be duly organized and validly existing under the laws of its jurisdiction of organization and (ii) have all requisite corporate or organizational power and authority to enter into the Other Transaction Agreements to which it is a party and to consummate the transactions contemplated thereby, and as of such dates all corporate or organizational acts and other proceedings required to be taken by such Purchaser Entities to authorize the execution, delivery and performance of such Transaction Agreements and the consummation of the transactions contemplated thereby shall have been duly and properly taken. Each of the Transaction Agreements when duly executed and delivered by the relevant Purchaser Entities (other than Purchaser) shall constitute the legal, valid and binding obligation of such Purchaser Entities, enforceable against such Purchaser Entities in accordance with its terms, subject as to enforceability to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws affecting creditors' rights generally from time to time in effect.

SECTION 8.02. No Violation; Consents and Approvals. (a) The execution and delivery of this Agreement by Purchaser does not, and the execution and delivery by each of Purchaser and the other Purchaser Entities of the Other Transaction Agreements to which it is a party, and the consummation of the Debt Financing and the transactions contemplated by the Transaction Agreements and compliance with the terms of the Transaction Agreements will not, (i) conflict with or result in any violation of any provision of the certificate of incorporation or by-laws or comparable organizational documents of Purchaser or any other Purchaser Entity, (ii) conflict with, result in a violation or breach of, or constitute a default, or give rise to any right of termination, revocation, cancellation or acceleration, under, any note, bond, mortgage, indenture, deed of trust, license, lease, contract, commitment or agreement to which Purchaser or any other Purchaser Entity is a party, except for any such conflict, violation, breach, default or right which, individually or in the aggregate, is not reasonably likely to have a material adverse effect on the ability of Purchaser and the other Purchaser Entities to consummate the material transactions contemplated by the Transaction Agreements (a "Purchaser Material Adverse Effect") or (iii) conflict with or result in a violation of any Law applicable to Purchaser or any other Purchaser Entity or to the property or assets of Purchaser or any other Purchaser Entity, except for any such conflict or violation which, individually or in the aggregate, is not reasonably likely to have a Purchaser Material Adverse Effect.

(b) No consent, approval, license, permit, order or authorization of, registration, declaration or filing with, or notice to, any Governmental Entity is required to be obtained or made by or with respect to Purchaser or any other Purchaser Entity in connection with the execution and delivery of the Transaction Agreements or the consummation of the Debt Financing and the transactions contemplated by the Transaction Agreements, other than (i) those required to be made or obtained pursuant to the HSR Act or any other antitrust or competition law or regulation and (ii) such other consents, approvals, licenses, permits, orders, authorizations, registrations, declarations or filings the failure of which to be obtained or made, individually or in the aggregate, is not reasonably likely to have a Purchaser Material Adverse Effect.

SECTION 8.03. Brokers. No broker, investment banker, financial advisor or other person, other than Credit Suisse and Lazard Frères, the fees and expenses of which will be paid by Purchaser, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the Transaction Agreements or the transactions contemplated thereby based upon arrangements made by or on behalf of Purchaser or any of its Affiliates.

SECTION 8.04. Availability of Funds. The Debt Financing and Purchaser's cash on hand will provide funds at the Initial Closing sufficient to effect the Closings on the terms contemplated hereby.

SECTION 8.05. Securities Act. The capital stock and other equity interests of the Transferred Subsidiaries are being acquired for investment only and not with a view to any public distribution thereof, and Purchaser shall not offer to sell or otherwise dispose of the capital stock and other equity interests of any of the Transferred Subsidiaries in violation of any of the registration requirements of the Securities Act of 1933, as amended, and the rules and regulations existing thereunder.

SECTION 8.06. Financing. Complete and correct executed copies of the Financing Commitments have been delivered to Seller on or prior to the date of this Agreement. There are no conditions or other similar contractual contingencies limiting the obligations of the lenders to fund the Debt Financing other than those contained in the Financing Commitments (or in replacement commitments obtained by Purchaser in compliance with this Agreement). Except to the extent permitted by Section 10.09, the Financing Commitments (or any of the replacement commitments obtained by Purchaser in compliance with this Agreement) have not been amended, supplemented, replaced or otherwise modified by Purchaser and, as of the date hereof, the commitments contained in the Financing Commitments (or the commitments contained in replacement commitments obtained by Purchaser in compliance with this Agreement) have not been reduced, terminated, withdrawn or rescinded in any respect. As of the date hereof, the Financing Commitments are in full force and effect and are the legal, valid and binding obligations of Purchaser and, to Purchaser's knowledge, the applicable counterparties thereto. As of the date hereof, no event has occurred which, with or without notice, lapse of time or both, would constitute a default or breach on the part of Purchaser under any term or condition of the Financing Commitments. Purchaser has fully paid any commitment fees or other fees incurred in connection with the Debt Financing that have become due and payable. As of the date of this Agreement, Purchaser has no knowledge that any of the conditions or other contingencies to the Debt Financing will not be satisfied upon the satisfaction or waiver of the conditions set forth in Sections 5.01 and 5.02 or that the Debt Financing will not be available to Purchaser at the Closing.

SECTION 8.07. No Additional Representations. Except as set forth in Article VI, Purchaser further acknowledges that none of Seller, its Representatives or any other person has made any representation or warranty, express or implied, with respect to the Business or with respect to any information furnished or made available to Purchaser and its Representatives in connection with the transactions contemplated hereby, and none of Seller, its Representatives or any other person shall have or be subject to any liability or indemnification obligation to Purchaser or any other person resulting from the distribution to Purchaser, or Purchaser's use of, any such information, including any information, documents or material made available in any "data rooms" or management presentations or in any other form in expectation of the transactions contemplated hereby. Purchaser acknowledges that, upon the occurrence of any Closing, Purchaser shall acquire the Shares and Acquired Assets transferred at such Closing without any representation or warranty, including in respect of the Acquired Assets as to merchantability or fitness for any particular purpose (or, in the case of the Transferred Intellectual Property transferred at such Closing, as to the enforceability or validity thereof), in an "as is" condition and on a "where is" basis, except as otherwise expressly represented or warranted in Article VI.

ARTICLE IX

Covenants of Purchaser

Purchaser covenants and agrees as follows:

SECTION 9.01. Confidentiality. (a) Purchaser acknowledges that the information provided or to be provided to it by or on behalf of Seller in connection with the transactions contemplated by the Transaction Agreements is subject to the terms of the confidentiality agreement dated May 11, 2007 (the "Confidentiality Agreement"), between Purchaser and Seller, the terms of which are incorporated herein by reference; provided that the Confidentiality Agreement shall not prohibit any disclosure as may be reasonably required in connection with arranging the Debt Financing (subject to customary confidentiality arrangements). The Confidentiality Agreement shall terminate as of the Initial Closing Date.

(b) Notwithstanding Section 9.01(a), Purchaser agrees that any Evaluation Material, whether oral or written, relating to Seller or any of its Subsidiaries (other than information relating to the Business) which is obtained, directly or indirectly, by Purchaser or any of its Affiliates or any of their Representatives, including through any transfer to the Transferred Subsidiaries of Covered Employees, shall be kept confidential thereby and promptly returned to Seller or, at the request of Seller, destroyed. The covenant set forth in this Section 9.01(b) shall terminate three years after the Initial Closing Date.

SECTION 9.02. Performance of Obligations by Purchaser After the Closing Dates. From and after the applicable Closing, Purchaser shall cause the Transferred Subsidiaries to duly, promptly and faithfully pay, honor, perform and discharge all the Assumed Liabilities with respect to each Country Unit transferred at such Closing.

SECTION 9.03. Bulk Transfer Laws. Purchaser hereby waives, for itself and on behalf of its Subsidiaries, compliance by Seller and its Subsidiaries with the provisions of any so-called “bulk transfer law” or similar law of any jurisdiction in connection with the transfers contemplated by the Transaction Agreements.

SECTION 9.04. Name of Certain Entities. (a) Neither Purchaser nor any of its Subsidiaries shall have a corporate name, or do business using a name, that includes as part of its name “Alcoa” or “Aluminum Company of America” or any derivative thereof. Without limiting the generality of the foregoing, as soon as practicable following the applicable Closing, Purchaser shall cause the names of the Transferred Subsidiaries to be changed to names that do not include as part of their name “Alcoa” or “Aluminum Company of America”.

(b) Notwithstanding anything to the contrary contained in this Agreement, Purchaser shall, for a period of 180 days following the Initial Closing Date, be entitled to use the Excluded Marks to (i) package and sell products of the Business in any packaging material included in the assets transferred to Purchaser under this Agreement (notwithstanding that such packaging material contains one or more Excluded Marks), (ii) use stationery, signage, invoices, receipts, forms and like materials containing one or more Excluded Marks, and (iii) sell products of the Business from inventory that have the Excluded Marks or related marks embedded therein or imprinted thereon; provided, however, that notwithstanding clauses (i) through (iii) above, Purchaser may, for a period of two years following the Initial Closing Date, continue to manufacture and sell products of the Business from inventory (either existing at the time of the Initial Closing or manufactured thereafter) that have one or more Excluded Marks embedded therein or imprinted thereon so long as Purchaser discontinues such usage on individual products upon replacing any printing plates and molds relating to such products. At the end of the applicable periods set forth in this Section 9.04, Purchaser agrees that it will destroy or return to Seller any remaining packaging material containing any Excluded Marks.

SECTION 9.05. Access. Without limiting the rights of access afforded by Section 4.03, after the applicable Closing for each Country Unit, Purchaser will, and will cause its Subsidiaries to, give Seller and its Subsidiaries and their Representatives reasonable access, during normal business hours and upon reasonable notice, to all management personnel of the Business and all books, documents, information, data, files and other records relating to (i) Seller's operation of the Business conducted by such Country Unit prior to such Closing, (ii) the Transferred Employees, (iii) the Excluded Assets or (iv) the Excluded Liabilities, and to furnish copies thereof, which Seller or its Subsidiaries or their Representatives reasonably request, including in connection with claims, proceedings, actions, investigations, audits, and other regulatory or legal proceedings involving (w) the operation of the Business conducted by such Country Unit prior to such Closing, (x) the Transferred Employees, (y) the Excluded Assets or (z) the Excluded Liabilities, and Purchaser shall furnish reasonable assistance (including access to personnel) to Seller and its Subsidiaries and their Representatives in connection with such claims and other proceedings. Purchaser shall not, and shall not permit any of the Purchaser Entities (other than Purchaser) to, destroy any such records prior to the seventh anniversary of the applicable Closing, and in any event will not destroy or permit the destruction of any such records without providing Seller with notice detailing the contents of such records, and providing Seller with the opportunity to obtain such records, at least 120 days prior to the destruction thereof.

SECTION 9.06. Replacement of Credit Support. Purchaser shall arrange, at its sole cost and expense, for replacement arrangements, effective as of the applicable Closing, for all guarantees, covenants, indemnities, surety bonds, letters of credit, comfort letters or similar assurances of credit support provided by Seller or any of its Affiliates for the benefit of the Business that are in existence as of such Closing ("Seller Guarantees") and identified in Section 9.06 of the Seller Disclosure Letter, and shall obtain releases indicating that Seller and its Affiliates have no further liability with respect thereto, in each case reasonably satisfactory to Seller. Purchaser shall indemnify and hold harmless Seller and its Affiliates from and against any Losses suffered or incurred by them in connection with any Seller Guarantees.

SECTION 9.07. Purchaser Payment in the Event of a Subsequent Third Party Sale. (a) If within a period of 18 months from the date of the Initial Closing, Purchaser consummates any Third Party Sale Transaction and the Enterprise Value represented by such transaction exceeds the Worldwide Purchase Price allocated to the Business or to the Substantial Part of the Business sold (the "Applicable Purchase Price") by more than 10% of such allocated portion of the Worldwide Purchase Price (the "Threshold"), then Purchaser shall pay Seller, with respect to such Third Party Sale Transaction, 50% of the amount by which the Enterprise Value exceeds the sum of the Applicable Purchase Price and the Threshold.

(b) The term "Enterprise Value" shall mean (i) in the case of a sale of assets or shares or securities, the sum of the cash consideration received by Purchaser (including (A) amounts paid into escrow or similar accounts on Purchaser's behalf, (B) amounts received in respect of a non-compete obligation and (C) amounts received pursuant to earn-out or other similar provisions, in each case with respect to such sale of assets or shares or securities) plus any indebtedness assumed by the third party as part of the Third Party Sale Transaction, or (ii) in the case of a merger or other transfer involving an exchange or redemption of shares or securities, the sum of the amount paid by the third party to purchase such assets (including (A) amounts paid into escrow or similar accounts on Purchaser's behalf, (B) amounts received in respect of a non-compete obligation and (C) amounts received pursuant to earn-out or other similar provisions, in each case with respect to such merger or other transfer involving an exchange or redemption of shares or securities), plus the fair market value of any assets of Purchaser which are retained by or otherwise distributed to its stockholders or Affiliates in anticipation of or in connection with the Third Party Sale Transaction, plus any indebtedness assumed by such third party as part of the Third Party Sale Transaction.

(c) The term "Substantial Part of the Business" shall mean (i) any of the "Consumer Products", the "Closure Systems International", the "Reynolds Food Packaging" or the "Flexible Packaging" business units as operated by Seller prior to the Initial Closing Date, (ii) equity ownership interests or assets representing an interest in or comprising 50% or more of the revenue of any such business unit, measured as of the date of the Third Party Sale Transaction, or (iii) equity ownership interests or assets representing an interest in or comprising 25% or more of the revenue of the Business, measured as of the date of the Third Party Sale Transaction.

(d) The term "Third Party Sale Transaction" shall mean the divestiture to an entity that is not a Specified Affiliate (i) of 50% or more of the equity ownership interest of Purchaser (through a sale of such equity ownership interest, assets, merger, consolidation or similar transaction) in the Business or a Substantial Part of the Business, or (ii) of a majority of the business or assets of Purchaser in a single transaction or a series of related transactions.

SECTION 9.08. Insurance. If (i) any Losses are suffered with respect to an Excluded Asset or (ii) any Losses arise prior to or following the applicable Closing that constitute Excluded Liabilities (any Loss described in clause (i) or (ii), a "Recoverable Matter"), and claims with respect to a Recoverable Matter may be made against insurance policies of a Transferred Subsidiary that remain in effect following the applicable Closing or that otherwise were transferred to Purchaser or its Affiliates, then Purchaser shall use its commercially reasonable efforts to file, provide notices regarding such claims and otherwise continue to pursue such claims on behalf of and with the cooperation of Seller or its Affiliates under the terms of such policies to the extent of a Recoverable Matter. To the extent the proceeds are not paid directly to any third party, Purchaser agrees to promptly pay to Seller any such amounts or assign to Seller any benefits (in each case, net of any out-of-pocket costs or expenses incurred by Purchaser) that Purchaser or its Affiliates may receive in respect of such Losses under such insurance policies to the extent such amounts or benefits arise from such Recoverable Matter; provided that, with respect to each claim, any amount paid or benefit assigned to Seller shall be limited to the amount of the related Recoverable Matter for which such claim was made.

ARTICLE X

Mutual Covenants

Each of Seller and Purchaser covenants and agrees as follows:

SECTION 10.01. Consents. Notwithstanding anything in any of the Transaction Agreements to the contrary, none of the Transaction Agreements shall constitute an agreement to assign or transfer any interest in any Assigned Contract, Acquired Intellectual Property, Acquired Permit or other asset, claim, right or benefit the transfer of which is otherwise contemplated hereby if such an assignment or transfer or attempt to make such an assignment or transfer without the consent or approval of a third party would constitute a breach or other contravention of the rights of such third party, or affect adversely the rights of any party hereto or any of their Affiliates, as the case may be, thereunder (such assets being collectively referred to herein as "Restricted Assets"); and any transfer or assignment by any Selling Company of any interest under any such Restricted Asset shall be made subject to such consent or approval being obtained. Subject to the other terms and conditions of this Section 10.01, (i) Seller and Purchaser each shall use reasonable best efforts, and shall cause their Affiliates to use reasonable best efforts, to obtain such consents or approvals prior to the applicable Closing and (ii) in the event any such consent or approval is not obtained prior to the applicable Closing, (A) Seller shall continue at Purchaser's request to use reasonable best efforts to cooperate with Purchaser in Purchaser attempting to obtain any such consent or approval, and (B) to the extent practicable, Seller and Purchaser agree to negotiate in good faith with respect to alternative arrangements (such as a license, sublease or operating agreement) (each, an "Alternative Arrangement") until such time as such consent or approval has been obtained which result in Purchaser or any of its Affiliates receiving all the benefits and bearing all the costs, liabilities and burdens with respect to any such Restricted Asset; provided that (x) subject to clauses (vi) and (vii) of Section 13.03, Seller shall bear all costs, expenses, obligations and liabilities incurred in connection with the obtaining of consents for (and in connection with any Alternative Arrangement for) the leases for the Leased Properties and (y) Purchaser shall bear all costs, expenses, obligations and liabilities incurred in connection with the obtaining of consents from (and in connection with any Alternative Arrangement for) any customers or suppliers of the Business. Purchaser and Seller each shall undertake to pay or satisfy one-half of all costs, expenses, obligations and liabilities incurred by Seller or any of its Subsidiaries in connection with any Alternative Arrangement except to the extent such Alternative Arrangement arises from obtaining a consent for any lease for the Leased Properties or from any customer or supplier of the Business as provided above. Notwithstanding anything in the Transaction Agreements to the contrary, unless and until any such consent or approval with respect to any Restricted Asset is obtained, such Restricted Asset shall not constitute an Acquired Asset and any associated liability shall not constitute an Assumed Liability for any purpose under the Transaction Agreements, and, without limiting any other closing condition set forth herein, the failure of any such consent or approval to be obtained or the failure of any such Restricted Asset to constitute an Acquired Asset or any circumstances resulting therefrom shall not, individually or in the aggregate, constitute a Business Material Adverse Effect or a breach by any of Seller or any of its Subsidiaries of any representation or warranty (other than to the extent there is a breach of Section 6.02(a)), covenant or agreement under any of the Transaction Agreements except to the extent of any breach by Seller of Section 10.03.

SECTION 10.02. Publicity. Seller and Purchaser each agree that no public release or announcement concerning the transactions contemplated by the Transaction Agreements shall be issued by such party or any of its Affiliates or any of their Representatives without the prior written consent of the other such party, except as, and then only to the extent, required by applicable law or the rules or regulations of any United States or foreign securities exchange on which securities of such party are listed, in which case the party that is required (or whose Affiliates or Representatives are required) to make the release or announcement shall allow the other such party reasonable time to comment on such release or announcement in advance of such issuance; provided, however, that each of Seller and Purchaser may make internal announcements to their respective employees that are consistent with the parties' prior public disclosures regarding the transactions contemplated hereby after reasonable prior notice to and consultation with such other party.

SECTION 10.03. Reasonable Best Efforts. Subject to the terms and conditions set forth in this Agreement, including Section 10.01, each of Seller and Purchaser shall use its reasonable best efforts to cause each Closing to occur, including using its reasonable best efforts to obtain all material consents, permits, authorizations and approvals of, and to make all necessary filings, notifications or registrations with, all Governmental Entities and other persons which are necessary for the consummation of the transactions contemplated by the Transaction Agreements. Further, if the Initial Closing occurs and any Foreign Country Unit has not been transferred to Purchaser, each of Seller and Purchaser shall use its reasonable best efforts to cause such Foreign Country Units to be transferred as promptly as practicable thereafter. The parties agree that the obligations of Seller under this Section 10.03 and under Section 10.04 shall not require it to spend any material amount of money or make any material economic concessions in connection with (i) the Debt Financing, (ii) obtaining consents for which Purchaser bears the costs, expenses, obligations and liabilities under Section 10.01 and (iii) obtaining approvals required by the HSR Act or any other antitrust or competition law or regulation; provided, however, that Seller shall pay the costs, fees and expenses (x) imposed on Seller in connection with the making of all filings, notifications or registrations with all Governmental Entities which are necessary for the consummation of the transactions contemplated by the Transaction Agreements and (y) incurred by Seller in furnishing any information and assistance as may be reasonably requested by Purchaser as provided in Section 10.04.

SECTION 10.04. Regulatory Matters. Without limiting the generality of Section 10.03, each of Seller and Purchaser shall (i) as promptly as practicable make any filing with the FTC and the DOJ required under the HSR Act with respect to the transactions contemplated by the Transaction Agreements, (ii) as promptly as practicable make or cause their Affiliates to make any filing or notice required under any other antitrust or competition law or other law or regulation applicable to the Transaction Agreements or the transactions contemplated thereby and (iii) provide any supplemental information requested in connection with the HSR Act or such other antitrust, competition or other laws or regulations as promptly as practicable after such request is made. Each of Seller and Purchaser shall, and shall cause their Affiliates to, furnish to the other such information and assistance as the other may reasonably request in connection with its preparation of any filing or submission which is necessary under the HSR Act or such other laws or regulations or which is otherwise requested by the FTC or DOJ or other Governmental Entity in the course of any review of the transactions contemplated by the Transaction Agreements. Seller and Purchaser shall keep each other apprised of the status of any communications with, and inquiries or requests for additional information from, the FTC and DOJ or other Governmental Entity. Without limiting the generality of Section 10.03, each of Seller and Purchaser shall use its reasonable best efforts to obtain any clearance or approvals required under the HSR Act or such other laws or regulations for the consummation of the transactions contemplated by the Transaction Agreements. For purposes of Sections 10.03 and 10.04 of this Agreement, the "reasonable best efforts" of Purchaser shall include a proffer of its willingness to accept an order to divest any Shares or Acquired Assets and to hold separate such Shares or Acquired Assets pending such divestiture (and the execution of a consent decree or other agreement giving effect thereto).

SECTION 10.05. Intracompany and Intercompany Arrangements. (a) Intracompany Arrangements. Seller and Purchaser acknowledge and agree that, except as specifically agreed by them in writing, each Intracompany Arrangement shall remain outstanding and shall not be settled (other than settlements that occur in the ordinary course) until Purchaser has acquired all the Country Units that are parties to such arrangement, notwithstanding the terms of such arrangement.

(b) Intercompany Arrangements.

(i) Seller and Purchaser acknowledge and agree that, except as specifically agreed by them in writing, prior to the Closing for each Country Unit, all Applicable Intercompany Arrangements for such Country Unit shall be terminated and all related intercompany balances shall be settled, except for Applicable 30 Days' Trade Accounts Payable and Applicable 30 Days' Trade Accounts Receivable for such Country Unit which shall remain outstanding; provided that in the event that Seller cannot terminate and settle any Applicable Intercompany Arrangement in respect of a Country Unit (other than any Applicable 30 Days' Trade Accounts Payable or any Applicable 30 Days' Trade Accounts Receivable) prior to the Closing of such Country Unit, Seller shall use reasonable best efforts to terminate and settle such Applicable Intercompany Arrangement post-Closing on the same basis as if it had been terminated and settled prior to the applicable Closing (it being understood and agreed that to the extent a Country Unit after the Closing of such Country Unit makes any payment to Seller or its Subsidiaries (other than the Transferred Subsidiaries) pursuant to such an unterminated Intercompany Arrangement (other than an Applicable 30 Days' Trade Accounts Payable) or receives from Seller or its Subsidiaries (other than the Transferred Subsidiaries) any payment pursuant to such an unterminated Intercompany Arrangement (other than an Applicable 30 Days' Trade Accounts

Receivable), there shall be a net cash settlement between Purchaser and Seller to fully reverse such payments promptly following such Closing in connection with the settlement and termination of such Applicable Intercompany Arrangement.

(ii) Notwithstanding anything in this Agreement to the contrary, Seller and Purchaser acknowledge and agree that (A) all Intercompany Arrangements to which a Country Unit for which there has not been a Closing is a party shall remain in full force and effect until the Closing for such Country Unit and (B) Purchaser shall, or shall cause any Country Unit for which a Closing has occurred to, enter into any arrangement with Seller or any of its Subsidiaries consistent with past practice, in each case to the extent necessary to allow Seller to conduct the Business in the ordinary course through each Country Unit for which there has not been a Closing until the applicable Closing with respect to such Country Unit.

(c) Definitions. (i) The term "Intracompany Arrangement" shall mean any account or arrangement between, among or within one or more Country Units, including (i) between a Transferred Subsidiary and any other Transferred Subsidiary, (ii) between a Transferred Subsidiary and an Asset Selling Company (to the extent that such account or arrangement arises from the Business), (iii) between an Asset Selling Company and any other Asset Selling Company (to the extent that such account or arrangement arises from the Business) or (iv) within an Asset Selling Company (to the extent that such account or arrangement arises from the Business).

(ii) The term "Intercompany Arrangement" shall mean any account or arrangement between a Country Unit (including an Applicable Asset Selling Company or an Applicable Transferred Subsidiary), on the one hand, and Seller or any of its Subsidiaries (other than any Applicable Asset Selling Company or Applicable Transferred Subsidiary), on the other hand.

(iii) The term "Applicable Asset Selling Company" shall mean, in respect of a Country Unit, an Asset Selling Company which transfers Acquired Assets and Assumed Liabilities in respect of the Business of such Country Unit to Purchaser on the applicable Closing Date for such Country Unit.

(iv) The term "Applicable Transferred Subsidiary" shall mean, in respect of a Country Unit, a Transferred Subsidiary which is transferred to Purchaser on the applicable Closing Date in respect of such Country Unit.

(v) The term "Applicable Intercompany Arrangement" shall mean, with respect to a Country Unit, an Intercompany Arrangement to which an Applicable Transferred Subsidiary or an Applicable Asset Selling Company of such Country Unit is a party.

(vi) The term "Applicable 30 Days' Trade Accounts Payable" shall mean, in respect of a Country Unit, trade accounts payable by such Country Unit to Seller or its Subsidiaries (other than an Applicable Asset Selling Company or an

Applicable Transferred Subsidiary of such Country Unit) and outstanding for 30 days or less prior to the applicable Closing Date for such Country Unit.

(vii) The term "Applicable 30 Days' Trade Accounts Receivable" shall mean, in respect of a Country Unit, trade accounts receivable by such Country Unit from Seller or its Subsidiaries (other than an Applicable Asset Selling Company or an Applicable Transferred Subsidiary of such Country Unit) and outstanding for 30 days or less prior to the applicable Closing Date for such Country Unit.

SECTION 10.06. Further Assurances. From time to time after the applicable Closing, and for no further consideration, each of Seller and Purchaser shall, and shall cause their respective Affiliates to, execute, acknowledge and deliver such assignments, transfers, consents, assumptions and other documents and instruments and take such other actions as may reasonably be requested to more effectively convey to, transfer to or vest in Purchaser, the Shares, the Acquired Assets and the Assumed Liabilities contemplated by this Agreement to be transferred or assumed at such Closing (including (i) transferring back to the relevant Selling Company any asset or liability which is not an Acquired Asset or Assumed Liability, respectively, and which asset or liability was transferred to Purchaser and (ii) transferring to Purchaser any Acquired Asset or Assumed Liability contemplated by this Agreement to be transferred to Purchaser which was not so transferred).

SECTION 10.07. Other Transaction Agreements. Subject to the terms and conditions hereof, each of Seller and Purchaser shall cause its Affiliates who are parties to Other Transaction Agreements to perform, pay and satisfy all of their respective obligations and liabilities thereunder as and when due.

SECTION 10.08. Purchase Price Allocation. (a) As of the date of this Agreement, Seller and Purchaser have agreed to allocate the Worldwide Purchase Price (including all Assumed Liabilities) among (i) the "Consumer Products" division, (ii) the "Flexible Packaging" division, (iii) the "Reynolds Food Packaging" division, (iv) the "Closure Systems International" division and (v) the covenant given by Seller in Section 10.10, as set forth in Annex 5 (the "Allocation Schedule"), which allocation shall be final and binding on Seller and Purchaser.

(b) At or prior to the date of this Agreement, Seller shall engage KPMG as independent appraisal firm (the "Appraisal Firm") to perform, based upon and consistent with the Allocation Schedule, an appraisal to determine the detailed allocation of the Worldwide Purchase Price (including all Assumed Liabilities) among the Country Units, the Shares and the Acquired Assets (as finalized in accordance with this Section 10.08, the "Appraisal") for Tax purposes.

(c) Seller shall (i) furnish to the Appraisal Firm and Purchaser all information reasonably requested by the Appraisal Firm in connection with the Appraisal, (ii) control and supervise the Appraisal Firm, (iii) keep Purchaser reasonably informed about drafts of the Appraisal and provide copies of any such drafts to Purchaser, (iv) give

Purchaser the opportunity to provide written comments on such drafts, (v) consider, and cause the Appraisal Firm to consider, any such comments of Purchaser in good faith, and (vi) give Purchaser a reasonable opportunity to participate in, listen to, or be copied on all material communications with the Appraisal Firm. For the avoidance of doubt, all material information provided to the Appraisal Firm by Seller shall also be provided to Purchaser.

(d) Not later than February 15, 2008, the Appraisal Firm shall deliver the Appraisal, which shall be binding upon Seller and Purchaser for all Tax purposes; provided that, notwithstanding anything else contained herein, in the event of a disagreement between Seller and Purchaser about a material item in any draft appraisal, the Appraisal Firm shall not deliver the Appraisal until such disagreement is resolved by the parties.

(e) Seller shall be responsible for 50% of the fees and expenses of the Appraisal Firm, and Purchaser shall be responsible for 50% of such fees and expenses.

(f) Seller shall prepare, or cause its respective Affiliates to prepare, IRS Form 8594 (and any similar forms under applicable state, local or foreign Tax laws) in accordance with the Appraisal and applicable Tax laws (the "Proposed Purchase Price Allocation"). Seller shall present such Proposed Purchase Price Allocation to Purchaser for review as soon as reasonably practicable after the receipt of the Appraisal. Except as provided in Section 10.08(g) and (h), at the close of business on the 30th day after delivery of the Proposed Purchase Price Allocation, the Proposed Purchase Price Allocation shall become binding upon Purchaser and Seller and shall be the final allocation (the "Final Purchase Price Allocation").

(g) Purchaser shall raise any objection to the Proposed Purchase Price Allocation in writing within 30 days of the delivery of the Proposed Purchase Price Allocation. Seller and Purchaser shall negotiate in good faith to resolve any difference for 30 days after delivery of any objection by Purchaser. If Purchaser and Seller reach written agreement amending the Proposed Purchase Price Allocation, then the Proposed Purchase Price Allocation, as so amended, shall become binding upon Purchaser and Seller and shall be the Final Purchase Price Allocation.

(h) If Seller and Purchaser cannot agree on the appropriate allocation within the 30-day period set forth in Section 10.08(g) above, then all remaining disputed items shall be submitted for resolution by an accounting firm mutually selected by Seller and Purchaser (the "Allocation Accounting Firm"). The Allocation Accounting Firm shall make a final determination as to the disputed items within 30 days after such submission. Such determination shall be limited to determining whether the Proposed Purchase Price Allocation is both reasonable and reasonably likely to be sustained in an IRS audit and shall be final, binding and conclusive on Seller and Purchaser and shall be the Final Purchase Price Allocation. The fees and expenses of the Allocation Accounting Firm shall be shared equally between Seller and Purchaser.

(i) Except as required by Law, Seller and Purchaser shall not take, or permit any of their respective Affiliates to take, any Tax position inconsistent with the Appraisal or the Final Purchase Price Allocation.

(j) If, as a result of a change in circumstances (including indemnity payments under Article XIII) after the preparation of the Final Purchase Price Allocation, the Worldwide Purchase Price will be adjusted, then the Appraisal and Final Purchase Price Allocation shall be adjusted accordingly.

SECTION 10.09. Debt Financing.

(a) (i) Seller shall, and shall cause its Subsidiaries to, and shall request that its and its Subsidiaries' independent auditors, legal counsel and other advisors, provide reasonable cooperation in connection with the arrangement of the Debt Financing as may be reasonably requested by Purchaser or its Affiliates, including:

(A) participating in a reasonable number of management presentations and due diligence sessions for the benefit of Purchaser's Debt Financing sources; provided that the persons participating in such management presentations shall be limited to Covered Employees;

(B) providing Purchaser and its financing sources with all financial and other pertinent information regarding the Business as may be reasonably requested by the lenders of Purchaser that is of the type and form customarily included in private placement memoranda relating to private placements under Rule 144A of the Securities Act of 1933, as amended; provided that Seller shall have no obligation to provide audited financial information other than the Audited Financial Statements that have been provided as of the date of this Agreement;

(C) using reasonable efforts to obtain accountants' comfort letters, accountants' reports and accountants' consents reasonably necessary in connection with the Debt Financing;

(D) reasonably cooperating with Purchaser's facilitation of the delivery in connection with the Debt Financing of collateral security, surveys and title insurance with respect to the Business; and

(E) reasonably cooperating with surety bond and letter of credit providers with respect to the Debt Financing;

provided that (x) such requested cooperation does not unreasonably interfere with the ongoing operations of Seller and its Subsidiaries, (y) neither Seller nor any of its Subsidiaries shall be required to pay any commitment or other similar fee or incur any other liability (for which it is not indemnified by Purchaser) in connection with the Debt Financing and (z) Seller and its representatives shall not be required to deliver any certificates or legal opinions in connection with the Debt Financing. Purchaser shall reimburse Seller for reasonable out-of-pocket costs incurred in connection with the Debt Financing.

(ii) Seller shall have the right to consent (not to be unreasonably withheld) to the use of the logos and trademarks of the Business in connection with the Debt Financing.

(b) (i) Purchaser shall, and shall cause its Affiliates to, use reasonable best efforts to take, or cause to be taken, all appropriate action, do, or cause to be done, all things reasonably necessary, proper or advisable under applicable laws, and to execute and deliver, or cause to be executed and delivered, such instruments and documents as may be required, to arrange and consummate the Debt Financing on or prior to the Initial Closing on the terms and subject only to the conditions contained in the Financing Commitments (or replacement commitments obtained by Purchaser in compliance with this Agreement), including using its reasonable best efforts to cause the conditions in the Financing Commitments (or replacement commitments obtained by Purchaser in compliance with this Agreement) that are within Purchaser's control to be satisfied. For the avoidance of doubt and notwithstanding anything to the contrary in this Section 10.09, Purchaser acknowledges and agrees that its obligation to consummate the transactions contemplated by this Agreement on the terms and subject to the conditions set forth herein are not conditioned upon the availability or consummation of the Debt Financing or receipt of the proceeds therefrom.

(ii) Purchaser shall not agree to any material amendment, supplement or other modification of, or waive any of its rights under, the Financing Commitments (or replacement commitments obtained by Purchaser in compliance with this Agreement) or the definitive agreements relating to the Debt Financing without Seller's prior written consent, except that Purchaser may amend, supplement or otherwise modify or replace the Financing Commitments (or replacement commitments obtained by Purchaser in compliance with this Agreement) if such amendment, supplement or other modification or replacement (A) does not contain additional or modified conditions or other similar contractual contingencies limiting the obligation of the lenders to fund the Debt Financing relative to those contained in the Financing Commitments (or replacement commitments obtained by Purchaser in compliance with this Agreement) and (B) is otherwise not reasonably likely to impair or delay the funding of the Debt Financing or the Closings (it being understood that, subject to the requirements of this clause (ii), such amendment, supplement or other modification of the Financing Commitments (or replacement commitments obtained by Purchaser in compliance with this Agreement) may provide for the assignment of a portion of the Financing Commitments (or replacement commitments obtained by Purchaser in compliance with this Agreement) to additional agents or arrangers and grant such persons approval rights with respect to certain matters as are customarily granted to additional agents or arrangers).

(iii) If any portion of the Debt Financing becomes unavailable on the terms and conditions contained in the Financing Commitments (or any replacement commitments obtained by Purchaser in compliance with this Agreement), Purchaser shall promptly notify Seller, and Purchaser shall have the right but not the obligation to seek and obtain replacement commitments for financing on such terms as may be available. If such replacement commitments are obtained, copies of such replacement commitments will promptly be provided to Seller. For the avoidance of doubt and notwithstanding anything to the contrary in this Section 10.09, Purchaser acknowledges and agrees that its obligation to consummate the transactions contemplated by this Agreement on the terms and subject to the conditions set forth herein are not conditioned upon the availability or consummation of the Debt Financing, the availability of any such replacement commitments or receipt of the proceeds therefrom.

(c) Purchaser shall, upon request by Seller, update Seller regarding the status of the Debt Financing.

SECTION 10.10. Non-Solicitation; Non-Competition.

(a) (i) Seller agrees that for the period commencing on the Initial Closing Date and expiring on the first anniversary thereof, unless otherwise agreed to by Seller and Purchaser, neither Seller nor any of its Subsidiaries will directly or indirectly (i) induce or encourage any Covered Employee holding a management or executive level position to reject Purchaser's offer of employment or accept any other position or employment, (ii) solicit for employment or any similar arrangement any Transferred Employee who holds a management or executive level position with Purchaser or any of its Affiliates after the Initial Closing Date or (iii) employ or assist any other person in employing any such Transferred Employee; provided, however, that this Section 10.10(a)(i) shall not prohibit (x) a general solicitation to the public or the hiring of someone who responds to such general solicitation or (y) the hiring of any employee who is terminated by Purchaser and its Affiliates. Purchaser shall, and shall cause its Affiliates to, render full cooperation to Seller in Seller's efforts to solicit for employment or any similar arrangement, or employ or otherwise retain, any Transferred Employee who is terminated by Purchaser and its Affiliates after the Initial Closing Date.

(ii) Purchaser agrees that for the period commencing on the Initial Closing Date and expiring on the first anniversary thereof, unless otherwise agreed to by Seller and Purchaser, neither Purchaser nor any of its Affiliates will directly or indirectly (i) solicit for employment or any similar arrangement any employee of Seller or its Affiliates who holds a management or executive level position with Seller or any of its Affiliates after the Initial Closing Date or (ii) employ or assist any other person in employing any such employee of Seller or its Affiliates; provided, however, that this Section 10.10(a)(ii) shall not prohibit (x) a general solicitation to the public or the hiring of someone who responds to such general solicitation or (y) the hiring of any employee who is terminated by Seller and its Affiliates.

(b) (i) From the date of this Agreement to the third anniversary of the Initial Closing Date, neither Seller nor any of its Subsidiaries shall directly or indirectly engage in any business that competes in any material respect with the Business as conducted on the Initial Closing Date (a "Prohibited Business"); provided that "Prohibited Business" shall not include any business (other than the Business) that is conducted by Seller or its Subsidiaries on the date of this Agreement.

(ii) Section 10.10(b)(i) shall be deemed not breached as a result of the ownership by Seller or any of its Affiliates of (i) less than an aggregate of 20% of any class of equity interests in a person engaged, directly or indirectly, in a Prohibited Business, (ii) less than 20% of the aggregate principal amount of indebtedness of a person engaged, directly or indirectly, in a Prohibited Business or (iii) a person that engages, directly or indirectly, in a Prohibited Business if such Prohibited Business accounts for less than 20% of such person's consolidated annual revenues or earnings.

SECTION 10.11. Migration Services. In the event that Purchaser requires any migration services (the "Migration Services") in respect of the Business to Purchaser or designated third parties, Purchaser shall submit a written request describing such services to Seller, and the parties shall meet to discuss and mutually agree, each party acting reasonably, on the scope of the Migration Services (it being understood that Purchaser shall desire to execute such Migration Services as soon as practicable). Seller will then provide the Migration Services pursuant to the timing schedule and terms that are mutually established. By way of example, Section 10.11 of the Seller Disclosure Letter lists the Migration Services that Seller will provide to facilitate Purchaser's migration. Seller shall pay for all of its internal costs and expenses associated with the Migration Services. Purchaser shall pay for all third-party costs and expenses, including Seller's out-of-pocket expenses, associated with the Migration Services.

SECTION 10.12. New Purchaser Entities. Seller agrees that, prior to the Initial Closing Date, Purchaser shall have the right to use the name "Reynolds" as part of the company name of one or more legal entities organized for the purpose of consummating the transactions contemplated by the Transaction Agreements (each, a "New Purchaser Entity"); provided that (i) no New Purchaser Entity shall engage in any business activity prior to the Initial Closing Date (other than activities associated with obtaining Permits needed to commence the operation and conduct of the Business following the applicable Closing) and (ii) in the event of any termination of this Agreement, Purchaser shall, as soon as practicable, cause the corporate name of each New Purchaser Entity to be changed to a name that does not include as part of its name "Reynolds".

SECTION 10.13. Mutual Non-Assert. (a) Purchaser agrees that it will not assert against Seller any claims founded in the Transferred Technology or Transferred Intellectual Property, it being acknowledged that Seller and its Subsidiaries shall have the right to use such items in the conduct of its business; provided, however, that the foregoing does not apply to Transferred Technology or Transferred Intellectual Property that is as of the applicable Closing exclusively used by Seller and its Subsidiaries in the conduct of Business as of such Closing unless such Transferred Technology or Transferred Intellectual Property has been used in a business (other than the Business) of

Seller or its Subsidiaries within the three years prior to the date of this Agreement; provided, however, that the foregoing does not apply to Purchaser's rights to the Acquired Marks.

(b) Seller agrees that it will not assert against Purchaser any claims that are founded in Seller's intellectual property rights that are used in the conduct of the Business and existing as of the Initial Closing Date, it being acknowledged that Purchaser and its Subsidiaries shall have the right to use such items in the conduct of its business; provided, however, that the foregoing does not apply to Seller's rights to the Seller Marks or the intellectual property listed in Section 10.13(b) of the Seller Disclosure Letter.

SECTION 10.14. Pre-Closing Transition Planning. From time to time prior to the Initial Closing, representatives of Seller and Purchaser shall have in person or telephonic meetings to discuss the transition of material commercial arrangements of the Business to Purchaser, including the transitioning of third-party payments to the account of Purchaser, the establishing of new bank accounts for Transferred Subsidiaries and the replacement of bonds and powers of attorney, all with the intent of minimizing disruption to the Business immediately following the Initial Closing. Seller agrees to provide notices to third parties requested by Purchaser in such form as may be agreed by Seller and Purchaser. Seller also agrees to use reasonable commercial efforts to identify with greater detail any material Permits that are described in general terms on Section 6.15.

SECTION 10.15. Japanese Subsidiary. (a) Purchaser shall, with the reasonable assistance of Seller and its Subsidiaries, and in accordance with applicable Law, prepare to launch a tender offer for the purchase by Purchaser or any of its Affiliates of all of the issued and outstanding shares of capital stock of Alcoa Closure Systems Japan, Ltd. (the "Japanese Subsidiary"), including, without limitation, all shares of the Japanese Subsidiary owned by the applicable Stock Selling Company (the "Tender Offer"). Purchaser need not launch the Tender Offer until the date of the Initial Closing.

(b) Notwithstanding anything herein to the contrary, Seller and Purchaser agree that (i) in no event shall a Foreign Country Unit Closing occur in respect of the Foreign Country Unit located in Japan prior to the valid and legal tender of shares by the applicable Stock Selling Company in the Tender Offer in accordance with applicable Law and (ii) the aggregate consideration to paid by Purchaser or its Affiliates in the Tender Offer for shares of the Japanese Subsidiary owned by Seller or its Affiliates shall not exceed the purchase price allocated to the Foreign Country Unit located in Japan (which shall be calculated based on the Appraisal or as the parties may otherwise agree).

ARTICLE XI

Other Transaction Agreements

SECTION 11.01. Scrap Metal Agreement. On the Initial Closing Date, Purchaser and Seller agree that a Scrap Metal Agreement, substantially in the form attached as Exhibit C hereto (the "Scrap Metal Agreement") will be executed by the parties thereto.

SECTION 11.02. Metal Supply Agreement. On the Initial Closing Date, Purchaser and Seller agree that a Metal Supply Agreement with respect to the provision of aluminum from Seller or its Affiliates to Purchaser, substantially in the form attached as Exhibit E hereto (the "Metal Supply Agreement") will be executed by the parties thereto.

SECTION 11.03. Intellectual Property Assignments. On the Initial Closing Date, Purchaser and Seller agree that a U.S. Patents and Patent Applications Assignment, substantially in the form attached as Exhibit F-1 hereto, Foreign Patents and Patent Applications Assignment, substantially in the form attached as Exhibit F-2 hereto, U.S. Trademark Assignment, substantially in the form attached as Exhibit F-3 hereto, Foreign Trademark Assignment, substantially in the form attached as Exhibit F-4 hereto, Copyright Assignment, substantially in the form attached as Exhibit F-5 hereto, and Domain Name Assignment, substantially in the form attached as Exhibit F-6 hereto (collectively, the "Intellectual Property Assignments") will be executed by the parties hereto.

ARTICLE XII

Employee Matters

SECTION 12.01. General. (a) Offer of Employment; Continuation of Employment; Credited Service; Cooperation. (i) A reasonable time prior to the Initial Closing Date, Seller shall make available to Purchaser a true and complete list of each Covered Employee, as well as documentation regarding each Covered Employee's current salary or wages, employer, years of service with Seller and its Affiliates, location, and other information regarding each Covered Employee's variable/incentive/bonus pay opportunities and employee benefits and Terms and Conditions of Employment reasonably necessary for Purchaser to determine and comply, in each case in all material respects, with its obligations under this Article XII and, with respect to Covered Employees whose employment does not transfer automatically to Purchaser or its Affiliates either pursuant to applicable Law or as a result of the transfer to Purchaser of the Shares, commission, accrued vacation, benefit/entitlements and other information reasonably necessary for Purchaser to determine in all material respects the terms and conditions of such employee's employment with Purchaser following the applicable Closing Date and offer employment to such employee as provided in Section 12.01(a) of this Agreement, but only to the extent that Seller and its Subsidiaries are not prohibited from making such information available as a result of applicable Laws regarding the safeguarding of data privacy or any other obligation to maintain the confidentiality of such information (in which case the parties will cooperate to disclose to Purchaser such information in accordance with applicable Law). Except where a Covered Employee's employment transfers automatically to Purchaser or its Affiliates upon the sale of the Business either pursuant to applicable Law or as a result of the transfer to Purchaser of the Shares, or as otherwise provided under this Section 12.01(a) with respect to an Employee on Disability Leave, Purchaser shall, or shall cause its Affiliates to, offer employment, effective as of 12:01 a.m. on the applicable Closing Date (which offers shall be made in compliance with Purchaser's covenants set forth in this Article XII), to each

Covered Employee, other than any Employee on Disability Leave (each such Covered Employee, an "Active Employee") with job responsibilities that are substantially similar to such Covered Employee's job responsibilities immediately prior to such applicable Closing Date. In the case of each Covered Employee who is an Active Employee and whose employment transfers to Purchaser or its Affiliates automatically under applicable Law upon the applicable Closing Date, effective as of 12:01 a.m. on the applicable Closing Date, Purchaser shall continue such Covered Employee's employment with job responsibilities that are substantially similar to such Covered Employee's job responsibilities immediately prior to the applicable Closing Date. For purposes of this Agreement, any Covered Employee who is not actively at work on the applicable Closing Date due to a leave of absence (including due to vacation, holiday, sick leave, family leave, workers' compensation, maternity or paternity leave, military leave, jury duty, bereavement leave or injury) in compliance with the applicable policies of the Selling Companies, other than any Employee on Disability Leave, shall be considered an Active Employee. With respect to any Employee on Disability Leave, effective as of the date on which such Employee on Disability Leave presents himself or herself to Purchaser for active employment following the applicable Closing Date, provided such Employee on Disability Leave presents himself or herself to Purchaser for active employment within one year following the applicable Closing Date or such longer period otherwise required by applicable Law or a collective bargaining agreement identified in Section 6.13 of the Seller Disclosure Letter, (A) in the case of any such Employee on Disability Leave who was employed by a Transferred Subsidiary immediately prior to the date such employee's disability leave began, Purchaser shall cause such Transferred Subsidiary to continue the employment of such Employee on Disability Leave, and (B) in the case of any such Employee on Disability Leave who was employed by an Asset Selling Company immediately prior to the date such employee's disability leave began, Purchaser shall, or shall cause its Affiliates to, make an offer of employment (which offer shall be made in compliance with Purchaser's covenants set forth in this Article XII) to such Employee on Disability Leave, in the case of both of the foregoing clauses (A) and (B), (x) with job responsibilities that are substantially similar to such employee's job responsibilities with the Asset Selling Companies or the Transferred Subsidiaries, as applicable, immediately prior to the date such Employee on Disability Leave commenced disability leave, and (y) to the same extent, if any, as the Asset Selling Companies or Transferred Subsidiaries would have been required to re-employ or continue the employment of, as applicable, such employee under applicable Law and any applicable collective bargaining agreement if the transactions contemplated by this Agreement had not occurred. Seller shall and shall cause each of the Selling Companies and Transferred Subsidiaries to use all reasonable efforts to encourage the Covered Employees to make available their employment services to Purchaser as set forth above.

(ii) Offers of employment made by Purchaser pursuant to Section 12.01(a)(i) shall be sufficient in all material respects to avoid statutory and contractual or other severance or separation obligations (including avoiding any enhanced retirement obligations under the Seller Benefit Plans listed in Section 6.11(a) of the Seller Disclosure Letter), other than where such severance or separation obligations ("Automatic Obligations") arise either (A) solely as a result of the consummation of the transactions contemplated by this Agreement or

(B) as a result of a Covered Employee's refusal to accept the offer of employment made by, or voluntary termination of employment with, Purchaser or one of its Affiliates, notwithstanding in the case of each of clauses (A) and (B), that the offer of continued employment and the terms and conditions of such offer comply with the applicable provisions of this Article XII, pursuant to applicable Law or pursuant to any applicable plan or policy, any applicable employment agreement, collective bargaining agreement, Seller Benefit Plan or otherwise. Purchaser and its Affiliates shall assume all obligations, liabilities and commitments in respect of claims made by any Covered Employee for severance or other termination benefits (including claims for wrongful dismissal, notice of termination of employment or pay in lieu of notice) arising out of, relating to or in connection with Purchaser's failure to offer employment to, or continue the employment of, any Covered Employee in accordance with the applicable provisions of this Article XII. The costs relating to claims made by Covered Employees for Automatic Obligations shall be allocated between Seller and Purchaser in the following manner: (1) each of Seller and Purchaser shall be responsible for 50% of the cost relating to claims made by Covered Employees for Automatic Obligations that are required to be paid under applicable Law, (2) Purchaser and its Affiliates shall be responsible for 100% of the cost relating to claims made by Covered Employees for Automatic Obligations that are required to be paid under a collective bargaining agreement identified in Section 6.13 of the Seller Disclosure Letter and (3) Seller and its Affiliates shall be responsible for 100% of the cost relating to all other claims made by Covered Employees for Automatic Obligations. Each Covered Employee who accepts employment with Purchaser and its Affiliates as of the applicable Transfer Time, or whose employment continues with Purchaser and its Affiliates as of the applicable Transfer Time, shall be referred to herein as a "Transferred Employee".

(iii) From and after the applicable Transfer Time, Purchaser shall, or shall cause its Affiliates to, give each Transferred Employee full credit for such Transferred Employee's service with Seller and its Affiliates (and with any predecessor employer) (such service, "Pre-Closing Service") for all purposes (including for purposes of eligibility to participate, level of benefits, early retirement eligibility and early retirement subsidies and vesting), except to the extent specifically provided in this Agreement, under any employee benefit plan, arrangement, collective bargaining agreement and employment-related entitlements provided, sponsored, maintained or contributed to by Purchaser or its Affiliates, in each case, to the same extent recognized by Seller and its Affiliates immediately prior to the applicable Transfer Time, except to the extent such credit would result in duplication of benefits for the same period of service. Notwithstanding the foregoing, and except to the extent required by applicable Law or any applicable collective bargaining agreement identified in Section 6.13 of the Seller Disclosure Letter, Purchaser and its Affiliates shall only be required to provide Transferred Employees with credit for Pre-Closing Service for benefit accrual purposes under a defined benefit pension plan or post-employment medical plan if such plan is an Assumed Benefit Plan or if such plan has assumed the liabilities that relate to such Transferred Employee under any Seller Benefit Plan.

(iv) Purchaser shall, and shall cause its Affiliates to, render full good faith cooperation to Seller in providing in due time all information required by law or reasonably requested by applicable works councils, labor unions and employee representatives with respect to (A) Purchaser and its Affiliates, (B) the sale of the Business, (C) the transfer of the Covered Employees to Purchaser and its Affiliates, (D) the material consequences of the transaction to the Covered Employees and (E) the compensation and benefits to be provided to Covered Employees following the applicable Closing Date. In addition, Purchaser shall, and shall cause its Affiliates to, provide Seller with any other information that may be required by applicable Law to respond to any reasonable questions posed by employees, works councils, labor unions, employee representatives or any other persons or entities with respect to the transactions contemplated by this Agreement. Purchaser shall, and shall cause its Affiliates to, render full good faith cooperation to Seller, and Seller shall render full cooperation to Purchaser, in each case in any negotiations with works councils or unions or employee representatives that are required or initiated to accomplish the transfer of any Covered Employees to Purchaser as contemplated by this Agreement.

(b) Continuation of Benefits. Without limiting the generality of Section 12.01(a), and except as specifically provided otherwise in this Article XII, Purchaser shall, or shall cause its Affiliates to, provide for the duration of the Continuation Period (as defined below) each Transferred Employee with (i) base salary or wages at a rate not less than that provided to such Transferred Employee immediately prior to the applicable Transfer Time, (ii) variable/incentive/bonus pay opportunities that are substantially comparable in the aggregate (excluding (x) any equity-based compensation but including any value attributable to such equity-based compensation, (y) any change in control or special compensation arrangement related to the transactions contemplated herein (including, but not limited to, any plan, program or agreement that is described in clause (i) or (ii) of Section 6.11(a)) or (z) any compensation that is forfeited by the Transferred Employee in connection with the consummation of the transactions contemplated by this Agreement) to the value of such Transferred Employee's variable/incentive/bonus pay opportunities immediately prior to the applicable Transfer Time (it being understood that Purchaser will not, and shall not be obligated to, offer equity-based compensation to any Transferred Employees), and (iii) employee benefits that are substantially comparable in the aggregate to those provided to such Transferred Employee immediately prior to the applicable Transfer Time; provided, however, that such substantially comparable benefits need not include (x) any particular plan or benefit that was provided to or maintained for Transferred Employees prior to the Transfer Time or (y) any defined benefit pension plan or any post-retirement medical benefits, except in the case of clauses (x) and (y) to the extent required under applicable Law, as required by any applicable collective bargaining agreement identified in Section 6.13 of the Seller Disclosure Letter or as otherwise expressly provided in this Article XII. For purposes of this Agreement, "Continuation Period" means the one-year period immediately following the applicable Closing Date.

(c) Severance. Notwithstanding anything in this Agreement to the contrary, Purchaser shall provide, or shall cause its Affiliates to provide, to each Covered Employee whose employment is terminated at or following the Transfer Time and prior to the expiration of the Continuation Period, with severance and other separation benefits (including any enhanced retirement benefits and taking into account for such purpose such Covered Employee's service and compensation with Seller and its Affiliates prior to the applicable Transfer Time and any additional service or compensation with Purchaser and its Affiliates from and after the applicable Transfer Time) that are no less favorable than those severance and other separation benefits applicable to such Transferred Employee under the severance or separation benefit plans, programs, policies, agreements or arrangements of Seller and its Affiliates as in effect immediately prior to the applicable Transfer Time and identified in Section 6.09 or 6.11(a) of the Seller Disclosure Letter or, to the extent not required to be identified in Section 6.09 or 6.11(a) of the Seller Disclosure Letter, provided to Purchaser prior to the Initial Closing Date in accordance with Section 12.01(a).

(d) Annual Bonus for Year of Applicable Closing Date. (i) Except as set forth in Section 12.01(d)(ii) with respect to any Transferred Incentive Plan, as soon as administratively practicable after the applicable Closing Date and to the extent that Seller determines that it shall pay bonuses with respect to the calendar year in which the applicable Closing Date occurs, Seller shall make a prorated annual bonus payment to each Transferred Employee who is not an Employee on Disability Leave and who remains employed through the applicable Closing Date, the amount (if any) of which shall equal the product of the applicable Transferred Employee's annual bonus amount (as described in the next sentence) multiplied by a fraction, the numerator of which is the number of days that elapse prior to the applicable Closing Date in the calendar year during which the applicable Closing Date occurs, and the denominator of which is 366. Seller shall determine the annual bonus amount using any good faith methodology (which need not be the same for each Transferred Employee), including by basing such amount upon target bonus or upon actual performance through the applicable Closing Date. Such prorated bonuses (if any) shall be paid no later than the date on which Seller pays annual bonuses to similarly situated other employees of Seller and its Affiliates, but no later than two-and-a-half months after the end of the calendar year in which the applicable Closing Date occurs. In the case of any Employee on Disability Leave who becomes a Transferred Employee, Seller and its Affiliates shall comply with all applicable Laws and any applicable provision of any applicable plan relating to the payment to such employee of a prorated annual bonus with respect to the period that precedes the applicable Closing Date.

(ii) Notwithstanding any provision of the foregoing Section 12.01(d)(i) to the contrary, in the event that the treatment of any annual incentive plan or variable pay plan described in Section 12.01(d)(i) is not permitted under applicable Law or pursuant to the terms of any collective bargaining agreement identified in Section 6.13 of the Seller Disclosure Letter or in the event that Seller and Purchaser mutually agree that any other annual incentive or variable pay plan will not be covered by Section 12.01(d)(i) (each such plan described in this Section 12.01(d)(ii), a "Transferred Incentive Plan"), then Purchaser or its

Subsidiaries shall be responsible for the payment of such annual bonus amounts with respect to Transferred Employees pursuant to such Transferred Incentive Plan with respect to the full calendar year in which the applicable Closing Date occurs in accordance with the terms of the applicable Transferred Incentive Plan and the applicable collective bargaining agreement or applicable Law. Following the date on which any payments of the annual bonus amounts have been made to Transferred Employees under a Transferred Incentive Plan, Purchaser shall provide Seller with an invoice that sets forth the aggregate amount of the annual bonuses that were paid to the Transferred Employees under such Transferred Incentive Plan with respect to the year in which the applicable Closing occurred. Within 30 days following Seller's receipt of each such invoice, Seller shall make a cash payment to Purchaser in an amount equal to the aggregate amount of such annual bonuses multiplied by a fraction, the numerator of which is the number of days elapsed prior to the applicable Closing Date during the year in which the applicable Closing Date occurs and the denominator of which is 366.

(e) Collective Bargaining Agreements. Purchaser or one of its Affiliates shall assume and agree to be bound by the collective bargaining agreements identified in Section 6.13 of the Seller Disclosure Letter effective as of 12:01 a.m. on the applicable Closing Date (including the obligation to honor the terms and conditions thereof and any obligations thereunder requiring a successor to recognize a particular labor union as authorized representative or authorized bargaining agent of an employee group or for any other purpose). As of 12:01 a.m. on the applicable Closing Date, Purchaser and its Affiliates shall be the "employer" for purposes of each such collective bargaining agreements and Purchaser and its Affiliates shall, subject to the next succeeding sentence, have sole responsibility for all obligations, liabilities and commitments arising under the collective bargaining agreements, and shall indemnify and hold harmless Seller and its Affiliates with respect to the collective bargaining agreements. Following 12:01 a.m. on the applicable Closing Date, any employee benefit that is required pursuant to any collective bargaining agreement to be provided to any Transferred Employee pursuant to a Seller Benefit Plan (except as specifically provided in this Article XII, other than in respect to benefits accrued and vested as of the Closing under any Seller Benefit Plan that is not an Assumed Benefit Plan) shall instead be provided pursuant to an employee benefit plan maintained by Purchaser or one of its Affiliates.

(f) Assumption of Assumed Benefit Plans. From and after the applicable Closing Date, Purchaser shall, or shall cause its Affiliates to, assume and honor the Assumed Benefit Plans identified in Section 12.01(f) of the Seller Disclosure Letter or otherwise expressly assumed under this Article XII, as in effect as of the applicable Closing Date and all obligations, liabilities and commitments thereunder, regardless of whether such obligations, liabilities or commitments arise before, on or after the applicable Closing Date. Except as otherwise specifically provided in this Agreement, each Covered Employee shall, effective as of the applicable Transfer Time, cease to accrue any additional benefits in any Seller Benefit Plan that is not an Assumed Benefit Plan. Except as specifically provided in this Article XII, Seller shall retain all obligations, liabilities and commitments with respect to Seller Benefit Plans and all other employment and employee compensation and benefit plans, policies, agreements and arrangements of Seller and its Subsidiaries (other than any plan, arrangement or policy of the Business mandated by applicable Law), in each case that are not Assumed Benefit Plans.

(g) Certain Welfare Benefit Plan Matters. (i) Without limiting the generality of Section 12.01(f), a Covered Employee shall cease participation in the employee welfare benefit plans of Seller that are not Assumed Benefit Plans effective as of the applicable Transfer Time. Without limiting the generality of Section 12.01(b), no later than the applicable Closing Date, Purchaser shall, or shall cause its Affiliates to, have in effect welfare benefit plans that provide an appropriate level (as determined by Purchaser and sufficient to satisfy any applicable collective bargaining agreement assumed by Purchaser pursuant to this Agreement) of life insurance, health care, dental care, accidental death and dismemberment insurance, disability and other group welfare benefits (the "Purchaser Welfare Plans") for Transferred Employees (and their eligible dependents). Purchaser shall, and shall cause its third party insurance providers to, (A) waive or deem satisfied all limitations as to preexisting conditions, exclusions and waiting periods and actively-at-work requirements with respect to participation and coverage requirements applicable to the Transferred Employees (and their eligible dependents) under the Purchaser Welfare Plans to the extent waived or satisfied under the applicable corresponding Seller Benefit Plans immediately prior to the applicable Transfer Time and (B) provide each Transferred Employee and his or her eligible dependents with credit under Purchaser Welfare Plans for any co-payments and deductibles paid under corresponding Seller Benefit Plans prior to the applicable Transfer Time in the calendar year in which the applicable Transfer Time occurs for purposes of satisfying any applicable deductible or out-of-pocket requirements under any Purchaser Welfare Plans in which the Transferred Employee participates.

(ii) Except as otherwise required under applicable Law and notwithstanding any other provision of this Agreement to the contrary, Seller shall be responsible, in accordance with its applicable welfare plans in effect prior to the applicable Closing Date, for all reimbursement claims (such as medical and dental claims) for expenses incurred, and for all non-reimbursement claims (such as life insurance claims) incurred, by a Transferred Employee (or, if applicable, such Transferred Employee's eligible dependents) under such plans prior to such Transferred Employee's Transfer Time, except that Purchaser shall be responsible for such claims to the extent (A) such claims are insured under an insurance policy in respect of which Purchaser or one of its Affiliates becomes the beneficiary and for which the premium has been paid by Seller and its Affiliates or (B) such claims relate to an Assumed Benefit Plan. Except as otherwise required under applicable Law, Purchaser shall be responsible in accordance with the applicable Purchaser Welfare Plans for all reimbursement claims (such as medical and dental claims) for expenses incurred, and for all non-reimbursement claims (such as life insurance claims) incurred by a Transferred Employee (or, if applicable, such Transferred Employee's eligible dependents), from and after such Transferred Employee's Transfer Time. Except as otherwise provided under applicable Law, for purposes of this Section 12.01(g)(ii), a claim shall be deemed to be incurred as follows: (1) life, accidental death and dismemberment and business travel accident insurance benefits, upon the death, accident or illness giving rise to such benefits and (2) health, dental and prescription drug benefits (including in respect of any hospital confinement), upon provision of the related services, materials or supplies.

(iii) Seller and its Affiliates shall be responsible for all claims for workers' compensation benefits that are incurred prior to the applicable Closing Date by Transferred Employees that are payable under the terms and conditions of Seller's workers' compensation programs ("Workers Comp Claims"), except that Purchaser and its Affiliates shall be responsible for Workers Comp Claims to the extent such claims (or a reserve related thereto) are reflected on the relevant Closing Statement as a Closing Workers Comp Accrual, regardless of whether the actual amount of such claims is greater or less than the value of the reserve related thereto that is reflected on the relevant Closing Statement as a Closing Workers Comp Accrual. Purchaser and its Affiliates shall be responsible for all claims for workers' compensation benefits that are incurred from and after the applicable Closing Date by Transferred Employees, including with respect to claims by Transferred Employees who became eligible for workers' compensation benefits prior to the applicable Closing Date. A claim for workers' compensation benefits shall be deemed to be incurred when the event giving rise to the claim occurs (a "Workers' Compensation Event"). Subject to the first sentence of this Section 12.01(g)(iii), if a Workers' Compensation Event occurs over a period both preceding and following the applicable Closing Date, the claim shall be the joint responsibility and liability of Seller and Purchaser and shall be equitably apportioned between Seller and Purchaser based upon the relative periods of time that the Workers' Compensation Event transpired preceding and following the applicable Closing Date.

(h) Vacation. For purposes of determining the number of vacation days to which each Transferred Employee shall be entitled during the calendar year in which the applicable Transfer Time occurs, Purchaser shall, or shall cause its Affiliates to, honor all vacation days earned but not yet taken by such Transferred Employee as of the applicable Transfer Time. Without limiting the generality of the foregoing provision or of Section 12.01(b), following the applicable Transfer Time and during the Continuation Period, Purchaser and its Affiliates shall maintain for the benefit of each Transferred Employee a vacation policy or program that is no less favorable to such Transferred Employee than the vacation policy or program of Seller or its Affiliates that was applicable to such Transferred Employee immediately prior to the applicable Closing Date (taking into account for such purpose such Transferred Employee's service with Seller and its Affiliates prior to the applicable Transfer Time and any additional service with Purchaser and its Affiliates from and after the applicable Transfer Time).

SECTION 12.02. Special U.S. Provisions. Notwithstanding the provisions of Section 12.01, references to "Covered Employees" and "Transferred Employees" in this Section 12.02 shall refer to Covered Employees or Transferred Employees, as the case may be, who, immediately prior to the applicable Closing Date, are primarily based in the United States (including Puerto Rico).

(a) Defined Contribution Plans. Without limiting the generality of Section 12.01(b), effective as of the applicable Closing Date, Purchaser shall, or shall cause its Affiliates to, have in effect a defined contribution plan that includes a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code (the "Purchaser 401(k) Plan") providing benefits as of the applicable Transfer Time to the Transferred Employees participating in any tax-qualified defined contribution plan sponsored by Seller or any of its Affiliates (collectively, the "Seller 401(k) Plan") immediately prior to the applicable Transfer Time. As soon as practicable following (i) the presentation to Seller of (A) an Internal Revenue Service letter of determination that the Purchaser 401(k) Plan meets the requirements for qualification under Section 401(a) of the Code and (B) a certificate, in form and substance reasonably satisfactory to Seller, certifying that (1) the aforementioned letter of determination has not been revoked and (2) to the knowledge of Purchaser, no event has occurred or is reasonably expected to occur that would cause the Purchaser 401(k) Plan to cease to satisfy the requirements of Section 401(a) of the Code or cause the trust forming a part thereof to cease to satisfy the requirements of Section 501(a) of the Code, (ii) the completion of all blackout periods for the Seller 401(k) Plan and (iii) the presentation to Seller of instructions for the transfer of the assets of the Seller 401(k) Plan to the trustee of the Purchaser 401(k) Plan, Seller shall cause to be transferred to the Purchaser 401(k) Plan the assets and liabilities from the Seller 401(k) Plan for the Transferred Employees (excluding those employees who retired effective on or prior to the date of transfer, except as otherwise elected by said retiree) in accordance with applicable requirements of the Code. Purchaser shall administer the accounts of Transferred Employees in the Purchaser 401(k) Plan in accordance with all applicable requirements of the Code. Such transfer of assets shall consist of cash, cash equivalents or participant loan receivables equal to all the accrued benefit liabilities in the Seller 401(k) Plan for the Transferred Employees and their respective beneficiaries, including accrued benefit liabilities arising under any applicable qualified domestic relations order. Purchaser shall direct the trustee of the Purchaser 401(k) Plan to accept such transfer of assets and liabilities from the Seller 401(k) Plan. Upon such transfer of assets, the Purchaser 401(k) Plan shall assume the accrued benefit liabilities under the Seller 401(k) Plan solely with respect to the amount of the transferred accrued benefits with respect to the Transferred Employees and Seller shall not have any further accrued benefit liability under the Seller 401(k) Plan with respect to the amount of accrued benefits transferred to the Purchaser 401(k) Plan for said Transferred Employees and their respective beneficiaries; provided, however, that Purchaser shall not assume, and Seller shall retain, all liabilities with respect to the Seller 401(k) Plan other than such accrued benefit liabilities. In order to implement this Section 12.02(a), Purchaser and Seller shall cooperate in the exchange of information, notification to Transferred Employees, and in the preparation of any documentation required to be filed with any governmental agency. Without limiting the generality of the foregoing, Seller shall promptly provide Purchaser with such documents and other information as Purchaser shall reasonably request to assure itself that the trust-to-trust transfer described herein may be accepted into the Purchaser 401(k) Plan in accordance with applicable Law. For the avoidance of doubt, Seller shall 100% vest or cause to be 100% vested, as of the applicable Closing Date, the accounts under the Seller 401(k) Plan for all Transferred Employees.

(b) Nonqualified Deferred Compensation Plans. Notwithstanding any other provision of this Agreement to the contrary, Seller shall retain all liabilities, obligations and commitments with respect to the Covered Employees under any defined benefit or defined contribution plan that is a nonqualified deferred compensation plan sponsored, maintained or contributed to by Seller and its Affiliates as of the applicable Closing Date (a "Nonqualified Deferred Compensation Plan"). Seller and its Affiliates shall 100% vest or cause to be 100% vested, as of the applicable Closing Date, the benefits under each Nonqualified Deferred Compensation Plan for each Transferred Employee, but only to the extent that such Nonqualified Deferred Compensation Plan is a defined contribution plan. Seller shall make payments to Covered Employees with vested rights under any Nonqualified Deferred Compensation Plan promptly following the applicable Transfer Time, unless the timing of such payments must be delayed under the terms of the applicable Nonqualified Deferred Compensation Plan. Notwithstanding the foregoing, all payments described in this Section 12.02(b) shall be made at a time and in a manner that complies with Section 409A of the Code, to the extent applicable, and all other applicable Laws.

(c) U.S. Transferred Subsidiary DB Plans. Effective as of 12:01 a.m. on the applicable Closing Date, Purchaser will cause the relevant Transferred Subsidiary to continue the sponsorship of each Seller Pension Plan set forth in Section 12.02(c) of the Seller Disclosure Letter that is maintained by a Transferred Subsidiary as of the Initial Closing Date (each, a "U.S. Transferred Subsidiary DB Plan"). Prior to the Initial Closing Date, Seller shall establish a stand-alone trust with respect to the U.S. Transferred Subsidiary DB Plans (the "U.S. Transferred Subsidiary Pension Trust") for purposes of holding the assets of each U.S. Transferred Subsidiary DB Plan and shall transfer the assets of each U.S. Transferred Subsidiary DB Plan to the U.S. Transferred Subsidiary Pension Trust in accordance with ERISA. As of the applicable Closing Date, the assets held by the U.S. Transferred Subsidiary Pension Trust shall consist solely of cash, cash equivalents and marketable securities in accordance with the asset allocation methodology specified in Section 12.02(c) of Seller's Disclosure Letter.

(d) Other Defined Benefit Plans. Prior to the Initial Closing Date, Seller shall cause each U.S. tax-qualified or nonqualified defined benefit pension plan sponsored by the Transferred Subsidiaries that is not a U.S. Transferred Subsidiary DB Plan to be transferred from the Transferred Subsidiary to the Seller or one or more of its Subsidiaries other than the Transferred Subsidiaries and to cause all Transferred Subsidiaries to cease to be a sponsor of all U.S. tax-qualified defined benefit pension plans and all defined benefit plans that are Nonqualified Deferred Compensation Plans, other than the U.S. Transferred Subsidiary DB Plans. Each Transferred Employee who is an active participant as of the applicable Closing Date in a U.S. tax-qualified or nonqualified defined benefit pension plan sponsored by Seller or its Affiliates that is not a U.S. Transferred Subsidiary DB Plan (each, a "U.S. Retained DB Plan") shall, as of the applicable Transfer Time, cease accruing benefits under such U.S. Retained DB Plan, and service with any employer following the applicable Transfer Time shall not be taken into account for any purpose under such U.S. Retained DB Plan. Notwithstanding any other provision in this Agreement to the contrary, following the applicable Transfer Time, Seller or its Affiliates shall retain, or shall cause the U.S. Retained DB Plans to retain, all assets (if any) and liabilities that relate to benefits accrued by Transferred Employees prior to the applicable Transfer Time under the U.S. Retained DB Plans and shall make payments to Transferred Employees with vested rights thereunder, in accordance with the terms of the applicable U.S. Retained DB Plan. Each of Seller and Purchaser agrees to take the actions described in Section 12.02(d) of the Seller Disclosure Letter.

(e) Teamsters Pension Plan. (i) Purchaser, Seller and their respective Affiliates shall take all steps necessary under Section 4204 of ERISA so that the transactions contemplated by this Agreement will not constitute a partial or complete withdrawal from the Teamsters Pension Plan. Purchaser and Seller acknowledge and agree that the sale of the Business constitutes a bona fide, arm’s length sale of assets between unrelated parties, and the parties intend that this Agreement be covered by and satisfy all of the requirements of Section 4204 of ERISA. In accordance with Section 4202 of ERISA, from and after the applicable Closing Date, Purchaser will be obligated to contribute to the Teamsters Pension Plan for substantially the same number of contribution base units for which Seller and its Affiliates had an obligation to contribute thereto prior to the applicable Closing Date. Purchaser shall, or shall cause its Affiliates to, make such contributions on a timely basis.

(ii) During the period commencing on the first day of the plan year of the Teamsters Pension Plan following the applicable Closing Date and ending on the expiration of the fifth such plan year (the “Contribution Period”), Purchaser shall, or shall cause its Affiliates to, provide to the Teamsters Pension Plan either a bond, letter of credit or an escrow in an amount and manner meeting the requirements of Section 4204(a)(1)(B) of ERISA. Notwithstanding anything contained herein to the contrary, Purchaser and its Affiliates shall not be obligated to provide any bond, letter of credit or escrow required herein in the event and to the extent Purchaser and its Affiliates satisfy the criteria necessary for a variance under 29 U.S.C. § 4204.12 or 4204.13, or obtain from the PBGC a proper variance or exemption under Section 4204(c) of ERISA and the applicable regulations thereunder, provided that any and all requirements of such variance or exemption are met. Seller agrees to cooperate with Purchaser in connection with any application for such a variance or exemption made by Purchaser to the PBGC, and in connection with any attempt by Purchaser to demonstrate to the Teamsters Pension Plan that the criteria for a variance have been satisfied.

(iii) If, at any time during the Contribution Period, Purchaser withdraws from the Teamsters Pension Plan in a complete withdrawal, or a partial withdrawal with respect to operations covered by the applicable collective bargaining agreement, Purchaser will be primarily liable to the Teamsters Pension Plan and Seller will be secondarily liable for any withdrawal liability Seller would have had to the Teamsters Pension Plan with respect to the operations (but for the provisions of Section 4204 of ERISA) if the withdrawal liability of Purchaser with respect to the Teamsters Pension Plan is not paid, it being understood that any such liability would constitute an Assumed Liability with respect to which Seller would be entitled to full indemnification from Purchaser. Purchaser agrees to provide Seller with reasonable advance notice of any action or event which could result in the imposition of withdrawal liability contemplated herein, and in any event Purchaser shall immediately furnish Seller with a copy of any notice of withdrawal liability it may receive with respect to the Teamsters Pension Plan, together with all the pertinent details. If any such withdrawal liability is assessed against Purchaser, Purchaser further agrees to provide Seller with reasonable advance notice of any intention on the part of Purchaser not to make full payment of any withdrawal liability when the same becomes due.

(f) U.S. Welfare Benefits Matters. (i) Seller and its Affiliates shall retain all obligations, liabilities and commitments, if any, of Seller and its Affiliates to Transferred Employees and their eligible dependents, in respect of health insurance under the Consolidated Omnibus Budget Reconciliation Act of 1985, the Health Insurance Portability and Accountability Act of 1996, Sections 601 et seq. and Sections 701 et seq. of ERISA, Section 4980B and Sections 9801 et seq. of the Code and applicable state or similar applicable Laws, but only to the extent that such obligations, liabilities and commitments are as a result of a loss of health care coverage arising from qualifying events occurring prior to the applicable Transfer Time. Purchaser and its Affiliates shall be responsible for all such obligations, liabilities and commitments that are as a result of a loss of health care coverage arising from qualifying events occurring on or after the applicable Transfer Time.

(ii) Seller agrees to allow each Retiree Welfare Retained Employee to participate in, and receive benefits from, the post-retirement health, dental and life insurance plans of Seller and its Affiliates (collectively, the "Seller Retiree Welfare Plans") upon such employee's eligibility to commence benefits in accordance with the terms of such plans as in effect from time to time. Notwithstanding any provision of this Agreement to the contrary, (1) nothing herein shall prohibit Seller from amending, modifying or terminating any Seller Retiree Welfare Plan or prevent the application of any such amendment, modification or termination to any Retiree Welfare Retained Employee, (2) Purchaser shall provide, or cause its Affiliates to provide, the Retiree Welfare Retained Employees with welfare benefit coverage under Purchaser's active employee welfare benefit plans on the same basis as such coverage is provided to other similarly situated Transferred Employees for so long as such Retiree Welfare Retained Employees remain actively employed with Purchaser or any of its Affiliates, (3) if the employment of any Retiree Welfare Retained Employee is involuntarily terminated, such Retiree Welfare Retained Employee shall be entitled to post-employment welfare benefit coverage pursuant to Purchaser's severance plan that is applicable to such Retiree Welfare Retained Employee on the same basis as such coverage is provided to other similarly situated Transferred Employees who have been terminated, and (4) while a Retiree Welfare Retained Employee remains eligible for coverage under Purchaser's plans in accordance with the preceding clauses (2) and (3), such Retiree Welfare Retained Employee shall not be permitted to receive post-retirement welfare benefits pursuant to the Seller Retiree Welfare Plans. None of Purchaser, any of its Affiliates or any benefit plan or arrangement maintained by Purchaser or its Affiliates will have any liabilities or obligations to provide post-retirement welfare benefits to Covered Employees who retire prior to the applicable Closing Date.

(g) WARN. Purchaser shall assume liability for, and shall fully indemnify and hold harmless Seller and its Affiliates with respect to, any liabilities incurred by Seller and its Affiliates pursuant to the Worker Adjustment and Retraining Notification Act, as amended, and any similar statute in connection with any Covered Employee, to the extent such liability arises from actions of Purchaser or its Affiliates.

(h) Employment Tax Reporting Responsibility. Purchaser and Seller hereby agree to follow the alternate procedure for United States employment tax withholding as provided in Section 5 of Rev. Proc. 2004-53, I.R.B. 2004-35. Accordingly, Seller shall have no United States employment tax reporting responsibilities, and Purchaser shall have full United States employment tax reporting responsibilities, for Transferred Employees following the close of business on the applicable Closing Date.

SECTION 12.03. Special Non-U.S. Provisions. Notwithstanding the provisions of Section 12.01, references to "Transferred Employees" in this Section 12.03 shall refer to Transferred Employees who, immediately prior to the applicable Closing Date, are primarily based outside the United States.

(a) Continuation of Compensation and Benefits. Notwithstanding Section 12.01 or any other provision of this Agreement, in the event that the applicable Laws of any country or any applicable works council agreement or collective bargaining agreement require Purchaser or its Affiliates (i) to maintain the same Terms and Conditions of Employment (as defined below) that relate to any Transferred Employee following the applicable Transfer Time or (ii) to continue or cause to be continued any employment contract of any Transferred Employee, in the case of clauses (i) and (ii), Purchaser shall maintain, or cause to be maintained, the same Terms and Conditions of Employment that relate to such Transferred Employee or shall continue, or cause to be continued, such Transferred Employee's employment contract for the period required under applicable Law. "Terms and Conditions of Employment" shall mean the rights of Transferred Employees according to their individual terms and conditions of employment with Seller and its Affiliates immediately prior to the applicable Transfer Time and, where applicable, under collective agreements, including any collective bargaining, company or shop agreements and any arrangements based on works customs and unilateral undertakings, if and to the extent they provide to a Transferred Employee direct and enforceable causes of action against the employer.

(b) Assumed Foreign Pension Plans. Effective as of 12:01 a.m. on the applicable Closing Date, Purchaser or one of its Affiliates shall assume sponsorship of, or Purchaser shall cause the relevant Transferred Subsidiary to continue the sponsorship of, as applicable, the Assumed Pension Plans set forth in Section 12.03(b) of the Seller Disclosure Letter and each other Seller Pension Plan that is sponsored by a Transferred Subsidiary (each, an "Assumed Foreign Pension Plan"), and Seller shall assign or cause to be assigned to Purchaser or one of its Affiliates each stand-alone trust or other funding arrangement (and all related assets) that does not transfer to Purchaser or its Affiliates automatically under applicable Law (including as a result of the acquisition by Purchaser of all the outstanding capital stock and other equity interests of a Transferred Subsidiary) with respect to an Assumed Foreign Pension Plan.

(c) Assumption of Canadian Plan Assets Invested in Master Trust. The parties acknowledge that the assets of the Canadian Transferred Pension Plans are invested in a master trust fund maintained by Seller (the "Canadian Master Trust Fund"). Prior to the Closing Date, Seller shall cause the interests held in the Canadian Master Trust Fund which are referable to the Canadian Transferred Pension Plans to be redeemed by the participating trust funds maintained for the Canadian Transferred Pension Plans in cash or, with the consent of both Seller and Purchaser, in specie, calculated in accordance with the usual rules for determining redemption values applicable to other pension plans administered by Seller and which are invested in the Canadian Master Trust Fund in effect and in existence at the time of the redemption. As of the applicable Closing Date, the assets held by the Canadian Pension Trusts shall consist solely of cash, cash equivalents and marketable securities in accordance with the asset allocation methodology specified in Section 12.03(c) of the Seller Disclosure Letter. Forthwith after the applicable Closing Date, Seller shall provide to the Purchaser such books, records and other pertinent data and information as Purchaser may reasonably require to operate and administer the Canadian Transferred Pension Plans and to review the determination of unit values under the Canadian Master Trust Fund.

SECTION 12.04. Assumed Pension Plans. (a) Seller shall deliver to Purchaser a statement setting forth the Estimated Accrued German Pension Liability on or prior to the date that the applicable Closing Statement is delivered by Seller to Purchaser in accordance with Section 4.03(a).

(b) The Actual Accrued Pension Liability in respect of each Assumed Pension Plan shall be determined by a qualified actuary designated by Seller (the "Seller Actuary") and shall be delivered to Purchaser, together with the information set forth on Section 12.04(b) of the Seller Disclosure Letter (such calculation and information, the "Pension Calculation Information"), not later than 90 days following the applicable Closing Date. Purchaser shall have the right to appoint an independent actuary (the "Purchaser Actuary") for the purpose of verifying the calculation of the Actual Accrued Pension Liability in respect of such Assumed Pension Plan. Within 15 days following receipt of the Pension Calculation Information, the Purchaser Actuary shall notify the Seller Actuary in writing if any portion of the Pension Calculation Information is missing. If Seller Actuary does not receive such written notice from the Purchaser Actuary during such period, then the Purchaser Actuary shall be deemed to have received all Pension Calculation Information on the date that the Pension Calculation Information was delivered to Purchaser. The Seller Actuary shall promptly (and in any event within 15 days following the date of a request) deliver to the Purchaser Actuary such additional supporting documents and information as the Purchaser Actuary may reasonably request. Within the later of (i) 60 days following receipt by the Purchaser Actuary of all Pension Calculation Information, and (ii) 15 days after receipt of all additional supporting documents requested within 30 days after the receipt of all Pension Calculation

Information, Purchaser shall notify Seller in writing if the Purchaser Actuary disagrees with the determination of the Seller Actuary. If any such disagreement is not resolved to the satisfaction of Seller and Purchaser within 30 days of Seller's receipt of such written notification from Purchaser (or within such longer period as Seller and Purchaser shall mutually agree), a Corporate Vice President (or higher level officer) of each party shall endeavor to resolve the dispute during the 30-day period that follows the end of such 30-day (or longer) period. Except as otherwise set forth in this Section 12.04(b), if such dispute remains unresolved at the end of such 30-day period, either Seller or Purchaser may elect to have the calculation submitted for arbitration by a third independent actuary mutually acceptable to Seller and Purchaser, who shall be entitled to the privileges and immunities of an arbitrator, and whose determination shall be conclusive, final and binding and have the force and effect of an arbitral award. The fees and expenses of such third independent actuary will be shared equally by Purchaser and Seller. Notwithstanding any of the foregoing provisions relating to arbitration of disputes, in the event that, after the Actual Accrued Pension Liability calculations with respect to all Assumed Pension Plans in any country have been delivered by the Seller Actuary to the Purchaser Actuary, the aggregate amount in controversy is less than 5% of the aggregate Actual Accrued Pension Liability with respect to all such Assumed Pension Plans, then any dispute that remains unresolved following the last 30-day period referenced in this Section 12.04(b) shall not be submitted to arbitration and instead, the parties shall be deemed to have agreed to settle the dispute for an amount equal to one-half of the amount in controversy.

(c) In the event that the Actual Pension Amount in respect of an Assumed Pension Plan is a negative number, Seller shall make a cash payment to Purchaser in an amount equal to the absolute value of such Actual Pension Amount. In the event that the Actual Pension Amount in respect of an Assumed Pension Plan is a positive number, Purchaser shall make a cash payment to Seller in an amount equal to such Actual Pension Amount. In each case, the payment shall be made within 30 days following the final date on which the determination with respect to the Actual Accrued Pension Liability with respect to such Assumed Pension Plan is made in accordance with Section 12.04(b), and the party entitled to receive the payment with respect to such Actual Pension Amount shall also be entitled to interest on such amount in respect of the applicable Pension Interest Period at a rate equal to the rate of interest used to determine the Accrued Pension Liability with respect to such Assumed Pension Plan. In the case of any Assumed Pension Plan the assets of which are held by a trust or other funding vehicle, in the event that the Actual Pension Amount with respect to such Assumed Pension Plan is a negative number, Purchaser shall be required to contribute the absolute value of such Actual Pension Amount plus the interest received with respect thereto to the trust or other funding vehicle with respect to such Assumed Pension Plan at the earliest time(s) as may be so contributed without disallowance of any otherwise available tax deduction or credit or other tax asset; provided, however, that the portion of the absolute value of the negative Actual Pension Amount and interest relating thereto that Purchaser shall be required to contribute to such trust or other funding vehicle shall be reduced by the amount (if any) that Purchaser contributes to the applicable trust or other funding vehicle in respect of the Accrued Pension Liability prior to the date on which payment with respect to the Actual Pension Amount is made by Seller in accordance with this Section 12.04(c).

(d) On and after the applicable Closing Date, Seller and its Subsidiaries shall have no further obligation to provide any participant in an Assumed Pension Plan with benefits with respect to such Assumed Pension Plan. Without limiting the generality of Section 12.01(b), during the Continuation Period, Purchaser shall maintain, or shall cause its Affiliates to maintain, each Assumed Pension Plan on terms (including, but not limited to, benefit accrual formulas and eligibility for retirement and early retirement subsidies) at least as favorable with respect to each Transferred Employee who participated in such Assumed Pension Plan immediately prior to the applicable Transfer Time as those in effect with respect to such Transferred Employee as of the applicable Transfer Time. In all events in which a transfer of the assets from a trust or other funding arrangement with respect to a Seller Benefit Plan is made under this Section 12.04 to a trust or other funding arrangement with respect to an Assumed Pension Plan, (i) Purchaser shall not cause a reversion of such assets for a period of three years following the applicable Closing Date or, if longer, the period during which such reversion is prohibited under applicable Law and (ii) Purchaser shall not take any action to reduce any vested benefits that accrued prior to the applicable Closing Date under any Assumed Pension Plan.

(e) Seller and its Affiliates shall be responsible for satisfying any and all governmental reporting and disclosure requirements applicable to each Assumed Pension Plan with respect to plan years ending prior to the applicable Closing Date and Purchaser and its Affiliates shall be responsible for satisfying any and all governmental reporting and disclosure requirements with respect to plan years ending on or after the applicable Closing Date.

SECTION 12.05. Administration. (a) Following the date of this Agreement, Seller and Purchaser shall reasonably cooperate in all matters reasonably necessary to effect the transactions contemplated by this Article XII, including exchanging information and data relating to workers' compensation, employee benefits and employee benefit plan coverages (except to the extent prohibited by applicable Law), and in obtaining any governmental approvals or the approval of unions, staff associations or any other body representing employees that is recognized by Seller and its Affiliates, in each case to the extent required hereunder.

(b) From and after the date hereof and prior to the applicable Closing Date, Seller shall provide Purchaser with reasonable access to Covered Employees (including permitting Purchaser to meet with or make presentations to Covered Employees in groups) for purposes of communicating with such Covered Employees regarding compensation and benefits to be provided by Purchaser and its Affiliates to such Covered Employees (and their eligible dependents and beneficiaries) from and after the applicable Closing, and permitting Transferred Employees to enroll in post-Closing benefit plans; provided that (i) Purchaser shall provide to Seller a reasonable opportunity to review and comment upon all written communications to Covered Employees during such pre-Closing period, (ii) Seller shall be permitted to be present for each meeting between Purchaser and any Covered Employee that occurs prior to the applicable Closing Date, (iii) Purchaser shall provide Seller with reasonable notice in advance of any such meeting and (iv) such access shall occur at times that are reasonably acceptable to Seller. Seller shall, if so requested by Purchaser, encourage Covered Employees to attend any such meetings.

ARTICLE XIII

Indemnification

SECTION 13.01. Tax Indemnification. (a) From and after the applicable Closing, Seller shall indemnify Purchaser and its Affiliates (including the Transferred Subsidiaries) against and hold them harmless from any Loss to the extent attributable to:

(i) any Taxes imposed on or with respect to any Transferred Subsidiary (or for which any Transferred Subsidiary is otherwise liable), as the case may be, with respect to any Pre-Closing Date Tax Period (including, for the avoidance of doubt, any interest, penalty or addition to Tax accruing after the Closing Date on any Taxes for which Seller is liable under this Section 13.01(a)(i)), including any such liability arising under principles of transferee or successor liability,

(ii) Taxes, including Taxes arising under the provisions of Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign Law), arising by virtue of any Transferred Subsidiary, on or prior to the applicable Closing Date, having been a member of a consolidated, affiliated, combined or unitary group that had a common parent of Alcoa, Inc. or any Affiliate thereof (other than a Transferred Subsidiary),

(iii) Income Taxes arising from any Transferred Subsidiary including any income or gain in any Post-Closing Date Tax Period under Section 453 of the Code (or any similar provision of state, local or foreign Law) in respect of any transaction occurring prior to the applicable Closing,

(iv) Taxes arising from or attributable to any Post-Signing Restructuring Action other than (A) any such Taxes for a Post-Closing Date Tax Period arising from or attributable to Purchaser or any of its Affiliates (including any Transferred Subsidiary) having a lower Tax basis in any Acquired Asset or in the stock of any Transferred Subsidiary than would otherwise have existed if no Post-Signing Restructuring Actions had been undertaken, (B) any such Taxes for a Post-Closing Date Tax Period that would not have arisen but for any action taken by the Purchaser or any of its Affiliates (including any Transferred Subsidiary) other than in the ordinary course of business (and, for the avoidance of doubt, any restructuring conducted by Purchaser or any of its Affiliates (including any Transferred Subsidiary) after the applicable Closing shall not be in the ordinary course) and (C) any such Taxes for a taxable period (or portion thereof) beginning after December 31, 2008,

(v) withholding Taxes imposed on the payment of any consideration (including through the assumption of debt or any amount treated as an adjustment to the Worldwide Purchase Price for Tax purposes) by Purchaser or any of its Affiliates to Seller or any of its Affiliates pursuant to this Agreement or any other Transaction Agreement which Purchaser failed to withhold or any other Taxes arising from the transactions contemplated by Section 7.12, 10.05 or 10.06 of this Agreement,

(vi) Taxes arising from any adjustment under Section 481 of the Code (or any similar provision of state, local or foreign Law) arising from the manner in which any item was reported for a taxable period (or portion thereof) ending on or prior to the applicable Closing,

(vii) Taxes of any Selling Company (other than non-Income Taxes with respect to any Acquired Asset for a Post-Closing Date Tax Period) or with respect to any Acquired Asset for a Pre-Closing Date Tax Period,

(viii) Taxes arising as a result of any inclusion under Section 951(a) of the Code (or any similar or corresponding provision of state or local Tax law) with respect to any Transferred Subsidiary attributable to (A) “subpart F income,” within the meaning of Section 952 of the Code (or any similar or corresponding provision of state or local Tax law), received or accrued on or prior to the applicable Closing Date or (B) the holding of “United States property,” within the meaning of Section 956 of the Code (or similar or corresponding provision of state or local Tax Law), on or prior to the applicable Closing Date, computed, in each case, based on the amount of such Taxes that would be payable with respect to any Transferred Subsidiary if the relevant Tax period ended on the applicable Closing Date,

(ix) Taxes resulting from a breach of any Tax-related covenants contained in this Agreement (including, for the avoidance of doubt, the covenants contained in Section 7.03) by Seller or any Affiliate of Seller (other than any Transferred Subsidiary), or, prior to the applicable Closing, by any Transferred Subsidiary,

(x) incremental U.S. Taxes arising from any Acquired Asset of the U.S. Country Unit having a “carryover” Tax basis due to the application of Treasury Regulation § 1.338-8(f) (but only if and to the extent the application of such Treasury Regulation § 1.338-8(f) attributable to any action occurring before the applicable Closing),

(xi) any obligation to indemnify or hold harmless any Person (other than a Transferred Subsidiary) for Taxes (A) pursuant to any M&A Contract to which any Transferred Subsidiary was a party on or prior to the applicable Closing Date or (B) pursuant to any M&A Contract assumed or assigned to Purchaser or any of its Affiliates under this Agreement or under any other Transaction Agreement, and

(xii) Taxes arising from the purchase and sale hereunder of a 5% interest in Grupo Alcoa, S. de R.L. de C.V. and any Taxes arising from the Mexican 338 Elections.

Purchaser and Seller agree that the amount of Seller's and its Affiliates' obligations under this Section 13.01(a) shall (i) not be reduced as a result of any net operating loss, net capital loss or other Tax credit or benefit of any Transferred Subsidiary that is attributable to, arises from or relates to any Post-Closing Date Tax Period and (ii) be reduced as a result of any net operating loss, net capital loss or other Tax credit or benefit of any Transferred Subsidiary that is attributable to, arises from or relates to any Pre-Closing Date Tax Period (but only if and to the extent that any such Tax benefit actually reduces any Tax for which Seller is otherwise responsible under this Section 13.01(a)).

Notwithstanding anything contained in this Section 13.01, Seller shall not be liable under this Section 13.01 for any liability to the extent attributable to or resulting from (i) Taxes covered by Section 14.05 or (ii) a breach by Purchaser or an Affiliate of Purchaser (other than the Transferred Subsidiaries), or, after the applicable Closing, by any of the Transferred Subsidiaries, of any Tax-related covenant contained in this Agreement. Purchaser and Seller further agree with respect to this Section 13.01(a) that Seller shall not indemnify Purchaser and its Affiliates (including the Transferred Subsidiaries) against and hold them harmless against any Loss attributable to U.S. federal, state, local and foreign payroll Taxes to the extent of the actual dollar amount of such Taxes included in Working Capital.

(b) From and after the applicable Closing, Purchaser shall cause the Transferred Subsidiaries to indemnify Seller and its Affiliates against and hold them harmless from any Loss to the extent attributable to (i) any Taxes imposed on or with respect to the Transferred Subsidiaries (or for which any Transferred Subsidiary is otherwise liable) for any Post-Closing Date Tax Period, (ii) any Taxes resulting from a breach of any Tax-related covenant contained in this Agreement by Purchaser or any Affiliate of Purchaser (other than the Transferred Subsidiaries) or, after the applicable Closing, by any Transferred Subsidiary and (iii) any Taxes relating solely to the Acquired Assets for any Post-Closing Date Tax Periods.

Notwithstanding anything contained in this Section 13.01, Purchaser shall not be liable under this Section 13.01 for any liability to the extent attributable to (i) Taxes covered by Section 14.05, (ii) Losses for which indemnity is required under Section 13.01(a) or 13.02, (iii) any Taxes for which a gross-up payment is required by Seller under Section 13.04(ii) (or which are otherwise taken into account under Section 13.04), or (iv) a breach by Seller or any Affiliate of Seller (other than a Transferred Subsidiary), or, prior to the applicable Closing, any Transferred Subsidiary, or any covenant contained in Section 14.02.

(c) In the case of any Taxes that are payable for a Straddle Tax Period, to the extent permitted by law or administrative practice, the taxable year of a Transferred Subsidiary that includes the applicable Closing Date shall be treated as closing on (and including) such Closing Date, so long as doing so does not have any material adverse impact on such Transferred Subsidiary. In the case of any Tax that is payable for a Straddle Tax Period that is not treated under the preceding sentence as closing on the applicable Closing Date, the portions of such Tax that relate to the Pre-Closing Date Tax Period shall be deemed to be:

(i) in the case of any property Tax, the amount of such Tax for the Straddle Tax Period multiplied by a fraction the numerator of which is the number of days in the Straddle Tax Period on or prior to the applicable Closing Date, and the denominator of which is the number of all days in the entire Straddle Tax Period; and

(ii) in the case of any Tax (other than any property Tax), the amount that would be payable if the relevant Tax period ended on the applicable Closing Date.

For the avoidance of doubt, for purposes of Section 13.01(c)(ii), in the case of any Income Tax attributable to the ownership of an entity that is taxed as a partnership or of any other entity that is treated as a "flow-through" entity for Tax purposes (excluding a "controlled foreign corporation" within the meaning of Section 957(a) of the Code), the portion of such Income Tax that relates to the Pre-Closing Date Tax Period shall be deemed to be the amount that would be payable if the relevant Tax period of such "flow-through" entity ended on the applicable Closing Date.

SECTION 13.02. Other Indemnification by Seller. From and after the Initial Closing, Seller shall, or shall cause the relevant Selling Companies to, indemnify Purchaser and its Affiliates against and hold them harmless from any Loss (other than any relating to the matters covered by the indemnification provisions set forth in Section 13.01) to the extent arising from (i) subject to Section 15.01, any breach of any representation or warranty of any Selling Company contained in this Agreement, it being understood that (x) such representations and warranties shall be interpreted (other than Sections 6.02, 6.04, 6.08, 6.10(b), 6.11(a), 6.15(a), 6.16(a), 6.17(a), 6.18, 6.19 and 6.20, the first sentence of Section 6.05, the final sentence of Section 6.13, clause (i)(B) of Section 6.14 and the definition of Material Contracts in Section 6.09) without giving effect to any limitations or qualifications of "materiality" (including the word "material") or Business Material Adverse Effect set forth therein and (y) Purchaser and its Affiliates shall be deemed to not have incurred a Loss in connection with any such breach so long as and to the extent that the existence of such Loss was reflected in (A) the unaudited balance sheet of the "Closure Systems International" division as of June 30, 2007 or the combined unaudited balance sheet of the "Consumer Products", "Flexible Packaging" and "Reynolds Food Packaging" divisions as of June 30, 2007 (each of which is a part of the Financial Statements) or (B) the finally determined Closing Statements; (ii)(A) any breach of any covenant of any Selling Company requiring performance prior to the Initial Closing or (B) any breach of any covenant of any Selling Company contained in this Agreement requiring performance after the Initial Closing; or (iii) any of the Excluded Liabilities; provided, however, that (w) the Selling Companies shall not be required to indemnify or hold harmless any person, and shall not have any liability, under clause (i) above (A) unless the aggregate of all Losses relating thereto for which the Selling

Companies would, but for this proviso, be liable exceeds on a cumulative basis an amount equal to 1.5% of the Worldwide Purchase Price (the "Basket"), and then only to the extent of any such excess, (B) for any individual items where the Loss relating thereto is less than the Indemnification Minimum Claim Amount (and such items shall not be aggregated for purposes of clause (A) above) and (C) for any Loss in excess of 20% of the Worldwide Purchase Price (the "Cap"), (x) the foregoing limitations provided in clause (w) shall not apply to any Losses related to any breach of any representation or warranty contained in Section 6.03(a), Section 6.08(a), Section 6.09(b), Section 6.15(c), Section 6.16(b), 6.16(f) or Section 6.18(a), provided that the Selling Companies shall not be required to indemnify or hold harmless any person, and shall not have any liability, under such Sections unless the aggregate of all Losses relating thereto for which the Selling Companies would, but for this proviso, be liable exceeds on a cumulative basis the Deductible, and then only to the extent of any such excess, (y) the Selling Companies shall not be required to indemnify or hold harmless Purchaser or its Affiliates, and shall not have any liability to Purchaser or its Affiliates, with respect to matters arising under Environmental Laws to the extent (A) such liability arises out of any invasive investigation of environmental conditions (including drilling or sampling) undertaken by or on behalf of Purchaser other than as required by Environmental Laws or by a Governmental Entity or as reasonably required in connection with a third party claim or to respond to an emergency or (B) Purchaser or its Affiliates perform a remediation of environmental conditions otherwise indemnifiable under this Section 13.02 in excess of industrial cleanup standards or other applicable minimum standards, including, where applicable, standards based upon environmental land use restrictions and engineering controls (so long as such restrictions and controls do not unreasonably interfere with operations being conducted and are acceptable to the Governmental Entity overseeing the resolution of any environmental issue), or incurs costs in excess of those reasonably necessary to bring a condition into compliance with Environmental Laws or to satisfy the requirements of a Governmental Entity, and (z) the total amount in respect of which Seller and the Selling Companies shall be liable under this Agreement to indemnify Purchaser and its Affiliates shall not exceed the Worldwide Purchase Price. For the avoidance of doubt, any indemnification payment made by Purchaser to Seller and its Affiliates hereunder shall not be deemed a Loss for which Seller or any other Selling Company must indemnify Purchaser or its Affiliates.

SECTION 13.03. Other Indemnification by Purchaser. From and after the Initial Closing, Purchaser shall indemnify Seller and its Affiliates (and, with respect to clause (v) of this Section 13.03, their respective directors, officers, employees and representatives) against and hold them harmless from any Loss (other than any such Loss relating to the matters covered by the indemnification provisions set forth in Section 13.01) to the extent arising from (i) subject to Section 15.01, any breach of any representation or warranty of Purchaser or any of its Affiliates contained in this Agreement, (ii) any breach of any covenant of Purchaser or any of its Affiliates contained in this Agreement (including any failure to offer employment to, or continue the employment of, a Covered Employee in accordance with Section 12.01(a)), (iii) any of the Assumed Liabilities, (iv) the amendment, suspension or discontinuance of any Assumed Benefit Plan after the applicable Closing Date, (v) a Third Party Claim against Seller or any of its Affiliates or any of their respective directors, officers, employees and representatives in connection with the arrangement of the Debt Financing or any information utilized in connection therewith, (vi) any breach of any sublease entered into between Seller or its Subsidiaries and Purchaser with respect to any Leased Property or (vii) Seller's payment of Purchaser's obligations in respect of any Leased Property; provided, however, that (i) the total amount in respect of which Purchaser and its Affiliates shall be liable under this Agreement to indemnify Seller and its Affiliates shall not exceed the Worldwide Purchase Price and (ii) for the avoidance of doubt, any indemnification payment made by Seller or the relevant Selling Company to Purchaser and its Affiliates hereunder shall not be deemed a Loss for which Purchaser or its Affiliates must indemnify Seller or its Affiliates. Notwithstanding anything in this Agreement to the contrary, Seller and its Affiliates shall be exculpated from, and shall have no obligation under Section 13.02 in respect of, any Loss of Purchaser or any of its Affiliates to the extent arising from any Third Party Claim against Purchaser or any of its Affiliates related to or arising from Seller's or its Affiliates' cooperation with, or provision of information to, Purchaser or Purchaser's Affiliates in connection with the Debt Financing or any refinancing thereof.

SECTION 13.04. Losses Net of Insurance, etc. The amount of any, Loss for which indemnification is provided under this Article XIII shall be (i) net of any amounts actually recovered or recoverable by the indemnified party under insurance policies with respect to such Loss, (ii) increased by any Tax cost (other than by reason of a loss of Tax basis) incurred by the indemnified party as a result of the receipt of the respective indemnity payment (as increased pursuant to this Section 13.04(ii)), and (iii) reduced to take account of any net Tax Benefit realized by the indemnified party arising from the incurrence or payment of any such Loss, which shall be computed by taking into account any loss of Tax basis resulting from the receipt of the related indemnification payments. In computing the amount of any such Tax Benefit, the indemnified party shall be deemed to recognize all other items of income, gain, loss, deduction or credit before recognizing any item arising from the receipt of any indemnity payment hereunder or the incurrence or payment of any indemnified loss, liability, cost or expense. The adjustments under this Section 13.04 shall be taken into account in determining whether the Cap and Basket have been met.

SECTION 13.05. Termination of Indemnification. The obligations to indemnify and hold harmless any party (i) pursuant to Section 13.01, shall terminate 60 days after expiration of the applicable statute of limitations with respect to the Tax liabilities in question (giving effect to any waiver or extension thereof), (ii) pursuant to clause (i) of each of Sections 13.02 and 13.03, shall terminate when the applicable representation or warranty terminates pursuant to Section 15.01, (iii) pursuant to clause (ii)(A) of Section 13.02, shall terminate on the first anniversary of the Initial Closing Date, and (iv) pursuant to the other clauses of Sections 13.02 and 13.03, shall not terminate; provided, however, that such obligations to indemnify and hold harmless shall not terminate with respect to any item as to which the person to be indemnified shall have, before the expiration of the applicable period, previously made a specific claim by delivering to the party claimed to be providing the indemnification a notice of such claim pursuant to Section 13.06 or 13.07, as the case may be, stating in reasonable detail the basis of such claim.

SECTION 13.06. Procedures Relating to Indemnification (Other Than Tax Claims). (a) In order for a person (the "indemnified party") to be entitled to any indemnification pursuant to this Article XIII (other than under Section 13.01) in respect of, arising out of or involving a claim or demand made by any person against the indemnified party (a "Third Party Claim"), such indemnified party must notify the indemnifying party in writing of (and in reasonable detail regarding) the Third Party Claim promptly, and in any event within 30 Business Days, after receipt by such indemnified party of notice of the Third Party Claim; provided, however, that failure to give such notification shall not affect the indemnification provided under this Agreement except to the extent the indemnifying party shall have been actually prejudiced as a result of such failure. Thereafter, the indemnified party shall deliver to the indemnifying party promptly, and in any event within 10 Business Days, after the indemnified party's receipt thereof, copies of all notices and documents (including court papers) received by the indemnified party relating to the Third Party Claim (other than internal notices and documents or documents and notices between the indemnified party and its legal counsel).

(b) If a Third Party Claim is made against an indemnified party, the indemnifying party shall be entitled to participate in the defense thereof and, if it so chooses, to assume and control the defense thereof with counsel selected by the indemnifying party reasonably acceptable to the indemnified party. Should the indemnifying party so elect to assume the defense of a Third Party Claim, the indemnifying party shall not be liable to the indemnified party for legal expenses subsequently incurred by the indemnified party in connection with the defense thereof. If the indemnifying party assumes such defense, the indemnified party shall have the right to participate in the defense thereof and to employ at its own expense counsel not reasonably objected to by the indemnifying party separate from the counsel employed by the indemnifying party, it being understood that the indemnifying party shall control such defense and shall be empowered to make any settlement with respect to such Third Party Claim, subject to the remaining terms of this Section 13.06(b). The indemnifying party shall be liable for the reasonable fees and expenses of counsel employed by the indemnified party for any period during which the indemnifying party has not assumed the defense thereof (other than the period prior to the day on which the indemnified party gives notice of the Third Party Claim as provided above). If the indemnifying party chooses to defend or prosecute any Third Party Claim, all the parties hereto shall cooperate and shall cause their Affiliates to cooperate in the defense or prosecution thereof. Such cooperation shall include the retention and (upon the indemnifying party's request) the provision to the indemnifying party of records and information that are reasonably relevant to such Third Party Claim, and making employees available on any basis reasonably requested by the indemnifying party to provide additional information and explanation of any material provided hereunder or otherwise relating to the Third Party Claim, in each case subject to reimbursement of reasonable out-of-pocket expenses incurred in connection therewith. Whether or not the indemnifying party assumes the defense of a Third Party Claim, the indemnified party shall not admit any liability with respect to, or settle, compromise or discharge, such Third Party Claim without the indemnifying party's prior written consent (which consent shall not be unreasonably withheld). If the indemnifying party assumes the defense of a Third Party Claim, the indemnified party shall agree to any settlement, compromise or discharge of such Third Party Claim that the indemnifying party may recommend and that by its terms (or pursuant to a binding commitment of the indemnifying party) obligates the indemnifying party to pay the full amount of the liability in connection with such Third Party Claim, in each case without admission of liability of the indemnified party or the grant of any relief other than money damages. Notwithstanding the foregoing, the indemnifying party shall not be entitled to assume the defense of any Third Party Claim (and shall be liable for the reasonable fees and expenses of counsel incurred by the indemnified party in defending such Third Party Claim) if the Third Party Claim seeks an order, injunction or other equitable relief or relief for other than money damages against the indemnified party that the indemnified party reasonably determines, after conferring with its outside counsel, cannot reasonably be separated from any related claim for money damages. If such equitable relief or other relief portion of the Third Party Claim can be so separated from that for money damages, the indemnifying party shall be entitled to assume the defense of the portion relating to money damages.

(c) In the event any indemnified party should have an indemnification claim against any indemnifying party under the Transaction Agreements that does not involve a Third Party Claim being asserted against or sought to be collected from such indemnified party, the indemnified party shall deliver notice of such claim to the indemnifying party with reasonable promptness after an officer of the indemnified party has actual knowledge of the facts giving rise to such claim. The failure by any indemnified party to so notify the indemnifying party shall not relieve the indemnifying party from any liability that it may have to such indemnified party, except to the extent that the indemnifying party has been actually prejudiced by such failure. Without limiting the right of an indemnified party to seek immediate equitable relief, if the indemnifying party disputes its liability with respect to such claim, the indemnifying party and the indemnified party shall proceed in good faith to negotiate a resolution of such dispute and, if not resolved through negotiations within 30 days, such dispute shall be resolved by litigation in an appropriate court of competent jurisdiction.

(d) Seller and Purchaser shall cooperate with each other with respect to resolving any claim or liability with respect to which either such party is obligated to indemnify such other party hereunder or an Affiliate thereof, including by making commercially reasonable efforts to mitigate or resolve any such claim or liability. In the event that Seller or Purchaser shall fail to make such commercially reasonable efforts to mitigate or resolve any claim or liability, then, notwithstanding anything else to the contrary contained herein, the other party shall not be required to indemnify any person to the extent of any loss, liability, claim, damage or expense that could reasonably be expected to have been avoided if Purchaser or Seller, as the case may be, had made such efforts.

(e) Notwithstanding anything herein to the contrary, with respect to any litigation, demand or claim that is an Excluded Liability listed in Section 2.02(c)(iii) of the Seller Disclosure Letter, Seller shall have sole control of the defense of such litigation, demand or claim and Purchaser shall not be entitled to participate in such defense.

(f) Tax Claims shall be governed by Section 13.07 and not by this Section 13.06.

SECTION 13.07. Procedures Relating to Indemnification of Tax Claims. (a) Each party entitled to an indemnity payment pursuant to Section 13.01 (a "Tax Indemnified Party") agrees to give written notice to the indemnifying party (the "Tax Indemnitor") of the receipt of any written notice by the Tax Indemnified Party or an Affiliate of such Tax Indemnified Party (including, in the case where Purchaser is the Tax Indemnified Party, any Transferred Subsidiary) which involves the assertion of any claim, or the commencement of any audit, suit, action or proceeding (collectively, a "Tax Claim") in respect of which indemnity may be sought (an "Indemnifiable Tax") within 30 Business Days of such receipt or such earlier time as would allow the Tax Indemnitor to timely respond to such Tax Claim; provided, however, that failure to give such notification shall not affect the indemnification provided under this Agreement except to the extent the Tax Indemnitor shall have been actually prejudiced as a result of such failure.

(b) The Tax Indemnitor shall, at its own expense, assume control of the defense of any Tax Claim for any Indemnifiable Tax. The Tax Indemnitor shall (i) notify the Tax Indemnified Party of significant developments with respect to such Tax Claim and keep the Tax Indemnified Party reasonably informed and consult with the Tax Indemnified Party with respect to any issue that reasonably could be expected to have an adverse effect on the Tax Indemnified Party or any of its Affiliates (including by giving rise to an indemnity obligation of the Tax Indemnified Party or any of its Affiliates), (ii) give to the Tax Indemnified Party a copy of any Tax adjustment proposed in writing with respect to such Tax Claim and copies of any other material correspondences with the relevant Taxing Authority with respect to such Tax Claim, and (iii) otherwise permit the Tax Indemnified Party to participate in all aspects of any proceedings relating to such Tax Claim at the Tax Indemnified Party's own expense. The Tax Indemnitor shall not pay or compromise any Tax liability asserted with respect to any Tax Claim for any Indemnifiable Tax without the prior written consent of the Tax Indemnified Party, which consent shall not be unreasonably withheld, delayed or conditioned.

(c) Without limiting the generality of Section 14.03, the Tax Indemnified Party shall give the Tax Indemnitor such information with respect to any Tax Claim as the Tax Indemnitor may reasonably request. In addition, if, and to the extent required, the Tax Indemnified Party shall promptly execute and deliver, or cause to be executed and delivered by the relevant taxpayer, reasonable powers of attorney or other documents authorizing the Tax Indemnitor to defend and settle such Tax Claim in accordance with this Section 13.07.

(d) If a Tax Claim potentially involves both Taxes for which Seller would be required to indemnify Purchaser and its Affiliates (including the Transferred Subsidiaries) pursuant to Section 13.01 and other Taxes for which Seller would not be required to indemnify Purchaser and its Affiliates (including the Transferred Subsidiaries), Purchaser and Seller shall jointly control such Tax Claim, and cooperate in good faith in such control.

(e) The Tax Indemnitor may discharge, at any time, its indemnity obligations by paying the Tax Indemnified Party the amount of the applicable loss, (calculated as of the date that such payment can be made by the Tax Indemnified Party to the relevant Taxing Authority), so long as the Tax Indemnitor is actually able to satisfy the underlying Tax Claim by paying such amount to the relevant Taxing Authority.

SECTION 13.08. Exclusive Remedy. (a) Each party acknowledges and agrees that from and after the Initial Closing Date, other than in the case of actual fraud, the sole and exclusive remedy of such party and its Affiliates with respect to any and all claims under the Transaction Agreements (other than the Transition Services Agreement, the Metal Supply Agreement and the Scrap Metal Agreement) and the transactions contemplated thereby shall be pursuant to the indemnification provisions set forth in this Article XIII. In furtherance of the foregoing, each party hereby waives, and agrees to cause its Affiliates to waive, any and all rights, claims and causes of action they may have against any other party or any Affiliate thereof arising under or based upon any statutory or common law or otherwise (except pursuant to the indemnification provisions set forth in this Article XIII or in the case of actual fraud) to the extent relating to the transactions contemplated by the Transaction Agreements (other than the Transition Services Agreement, the Metal Supply Agreement and the Scrap Metal Agreement).

(b) No party shall be responsible for any indirect, incidental, punitive, special or consequential damages which arise out of, relate to or are a consequence of, the performance or nonperformance by such party under this Agreement (including, but not limited to, with respect to loss of profits, goodwill, business interruptions, anticipated savings or claims of customers), even if advised of the possibility of such damages, in each case except as may be payable to a claimant in a Third Party Claim.

SECTION 13.09. Tax Treatment of Certain Payments. Any indemnity payment hereunder and any payment made pursuant to Sections 7.06, 7.11, 9.07 or 9.08 shall be treated as an adjustment to the Worldwide Purchase Price for Tax purposes unless there is no reasonable basis for doing so under the applicable Tax law.

SECTION 13.10. No Duplicative Payments. Notwithstanding anything to the contrary in this Agreement, it is intended that the provisions of this Agreement will not result in a duplicative payment of any amount required to be paid under this Agreement, and this Agreement shall be construed accordingly.

ARTICLE XIV

Tax Matters

SECTION 14.01. Tax Returns; Tax Payments. (a) Seller shall prepare and, to the extent permitted by law, file, or cause to be prepared and, to the extent permitted by law, filed, all Tax Returns required to be filed by the Transferred Subsidiaries after the applicable Closing Date with respect to any Tax period that actually ends on or before such Closing Date.

(b) Following the applicable Closing, Purchaser shall prepare and file, or cause to be prepared and filed, all Tax Returns for Straddle Tax Periods required to be filed by the Transferred Subsidiaries.

(c) Purchaser shall prepare and file, or cause to be prepared and filed, all other Tax Returns required to be filed by the Transferred Subsidiaries after the applicable Closing Date with respect to any Post-Closing Date Tax Period.

(d) Any refund (including interest paid thereon, to the extent received by the Transferred Subsidiary) paid or credited to a Transferred Subsidiary with respect to a Tax period that actually ends on or prior to the applicable Closing Date shall be for Seller's account, except for any such refund attributable to any post-Closing deduction, loss, credit or similar benefit. The portion of any refund (including interest paid thereon, to the extent received by the Transferred Subsidiary) paid or credited to a Transferred Subsidiary and attributable to the pre-Closing portion of any Straddle Tax Period shall be for Seller's account, except for any refund attributable to any post-Closing deduction, loss, credit or similar benefit. All other refunds shall be for Purchaser's account. Purchaser or its Affiliates (including any Transferred Subsidiary) shall pay (or cause to be paid) to Seller the amount of any refund that is for Seller's account, within five days after receipt thereof by Purchaser or any of its Affiliates (including the Transferred Subsidiaries). Any such payment shall be net of any incremental cost incurred by or Tax imposed on Purchaser or any of its Affiliates (including the Transferred Subsidiaries) in connection with receipt of such refund, and Seller shall, to the extent necessary, reimburse Purchaser or the applicable Transferred Subsidiary for any such incremental cost or Tax. If Seller determines that any of the Transferred Subsidiaries is entitled to file or make a formal or informal claim for a refund or an amended Tax Return providing for a refund with respect to a Tax period that actually ends on or prior to the Closing Date, Seller shall be entitled to file or make such claim or amended Tax Return on behalf of the applicable Transferred Subsidiary and shall control the prosecution of such refund claim (so long as such refund is for the account of Seller), provided that Purchaser shall have the rights given to a Tax Indemnified Party under Section 13.07(b) with respect to such claim. The parties shall cooperate in making a formal or informal claim for any refund attributable to a Straddle Tax Period.

(e) Except to the extent required by law, Purchaser shall not permit any Transferred Subsidiary to file any amended Tax Return for any Pre-Closing Date Tax Period without the prior written consent of Seller, which consent shall not be unreasonably withheld, conditioned or delayed.

(f) Each Tax Return described in Section 14.01(a) or (b) shall be prepared by Purchaser or Seller in a manner consistent with past practice, including as to Tax elections and Tax accounting methods, unless such inconsistency (i) could not have a material detrimental effect on the other party, (ii) is required under any Transaction Agreement or (iii) is required by applicable law.

(g) Each party responsible for the preparation of a Tax Return described in this Section 14.01(a) or (b) shall submit such Tax Return to the other party (together with schedules, statements and, to the extent required by such other party, supporting documentation) at least 40 days prior to the due date (including extensions) of such Tax Return; provided that neither Seller nor Purchaser shall be required to submit any consolidated, combined, or unitary Tax Return that includes entities other than the Transferred Subsidiaries but shall be required to submit the relevant pro forma Tax Returns related to the Transferred Subsidiaries. If such other party objects to any item on any such Tax Return, it shall, within 30 days after delivery of such Tax Return, notify the party responsible for the preparation of such Tax Return in writing that it so objects, specifying with particularity any such item and stating the specific factual or legal basis for any such objection. If a notice of objection is duly delivered, Purchaser and Seller shall negotiate in good faith and use their reasonable best efforts to resolve such items; provided that if the parties do not resolve such items, such items shall be submitted to the Tax Referee pursuant to Section 14.08.

(h) For the avoidance of doubt, if any Tax Return described in Section 14.01(a) is filed by Seller after the applicable Closing Date, Seller shall deliver to Purchaser, within 30 days of filing such Tax Return, a copy of any such Tax Return (or portion thereof) that Purchaser would have been entitled to receive under Section 7.01(b) had such Tax Return been filed on or before such Closing Date. If Purchaser files any Tax Return for a Straddle Tax Period described in Section 14.01(b) after the applicable Closing Date, Purchaser shall deliver to Seller, within 30 days of filing such Tax Return, a copy of any such Tax Return.

(i) To the extent any amount for which Seller is responsible pursuant to Section 13.01(a) is required to be paid after the applicable Closing, Seller shall either (i) pay such amount to the applicable Taxing Authority at or before the time at which payment of such amount is due (including estimated Taxes), and furnish Purchaser or the applicable Transferred Subsidiary with evidence of such payment, or (ii) pay such amount to Purchaser or the applicable Transferred Subsidiary at least five Business Days before payment of such amount is due (including estimated Taxes).

(j) Seller's consolidated federal Income Tax Return for the taxable period that includes the Closing Date shall be filed in accordance with Treasury Regulations Sections 1.1502-76(b)(2)(i) and 1.1502-76(b)(2)(vi) (determined using the closing of the books method), with no election under Treasury Regulations Section 1.1502-76T(b)(2)(ii)(D).

SECTION 14.02. Certain Tax Covenants. (a) Purchaser covenants that, without the prior written consent of Seller, it will not, and will not cause or permit any Transferred Subsidiary or any other Affiliate of Purchaser to take any action on the applicable Closing Date other than in the ordinary course of business, including but not limited to the sale of any assets or the distribution of any dividend or the effectuation of any redemption, that could give rise to any Tax liability of Seller or any Affiliate of Seller, or indemnification obligation of Seller under Section 13.01.

(b) After the applicable Closing Date, Purchaser shall not make, and shall not permit any of its Affiliates to make, any election pursuant to Section 338(g) of the

Code (or any similar provision of applicable state or local Tax laws) with respect to any Transferred Subsidiary.

(c) After the Initial Closing Date, none of Purchaser, Seller or their respective Affiliates (including the Transferred Subsidiaries) will, without the prior written consent of the other party, agree to the waiver or extension of the statute of limitations relating to any Taxes of any Transferred Subsidiary for any Pre-Closing Date Tax Period or any Straddle Tax Period; provided that Purchaser may (to the extent permitted by law) extend the time for filing any Tax Return for a Straddle Tax Period.

SECTION 14.03. Cooperation on Tax Matters. (a) Purchaser and Seller agree to furnish, or cause to be furnished, to each other, upon request, in a timely manner, such information (including access to books and records) and assistance relating to the Transferred Subsidiaries as is reasonably necessary for the filing of any Tax Return, for the preparation of any audit, and for the prosecution or defense of any claim, suit or proceeding relating to any proposed adjustment.

(b) Purchaser and Seller shall cooperate with each other in the conduct of any audit or other proceedings involving any Transferred Subsidiary for any Tax purposes and each shall execute and deliver such powers of attorney and other documents as are necessary to carry out the intent of this Section 14.03.

(c) Seller shall retain, or cause to be retained, all Tax and accounting books and records (including all computerized books and records, and any such information stored on any other form of media) of the Transferred Subsidiaries or their Subsidiaries relevant for Taxes for all Pre-Closing Date Tax Periods and Straddle Tax Periods until the applicable period for assessment under applicable law, including assessments regarding the utilization of Tax losses and credits generated during a Pre-Closing Date Tax Period or Straddle Tax Period (giving effect to any and all extensions or waivers) has expired ("Retention Period"), and to abide by all record retention agreements entered into with any Taxing Authority. Seller agrees to give Purchaser and the Transferred Subsidiaries reasonable notice of the opportunity to receive such books and records after such Retention Period, prior to discarding or destroying any such books and records.

SECTION 14.04. Tax Sharing Agreements. Any and all existing Tax sharing agreements between any Transferred Subsidiary, on the one hand, and Seller or any Affiliate of Seller (other than the Transferred Subsidiaries), on the other hand, shall be terminated as of the applicable Closing Date. After such date, none of the Transferred Subsidiaries, Seller or any Affiliate of Seller shall have any further rights or liabilities thereunder. Any and all existing powers of attorney with respect to Taxes or Tax Returns to which any Transferred Subsidiary is a party shall be terminated as of the applicable Closing Date.

SECTION 14.05. Transfer Taxes. (a) All stock transfer, real property transfer, documentary, sales, use, registration, value-added and other similar Taxes incurred, directly or indirectly, by virtue of Purchaser's acquisition of any Acquired Asset or Transferred Subsidiary on the applicable Closing (each such Tax, a "Transfer Tax") shall be borne 50% by Purchaser and 50% by Seller, and each party shall indemnify the other party for any such Taxes incurred by such other party as a result of the first party's failure to timely pay such Taxes. Except as otherwise required by applicable Tax laws, the party that is obligated by law to file any Tax Returns that relate to Transfer Taxes shall prepare and file all such Tax Returns, and provide the other party with a copy of any such filed Tax Return. In the event that both Seller or its Affiliates (other than a Transferred Subsidiary) and Purchaser or its Affiliates (including a Transferred Subsidiary) are required to file such Tax Returns under applicable Tax law, Purchaser shall be required to prepare and file such Tax Returns. The parties hereto shall cooperate in the preparation and filing of any such Tax Returns.

(b) In the event that either party is aware that an exemption from an applicable Transfer Tax is available, such party shall deliver to the other party any applicable exemption certificate, duly signed and executed, or any other applicable documentation required by applicable Tax law in connection with such Transfer Tax exemption.

(c) For the avoidance of doubt, this Section 14.05 shall not apply to any Taxes arising from any Post-Signing Restructuring Action for which Seller is responsible pursuant to Section 13.01(a)(iv).

SECTION 14.06. FIRPTA Affidavit. Seller shall deliver to Purchaser at the applicable Closing an affidavit (the "FIRPTA Affidavit"), duly executed and acknowledged, certifying that Seller or the relevant Selling Company is a "domestic corporation" within the meaning of Sections 7701(a)(3) and (4) of the Code and Section 1.897-1(j) of the applicable Treasury Regulations. To the extent necessary or advisable, Seller or the relevant Selling Company shall deliver to Purchaser other FIRPTA Affidavits permitted by the applicable Treasury Regulations.

SECTION 14.07. Loss Disallowance Rule. If (i) Proposed Treasury Regulation Section 1.1502-36 becomes effective (whether or not changes are made thereto) (as so effective, the "New LDR Rules"), (ii) the New LDR Rules are applicable to any transfer (or deemed transfer) of any Transferred Subsidiary effected at or prior to the applicable Closing and (iii) the New LDR Rules permit any election (or protective election to reduce the Tax basis in the shares of a first-tier Transferred Subsidiary in order to prevent any reduction of any Tax basis or attributes of any Transferred Subsidiary, then Seller shall make such election. The parties further agree to take such actions as are required to give effect to the intent of the parties that the Tax basis and Tax attributes of the Transferred Subsidiary be preserved to the maximum extent permitted by law even if such preservation requires a reduction or disallowance of any loss otherwise available to any Seller.

SECTION 14.08. Tax Matter Disputes. If, after negotiating in good faith, Purchaser and Seller are unable to reach an agreement relating to any Tax matter under this Article XIV, the dispute shall be submitted to a nationally recognized law firm (the "Tax Referee"), chosen and mutually acceptable to both parties within 30 Business Days of the date on which the need to select such a Tax Referee arises. The Tax Referee shall resolve any disputed items within 30 Business Days of having the item referred to it, pursuant to such procedures as it may require. The parties shall promptly act to implement the decision of the Tax Referee. The fees and expenses of the Tax Referee shall be borne by each party to the extent the position of the other party is upheld by the Tax Referee.

SECTION 14.09. Mexican Restructuring. Seller will (prior to the Closing Date for the Mexican Country Unit) file (or cause to be filed) valid elections pursuant to Section 301.7701-3(c) of the Treasury Regulations treating each of CSI Mexico LLC and Closure Systems Mexico Holdings LLC as an association taxable as a corporation effective on the date of formation of CSI Mexico LLC or Closure Systems Mexico Holdings LLC, as applicable and to validly join in the filing of Seller's U.S. federal consolidated income tax return. Notwithstanding anything else contained herein, (i) elections shall be made under Section 338(h)(10) of the Code with respect to the purchase pursuant to this Agreement of CSI Mexico LLC and Closure Systems Mexico Holdings LLC (the "Mexican 338 Elections"), (ii) Purchaser shall cause Grupo Alcoa, S. de R.L. de C.V. to alter the vote and value percentages of its shares in accordance with Mexican law to maintain Mexican tax consolidation, and (iii) Purchaser shall elect to treat either or both of CSI Mexico LLC and Closure Systems Mexico Holdings LLC as a partnership or as disregarded as an entity separate from its owner for federal income tax purposes, and such elections shall be effective on or after the Closing Date for the Mexican Country Unit. Seller shall, and shall cause its Affiliates (including, prior to the applicable Closing, any Transferred Subsidiary) to, take any action reasonably requested by Purchaser to enable the transactions described in clauses (ii) and (iii) above to preserve Mexican tax consolidation for Grupo Alcoa, S. de R.L. de C.V. (and its Affiliates) and to qualify CSI Mexico LLC and Closure Systems Mexico Holdings LLC as a partnership or as disregarded as an entity separate from its owner for U.S. federal income tax purposes.

ARTICLE XV

Survival of Representations

SECTION 15.01. Survival of Representations. The representations and warranties in this Agreement shall survive the Initial Closing solely for purposes of Article XIII hereof and shall terminate on the first anniversary of the Initial Closing Date; provided, however, that (i) the representations and warranties contained in Section 6.11 that relate to Assumed Benefit Plans that are subject to ERISA shall survive the Initial Closing solely for purposes of Article XIII hereof and shall terminate on the expiration of the applicable statute of limitations, (ii) the representations and warranties contained in Section 6.14 shall survive the Initial Closing solely for purposes of Article XIII hereof and shall terminate on the third anniversary of the Initial Closing Date, (iii) the Tax representations and warranties set forth in Section 6.07 shall not survive the Initial Closing for any purpose, and (iv) the representations and warranties contained in Sections 6.03(a) and Section 6.08(a) shall survive in respect of each of the applicable equity interests or assets to which such provisions relate until the expiration of the applicable statute of limitations in the jurisdiction where such equity interest or asset is located.

ARTICLE XVI

Termination

SECTION 16.01. Termination. Notwithstanding anything in this Agreement to the contrary, this Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Initial Closing Date:

(i) by mutual written consent of Seller and Purchaser;

(ii) by Purchaser upon written notice to Seller if any of the conditions to the Initial Closing set forth in Section 5.01 shall have become incapable of fulfillment and shall not have been waived in writing by Purchaser;

(iii) by Seller upon written notice to Purchaser if any of the conditions to the Initial Closing set forth in Section 5.02 shall have become incapable of fulfillment and shall not have been waived in writing by Seller; or

(iv) by either Seller or Purchaser upon written notice to the other such party if the Initial Closing does not occur on or prior to May 1, 2008 (as such date may be extended in accordance with this Section 16.01, the "Termination Date"); provided that (A) Seller may elect by written notice to Purchaser to extend the Termination Date to the first day of the next succeeding month if Seller has not provided on or prior to the second Business Day prior to the applicable Termination Date all information required to be provided upon request to the lenders of Purchaser pursuant to clause (ii) of the definition of "Debt Marketing Period" (despite Seller acting in good faith to satisfy such request) and (B) Purchaser may elect by written notice to Seller to extend the Termination Date to the first day of the next succeeding month, but in no event later than June 1, 2008, if (x) Seller has not provided on or prior to the second Business Day prior to the applicable Termination Date all information required to be provided upon request to lenders of Purchaser pursuant to clause (ii) of the definition of "Debt Marketing Period" and (y) the Financing Commitments (or replacement commitments obtained by Purchaser in compliance with this Agreement) shall continue by their written terms (a copy of which shall have been provided to Seller) in full force and effect until the new Termination Date as so extended;

provided, however, that the party seeking termination pursuant to clause (ii), (iii) or (iv) is not then in breach in any material respect of any of its representations, warranties, covenants or agreements contained in the Transaction Agreements such that the other party would not be obligated to consummate the Initial Closing;

SECTION 16.02. Other Transaction Agreements; Material To Be Returned. (a) In the event that this Agreement is terminated by Seller or Purchaser pursuant to Section 16.01, the transactions contemplated by the Transaction Agreements shall be terminated, without further action by any party hereto.

(b) Furthermore, in the event that this Agreement is terminated as provided herein:

(i) Purchaser shall return all documents and other material received from Seller or its Subsidiaries or any of their Representatives relating to the Business or the transactions contemplated by the Transaction Agreements, whether obtained before or after the execution of this Agreement, to Seller; and

(ii) Purchaser agrees that all confidential information received by Purchaser or its Affiliates or their Representatives with respect to the Business, Seller or its Subsidiaries, the Transaction Agreements or the transactions contemplated thereby shall be treated in accordance with the Confidentiality Agreement which shall remain in full force and effect notwithstanding the termination of this Agreement.

SECTION 16.03. Effect of Termination. Upon the termination hereof, this Agreement shall become void and of no further force and effect, except for the provisions of (i) Sections 6.06 and 8.03 relating to brokers, (ii) Section 9.01 relating to the obligation of Purchaser to keep confidential certain information, (iii) Section 10.02 relating to publicity, (iv) this Article XVI and (v) Article XVII. Nothing in this Article XVI shall be deemed to release either party from any liability for any willful and material breach of any obligation hereunder or to impair the right of any party to compel specific performance by any other party of its obligations under this Agreement.

ARTICLE XVII

General Provisions

SECTION 17.01. Assignment; Successors. This Agreement and the rights and obligations hereunder may not be assigned or otherwise transferred by any party (including by operation of law) without the prior written consent of the other party, and any assignment or transfer without such consent shall be null and void and of no effect. Notwithstanding the foregoing, (a) Purchaser may, without the consent of Seller, assign all of its rights hereunder solely for collateral purposes to any lender providing the Debt Financing to Purchaser, (b) Purchaser may designate one or more of its direct or indirect Subsidiaries or other Affiliates to purchase Shares or all or a portion of the Acquired Assets (and assume the applicable Assumed Liabilities) or assign to them any other rights or obligations contained in any Transaction Agreement, and in such event such assignee will be deemed to be the Purchaser in respect of such assigned rights or obligations provided that Rank Group Limited remains liable for the obligations so assigned and (c) Purchaser may assign to any transferee of a portion of the Business or a Business Property the benefit of the non-assertion covenant in Section 10.13(b) as it relates to such portion of the Business or Business Property so transferred. Subject to the foregoing, this

Agreement will be binding upon, inure to the benefit of and be enforceable by, the parties and their respective successors or assigns.

SECTION 17.02. No Third Party Beneficiaries.

(a) This Agreement is for the sole benefit of the parties and their permitted assigns and nothing herein expressed or implied shall give or be construed to give to any person, other than the parties and such permitted assigns, any legal or equitable rights hereunder, whether as third party beneficiaries or otherwise, except for indemnified parties as set forth in Article XIII.

(b) Notwithstanding anything to the contrary contained in this Agreement, no provision under this Agreement, whether express or implied, shall (i) constitute or create an employment agreement with any Transferred Employee, (ii) be treated as an amendment or other modification of any Seller Benefit Plan or Assumed Benefit Plan or other benefit plan or arrangement, or (iii) except as specifically provided in Sections 12.01(c), 12.02(c) and 12.03(b), limit the right of Purchaser, Seller or any of their respective Affiliates to amend, terminate or otherwise modify any Seller Benefit Plan, Assumed Benefit Plan or other benefit or employment plan or arrangement following the Initial Closing Date.

(c) Seller and Purchaser acknowledge and agree that all provisions contained in this Agreement with respect to Transferred Employees are included for the sole benefit of Seller, Purchaser and their respective Affiliates, and that nothing in this Agreement, whether express or implied, shall create any third-party beneficiary or other rights (i) in any other person, including, without limitation, any current or former Transferred Employees, any participant in any existing benefit plan or arrangement, or any dependent or beneficiary thereof, or (ii) to continued employment with Seller, Purchaser or any of their respective Affiliates.

SECTION 17.03. Expenses. (a) Whether or not the transactions contemplated by this Agreement are consummated, and except as otherwise expressly provided herein, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs or expenses; provided, however, that (i) all costs, fees and expenses incurred by Seller in connection with the delivery of the financial information referenced in Section 7.07 shall be borne by Purchaser, (ii) all costs, fees and expenses (including Taxes) incurred by Purchaser or a Transferred Subsidiary in connection with the transfer back to Seller of any Excluded Assets (including pursuant to Section 7.12) shall be borne by Seller, and (iii) all third-party costs, fees and expenses, including Seller’s out-of-pocket expenses, associated with the Migration Services described in Section 10.11 shall be borne by Purchaser.

(b) Any costs and expenses arising pre- or post-Closing in connection with discharging obligations under a Remediation in Progress Waiver or Remediation Agreement referred to in Section 5.01(vi) or otherwise in complying with the New Jersey Industrial Site Recovery Act for the Avenel facility shall be borne by Purchaser; provided that any such costs and expenses in excess of $20,000 per annum shall be borne by Seller for a period of seven years following the Initial Closing Date.

(c) Without limiting the obligations of Seller described in the next sentence, Purchaser will bear all the costs of preparing the Business post-closing to operate on its own from an information technology perspective, including costs for establishing its own data center, capital leases for hardware, labor for converting e-mail, security, file and print sharing, establishing a Windows domain, re-staging PCs to the buyer's operating environment, building a global WAN environment, paying third party consulting costs for Oracle and to establish payroll services, mid-tier systems, licensing programs, treasury and banking services, electronic data interface services, and travel and expense. Seller's cooperation with the foregoing shall be limited to the transfer of certain software licenses pursuant to Section 10.01, Seller's obligations under Section 10.11 and the provision of transitional services under the Transition Services Agreement.

SECTION 17.04. Amendments. No amendment to this Agreement shall be effective unless it shall be in writing and signed by each party.

SECTION 17.05. Waivers. No failure or delay of any party in exercising any right or remedy under this Agreement shall operate as a waiver hereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise hereof or the exercise of any other right or power. Subject to Section 13.08, the rights and remedies of the parties under this Agreement are cumulative and are not exclusive of any rights or remedies which the parties would otherwise have hereunder. This Agreement (or any provision hereof) may not be waived except pursuant to a writing executed by the waiving party. The representations and warranties of the Seller on the one hand, and the Purchaser, on the other hand, that are contained in this Agreement (as brought down on the applicable Closing Date) shall not be affected or deemed waived by reason of any investigation made by or on behalf of the Purchaser or the Seller, as the case may be, (including but not limited to by any of their advisors, consultants or representatives) or by reason of the fact that the Purchaser or the Seller, as the case may be, or any of their respective, advisors, consultants or representatives knew or should have known that any such representation or warranty is or might be inaccurate; provided that if Purchaser asserts a post-Closing claim for actual fraud as contemplated by Section 13.08, this sentence shall be disregarded for purposes of allowing Seller to defend such claim.

SECTION 17.06. Notices. All notices or other communications required or permitted to be given hereunder shall be in writing and shall be delivered by hand or sent by facsimile or email or sent, postage prepaid, by registered, certified or express mail or reputable overnight courier service and shall be deemed given when so delivered by hand or facsimile or email, or if mailed, three days after mailing (one Business Day in the case of express mail or overnight courier service) to the parties at the following addresses or facsimiles or email addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Seller:

Alcoa Inc. Legal Department
390 Park Avenue
New York, NY 10022-4608
U.S.A.

Attention: Office of General Counsel
Facsimile: (212) 836-2844 and (412) 553-4064
email: Max.Laun@alcoa.com

with a copy (which shall not constitute notice) to:

Cravath, Swaine & Moore LLP
825 Eighth Avenue
New York, New York 10019
U.S.A.

Attention: Scott A. Barshay, Esq.
Facsimile: (212) 474-3700
email: sbarshay@cravath.com

and

Attention: Thomas E. Dunn, Esq.
Facsimile: (212) 474-3700
email: tdunn@cravath.com

(b) if to Purchaser:

Rank Group Limited
Level Nine
148 Quay Street
P.O. Box 3515
Auckland, New Zealand

Attention: Mr. Greg Cole
Facsimile: (64-9) 366-6263
email: Greg.Cole@rankgroup.co.nz

with a copy (which shall not constitute notice) to:

Debevoise & Plimpton LLP
919 Third Avenue
New York, New York 10022
U.S.A.

Attention: Jeffrey J. Rosen, Esq.
Facsimile: (212) 909-6836
email: jrosen@debevoise.com

and

Attention: Kevin M. Schmidt, Esq.
Facsimile: (212) 909-6836
email: kmschmidt@debevoise.com

Notices delivered by facsimile shall have the same legal effect as if such notice had been delivered in person.

SECTION 17.07. Exhibits and Schedules; Interpretation. The headings contained in this Agreement or in any exhibit or schedule hereto and in the table of contents are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any matter set forth in any provision, subprovision, section or subsection of any schedule shall be deemed set forth in such other provisions of the schedules to the extent the applicability thereto is reasonably apparent for all purposes of the schedules. All exhibits and schedules annexed to this Agreement are hereby incorporated herein and made a part of this Agreement as if set forth in full herein. Each capitalized term used in any schedule or exhibit but not otherwise defined therein, has the meaning specified in this Agreement. For all purposes hereunder, (a) definitions of terms shall apply equally to the singular and plural forms of the terms defined, (b) whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms, (c) the terms "include", "includes" and "including" shall be deemed followed by the words "without limitation", (d) the words "hereof", "herein" and "hereunder" and words of similar import shall refer to this Agreement as a whole and not to any particular provision and (e) the word "extent" in the phrase "to the extent" shall mean the degree to which a subject or other thing extends, and shall not simply mean "if". Any reference to an "applicable Closing" in any provision shall be deemed to be a reference to the Initial Closing; provided that if the Foreign Country Unit (or the Acquired Assets, Assumed Liabilities, Shares or Covered Employees relating thereto) which is the subject of such provision shall not have been transferred to Purchaser at or prior to the Initial Closing, such reference shall be deemed to refer to the applicable Foreign Country Unit Closing with respect to such Foreign Country Unit. Any reference to an "applicable Closing Date" in any provision shall be deemed to be a reference to the date of the applicable Closing. Any reference to any date or time with respect to any Country Unit shall be a reference to the local time at the contemplated place of the Closing with respect to such Country Unit. In the event of any conflict between this Agreement and any Foreign Transfer Agreement, the terms of this Agreement shall control.

The parties have participated jointly in the negotiating and drafting of this Agreement. If an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision. This Agreement is in the English language only, which shall be controlling in all respects. No translation, if any, of this Agreement into any other language shall be of any force or effect in the interpretation of this Agreement or in a determination of the intent of any party.

SECTION 17.08. Counterparts. This Agreement may be executed in one or more counterparts, all of which, when taken together, shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties and delivered to the other party. Each party to this Agreement need not sign the same counterpart. Delivery of an executed counterpart of a signature page by facsimile transmission shall be effective as delivery of a manually executed counterpart. Once signed, any reproduction of this Agreement made by reliable means (for example, photocopy or facsimile) is considered an original, to the extent permissible under applicable law, and all products and services referred to herein are subject to it.

SECTION 17.09. Entire Agreement. This Agreement, including the schedules, exhibits and attachments hereto, together with the Other Transaction Agreements and the Confidentiality Agreement, contain the entire agreement and understanding between the parties with respect to the subject matter hereof and supersede all prior agreements and understandings relating to such subject matter.

SECTION 17.10. Severability. If any provision or the application of any such provision to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, to the extent permitted by applicable law, such invalidity, illegality or unenforceability shall not affect any other provision. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

SECTION 17.11. Consent to Jurisdiction. Each party irrevocably submits to the exclusive jurisdiction of (i) the Supreme Court of the State of New York, New York County, and (ii) the United States District Court for the Southern District of New York, for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby (and each agrees that no such action, suit or proceeding relating to this Agreement shall be brought by it or any of its Affiliates except in such courts). Each party further agrees that service of any process, summons, notice or document by U.S. registered mail to such person’s respective address set forth herein shall be effective service of process for any action, suit or proceeding in New York with respect to any matters to which it has submitted to jurisdiction as set forth in the immediately preceding sentence. Each party irrevocably and unconditionally waives (and agrees not to plead or claim) any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in (i) the Supreme Court of the State of New York, New York County or (ii) the United States District Court for the Southern District of New York or that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum. Each party shall cause its Subsidiaries to stipulate that, for purposes of any such suit, action or other proceeding, the Foreign Transfer Agreements shall be deemed governed by, and to be construed in accordance with, the internal laws of the State of New York applicable to agreements made and to be performed entirely within such State.

SECTION 17.12. Governing Law. This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York applicable to agreements made and to be performed entirely within such State.

SECTION 17.13. Waiver of Jury Trial. Each party hereby waives to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with this Agreement. Each party (i) certifies that no Representative of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (ii) acknowledges that it and the other party hereto have been induced to enter into this Agreement by, among other things, the mutual waivers and certifications in this Section 17.13.

SECTION 17.14. Time of the Essence. Time is of the essence in the performance of all obligations under this Agreement.

[Remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above written.

ALCOA INC.,

By /s/ Barbara S. Jeremiah
Name: Barbara S. Jeremiah
Title: Executive Vice President Corporate Development

RANK GROUP LIMITED,

By /s/ Helen Golding
Name: Helen Golding
Title: Director

By /s/ Robert Bailey
Name: Robert Bailey
Title: Director

ANNEX 1[1]

Definitions

The following terms shall have the following meanings:

"Accounting Firm" shall have the meaning specified in Section 4.03(b).

"Accrued Pension Liability" shall have the meaning specified in Section 12.04(a) of the Seller Disclosure Letter.

"Acquired Assets" shall have the meaning specified in Section 2.01(b).

"Acquired Books and Records" shall mean all books of account, ledgers and general, financial and accounting records and files of any Asset Selling Company that are located at an Operating Location and primarily used or held for use in the Business; provided that Acquired Books and Records shall not include any personnel files, other than the Transferred Personnel Files.

"Acquired Intellectual Property" shall have the meaning specified in Section 2.01(b)(vii).

"Acquired Marks" shall have the meaning specified in Section 2.01(b)(vii).

"Acquired Permits" shall have the meaning specified in Section 2.01(b)(x).

"Acquired Technology" shall have the meaning specified in Section 2.01(b)(viii).

"Acquisition Agreement" shall mean the Acquisition Agreement to which this Annex 1 is attached.

"Active Employee" shall have the meaning specified in Section 12.01(a)(i).

"Actual Accrued Pension Liability" shall mean, with respect to any Assumed Pension Plan, the Accrued Pension Liability as agreed by Seller and Purchaser in accordance with Section 12.04(b).

"Actual Pension Amount" shall mean (i) with respect to each Assumed Pension Plan other than the German Pension Plan, the fair market value of the Assumed Pension Assets (if any) as of the close of business on the last business day immediately prior to the applicable Closing Date minus the absolute value of the Actual Accrued

1 When a reference is made to a Section or Article, such reference shall be to a Section or Article of the Acquisition Agreement to which this Annex 1 is attached.

Pension Liability and (ii) with respect to the German Pension Plan, the absolute value of the Estimated Accrued German Pension Liability minus the absolute value of the Actual Accrued Pension Liability. The Actual Pension Amount may be a positive or negative number.

"Affiliate" shall mean, with respect to any person, any other person directly or indirectly Controlling, Controlled by or under common Control with such first person.

"Allocation Accounting Firm" shall have the meaning specified in Section 10.08(h).

"Allocation Schedule" shall have the meaning specified in Section 10.08(a).

"Alternative Arrangement" shall have the meaning specified in Section 10.01.

"Applicable 30 Days' Trade Accounts Payable" shall have the meaning specified in Section 10.05(c)(vi).

"Applicable 30 Days' Trade Accounts Receivable" shall have the meaning specified in Section 10.05(c)(vii).

"Applicable Asset Selling Company" shall have the meaning specified in Section 10.05(c)(iii).

"Applicable Intercompany Arrangement" shall have the meaning specified in Section 10.05(c)(v).

"Applicable Interest Rate" shall mean, as of any date of determination, with respect to amounts denominated in U.S. dollars, LIBOR.

"Applicable Purchase Price" shall have the meaning specified in Section 9.07(a).

"Applicable Spot Rate" shall mean, with respect to any non-U.S. currency and any Business Day, the exchange rate published in The Financial Times (or such other authority agreed by Seller and Purchaser) on such Business Day as the mid-point closing U.S. dollar exchange rate with respect to such currency for the most recent prior day.

"Applicable Transferred Subsidiary" shall have the meaning specified in Section 10.05(c)(iv).

"Appraisal" shall have the meaning specified in Section 10.08(b).

"Appraisal Firm" shall have the meaning specified in Section 10.08(b).

“Asset Selling Companies” shall have the meaning specified in the recitals of the Acquisition Agreement.

“Assigned Contracts” shall have the meaning specified in Section 2.01(b)(vi).

“Assumed Benefit Plan” shall mean each Seller Benefit Plan (i) sponsored by a Transferred Subsidiary as of the Closing Date, (ii) that Purchaser or any of its Affiliates has explicitly agreed to assume pursuant to Article XII of the Acquisition Agreement or (iii) that Purchaser or any of its Affiliates is required to assume under applicable Law or any applicable collective bargaining agreement, in each case other than Seller Benefit Plans that Seller and its Affiliates have expressly agreed to retain pursuant to Article XII.

“Assumed Foreign Benefit Plan” shall mean each Assumed Benefit Plan that is not an Assumed U.S. Benefit Plan.

“Assumed Foreign Pension Plan” shall have the meaning specified in Section 12.03(b).

“Assumed Liabilities” shall have the meaning specified in Section 2.02(b).

“Assumed Pension Assets” shall mean, with respect to any Assumed Pension Plan, the assets of such Assumed Pension Plan which are held by a trust or other funding vehicle as of the applicable Closing Date.

“Assumed Pension Plan” shall mean each U.S. Transferred DB Plan and each Assumed Foreign Pension Plan.

“Assumed U.S. Benefit Plan” shall mean each Assumed Benefit Plan that is sponsored, maintained or contributed to by a Selling Company or any Transferred Subsidiary primarily for the benefit of Covered Employees based primarily in the United States (including Puerto Rico).

“Audited Financial Statements” shall have the meaning specified in Section 6.04.

“Basket” shall have the meaning specified in Section 13.02.

“Benefit Plan Assets” shall mean all assets with respect to any Seller Benefit Plan that (i) are transferred to Purchaser, any of its Affiliates or any employee benefit plan or trust maintained by Purchaser or any of its Affiliates, as expressly provided in Article XII of the Acquisition Agreement, (ii) are held with respect to any Assumed Benefit Plan, (iii) transfer automatically to Purchaser or any of its Affiliates in connection with the assumption of any Assumed Benefit Plan or (iv) are Assumed Pension Assets.

"Business" shall have the meaning specified in the recitals of the Acquisition Agreement. For the avoidance of doubt, the Business shall not include the businesses of Seller and/or its Subsidiaries described in Section 1.01(c) of the Seller Disclosure Letter.

"Business Day" shall mean any day other than (a) a Saturday or Sunday, or (b) any other day on which commercial banks in New York City are authorized or required by law to close.

"Business Material Adverse Effect" shall mean a material adverse effect on the business, financial condition or results of operations of the Business, taken as a whole, or on the ability of the Selling Companies to consummate the material transactions contemplated by the Transaction Agreements, other than any fact, change, event, development, circumstance, condition or effect to the extent arising from (i) general economic conditions or capital or financial markets generally (including interest rate and exchange rate fluctuations), (ii) the pendency or announcement of the Transaction Agreements or the performance of any obligations thereunder (including any loss of employees, any cancellation of or delay in customer orders or any disruption in supplier, distributor, partner or similar relationships), (iii) any fact, change, event, development, circumstance, condition or effect relating generally to companies operating in businesses similar to the Business, except to the extent such fact, change, event, development, circumstance, condition or effect has a materially disproportionate effect on the Business, taken as a whole, (iv) any natural disaster or any acts or threats of terrorism, military action or war or any escalation or worsening thereof, except to the extent such event or act involves the properties or assets of the Business, (v) the failure of the Business to meet projections or forecasts, in and of itself (for the avoidance of doubt, any underlying facts of cause for any such failure shall not be excluded by this clause (v)) or (vi) changes (after the date of the Acquisition Agreement) in GAAP or applicable laws or regulations.

"Business Property" shall have the meaning specified in Section 6.18.

"Canadian Master Trust Fund" shall have the meaning specified in Section 12.03(c).

"Canadian Pension Trusts" shall mean the individual trusts for each of the Canadian Transferred Pension Plans.

"Canadian Transferred Pension Plans" shall mean the Canadian Assumed Pension Plans listed on Section 6.11(e) of Seller's Disclosure Letter.

"Cap" shall have the meaning specified in Section 13.02.

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

"Closed Facility" shall mean (i) any facility which is currently inactive and at which Seller or any of its Subsidiaries ceased operations prior to June 30, 2007, or (ii) any facility listed in Section 1.01(d) of the Seller Disclosure Letter.

"Closing" shall mean the Initial Closing or any Foreign Country Unit Closing, as applicable.

"Closing Date" shall mean the date on which a Closing shall actually occur.

"Closing Indebtedness" shall have the meaning specified in Section 4.03(a).

"Closing Net Cash Balance" shall have the meaning specified in Section 4.03(a).

"Closing Recalculated Seller SFP Payables" shall have the meaning specified in Section 4.03(a).

"Closing Statement" shall have the meaning specified in Section 4.03(a).

"Closing Statement Principles" shall have the meaning specified in Section 4.03(c).

"Closing Working Capital" shall have the meaning specified in Section 4.03(a).

"Closing Workers Comp Accrual" shall have the meaning specified in Section 4.03(a).

"Code" shall mean the United States Internal Revenue Code of 1986, as amended.

"Confidentiality Agreement" shall have the meaning specified in Section 9.01(a).

"Confidentiality Agreement Representatives" shall mean Purchaser's directors, officers, employees, agents or advisors (including attorneys, accountants, consultants, bankers, financing sources, financial advisors and any representatives of Purchaser's advisors).

"Continuation Period" shall have the meaning specified in Section 12.01(b).

"Contract" shall mean any written or unwritten agreement, contract, purchase order, lease, license, evidence of debt, mortgage, instrument or other legally binding commitment, obligation or arrangement.

"Contribution Period" shall have the meaning specified in Section 12.02(e)(ii).

"Control" shall mean the power to direct the affairs of a person by reason of ownership of voting stock, by contract or otherwise.

"Country Unit" shall mean the U.S. Country Unit or, with respect to any country other than United States of America, the Acquired Assets located in such country, the Assumed Liabilities related to the operation of the Business in such country and the Transferred Subsidiaries' Equity Interests of any Transferred Subsidiary which is organized in such country.

"Covered Distribution" shall have the meaning specified in Section 7.03(b).

"Covered Employee" shall mean an employee of Seller or any of its Subsidiaries who, as of the applicable Closing Date (or such other time as is specified in the context where used), is primarily employed in the Business; provided, however, that the term "Covered Employee" shall exclude (i) all individuals listed in Section 7.02(iv)(2) of the Seller Disclosure Letter, (ii) all Former Employees and (iii) all individuals whose work is primarily dedicated to the Excluded Assets, solely in the case of this clause (iii), unless the parties agree that such individual shall be considered a "Covered Employee".

"Covered Employee Liabilities" shall mean (A) all employment and employee benefits-related liabilities, obligations and commitments relating to the Covered Employees (or any dependent or beneficiary of any Covered Employee) that (i) arise out of or are incurred at or after the applicable Closing Date in connection with such employee's employment with Purchaser or any of its Affiliates, (ii) arise out of or are incurred on or before the applicable Closing Date in connection with such employee's employment with Seller and its Affiliates (other than the employment and employee benefits-related liabilities, obligations and commitments relating to the Covered Employees that Seller and its Affiliates have expressly agreed to retain pursuant to Article XII (it being understood that the rights and obligations of the parties in respect of the employment and employee benefits-related liabilities, obligations and commitments relating to the Covered Employees that are the subject of Article XII are expressly set forth in Article XII)), (iii) the parties to the Acquisition Agreement have explicitly agreed that Purchaser or any of its Affiliates shall assume pursuant to the Acquisition Agreement, (iv) relate to an Assumed Benefit Plan to the extent expressly assumed pursuant to this Acquisition Agreement, (v) transfer automatically to Purchaser or any of its Affiliates under applicable Law (including as a result of the acquisition by Purchaser of all the outstanding capital stock and other equity interests of the Transferred Subsidiaries), (vi) relate to the obligation pursuant to Section 12.01(a) to rehire or reinstate any Employee on Disability Leave or other Covered Employee who is not actively at work on the applicable Closing Date or (vii) are reflected on a Closing Statement, in each case, other than liabilities, obligations and commitments (1) that Seller and its Affiliates have expressly agreed to retain pursuant to Article XII, (2) that arise pursuant to any plan, arrangement, agreement or policy that primarily relates to benefits in the event of a change in control of Seller or any plan, arrangement, agreement or policy pursuant to which a Covered Employee may become entitled to a retention bonus payable by Seller or any of its Subsidiaries (other than any Transferred Subsidiary) as of the applicable Closing or (3) that arise pursuant to any Seller Benefit Plan or any other plan, arrangement, agreement or policy of Seller or its Affiliates, other than any (x) plan, arrangement, agreement or policy mandated by applicable Law or (y) Assumed Benefit Plan, (B) all liabilities, obligations, commitments, claims and losses relating to the Assumed Pension Plans, whether arising before, on or after the applicable Closing Date, and (C) all liabilities, obligations, commitments, claims and losses relating to the grievances and other arbitration proceedings of former employees of the Business that are listed in Section 6.13(b) of the Seller Disclosure Letter or that arise after the date of this Agreement in the ordinary course of business.

"Covered Matter" shall have the meaning specified in Section 7.06(a).

"Debt Financing" shall mean the debt financing described in the Financing Commitments (or any replacement commitments obtained by Purchaser in compliance with this Agreement).

"Debt Marketing Period" shall mean a period of 21 consecutive days which shall commence upon the later of (i) the date, no earlier than February 1, 2008, on which (A) all the conditions (other than Section 5.01(iv)) to the obligation of Purchaser to consummate the Initial Closing are satisfied (excluding those conditions intended to be satisfied at the Initial Closing) and (B) all filings applicable to the transaction contemplated by the Transaction Agreements under the antitrust or trade regulation laws and regulations set forth in Section 5.01(iv) of the Seller Disclosure Letter shall have been made and (ii) the date, no earlier than February 1, 2008, on which Seller shall have furnished to Purchaser (A) the financial statements referred to in Section 7.07 that are to be provided prior to the Initial Closing and (B) such other financial and other pertinent information regarding the Business as may be reasonably requested by the lenders of Purchaser that is of the type and form customarily included in private placement memoranda relating to private placements under Rule 144A of the Securities Act of 1933, as amended (it being understood and agreed that providing audited financial statements other than the Audited Financial Statements shall not be a reasonable request).

"Deductible" shall have the meaning specified in Section 13.02 of the Seller Disclosure Letter.

"Deferred Closing" shall have the meaning specified in Section 4.01(a).

"Deferred Initial Closing" shall have the meaning specified in Section 4.01(a).

"Deferred Foreign Closing" shall have the meaning specified in Section 3.01(b).

"DOJ" shall mean the United States Department of Justice.

"Employee on Disability Leave" shall mean any Covered Employee who is employed primarily in the United States and who, as of the applicable Closing Date, is on short-term or long-term disability leave; provided, however, that the term "Employee on Disability Leave" shall exclude any Covered Employee whose employment is required to transfer as of the applicable Closing Date to Purchaser or its Affiliates pursuant to any applicable collective bargaining agreement.

"Enterprise Value" shall have the meaning specified in Section 9.07(b).

"Environmental Laws" shall mean any foreign, federal, state, local or municipal law (including common law), regulation, statute, ordinance or binding order of any Governmental Entity regulating or imposing liability or standards of conduct relating to protection, contamination or remediation of the environment or exposure to Hazardous Substances.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means any entity, which together with the Seller, would be treated as a single employer under Section 4001 of ERISA or Section 414 of the Code.

"Estimated Accrued German Pension Liability" shall have the meaning specified in Section 12.04(a) of the Seller Disclosure Letter.

"Evaluation Material" shall mean any information concerning the Business, that is furnished to Purchaser by or on behalf of Seller or its Subsidiaries, whether furnished before or after the date of the Acquisition Agreement, together with analyses, compilations, studies or other documents prepared by Purchaser or the Confidentiality Agreement Representatives to the extent they contain or otherwise reflect such information; provided, however, that "Evaluation Material" does not include information that Purchaser can demonstrate (i) was or becomes generally available to the public other than as a result of a disclosure by Purchaser or the Confidentiality Agreement Representatives or (ii) was or becomes available to Purchaser on a non-confidential basis from a source other than Seller or its Subsidiaries or their advisors, provided that such source was not known by Purchaser to be bound by any agreement with Seller or its Subsidiaries to keep such information confidential, or otherwise prohibited from transmitting the information to Purchaser by a contractual, legal or fiduciary obligation.

"Excluded Assets" shall have the meaning specified in Section 2.01(c).

"Excluded Liabilities" shall have the meaning specified in Section 2.02(c).

"Excluded Marks" shall have the meaning specified in Section 2.01(c)(ix)(A).

"FAS 87" shall mean the Statement of Financial Accounting Standards No. 87.

"Final Purchase Price Allocation" shall have the meaning specified in Section 10.08(f).

"Financial Statements" shall mean the Audited Financial Statements and the Unaudited Financial Statements.

"Financing Commitments" shall mean the commitment letter dated December 21, 2007, pursuant to which Credit Suisse, Calyon Australia Limited, BOS International (Australia) Limited and Australia and New Zealand Banking Group Limited have issued lending commitments to Purchaser, the proceeds of which will be used to pay a portion of the Worldwide Purchase Price and the fees and expenses relating to the transactions contemplated by the Transaction Agreements.

"FIRPTA Affidavit" shall have the meaning specified in Section 14.06.

"First Tier Transferred Subsidiaries" shall mean the entities set forth in the column labeled with the heading "First Tier Transferred Subsidiary" in Annex 2 to the Acquisition Agreement.

"Foreign Country Unit" shall mean any Country Unit other than the U.S. Country Unit.

"Foreign Country Unit Closing" shall have the meaning specified in Section 3.01(b).

"Foreign Transfer Agreements" shall have the meaning specified in Section 3.02.

"Former Employee" shall mean an employee whose work is or was principally dedicated to performing services for the Business and whose employment with the Selling Companies or the Transferred Subsidiaries terminates prior to the applicable Closing Date.

"Former Site Environmental Liability" shall mean any obligation or liability arising under Environmental Laws relating to facilities or properties that, as of the Initial Closing Date, were formerly owned, leased or operated in connection with the Business by any Transferred Subsidiary or predecessor thereto (including in connection with any operations conducted at, or wastes generated or transported off-site from, such facilities or properties).

"FTC" shall mean the Federal Trade Commission.

"GAAP" shall mean United States generally accepted accounting principles applied on a consistent basis (including for the avoidance of doubt, concepts of materiality that are part of such principles).

"German Pension Plan" shall mean the Pension Plan of Alcoa Deutschland GmbH.

"Governmental Entity" shall have the meaning specified in Section 6.02(b).

"Hart Group" shall mean (i) Graeme Hart, (ii) his spouse and members of his immediate family (including siblings, children, grandchildren and children and grandchildren by adoption), and (iii) in the event of incompetence or death of any of the persons described in clauses (i) and (ii) hereof, such person's transferee by will, estate, executor, administrator, committee or other personal representative.

"Hazardous Substances" shall mean any petroleum or petroleum products, including crude oil or any fraction thereof, asbestos in any form, and any other substances, materials or wastes regulated under, or defined as "pollutant", "contaminant", "hazardous", "radioactive" or "toxic" under, any Environmental Law.

"HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Income Tax" shall mean any income, franchise, gains, withholding or similar Tax imposed on or measured by net income, profits, gains or similar items (including U.S. Federal Income Tax) and any interest, additional amounts, additions to tax, penalties or similar items with respect thereto.

"Indebtedness Balance" shall have the meaning specified in Section 4.03(c).

"Indemnifiable Tax" shall have the meaning specified in Section 13.07(a).

"Indemnification Minimum Claim Amount" shall have the meaning specified in Section 13.02 of the Seller Disclosure Letter.

"indemnified party" shall have the meaning specified in Section 13.06(a).

"Initial Closing" shall have the meaning specified in Section 4.01(a).

"Initial Closing Date" shall mean the date on which the Initial Closing shall actually occur.

"Initial Closing Purchase Price" shall mean an amount equal to the portion of the Worldwide Purchase Price allocated to the U.S. Country Unit and any Foreign Country Unit transferred at the Initial Closing, which shall be calculated based on the Appraisal conducted pursuant to Section 10.08.

"Intellectual Property" shall mean all patents, patent applications, trademarks, trademark registrations, trademark applications, servicemarks, trade names, logos, copyrights, copyright registrations and domain names.

"Intellectual Property Assignments" shall have the meaning specified in Section 11.03.

"Intercompany Arrangement" shall have the meaning specified in Section 10.05(c)(ii).

"Intracompany Arrangement" shall have the meaning specified in Section 10.05(c)(i).

"Inventory" shall mean all raw materials, work in process, finished goods and supplies, in each case owned by any of the Asset Selling Companies, primarily used or held for use in the operation or conduct of the Business and either (i) located at an Operating Location or (ii) previously purchased and held for use in another facility of Seller or any of its Affiliates or held pursuant to a consignment arrangement.

"Inventory Reserves" shall mean any calculated reserves for excess, slow-moving or obsolete inventory at all locations; provided that (i) for the non-LIFO locations, such reserves shall be calculated on a basis consistent with the methodology in the Audited Financial Statements and (ii) for the LIFO locations, such reserves shall be calculated on a basis consistent with the methodology in the Unaudited Financial Statements.

"IRS" shall mean the United States Internal Revenue Service.

"Japanese Subsidiary" shall have the meaning specified in Section 10.15(a).

"JV Entity" shall mean Alcoa Closure Systems International (Korea) Ltd., Gulf Closures W.L.L., Alcoa Closure Systems International Nepal Private Limited and Multiplastics Europe Ltd.

"knowledge of Seller" shall mean the actual knowledge as of the date of the Acquisition Agreement of the persons set forth in Section 1.01(b) of the Seller Disclosure Letter.

"Law" shall mean any law, statute, order, ordinance, rule, regulation, judgment, injunction, order or decree.

"Leased Property" shall have the meaning specified in Section 6.18.

"LIBOR" shall mean the London interbank offered rate for U.S. dollar deposits for a period of three months as fixed by the British Bankers Association each Business Day at 11:00 a.m. London time, and is determined according to the applicable Reuters screen at 11:00 a.m. London time on the date for rate setting. In the event that date is not a Business Day, then the next succeeding Business Day is to be used. In the event that the Reuters screen is not available, then LIBOR is determined according to the applicable Bloomberg screen at 11:00 a.m. London time on the date for rate setting. If neither the Bloomberg nor the Reuters screen is available, then the parties will determine LIBOR based on the rate at which deposits in U.S. dollars are offered by four major banks in the London interbank market at 11:00 a.m. London time to prime banks in the London interbank market on the date for rate setting. The parties will request the principal London office of each such bank to provide a quotation of its rate. If at least two such quotations are provided, LIBOR for that rate setting date will be the arithmetic mean of such quotations.

"Liens" shall have the meaning specified in Section 6.08(a).

"Losses" shall mean all losses, liabilities, claims, causes of action, costs or expenses (including reasonable attorneys' fees, accountants' fees and costs of investigation), whether or not arising from a third party claim.

"M&A Contract" shall mean any contract to dispose of any business, any portion thereof or any entity and, if applicable, any indemnity agreement relating thereto.

"Material Contracts" shall have the meaning specified in Section 6.09.

"Metal Supply Agreement" shall have the meaning specified in Section 11.02.

"Migration Services" shall have the meaning specified in Section 10.11.

"Net Cash Balance" shall have the meaning specified in Section 4.03(c).

"New LDR Rules" shall have the meaning specified in Section 14.07.

"Nonqualified Deferred Compensation Plan" shall have the meaning specified in Section 12.02(b).

"Notice of Disagreement" shall have the meaning specified in Section 4.03(b).

"Operating Location" shall mean the location or locations set forth in the column labeled with the heading "Operating Location" in Annex 3 to the Acquisition Agreement.

"Other Transaction Agreements" shall mean all the Transaction Agreements other than the Acquisition Agreement.

"Owned Property" shall have the meaning specified in Section 6.18.

"PBGC" shall have the meaning specified in Section 6.11(c).

"Pension Calculation Information" shall have the meaning set forth in Section 12.04(b).

"Pension Interest Period" shall mean (i) with respect to each Assumed Pension Plan other than the German Pension Plan, the period beginning on and including the applicable Closing Date and ending on (but not including) the date that the cash payment is made in respect of the Actual Pension Amount in accordance with Section 12.04(c), and (ii) with respect to the German Pension Plan, the period beginning on and including the date that the applicable purchase price adjustment payment is made in accordance with Section 4.02(d)(ii) and ending on (but not including) the date that the cash payment is made in respect of the Actual Pension Amount in accordance with Section 12.04(c).

"Permits" shall mean all permits, licenses, approvals, qualifications, product registrations, safety certifications and other similar authorizations issued by a Governmental Entity.

"Permitted Liens" shall have the meaning specified in Section 6.08(a).

"person" shall mean any natural person, corporation, limited liability company, partnership, joint venture, trust, business association, Governmental Entity or other entity.

"Post-Closing Date Tax Periods" shall mean, with respect to any Transferred Subsidiary that is part of a Country Unit, all Tax periods beginning after the applicable Closing Date with respect to such Country Unit, and the portion of any Straddle Tax Period beginning after such applicable Closing Date.

"Post-Signing Restructuring Action" shall have the meaning specified in Section 7.03(a).

"Pre-Closing Date Tax Periods" shall mean, with respect to any Transferred Subsidiary that is part of a Country Unit or any Acquired Asset with respect to any Country Unit, all Tax periods ending on or before the applicable Closing Date with respect to such Country Unit, and the portion of any Straddle Tax Period ending on such applicable Closing Date.

"Pre-Closing Service" shall have the meaning specified in Section 12.01(a)(iii).

"Prohibited Business" shall have the meaning specified in Section 10.10(b)(i).

"Proposed Purchase Price Allocation" shall have the meaning specified in Section 10.08(f).

"Purchaser" shall have the meaning specified in the introductory paragraph of the Acquisition Agreement.

"Purchaser Actuary" shall have the meaning specified in Section 12.04(b).

"Purchaser Entities" shall have the meaning specified in Section 8.01(b).

"Purchaser 401(k) Plan" shall have the meaning specified in Section 12.02(a).

"Purchaser Material Adverse Effect" shall have the meaning specified in Section 8.02(a).

"Purchaser Welfare Plans" shall have the meaning specified in Section 12.01(g)(i).

"Recalculated Seller SFP Payables" shall mean, as of any date with respect to any Country Unit, an amount of Seller SFP Payables equal to the amount of payables of the applicable Country Unit included in Seller SFP Payables that would be outstanding if (1) such payables had not been paid under the applicable Seller SFP and (2) the applicable Country Unit were on payment terms with each supplier included in Seller SFP in accordance with the contractual or invoice terms that existed prior to the supplier's inclusion in the Seller SFP.

"Recoverable Matter" shall have the meaning specified in Section 9.08.

"Release" shall have the meaning specified in Section 101(22) of CERCLA.

"Repatriation Costs" shall have the meaning specified in Section 7.03(b).

"Representatives" shall have the meaning specified in Section 7.01(a).

"Restricted Assets" shall have the meaning specified in Section 10.01.

"Retention Period" shall have the meaning specified in Section 14.03(c).

"Retiree Welfare Retained Employee" shall mean each Transferred Employee employed primarily in the U.S. who, immediately prior to the relevant Transfer Time, has satisfied the eligibility criteria to receive benefits under the Seller Retiree Welfare Plans.

"Rights and Claims" shall have the meaning specified in Section 2.01(b)(xvii).

"Scrap Metal Agreement" shall have the meaning specified in Section 11.01.

"Seller" shall have the meaning specified in the introductory paragraph of the Acquisition Agreement.

"Seller Actuary" shall have the meaning specified in Section 12.04(b).

"Seller Benefit Plan" shall have the meaning specified in Section 6.11(a).

"Seller Disclosure Letter" shall have the meaning specified in the first paragraph of Article VI.

"Seller 401(k) Plan" shall have the meaning specified in Section 12.02(a).

"Seller Guarantees" shall have the meaning specified in Section 9.06.

"Seller Marks" shall have the meaning specified in Section 2.01(c)(ix).

"Seller Pension Plan" shall mean any Seller Benefit Plan that is a defined benefit pension plan sponsored, maintained or contributed to by Seller or any of its Subsidiaries for the benefit of any Covered Employee (including, without limitation, any retirement indemnity plan, any termination indemnity plan or any other plan to which Seller applies the FAS 87 methodology in Seller's annual financial statements for financial disclosure purposes).

"Seller Retiree Welfare Plans" shall have the meaning specified in Section 12.02(f)(ii).

"Seller SFP" shall have the meaning specified in Section 7.13.

"Seller SFP Payables" shall mean, with respect to any Country Unit, any balances, to the extent arising from the Business, which remain outstanding as of the applicable Closing Date under the Seller SFP for the benefit of a Transferred Subsidiary or Asset Selling Company which is part of such Country Unit.

"Selling Companies" shall mean the Stock Selling Companies and the Asset Selling Companies.

"Shares" shall have the meaning specified in the recitals of the Acquisition Agreement.

"Specified Affiliate" shall mean a person (i) that is directly, or indirectly through one or more intermediaries, Controlled by the Hart Group and (ii) of which the Hart Group directly or indirectly owns 50% or more of any class of equity interests.

"Stock Selling Companies" shall have the meaning specified in the recitals of the Acquisition Agreement.

"Straddle Tax Period" shall mean, with respect to any Transferred Subsidiary that is part of a Country Unit, any complete Tax period that includes but does not end on the applicable Closing Date with respect to such Country Unit.

"Subsidiary" of any person shall mean any other person (i) more than 50% of whose outstanding shares or securities representing the right to vote for the election of directors or other managing authority of such other person are, now or hereafter, owned or Controlled, directly or indirectly, by such first person, but such other person shall be deemed to be a Subsidiary only so long as such ownership or Control exists or (ii) which does not have outstanding shares or securities with such right to vote, as may be the case in a partnership, joint venture or unincorporated association, but more than 50% of whose ownership interest representing the right to make the decisions for such other person is, now or hereafter, owned or Controlled, directly or indirectly, by such first person, but such other person shall be deemed to be a Subsidiary only so long as such ownership or Control exists.

"Substantial Part of the Business" shall have the meaning specified in Section 9.07(c).

"Target Working Capital" shall mean, with respect to any Country Unit, the amount set forth opposite such Country Unit and under the heading "Target Working Capital" in Section 1.01(a) of the Seller Disclosure Letter.

"Tax" shall mean all income, profits, franchise, gross receipts, capital, net worth, sales, use, withholding, turnover, value added, ad valorem, registration, general business, employment, social security, disability, occupation, real property, personal property (tangible and intangible), stamp, transfer (including real property transfer or gains), conveyance, severance, production, excise and other taxes, withholdings, duties, levies, imposts, license and registration fees and other similar charges and assessments (including any and all fines, penalties, and additions attributable to or otherwise imposed on or with respect to any such taxes, charges, fees, levies or other assessments, and interest thereon) imposed by or on behalf of any Governmental Entity.

"Tax Benefit" with respect to any event or adjustment for any person shall mean the positive excess, if any, of the Tax liability of such person without regard to such event or adjustment over the Tax liability of such person taking into account such event or adjustment, including the making of any indemnification payment hereunder, with all other circumstances remaining unchanged.

"Tax Claim" shall have the meaning specified in Section 13.07(a).

"Tax Indemnified Party" shall have the meaning specified in Section 13.07(a).

"Tax Indemnitor" shall have the meaning specified in Section 13.07(a).

"Tax Referee" shall have the meaning specified in Section 14.08.

"Tax Return" shall mean any return, statement, report or form, including in each case any amendments thereto, required to be filed with any Taxing Authority with respect to Taxes.

"Taxing Authority" shall mean any governmental or regulatory authority, body or instrumentality exercising any authority to impose, regulate or administer the imposition of Taxes.

"Teamsters Pension Plan" shall have the meaning specified in Section 6.11(d).

"Tender Offer" shall have the meaning specified in Section 10.15(a).

“Termination Date” shall have the meaning specified in Section 16.01(iv).

“Terms and Conditions of Employment” shall have the meaning specified in Section 12.03(a).

“Third Party Claim” shall have the meaning specified in Section 13.06(a).

“Third Party Sale Transaction” shall have the meaning specified in Section 9.07(d).

“Threshold” shall have the meaning specified in Section 9.07(a).

“Total Excess Cash” shall have the meaning specified in Section 7.03(b).

“Transaction Agreements” shall mean the Acquisition Agreement, the Foreign Transfer Agreements, the Transition Services Agreement, the Metal Supply Agreement, the Scrap Metal Agreement, the Intellectual Property Assignments and any other agreements entered into by one or more Selling Companies, on the one hand, and Purchaser, on the other hand, related to any of the transactions contemplated by any of the aforementioned agreements.

“Transfer Tax” shall have the meaning specified in Section 14.05(a).

“Transfer Time” shall mean (i) in the case of each Covered Employee who is not an Employee on Disability Leave, 12:01 a.m. on the applicable Closing Date, and (ii) in the case of each Covered Employee who is an Employee on Disability Leave and who accepts the offer of employment of Purchaser or its Affiliates, as provided in Section 12.01, 12:01 a.m. on the date that such Employee on Disability Leave actually begins active employment with Purchaser or its Affiliates.

“Transferred Contracts” shall mean all the Assigned Contracts and all the Contracts (other than those which have no continuing rights or unperformed obligations) of the Transferred Subsidiaries.

“Transferred Employee” shall have the meaning specified in Section 12.01(a)(ii).

“Transferred Incentive Plan” shall have the meaning specified in Section 12.01(d)(ii).

“Transferred Intellectual Property” shall mean all Acquired Intellectual Property and all Intellectual Property of any Transferred Subsidiary.

“Transferred Permits” shall mean all Acquired Permits and all Permits issued to any Transferred Subsidiary for use in the Business.

“Transferred Personnel Files” shall mean all personnel files that relate to a Transferred Employee, other than information contained in such files to the extent that

Seller and the Selling Companies are prohibited from making such information available as a result of applicable Laws regarding the safeguarding of data privacy or any other legal obligation to maintain the confidentiality of such information.

"Transferred Subsidiaries" shall mean the entities which are being transferred to Purchaser directly or indirectly upon the Initial Closing or a Foreign Country Unit Closing, as applicable.

"Transferred Subsidiaries' Equity Interests" shall mean all of the authorized, issued and outstanding capital of each Transferred Subsidiary, including with respect to each First Tier Transferred Subsidiary, the Shares.

"Transferred Technology" shall mean all Acquired Technology and all trade secrets, confidential information, inventions, know-how, formulae, processes, procedures, research records, records of inventions, test information, market surveys, marketing know-how, computer software, designs, industrial models, product specifications, databases and intellectual property similar to any of the foregoing (including but not limited to rights to use for and remedies against past, present and future infringements thereof, and all tangible embodiments thereof) of any Transferred Subsidiary.

"Transition Services Agreement" shall mean the Transition Services Agreement executed contemporaneously with this Agreement and attached as Exhibit D hereto, as such agreement may be amended from time to time.

"Treasury Regulations" shall mean the treasury regulations promulgated under the Code, as amended.

"Unaudited Financial Statements" shall have the meaning specified in Section 6.04.

"U.S. Country Unit" shall mean the Acquired Assets located in the United States of America, the Assumed Liabilities related to the operation of the Business in the United States of America and the Transferred Subsidiaries' Equity Interests of any First Tier Transferred Subsidiary which is organized in the United States of America.

"U.S. Retained DB Plan" shall have the meaning specified in Section 12.02(d).

"U.S. Transferred Subsidiary DB Plan" shall have the meaning specified in Section 12.02(c).

"U.S. Transferred Subsidiary Pension Trust" shall have the meaning specified in Section 12.02(c).

"WC Minimum Claim Amount" shall have the meaning specified in Section 4.03(b) of the Seller Disclosure Letter.

“WC Threshold Amount” shall have the meaning specified in Section 4.03(b) of the Seller Disclosure Letter.

“Workers Comp Accrual” shall mean, as of any date with respect to any Country Unit, the reserve for Workers Comp Claims prepared in the same way as, and using the same methodology applied, in the Audited Financial Statements.

“Workers Comp Claims” shall have the meaning specified in Section 12.01(g)(iii).

“Working Capital” shall have the meaning specified in Section 4.03(c).

“Workers’ Compensation Event” shall have the meaning specified in Section 12.01(g)(iii).

“Worldwide Purchase Price” shall mean $2,700,000,000.

ANNEX 2

Transfers of Shares by Country Unit

Country Unit	Stock Selling Company	Interest in Transferred Subsidiary being Transferred	First Tier Transferred Subsidiary	Interests held by First Tier Transferred Subsidiary
U.S.	Alcoa Inc.	100%	IPC Inc.	- 100% of Alcoa Kama, Inc. - 100% of CFI Industries, Inc., which owns: - 100% of CFI Recycling Inc. - 100% of Plastofilm Industries, Inc., which owns: - 8.4% of Alcoa Packaging LLC - 100% of Crystal Thermoplastics, Inc., which owns: - 5% of Alcoa Packaging LLC - 100% of Ultra Pac, Inc., which owns: - 15.44% of Reynolds Food Packaging LLC - 23.6% of Reynolds Food Packaging LLC: - 99.99% of Max Pack, S. de R.L. de C.V. - 100% of Reynolds Food Packaging Canada Inc. - 44.59% of Multiplastics (Europe) Ltd
	Reynolds Metals Company	100%	Baker's Choice Products, Inc.	

Country Unit	Stock Selling Company	Interest in Transferred Subsidiary being Transferred	First Tier Transferred Subsidiary	Interests held by First Tier Transferred Subsidiary
	Reynolds Metals Company	100%	Reynolds Consumer Products, Inc.	
	Reynolds Metals Company	53.44%	Reynolds Food Packaging LLC	
	Reynolds Metals Company	100%	Mt. Vernon Plastics Corporation	- 0.6% of Alcoa Packaging LLC - 7.52% of Reynolds Food Packaging LLC
	Reynolds Metals Company	86%	Alcoa Packaging LLC	
	Alcoa Domestic LLC	100%	Southern Plastics, Inc.	
	Alcoa Domestic LLC	100%	Alcoa Closure Systems International, Inc.	
	Alcoa Securities Corporation	100%	Alcoa Packaging Machinery, Inc.	
Mexico	Reynolds Metals Company	99%	Reynolds Metals Company de Mexico, S. de R.L. de C.V.	- 0.01% of Max Pack, S. de R.L. de C.V.
	RMC Delaware Inc.	1%	Reynolds Metals Company de Mexico, S. de R.L. de C.V.	
	Alcoa Securities Corporation	52.27%	Grupo Alcoa, S. de R.L. de C.V.	- 99.99% of Alcoa Servicios, S. de R.L. de C.V.
	Alcoa International Holdings Company	47.73%	Grupo Alcoa, S. de R.L. de C.V.	-99.99% of Alcoa CSI de Mexico en Ensenada, S. de R.L. de C.V. -99.99% of Alcoa CSI de Mexico en Saltillo, S. de R.L. de C.V. - 0.01% of Alcoa Servicios, S. de R.L. de C.V. - 0.01% of Alcoa CSI de Mexico en Ensenada, S. de R.L. de C.V.

Country Unit	Stock Selling Company	Interest in Transferred Subsidiary being Transferred	First Tier Transferred Subsidiary	Interests held by First Tier Transferred Subsidiary
	Alcoa Securities Corporation	0.01%	Alcoa CSI de Mexico en Saltillo, S. de R.L. de C.V.	
Costa Rica	Alcoa International Holdings Company	100%	Alcoa CSI de Centro America, S.A.	
(South America, excluding Brazil)	Alcoa Inc.	100%	Alcoa Latin American Holdings Corporation	- 95% of Alusud Argentina SrL - 99.31% of Alusud Embalajes Chile Ltda. - 99.99% of Alusud Embalajes Colombia Ltda. - 99.99% of Alusud Peru S.A. - 100% of Alusud Venezuela S.A.
Argentina	Companhia Geral de Minas	5%	Alusud Argentina SrL	
Chile	Companhia Geral de Minas	0.69%	Alusud Embalajes Chile Ltda.	
Colombia	Companhia Geral de Minas	0.01%	Alusud Embalajes Colombia Ltda.	
Peru	Companhia Geral de Minas	0.01%	Alusud Peru S.A.	
Brazil	Alcoa Alumínio S.A.	100%	New Brazil Ltda	
United Kingdom	Alcoa UK Holdings Limited	100%	IVEX Holdings Ltd.	- 100% of Kama Europe, Ltd.

Country Unit	Stock Selling Company	Interest in Transferred Subsidiary being Transferred	First Tier Transferred Subsidiary	Interests held by First Tier Transferred Subsidiary
	Alcoa Manufacturing (GB) Limited	100%	BACO Consumer Products Limited	
Spain	Alcoa Inversiones España S.L.	100%	Reynolds Food Packaging (Spain) S.L.	
	Alcoa Inversiones España S.L.	100%	Alcoa CSI España, S.L.	
Germany	Alcoa Automotive GmbH	100%	Alcoa Deutschland GmbH	- 90% of Alcoa Deutschland Real Estate GmbH & Co. KG
	Alcoa Inc.	10%	Alcoa Deutschland Real Estate GmbH & Co. KG	
Hungary	Alcoa Hungary Holding Kft.	100%	CSI-Alba Kft.	
Bulgaria	Alcoa Inversiones España S.L.	100%	Alcoa Packaging Bulgaria EOOD	
Russia	Alcoa International Holdings Company	100%	Alcoa CSI Vostok Ltd.	
Egypt	Alcoa International Holdings Company	99%	Alcoa Closure Systems International Egypt LLC	
	Alcoa Closure Systems International, Inc.	1%	Alcoa Closure Systems International Egypt LLC	
Bahrain	Alcoa Inc.	49%	Gulf Closures W.L.L.	
Nepal	Alcoa International Holdings Company	76%	Alcoa Closure Systems International Nepal Private Limited	Alcoa Closure Systems International (Hangzhou) Co., Ltd.

Country Unit	Stock Selling Company	Interest in Transferred Subsidiary being Transferred	First Tier Transferred Subsidiary	Interests held by First Tier Transferred Subsidiary
China	Alcoa International Holdings Company	100%	Closure Systems International (Hong Kong) Limited	Alcoa Closure Systems International (Tianjin) Co., Ltd.
	Reynolds International, Inc.	100%	Reynolds Metals (Shanghai) Ltd.	
Korea	Alcoa International Holdings Company	51%	Alcoa Closure Systems International (Korea), Ltd.	
Japan	Alcoa Inc.	71%	Alcoa Closure Systems Japan, Ltd.	
	Alcoa Closures Holding Company, LLC	28%	Alcoa Closure Systems Japan, Ltd.	
Philippines	Alcoa International Holdings Company	100%	Alcoa Closure Systems International (Philippines), Inc.	

ANNEX 3

Transfer of Acquired Assets and Assumed Liabilities by Country Unit

Country Unit	Asset Selling Company	Assets and Liabilities Being Transferred	Operating Location
U.S.	Reynolds Metals Company	All Acquired Assets and Assumed Liabilities associated with the Consumer Products operations at the applicable Operating Location	Hot Spring, Louisville and Richmond
	Reynolds Metals Company	All Acquired Assets and Assumed Liabilities associated with the Flexible Packaging operations at the applicable Operating Location	Louisville and Richmond
Canada	Alcoa Ltd. and Alcoa-Lauralco Management Company/Compagnie de Gestion	All Acquired Assets and Assumed Liabilities associated with the Reynolds Food Packaging operations at the applicable Operating Location	Rexdale
	Alcoa Ltd. and Alcoa-Lauralco Management Company/Compagnie de Gestion	All Acquired Assets and Assumed Liabilities associated with the Closure Systems International operations at the applicable Operating Location	Feversham
United Kingdom	Alcoa Manufacturing (GB) Limited and Alcoa Closure Systems International (UK) Limited	All Acquired Assets and Assumed Liabilities associated with the Closure Systems International operations at the applicable Operating Location	West Bromwich
Hong Kong	Alcoa International (Asia) Limited (Hong Kong)	All Acquired Assets and Assumed Liabilities associated with the Closure Systems International operations	
Italy	Alcoa Trasformazioni S.r.L. (Italy)	All Acquired Assets and Assumed Liabilities associated with the Closure Systems International operations	
	Alcoa Servizi S.p.A. (Italy)	All Acquired Assets and Assumed Liabilities associated with the Closure Systems International operations	
Brazil	Reyco Ltda (Brazil)	All Acquired Assets and Assumed Liabilities associated with the Consumer Products operations	

Country Unit	Asset Selling Company	Assets and Liabilities Being Transferred	Operating Location
Switzerland	Alcoa Europe S.A. - Hold Co	All Acquired Assets and Assumed Liabilities associated with the Closure Systems International operations	
Malaysia	Pactuco Containers (Asia) Sdn. Bhd. (Malaysia)	All Acquired Assets and Assumed Liabilities associated with the Flexible Packaging operations	

ANNEX 4

Transferred Subsidiaries

IPC Inc.
Baker’s Choice Products, Inc.
Plastofilm Industries, Inc.
Alcoa Kama, Inc.
CFI Industries, Inc.
CFI Recycling Inc.
Crystal Thermoplastics, Inc.
Ultra Pac, Inc.
Reynolds Consumer Products, Inc.
Reynolds Food Packaging, LLC
Mt. Vernon Plastics Corporation
Alcoa Packaging LLC
Southern Plastics, Inc.
Alcoa Closure Systems International, Inc.
Alcoa Packaging Machinery, Inc.
Reynolds Food Packaging Canada Inc.
Max Pack, S. de R.L. de C.V.
Reynolds Metals Company de Mexico, S. de R.L. de C.V.
Grupo Alcoa, S. de R.L. de C.V.
Alcoa Servicios, S. de R.L. de C.V.
Alcoa CSI de Mexico en Ensenada, S. de R.L. de C.V.
Alcoa CSI de Mexico en Saltillo, S. de R.L. de C.V.
Alcoa CSI de Centro America, S.A.
Alcoa Latin American Holdings Corporation
Alusud Argentina SrL
Alusud Embalajes Chile Ltda.
Alusud Embalajes Colombia Ltda.
Alusud Peru S.A.
Alusud Venezuela S.A.
IVEX Holdings Ltd.
Kama Europe, Ltd.
BACO Consumer Products Limited
Multiplastics (Europe) Ltd.
Reynolds Food Packaging (Spain) S.L.
Alcoa CSI España, S.L.
Alcoa Deutschland GmbH
Alcoa Deutschland Real Estate GmbH & Co. KG
CSI-Alba Kft.
Alcoa Packaging Bulgaria EOOD
Alcoa CSI Vostok Ltd.

Alcoa Closure Systems International Egypt LLC
Gulf Closures W.L.L.
Alcoa Closure Systems International Nepal Private Limited
Alcoa Closure Systems International (Hangzhou) Co., Ltd.
Alcoa Closure Systems International (Tianjin) Co., Ltd.
Reynolds Metals (Shanghai) Ltd.
Alcoa Closure Systems International (Korea), Ltd.
Alcoa Closure Systems Japan, Ltd.
Alcoa Closure Systems International (Philippines), Inc.
Closure Systems International (Hong Kong) Limited
9163-7660 Quebec Inc. (in process of dissolution in Quebec)

ANNEX 5

Allocation Schedule

	Allocation of Worldwide Purchase Price
Consumer Products division	$1,382,000,000
Flexible Packaging division	$102,000,000
Reynolds Food Packaging division	$87,000,000
Closure Systems International division	$1,128,000,000
Seller Covenant set forth in Section 10.10	$1,000,000

AMENDMENTS TO THE
ALCOA INC.
EMPLOYEES' EXCESS BENEFITS PLAN A

Pursuant to Section 5.1 of the Plan, which provides that the Plan may be amended in whole or in part at any time, effective December 31, 2007, the Plan is revised as follows:

1. A new section 5.2 is added as follows:

5.2 Provisions Upon Change of Control. Notwithstanding any other provision of the plan, in the event of a Change in Control, as defined in the Alcoa Retirement Plan I, neither the Company, Board, Plan Administrator, the Committee or other designee of the Board, may, during the three-year period commencing on the date that the Change of Control occurs:

A. Amend, modify, or terminate the Plan, except to the extent as may be legally required by any law or regulations prescribed thereunder, or any provisions of the Internal Revenue Code or any regulation prescribed thereunder; or

B. Reduce future Plan benefits of any Participant.

2. In all other respects, the plan is ratified and confirmed.

Exhibit 10(k)(1)

INCENTIVE COMPENSATION PLAN
OF
ALCOA INC.
(Revised November 8, 2007)

Except as provided in Article IV, this Incentive Compensation Plan, revised November 8, 2007, replaces and supersedes the Incentive Compensation Plan revised September 15, 2006.

ARTICLE I - DEFINITIONS

For the purposes of this Incentive Compensation Plan ("Plan"), unless a different meaning is clearly required by the context:

AWARD YEAR means any calendar year for which awards are made to eligible employees.

BOARD means the Board of Directors of the Company, and includes the Executive Committee or any other duly authorized committee thereof when acting in lieu thereof and/or pursuant to authority delegated thereby.

BOARD COMMITTEE means the Compensation and Benefits Committee of the Board of Directors or such other committee selected by the Board of Directors comprised solely of independent directors.

COMMITTEE means the Incentive Compensation Committee and, with respect to awards for officers of the Company, the Compensation and Benefits Committee of the Board.

COMPANY means Alcoa Inc. and any successor thereto.

DEFERRED COMPENSATION PLAN means the Company's Deferred Compensation Plans as amended from time to time.

DISABILITY means a mental or physical condition preventing the employee from performing his position satisfactorily, where a qualified physician designated by the Committee certifies that, in his opinion, the employee's state of health is such that he should not be burdened with the responsibilities of his position even though he is not totally or permanently disabled.

ELIGIBLE EMPLOYEE has the meaning set forth in Article II, Section 2.

RETIREMENT means (a) termination of employment in which there is a right to immediate payment of a pension benefit under the provisions of any retirement plan or arrangement of the Company or a Subsidiary; or (b) termination of employment upon or after attaining age 65 regardless of pension eligibility.

SUBSIDIARY means any corporation in which the Company owns, directly or indirectly, stock possessing 50% or more of the total combined voting power of all classes of stock of such corporation, and any corporation, partnership, joint venture, limited liability company or other business entity as to which the Company possesses a significant ownership interest, directly or indirectly, as determined by the Company.

ARTICLE II - PARTICIPATION

SECTION 1. Purpose. The purpose of the Plan is to provide annual cash incentive compensation for Eligible Employees if performance metrics for financial and non-financial performance established by the Committee from time to time are achieved. The Committee reserves the right to make adjustments to awards to reflect individual performance.

SECTION 2. Eligibility. Officers and other key employees of the Company and its Subsidiaries who have, in the sole judgment of the Committee, contributed to the management, growth, and success of some part or all of the business of those companies shall be eligible for awards under the Plan (referred to as “Eligible Employees”).

SECTION 3. Limits on awards. The aggregate amount of awards for any Award Year shall not exceed an amount determined by or in accordance with a procedure specified by the Board Committee. All awards shall be granted in accordance with guidelines approved from time to time by the Board Committee and any exceptions to the guidelines require the approval of the Board Committee.

ARTICLE III - AWARDS

SECTION 1. Determination. For each Award Year, the Committee shall make awards to such Eligible Employees in such individual amounts as it deems appropriate under the circumstances, taking into account individual performance and the financial and non-financial performance metrics established by the Committee for the Award Year.

SECTION 2. Cash awards. Except as otherwise determined by the Committee and except for awards or portions of awards which may be deferred, each award shall be paid in cash at a time determined by the Board Committee as soon as practicable following the Award Year, but in any event no later than March 15 of the year following the Award Year. Cash payment of awards shall be made from the general funds of the Company. In its discretion, the Company may establish one or more trusts or special funds from which awards may be paid.

SECTION 3. Deferred awards. Eligible Employees who are also eligible to participate in the Deferred Compensation Plan may defer all or part of their awards under this Plan in accordance with the terms of the Deferred Compensation Plan.

ARTICLE IV - CONTINGENT CREDITS ISSUED PRIOR TO OR FOR THE YEAR 1990

SECTION 1. Contingent credits. Contingent credits were issued under the Incentive Compensation Plan in effect prior to and for the year 1990. Since 1991, no contingent credits have been issued and the Plan with respect to contingent credits was frozen. The provisions of this Article IV relate solely to contingent credits issued prior to or for the year 1990. Due to the American Jobs Creation Act of 2004, all remaining contingent credits and earnings thereon shall continue to be subject to the Incentive Compensation Plan provisions in effect as of December 31, 2004, and this Incentive Compensation Plan revised September 15, 2006, shall not supersede or replace the provisions of the Incentive Compensation Plan revised January 1, 1993 as it pertains to contingent credits.

ARTICLE V - ADMINISTRATION

SECTION 1. Committee. The Incentive Compensation Committee for the Plan shall be appointed by the Board and shall have exclusive power and authority to interpret and administer the Plan; provided however, that the Compensation and Benefits Committee of the Board shall have exclusive power and authority to interpret and administer the Plan with respect to and to make awards to Eligible Employees who are officers of the Company. The Incentive Compensation Committee may take all action, including the adoption of rules and regulations as it deems appropriate for the administration of the Plan and all determinations by the Committee shall be final and binding upon the Company, its Subsidiaries, Eligible Employees and their beneficiaries.

SECTION 2. Amendments. The Board may from time to time amend, modify, suspend or terminate the Plan provided, however, that no such amendment, modification, suspension or termination shall affect any right or obligation with respect to any award theretofore made.

SECTION 3. Expenses. All expenses of administering the Plan shall be paid by the Company, which in turn may seek reimbursement from subsidiaries. The cost of all awards incurred by the Company with respect to employees of any Subsidiary shall be reimbursed by the Subsidiary.

SECTION 4. Unsecured obligation. No Eligible Employee or other person shall, by virtue of any award or any unpaid installment thereof, have any interest whatever, either vested or contingent, in any property of the Company or its Subsidiaries.

SECTION 5. No rights to employment or awards. Participation in the Plan shall not give any employee the right to continued employment by the Company or its Subsidiaries. Holding the status of an Eligible Employee shall not give any employee the right to any award.

SECTION 6. Taxes. Each Eligible Employee is solely liable for any taxes due in regards to payments under this Plan, including but not limited to, federal, state, local, social security, foreign and excise taxes under Internal Revenue Code Section 409A if for any reason the Internal Revenue Service determines that amounts payable under this Plan are subject to the provisions of Section 409A.

SECTION 7. Construction. The Plan shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania, excluding any choice of law provisions which may indicate the application of the laws of another jurisdiction.

ARTICLE VI - FORFEITURE AND PRO-RATA PAYMENTS

SECTION 1. Forfeiture of Incentive Compensation. If the Board learns of any misconduct by an Eligible Employee that contributed to the Company's having to restate all or a portion of its financial statements, it shall take such action as it deems necessary to remedy the misconduct, prevent its recurrence and, if appropriate, based on all relevant facts and circumstances, take remedial action against the wrongdoer in a manner it deems appropriate. In determining what remedies to pursue, the Board shall take into account all relevant factors, including whether the restatement was the result of negligent, intentional or gross misconduct. The Board shall, to the full extent permitted by governing law, in all appropriate cases, require reimbursement of any award under the Plan (including any bonus or incentive compensation that has been deferred) if: a) the amount of the award was calculated based upon the achievement of certain financial results that were subsequently the subject of a restatement, b) the Eligible Employee engaged in intentional misconduct that caused or partially caused the need for the restatement, and c) the amount of the award that would have been awarded to the Eligible Employee had the financial results been properly reported would have been lower than the amount actually awarded. In addition, the Board, in its full and complete discretion, may dismiss the Eligible Employee, authorize legal action for breach of fiduciary duty or take such other action to enforce the Eligible Employee’s obligations to the Company as the Board determines fit the facts surrounding the particular case. The Board may, in determining appropriate remedial action, take into account penalties or punishments imposed by third parties, such as law enforcement agencies, regulators or other authorities. The Board’s power to determine the appropriate punishment for the wrongdoer is in addition to, and not in replacement of, remedies imposed by such entities.

SECTION 2. Pro-rata Distribution upon Retirement. In the Committee’s discretion, if an Eligible Employee’s Retirement or termination of employment due to a Disability occurs during an Award Year, the Eligible Employee may be awarded a pro-rata portion of the award under the Plan that would have been paid for the Award Year had the Eligible Employee remained in active service through the end of the Award Year, based on the number of days of active service during the Award Year.

SECTION 3. Pro-rata Distribution upon a Change in Control. In the event of a Change in Control, as defined in the 2004 Alcoa Stock Incentive Plan, as the same may be amended from time to time, or any successor plan approved by the shareholders of the Company, Eligible Employees, at the discretion of the Committee, shall be paid a pro-rata portion of target incentive compensation for the Award Year, based on the days of service during the Award Year from the beginning of the Award Year through the date of the Change in Control. Such payment shall be made within 60 days of a Change in Control.

SECTION 4. Pro-rata distribution upon death. Upon the death of an Eligible Employee a pro-rata portion of the award for the Award Year shall be paid to the Eligible Employee's beneficiary or beneficiaries, based on the number of days the Eligible Employee was actively employed during the Award Year.

Exhibit 10(l)

ALCOA INC.
EMPLOYEES' EXCESS BENEFITS PLAN C
AS AMENDED AND RESTATED EFFECTIVE DECEMBER 31, 2007

Pursuant to due authorization by the Board of Directors, Alcoa Inc. has adopted the following Alcoa Inc. Employees' Excess Benefits Plan C, for the exclusive benefit of selected management and highly compensated employees, whose pension benefits calculated under certain qualified and non-qualified plans does not take into account certain deferred compensation amounts.

ARTICLE I - DEFINITIONS

1.1 The following terms have the specified meanings.

A. "Additional Compensation" means any amount which the Participant has irrevocably elected to defer under one or more of the following: (1) the Incentive Compensation Plan of the Company, not including any gain or loss thereon, (2) the Alcoa Deferred Compensation Plan, not including any gain or loss thereon, or (3) the Performance Pay Plan of the Company, not including any gain or loss thereon.

B. "Annual Compensation" means the total payments made by the Company and by any Subsidiaries during a calendar year for services rendered as an employee, except as otherwise provided by contractual agreement, other than living and similar allowances and premium pay and payments made for specific purposes as determined under supplemental rules adopted by the Company. Annual Compensation will include any amounts by which the Participant has elected to reduce his or her salary under the Alcoa Savings Plan for Non-Bargaining Employees or under any cash or deferred arrangement established under Section 401(k) of Internal Revenue Code of 1986 as amended, and will include any Additional Compensation. "Special Payments" within the meaning of the Alcoa Deferred Compensation Plan are not treated as Annual Compensation.

C. "Average Final Compensation" means the average Annual Compensation as determined under the Rule of Plan I in which the Participant participates.

D. "Board of Directors" means the Board of Directors of the Company.

E. "Committee" means the Benefits Management Committee, which has been delegated by the Board of Directors to have the discretionary authority to interpret and administer the Plan.

F. "Company" means Alcoa Inc.

G. "Excess Plan" means the amended and restated Alcoa Inc. Employees' Excess Benefit Plan C, adopted by the Company as described herein or as from time to time hereafter amended.

H. “Other Plans” means Plan I, any defined benefit retirement plan of any Subsidiary, Alcoa Inc. Employees’ Excess Benefits Plan A (“Excess A”) and Employees’ Excess Benefits Plan B of the Company (“Excess B”), or such similar plan of any Subsidiary, as any presently exist or may exist in the future.

I. “Participant” means any employee of the Company or any Subsidiary who meets one or more of the following requirements:

(1) retires or dies while covered under Excess B, or

(2) has Additional Compensation and is a participant in Plan I, or

(3) on or after January 1, 1989, retires, dies or terminates while covered under Plan I, and immediately prior to retirement, death or termination is in a job grade of 19 or above, or an equivalent of such job grades as determined by the Company.

Effective January 1, 2008, any employee who as of December 31, 2007 is a participant in Rule IC of Plan I and is in a job grade of 27 or above, or an equivalent of such job grade as determined by the Company, is excluded from participation in this Plan but will be eligible under the Alcoa Supplemental Pension Plan for Senior Executives.

J. “Pension Service” means the service used to calculate the Participant’s monthly retirement benefit under Plan I.

K. “Plan I” means Alcoa Retirement Plan I.

L. “Reduced Average Final Compensation” means Average Final Compensation which is calculated by reducing each year’s Annual Compensation used by one-half of the amount, if any, received by a Participant from the Incentive Compensation Plan and the Performance Pay Plan of the Company.

M. “Subsidiary” means a corporation at least 50% of whose outstanding voting stock is owned or controlled by the Company and/or one or more other Subsidiaries, and any non-corporate business entity in which the Company and/or one or more other Subsidiaries have at least a 50% interest in capital or profits.

N. “Surviving Spouse” means a deceased Participant’s spouse who is entitled to receive surviving spouse benefits under Plan I or Excess B.

ARTICLE II - BENEFITS

2.1 Effective January 1, 2008, the benefit payable under this Excess Plan to a Participant who retires or terminates with a vested benefit on or after January 1, 2008 under Plan I—Rules IC, ID, IE, IF, IG, IH, IJ, IM, IN, IP or Excess B as it relates to the foregoing Rules, is equal to the portion of pension benefits in pay status that would have been payable had Plan I used Annual

Compensation in determining the pension benefit, without regard to Section 401(a)(17) of the Code. The pension otherwise payable under this Plan will be subject to offsets for payments made from Other Plans.

2.2 Notwithstanding the foregoing Section 2.1, the following formulas will also continue to apply through December 31, 2012, for anyone who is a Participant as of December 31, 2007. Effective December 31, 2012, the formulas will be frozen as to any additional accruals. Anyone who becomes a Participant after December 31, 2007, will only receive accruals under Section 2.1, and will be ineligible for the following formulas:

A. <u>FORMULA 1</u> -

(1) for participants who retire on or after January 1, 1989 and are eligible under Plan I - Rules IC, ID, IE, IF, IG, IH , or IJ, or Excess B as it relates to the foregoing Rules, the portion of pension benefits in pay status that would have been payable for that month to a Participant under Plan I at the time Pension Service terminates, had Plan I used Annual Compensation in determining the pension benefit; however, Annual Compensation is subject to the limits provided for in Section 401(a)(17) of the Internal Revenue Code of 1986, as amended, through 1993, and $250,000 thereafter, or

(2) for participants who retire under Plan I – Rules IM, IN, or IP, or Excess B as it relates to Rules IM, IN, or IP, the portion of pension benefits in pay status that would have been payable for that month to a Participant under Plan I at the time Pension Service terminates, had Plan I used Annual Compensation in determining the pension benefit, without regard to Section 401(a)(17) of the Code.

B. <u>FORMULA 2</u> - for participants who retire on or after January 1, 1989, and are eligible under Plan I, Rule IC, or Excess B as it relates to Rule IC, the amount of pension benefits which would have been payable to the Participant using the formula contained in Plan I, Rule IC, effective December 31, 1988, had Plan I, Rule IC used Annual Compensation in determining the pension benefit, or

C. <u>FORMULA 3</u> - for participants who retire on or after January 1, 1989 under Plan I, Rule IC, or Excess B as it relates to Rule IC, one-twelfth of the following:

(1) a. 1.7% of Reduced Average Final Compensation for each year of Pension Service up to 30 years, plus

b. 1.3% of Reduced Average Final Compensation for each year of Pension Service in excess of 30, less

c. the projected earnings Social Security offset as defined in Plan I, Rule IC as of December 31, 1988, less the amount determined in the following paragraph (2) a. and b, or (3) a. and b., as applicable.

(2) a. for Participants who retire prior to attaining age 62 on any type of pension provided under Plan I, Rule IC, or pension equivalent under Excess B as it relates to Rule IC (other than a 55/10 pension or deferred vested pension), a reduction which equals one percent (1%) for each year, and prorated monthly for a partial year, said retirement precedes age 62, times the amount calculated in the foregoing paragraph (1), plus

b. any and all applicable reductions and offsets in accordance with the provisions of Plan I, Rule IC, or of Excess B as it relates to Rule IC, (i.e., actuarial reductions and any other percentage reduction made in order to create a joint and survivor annuity).

(3) a. for Participants who retire prior to attaining age 62 on a 55/10 pension or deferred vested pension, the Plan I, Rule IC, actuarial reduction to provide for payment prior to age 62, times the amount calculated in the foregoing paragraph (1), plus

b. any and all applicable reductions and offsets in accordance with the provisions of Plan I, Rule IC, or Excess B as it relates to Rule IC (i.e., actuarial reductions and any other percentage reduction made in order to create a joint and survivor annuity).

D. The pension otherwise payable under Formulas 1, 2 or 3 will be subject to offsets for payments made from Other Plans.

2.3 A benefit payable under this Excess Plan to the Surviving Spouse:

A. of a deceased retiree, will be 50% of the pension payable to the retiree on the retiree’s date of death, subject to offset for payments made from Other Plans.

B. of an employee who dies while accruing Pension Service, will be 50% of the pension calculated under paragraph 2.1, (or if applicable, the greater of: Formula 1, Formula 2 or Formula 3 (excluding paragraphs 2.2 C. (2), as applicable) on the employee’s date of death, subject to the offset for payments made under Other Plans.

C. of an employee who terminates with only rights to a deferred vested pension, will be 50% of the pension calculated under paragraph 2.1, (or if applicable, the greater of Formula 1, Formula 2 or Formula 3, as applicable) on the date that the employee’s Pension Service is terminated, subject to the offset of payments made under Other Plans.

2.4 Where the benefits under the Other Plans are not payable solely in the form of monthly pension benefits over the same time period, the Committee will, if necessary, adjust the benefits payable under this Excess Plan so that the Participant or Surviving Spouse is neither advantaged nor disadvantaged for pension purposes.

2.5 Benefits payable to a Participant who retires or to a Surviving Spouse under this Excess Plan in conjunction with benefits payable under any specific Other Plans will commence concurrently with benefits payable to said Participant or Surviving Spouse under such Other Plans. Upon the cessation of payment of benefits to a Participant or Surviving Spouse under any Other Plans, benefits payable under this Excess Plan in conjunction with benefits payable under said Other Plans will concurrently cease.

2.6 This Excess Plan will not be construed as conferring any rights upon any Participant for continuation of employment with the Company or any Subsidiary, nor will it interfere with the rights of the Company or Subsidiary to terminate the employment of any Participant and/or to take any personnel action affecting any Participant without regard to the effect which such action might have upon such Participant as a prospective recipient of benefits under this Excess Plan.

2.7 No benefit under this Excess Plan may be assigned, transferred, pledged or encumbered or be subject in any manner to alienation or anticipation, except that any exceptions to the non-alienation provisions in Plan I, will also apply to benefits hereunder.

ARTICLE III - CONTRIBUTIONS

3.1 Benefits payable hereunder will be payable out of general assets of the Company, and no segregation of assets for such benefits will be made. The right of a Participant or a Surviving Spouse to receive benefits under this Excess Plan will be an unsecured claim against said assets.

ARTICLE IV - ADMINISTRATION OF EXCESS PLAN

4.1 The general administration of this Excess Plan will be by the Committee. The Committee has the discretionary authority to interpret this Excess Plan. The Committee’s resolution of any matter concerning this Excess Plan will be final binding upon the Company, any Participant or Surviving Spouse affected hereby.

ARTICLE V - AMENDMENT AND TERMINATION

5.1 This Excess Plan may be amended, suspended or terminated at any time by the Board of Directors or any other entity approved by said Board, provided, however, that no amendment, suspension or termination will reduce or in any manner adversely affect any Participant’s rights with respect to benefits that are payable or may become payable under Article II hereof based upon said Participant’s Additional Compensation as of the date of such amendment, suspension termination.

5.2 Provisions Upon Change of Control. Notwithstanding any other provision of the plan, in the event of a Change in Control, as defined in Plan I, neither the Company, Board, Plan Administrator, the Committee or other designee of the Board, may, during the three-year period commencing on the date that the Change of Control occurs:

A. Amend, modify, or terminate the Plan, except to the extent as may be legally required by any law or regulations prescribed thereunder, or any provisions of the Internal Revenue Code or any regulation prescribed thereunder; or

B. Reduce future Plan benefits of any Participant.

ARTICLE VI - CONSTRUCTION

6.1 This Excess Plan will be construed, regulated and administered under the laws of the Commonwealth of Pennsylvania.

Exhibit 10(p)(7)

Alcoa Deferred Compensation Plan
Amendment effective November 1, 2007

1. The first sentence of the definition of “Eligible Employee” in Section 1.1 is amended by adding the following new subsection (d):

or (d) who is a participant in the Howmet Deferred Compensation Plan, and has elected to transfer their account balance in that plan to this Plan prior to December 1, 2007.

2. In all other respects the Plan is hereby ratified and confirmed.

Exhibit 10(u)

ALCOA SUPPLEMENTAL PENSION PLAN FOR SENIOR EXECUTIVES
AS AMENDED AND RESTATED EFFECTIVE DECEMBER 31, 2007

Pursuant to due authorization by the Board of Directors, Alcoa Inc. has adopted the following Alcoa Supplemental Pension Plan for Senior Executives for the exclusive benefit of select management and highly compensated employees (1) whose Pension Service terminates on or after January 1, 1999, (2) who are participants in the IC Rules adopted under the Alcoa Retirement Plan I and/or in Employees' Excess Benefits Plan B of Alcoa Inc. due to their previous participation in the IC Rules, (3) who meet the requirements for participation hereunder, and (4) whose monthly retirement benefits under other benefit plans are less than the monthly retirement benefits calculated under this Plan. Effective December 31, 2007, this Plan is frozen as to new participants, and only Participants as of that date will be eligible for a benefit accrual under this Plan.

ARTICLE I - DEFINITIONS

1.1 The following terms have the specified meanings.

A. "Annual Compensation" means the total payments which includes 100% of Performance Pay and Incentive Compensation Awards, made by the Company, and by any Subsidiaries or affiliates of Alcoa, for any period of Pension Service, for services rendered as a salaried employee, except as otherwise provided by contractual agreement. Annual Compensation does not include living and similar allowances, premium pay, and payments made for specific purposes as determined under supplemental rules adopted by Alcoa. Annual Compensation includes any amounts by which the Participant has elected to reduce his or her salary under the Alcoa Savings Plan, and also includes amounts deferred under any non-qualified deferred compensation arrangement that would otherwise meet the definition of Annual Compensation. "Special Payments" within the meaning of the Alcoa Deferred Compensation Plan are not treated as Annual Compensation.

B. "Average Final Compensation" means the average Annual Compensation received during the five highest paid calendar years out of the ten calendar years (including the calendar year in which such compensation was discontinued if this would increase Average Final Compensation), immediately preceding the Participant's termination of Pension Service by virtue of employment termination, retirement or death.

C. "Board of Directors" means the Board of Directors of the Company.

D. "Company" means Alcoa Inc.

E. "Compensation Committee" means the Committee created by the Board of Directors.

F. “Excess Plan B” means the Employees’ Excess Benefits Plan B of Alcoa Inc. as now in effect and as from time to time amended hereafter.

G. “IC Rules” means the IC Rules adopted under Alcoa Retirement Plan I as now in effect and as from time to time amended hereafter.

H. “Other Plan or Plans” means the IC Rules, any other defined benefit retirement plan of the Company or any Subsidiary, Employees’ Excess Benefits Plan A of the Company, Excess Benefits Plan B, and Employees’ Excess Benefits Plan C. Effective December 31, 2007, Participants in this Plan are ineligible to participate in Excess Benefits Plan C and have no accrual under that plan.

I. “Participant” means any employee (1) whose Pension Service terminates on or after January 1, 1999, (2) who is a participant in the IC Rules or Excess Plan B, and (3) who has a job grade of 27 or higher, as determined by the Company. Effective December 31, 2007, no new Participants will participate in this Plan.

J. “Pension Benefits” means any and all retirement benefits provided under the Other Plan or Plans, excluding the Special Retirement Pension or Supplemental Pension provided under the IC Rules or the equivalent thereof provided under Excess Plan B.

K. “Pension Service” means the service used to calculate the Participant’s monthly retirement benefit under the Other Plan or Plans.

L. “Plan” means the Alcoa Supplemental Pension Plan for Senior Executives adopted by the Company as described herein or from time to time amended hereafter.

M. “Plan Benefits” means the monthly benefits payable under this Plan at such time as the Participant’s monthly Pension Benefits, are determinable under the Other Plan or Plans. Subject to Section 2.1, the Plan Benefits are calculated in the following manner:

(1) On and after Age 62:

(a) 1.1% of Average Final Compensation times each year of Pension Service up to the Social Security “Covered Compensation” amount as defined in the IC Rules, plus

(b) 1.475% of Average Final Compensation in excess of Covered Compensation for each year of Pension Service.

(2) Before Age 62:

(a) 1.475% of Average Final Compensation for each year of Pension Service, reduced by

(b) For Participants who retire prior to attaining age 62 on any type of pension provided under the Other Plan or Plans (other than a 55/10 pension under the IC Rules, or 55/10 pension equivalent under Excess Plan B), the Plan Benefits calculated as described in 2(a) above is reduced by 1% for each year, prorated monthly for a partial year, their retirement precedes age 62.

(3) The Plan Benefits calculated in paragraphs (1) or (2) above are reduced by any and all applicable reductions and offsets in accordance with the provisions of the Other Plan or Plans, (i.e., actuarial reductions and any other percentage reduction made in order to create a joint and survivor annuity, offsets for social security benefits, offsets for other pensions, etc.)

(4) The Plan Benefits for the Participant's Surviving Spouse equals 50% of the Participant's Plan Benefits, determined in accordance with the Surviving Spouse Pension provision in the Other Plan or Plans. If the Participant's death occurs prior to his or her attainment of age 62, the Participant's Plan Benefits, for the purpose of determining the Plan Benefits for the Surviving Spouse, are not be subject to the foregoing paragraph (2)(b).

N. "Subsidiary" means a corporation at least 50% of whose outstanding voting stock is owned or controlled by the Company and/or one or more other Subsidiaries, and any noncorporate business entity in which the Company and/or one or more other Subsidiaries have at least a 50% interest in capital or profits.

O. "Surviving Spouse" means a deceased Participant's spouse who is entitled to receive surviving spouse benefits under the Other Plan or Plans.

ARTICLE II - BENEFITS

2.1 The Plan Benefits payable under this Plan for any month are the excess, if any, of (1) the Plan Benefits calculated for the month for the Participant or Surviving Spouse over (2) the aggregate amount of Pension Benefits in pay status and payable for the month to the Participant or Surviving Spouse under the Other Plan or Plans.

Where the Pension Benefits under the Other Plan or Plans are not payable solely in the form of monthly Pension Benefits over the same time periods (for example, where a benefit is payable in a lump sum) the benefits payable under this Plan are adjusted so that the Participant or Surviving Spouse is neither advantaged nor disadvantaged for pension purposes.

2.2 Benefits are payable to a Participant or Surviving Spouse under this Plan only in conjunction with monthly Pension Benefits, payable under the Other Plan or Plans and will commence concurrently with monthly Pension Benefits payable to the Participant or Surviving Spouse under the Other Plan or Plans. Upon the cessation of payment of monthly Pension Benefits to a Participant or Surviving Spouse under the Other Plan or Plans, benefits payable under this Plan will concurrently cease.

2.3 This Plan is not to be construed as conferring any rights upon any Participant for continuation of employment with the Company or any Subsidiary, nor will it interfere with the rights of the Company or any Subsidiary to terminate the employment of any Participant and/or to take any personnel action affecting any Participant without regard to the effect which such action might have upon such Participant or Surviving Spouse as a prospective recipient of benefits under this Plan.

2.4 No benefit under this Plan may be assigned, transferred, pledged or encumbered or be subject in any manner to alienation or anticipation, except that any exceptions to the non-alienation provisions in Plan I, shall also apply to benefits hereunder.

ARTICLE III - CONTRIBUTIONS

3.1 Benefits payable hereunder are payable out of the general assets of the Company, no segregation of assets for such benefits will be made, and the right of a Participant, Surviving Spouse and/or beneficiary to receive benefits under this Plan is that of an unsecured claim against those assets, except as the Company in its sole discretion otherwise provides.

ARTICLE IV - ADMINISTRATION OF EXCESS PLAN

4.1 The general administration of this Plan is by the Compensation Committee, which has the discretionary authority to make all decisions regarding this Plan. The resolution of any matter concerning this Plan is final and binding upon the Company and any Participant, Surviving Spouse and/or beneficiary affected thereby.

ARTICLE V - AMENDMENT AND TERMINATION

5.1 This Plan may be amended, suspended or terminated at any time by the Board of Directors or any other entity approved by the board, provided, however, that no such amendment, suspension or termination will reduce or in any manner adversely affect any Participant’s rights with respect to benefits that are payable or may become payable under Article II as of the date of such amendment, suspension or termination. This Plan may also be amended, from time to time by the Board of Directors’ Inside Director Committee, except for amendments which have more than a minimal effect upon the Company’s cost of providing benefits for Company employees at the officer level.

5.2 Provisions Upon Change of Control. Notwithstanding any other provision of the plan, in the event of a Change in Control, as defined in the Alcoa Retirement Plan I, neither the Company, Board, Plan Administrator, the Committee or other designee of the Board, may, during the three-year period commencing on the date that the Change of Control occurs:

A. Amend, modify, or terminate the Plan, except to the extent as may be legally required by any law or regulations prescribed thereunder, or any provisions of the Internal Revenue Code or any regulation prescribed thereunder; or

B. Reduce future Plan benefits of any Participant.

ARTICLE VI - CONSTRUCTION

6.1 This Plan is construed, regulated and administered under the laws (except the law of conflicts) of the Commonwealth of Pennsylvania except as modified by any applicable law.

ALCOA INC.
CHANGE IN CONTROL
SEVERANCE PLAN

The Company hereby adopts, as of January 11, 2002, the Alcoa Inc. Change in Control Severance Plan for the benefit of certain employees of the Company and its subsidiaries, on the terms and conditions hereinafter stated. All capitalized terms used herein are defined in Section 1 hereof.

Section 1. DEFINITIONS. As hereinafter used:

1.1 "Affiliate" shall have the meaning set forth in Rule 12b-2 under Section 12 of the Exchange Act.

1.2 "Applicable Multiplier" shall mean three (3); provided, however, that, with respect to an Eligible Employee who incurs a Severance during the three year period immediately preceding such individual's Mandatory Retirement Age, such multiplier shall be equal to (x) the number of full and partial months remaining until such Eligible Employee attains Mandatory Retirement Age, (y) divided by twelve.

1.3 "Applicable Period" shall mean the thirty-six (36) month period immediately following an Eligible Employee's Severance Date; provided, however, that, with respect to an Eligible Employee who incurs a Severance during the three year period immediately preceding such individual's Mandatory Retirement Age, the Applicable Period shall mean the period remaining until such Eligible Employee attains Mandatory Retirement Age.

1.4 "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

1.5 "Board" means the Board of Directors of the Company.

1.6 "Cause" means: (i) the willful and continued failure by the Eligible Employee to substantially perform the Eligible Employee's duties with the Employer that has not been cured within thirty (30) days after a written demand for substantial performance is delivered to the Eligible Employee by the Board, which demand specifically identifies the manner in which the Board believes that the Eligible Employee has not substantially performed the Eligible Employee's duties, or (ii) the willful engaging by the Eligible Employee in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise. For purposes of clauses (i) and (ii) of this definition, (x) no act, or failure to act, on the Eligible

Employee’s part shall be deemed “willful” unless done, or omitted to be done, by the Eligible Employee not in good faith and without reasonable belief that the Eligible Employee’s act, or failure to act, was in the best interest of the Company and (y) in the event of a dispute concerning the application of this provision, no claim by the Company that Cause exists shall be given effect unless the Company establishes to the Board by clear and convincing evidence that Cause exists and the Board finding to that effect is adopted by the affirmative vote of not less than three quarters (3/4) of the entire membership of the Board (after reasonable notice to the Eligible Employee and an opportunity for the Eligible Employee, together with the Eligible Employee’s counsel, to be heard by the Board).

1.7 “Change in Control” shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(a) any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); *provided*, *however*, that, for purposes of this Section 1.7, the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliated Company or (iv) any acquisition pursuant to a transaction that complies with Sections 1.7 (c)(A), 1.7(c)(B) and 1.7(c)(C);

(b) individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; *provided*, *however*, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders was approved by a vote of at least two-thirds (2/3) of the directors then comprising the Incumbent Board shall be considered as though such individual was a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(c) consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a "Business Combination"), in each case unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, 55% or more of the then-outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors (or, for a non-corporate entity, equivalent governing body) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(d) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company.

1.8 "Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

1.9 "Committee" means the Compensation Committee of the Board.

1.10 "Company" means Alcoa Inc., or any successors thereto.

1.11 “DB Pension Plan” means any tax-qualified, supplemental or excess defined benefit pension plan maintained by the Company or any of its Affiliates and any other defined benefit plan or agreement entered into between the Eligible Employee and the Company or any of its Affiliates which is designed to provide the Eligible Employee with supplemental defined benefit retirement benefits.

1.12 “DC Pension Plan” means any tax-qualified, supplemental or excess defined contribution plan maintained by the Company or any of its Affiliates and any other defined contribution plan or agreement entered into between the Eligible Employee and the Company or any of its Affiliates which is designed to provide the Eligible Employee with supplemental defined contribution retirement benefits.

1.13 “Eligible Employee” means any Tier I, Tier II or Tier III Employee. An Eligible Employee becomes a “Severed Employee” once he or she incurs a Severance.

1.14 “Employer” means the Company or any of its subsidiaries which is an employer of the Eligible Employee.

1.15 “Entity” means any individual, entity, person (within the meaning of Section 3(a)(9) of the Exchange Act or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), other than (i) an employee plan of the Company or any of its Affiliates, (ii) any Affiliate of the Company, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by shareholders of the Company in substantially the same proportions as their ownership of the Company.

1.16 “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended from time to time.

1.17 “Excise Tax” shall mean any excise tax imposed under section 4999 of the Code.

1.18 “Good Reason” in respect of an Eligible Employee means the occurrence, after a Change in Control (or prior to a Change in Control, under the circumstances described in the second sentence of Section 1.26 hereof, treating all references below to a “Change in Control” as references to a “Potential Change in Control”), of:

(i) the assignment to the Eligible Employee of any duties inconsistent with the Eligible Employee’s employment status with the Employer immediately prior to the Change in Control or a substantial adverse alteration in the nature or status of the Eligible Employee's responsibilities from those in effect immediately prior to the Change in Control, including, but not limited to, (x) with respect to a Tier I Employee, the Eligible Employee's ceasing to hold the office as the sole chief executive officer of the Company (or its parent or successor) and to function in that capacity, reporting directly to the board of directors of a public company, and (y) with respect to a Tier II Employee, the Eligible Employee's ceasing to report directly to the chief executive officer of a public company;

(ii) a reduction by the Company in the Eligible Employee's total compensation and benefits in the aggregate from that in effect immediately prior to the Change in Control. Total compensation and benefits includes, but is not limited to (1) annual base salary, annual variable compensation opportunity (taking into account applicable performance criteria and the target bonus amount of annual variable compensation); (2) long term stock-based and cash incentive opportunity (taking into account applicable performance criteria and the target stock option amount); and (3) benefits and perquisites under pension, savings, life insurance, medical, health, disability, accident and material fringe benefit plans of the Company or its subsidiaries or Affiliates in which the Eligible Employee was participating immediately before the Change in Control;

(iii) the relocation of the Eligible Employee's principal place of employment to a location more than fifty (50) miles from the Eligible Employee's principal place of employment immediately prior to the Change in Control; or

(iv) the failure by the Employer to pay to the Eligible Employee any portion of the Eligible Employee's compensation, within fourteen (14) days of the date such compensation is due.

The Eligible Employee's right to terminate the Eligible Employee's employment for Good Reason shall not be affected by the Eligible Employee's incapacity due to physical or mental illness. The Eligible Employee's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder. For purposes of any determination regarding the existence of Good Reason, any good faith determination by the Eligible Employee that Good Reason exists shall be conclusive. Notwithstanding anything in this Section 1.18 to the contrary, any termination of employment by a Tier I Employee or a Tier II Employee, whether voluntary or involuntary, for any reason or no reason, within a thirty (30) day period commencing on a date six months immediately following a Change in Control shall be deemed to constitute a termination for Good Reason hereunder.

1.19 “Gross-Up Payment” shall have the meaning set forth in Section 2.2 hereof.

1.20 “Incumbent Board” shall mean individuals who, as of the date hereof, constitute the Board cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual was a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, other than the Board.

1.21 “Mandatory Retirement Age” means, solely for purposes of this Plan, age 75.

1.22 “Notice of Termination” shall have the meaning set forth in Section 3.6.

1.23 “Plan” means the Alcoa Inc. Change in Control Severance Plan, as set forth herein, as it may be amended from time to time.

1.24 A “Potential Change in Control” shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(a) the Company is negotiating an agreement, the consummation of which may result in the occurrence of a Change in Control;

(b) the Company or any Entity states an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control;

(c) any Entity becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 5% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company’s then outstanding securities with the purpose or with the effect of changing or influencing the control of the Company.

A Potential Change in Control shall be considered to be pending during the period beginning on the date when it occurs and ending on the occurrence of a subsequent Change in Control; provided, a Potential Change in Control shall be considered to cease to be pending on the first anniversary of such date unless either (i) a Change in Control has previously occurred or (ii) the Incumbent Board determines that the Potential Change in Control is still pending; and if the Incumbent Board does so determine, then the Potential Change in Control shall continue to be considered pending until the occurrence of a Change in Control or a determination by the Incumbent Board that the Potential Change in Control is no longer pending.

1.25 A "Separation from Service" means (i) an Eligible Employee ceases to provide any services to the Company in any capacity (whether as an employee or an independent contractor), other than bona fide services at a level that does not exceed more than fifty (50) percent of the average level of bona fide services (whether as an employee or an independent contractor) performed by the Eligible Employee over the preceding thirty-six (36) month period (or the full period of services to the Company if the Eligible Employee has been providing services to the Company for less than thirty-six (36) months), and (ii) the Company and the Eligible Employee reasonably anticipate that such cessation will be permanent.

1.26 "Severance" means an Eligible Employee's Separation from Service on or within three years immediately following the date of the Change in Control, (x) by the Employer other than for Cause, or (y) by the Eligible Employee for Good Reason. In addition, for purposes of this Plan, the Eligible Employee shall be deemed to have incurred a Severance, if (i) the Eligible Employee's Separation from Service occurs because his employment is terminated by the Employer without Cause prior to a Change in Control (whether or not a Change in Control ever occurs) and such termination was at the request or direction of an Entity who has entered into an agreement with the Company the consummation of which would constitute a Change in Control or (ii) the Eligible Employee's Separation from Service occurs because he terminates his employment for Good Reason prior to a Change in Control (whether or not a Change in Control ever occurs) and the circumstance or event which constitutes Good Reason occurs at the request or direction of such Entity. For purposes of any determination regarding the applicability of the immediately preceding sentence, any position taken by the Eligible Employee shall be presumed to be correct unless the Company establishes to the Board by clear and convincing evidence that such position is not correct. An Eligible Employee will not be considered to have incurred a Severance if his or her employment is discontinued by reason of the Eligible Employee's death or a physical or mental condition causing such Eligible Employee's inability to substantially perform his or her duties with the Company, including, without limitation, such condition entitling him or her to benefits under any sick pay or disability income policy or program of the Company.

1.27 "Severance Date" means the date on which an Eligible Employee's Severance takes place.

1.28 "Severance Pay" means the payment determined pursuant to Section 2.1(a) hereof.

1.29 "Tier I Employee" means the Chief Executive Officer of the Company.

1.30 "Tier II Employee" means (i) the Chief Financial Officer, the President and Chief Operating Officer, the General Counsel and the head of Corporate Development for the Company, and (ii) any such other officer (other than an assistant officer) of the Company as the Committee determines.

1.31 "Tier III Employee" means (i) any officer (other than an assistant officer) of the Company and (ii) any such other key executive of the Company or any of its subsidiaries or Affiliates as the Committee determines, which employee, in each case, is not a Tier I Employee or Tier II Employee.

Section 2. BENEFITS.

2.1 Severance Payments and Benefits. Each Eligible Employee who incurs a Severance shall be entitled, subject to Section 2.4, to receive the following payments and benefits from the Company.

(a) Severance Pay equal to the product of (i) the sum of (x) the Severed Employee's annual base salary, and (y) his or her target annual variable compensation with respect to the year in which the Change in Control occurs, and (ii) the Applicable Multiplier. For purposes of this Section 2.1(a), annual base salary shall be the higher of (i) base monthly salary in the calendar month immediately preceding a Change in Control or (ii) base monthly salary in the calendar month immediately preceding the Severed Employee's Severance Date (in either case without regard to any reductions therein which constitute Good Reason) multiplied by twelve.

(b) During the Applicable Period, the Company shall arrange to provide the Severed Employee and anyone entitled to claim through the Severed Employee life, accident and health (including medical, behavioral, prescription drug, dental and vision) benefits substantially similar to those provided to the Severed Employee and anyone entitled to claim through the Severed Employee immediately prior to Employee's Severance Date or, if more favorable to the Severed Employee, those provided to the Severed Employee and those entitled to claim through the Severed Employee immediately prior to the first occurrence of an event or circumstance constituting Good Reason, at no greater after tax cost to the Severed Employee than the after tax cost to the Severed Employee immediately prior to such Severance Date or occurrence.

(c) In addition to the retirement benefits to which the Severed Employee is entitled under each DC Pension Plan or any successor plan thereto, the Company shall pay the Severed Employee a lump sum amount, in cash, equal to the product of (i) the value of contributions or allocations actually made by the Company to all DC Pension Plans, on behalf of the employee, with respect to the calendar year immediately preceding the year in which the Change in Control occurs (but assuming such contributions and allocations had been based on the annualized base salary plus target annual variable compensation as determined in Section 2.1(a)) and (ii) the Applicable Multiplier. Such contributions or allocations shall specifically not include any employee deferrals or contributions, or any earnings.

(d) In addition to the retirement benefits to which the Severed Employee is entitled under each DB Pension Plan or any successor plan thereto, the Company shall pay the Severed Employee a lump sum amount, in cash, equal to the excess of the actuarial equivalent of the aggregate retirement pension (taking into account any early retirement subsidies associated therewith and determined in accordance with each of the DB Pension Plan's normal form of payment, commencing at the date (but in no event earlier than the end of the Applicable Period) as of which the actuarial equivalent of such form of payment is greatest) which the Severed Employee would have accrued and vested in under the terms of all DB Pension Plans determined:

(i) without regard to any amendment to any DB Pension Plan made subsequent to a Change in Control and on or prior to the date of the Severed Employee's Severance Date, which amendment adversely affects in any manner the computation of retirement benefits thereunder, and

(ii) as if the Severed Employee had accumulated (after the Severed Employee's Severance Date) a number of additional months of age and service credit thereunder as if the Severed Employee had remained employed by the Company during the Applicable Period (for all such purposes of determining pension benefits and eligibility for such benefits including all applicable retirement subsidies), and

(iii) as if the Severed Employee had been credited under each DB Pension Plan compensation for each full calendar month during the Applicable Period following the calendar month of the Severed Employee's Severance Date equal to the Severed Employee's annualized base salary plus target annual variable compensation as determined in Section 2.1(a) divided by twelve over the actuarial equivalent of the aggregate retirement pension (taking into account any early retirement subsidies associated therewith and determined in accordance with each of the DB Pension Plan's normal form of payment commencing at the date (but in no event earlier than the Severed Employee's Severance Date) as of which the actuarial equivalent of such form of payment is greatest) which the Severed Employee had accrued and vested in pursuant to the provisions of the DB Pension Plans as of the Severed Employee's Severance Date.

For purposes of this Section 2.1(d), "actuarial equivalent" shall be determined based upon the Severed Employee's age as of the Severed Employee's Severance Date using the same assumptions utilized under the Alcoa Retirement Plan I, Section 8.3(d)(ii) or the successor to such provision (without regard to applicable dollar limitations ($5,000 as of January 1, 2002)) immediately prior to the Severed Employee's Severance Date or, if more favorable to the Severed Employee, immediately prior to the first occurrence of an event or circumstance constituting Good Reason.

(e) If the Severed Employee would have become entitled to benefits under the Company's post-retirement health care or life insurance plans, as in effect immediately prior to the Severed Employee's Severance Date or, if more favorable to the Severed Employee, as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, had the Severed Employee's employment terminated at any time during the Applicable Period, the Company shall provide such post-retirement health care or life insurance benefits to the Severed Employee and the Severed Employee's dependents commencing on the later of (i) the date on which such coverage would have first become available and (ii) the date on which benefits described in 2.1(b) terminate and ending upon the death of the Eligible Employee. Any such benefit, which is dependent on service or compensation shall be determined as if the Severed Employee had accumulated (after the Severed Employee's Severance Date) a number of additional months of age and service credit thereunder as if the Severed Employee had remained employed by the Company up to the foregoing commencement date, and as if the Severed Employee had been credited with compensation for each full calendar month following the calendar month of the Severed Employee's Severance Date up to the foregoing commencement date equal to the Severed Employee's annualized based salary as determined in Section 2.1(a) divided by twelve plus the Severed Employee's target annual variable compensation as determined in Section 2.1(a) divided by twelve. Except for the additional service and compensation during the Applicable Period, nothing herein is intended to provide the Severed Employee with benefits, which exceed the benefits provided to other participants in said post-retirement health care or life insurance plans, as in effect from time to time.

(f) The Company shall provide the Severed Employee with reasonable outplacement services suitable to the Severed Employee's position for a period of six (6) months or, if earlier, until the first acceptance by the Severed Employee of an offer of employment.

The amounts described in Sections 2.1(a), (c) and (d) shall be paid to the Eligible Employee in a cash lump sum as soon as practicable after the Severance Date but in no event later than 30 days after the Severance Date; provided, that if the Severed Employee is, as of the Severance Date, a "specified employee" within the meaning of Section 409A of the Code as determined in accordance with the methodology duly adopted by the Company as in effect on the Severance Date, then such amounts shall instead be paid on the first business day that is at least six months after the Severance Date (or if sooner, upon the death of the Severed Employee), with interest at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code, from the first business day after the Severance Date through the date of payment.

In order to comply with Section 409A of the Code, the following shall apply to health care benefits provided pursuant to Sections 2.1(b) and (e), the costs of which are not fully paid by the Severed Employee (the "Health Benefits"). Any and all reimbursements of eligible expenses made pursuant to the Health Benefits shall be made no later than the end of the calendar year next following the calendar year in which the expenses were incurred. The amount of expenses that are eligible for reimbursement or of in-kind benefits that are provided pursuant to the Health Benefits in any given calendar year shall not affect the expenses that are eligible for reimbursement or benefits to be provided pursuant to the Health Benefits in any other calendar year, except as specifically permitted by Treasury Regulation Section 1.409A-3(i)(iv)(B). The Severed Employee's right to the Health Benefits may not be liquidated or exchanged for any other benefit.

2.2 Gross-Up Payment.

(a) Whether or not an Eligible Employee incurs a Severance, if any of the payments or benefits received or to be received by the Eligible Employee in connection with a Change in Control or the Eligible Employee's termination of employment (whether pursuant to the terms of this Plan or any other plan, arrangement or agreement) (all such payments and benefits, excluding the Gross-Up Payment, being hereinafter referred to as the "Total Payments") will be subject to the Excise Tax, the Company shall pay to the Eligible Employee an additional amount (the "Gross-Up Payment") such that the net amount retained by the Eligible Employee, after deduction of any Excise Tax on the Total Payments and any federal, state and local income and employment taxes and Excise Tax upon the Gross-Up Payment, and after taking into account the phase out of itemized deductions and personal exemptions attributable to the Gross-Up Payment, shall be equal to the Total Payments.

(b) Subject to the provisions of Section 2.2(c), all determinations required to be made under this Section 2.2, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by PricewaterhouseCoopers (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and the Eligible Employee within 15 business days of the receipt of notice from the Eligible Employee that there has been any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Eligible Employee, whether paid or payable pursuant to this Agreement or otherwise, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, the Eligible Employee may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Eligible Employee.

(c) In the event that the Excise Tax is finally determined to be less than the amount taken into account hereunder in calculating the Gross-Up Payment, the Eligible Employee shall repay to the Company, within five (5) business days following the time that the amount of such reduction in the Excise Tax is finally determined, the portion of the Gross-Up Payment attributable to such reduction (plus that portion of the Gross-Up Payment attributable to the Excise Tax and federal, state and local income and employment taxes imposed on the Gross-Up Payment being repaid by the Eligible Employee), to the extent that such repayment results in a reduction in the Excise Tax and a dollar-for-dollar reduction in the Eligible Employee's taxable income and wages for purposes of federal, state and local income and employment taxes, plus interest on the amount of such repayment at 120% of the rate provided in section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder in calculating the Gross-Up Payment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional Gross-Up Payment in respect of such excess (plus any interest, penalties or additions payable by the Eligible Employee with respect to such excess) within five (5) business days following the time that the amount of such excess is finally determined. The Eligible Employee and the Company shall each reasonably cooperate with the other in connection with any administrative or judicial proceedings concerning the existence or amount of liability for Excise Tax with respect to the Total Payments.

(d) The Gross-Up Payment shall be paid on the thirtieth (30) day (or such earlier date as the Excise Tax becomes due and payable to the taxing authorities) after it has been determined that the Total Payments are subject to the Excise Tax; provided however, that if the amount of the Gross-Up Payment or any portion thereof cannot be finally determined on or before that day, the Company shall pay to the Eligible Employee on such date an estimate as determined by the Auditor until such point in time that the final determination of the Gross-up Payment can occur.

(e) The Eligible Employee shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of any additional Gross-Up Payment pursuant to Section 2.2(c). Such notification shall be given as soon as practicable but no later than ten (10) business days after the Eligible Employee is informed in writing of such claim and shall apprise the Company of the nature of such claim and date on which the Company must respond to contest the claim. If the Company provides timely notice to the Eligible Employee in writing that it desires to contest such claim, the Eligible Employee shall (i) give the Company any information reasonably requested by the Company relating to such claim; (ii) take such action in connection with contesting such claim, as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company; (iii) cooperate with the Company in good faith in order effectively to contest such claim; and (iv) permit the Company to participate in any proceeding relating to such claim. The Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Eligible Employee harmless on an after-tax basis, for any Excise tax or income tax including interest and penalties with respect hereto) imposed as a result of such representation and payment of cost and expenses. Without limiting the foregoing, the Company shall control all proceedings taken in connection with such contest and at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may at its sole option either direct the Eligible Employee to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Eligible Employee agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts as the Company shall determine. Provided however if the Company directs the Eligible Employee to pay such claim and sue for a refund, the Company shall make such payment on behalf of the Eligible Employee and shall indemnify and hold the Eligible Employee harmless on an after-tax basis from any Excise Tax or income tax imposed with respect to such payment or with respect to such imputed income with respect to such payment and further provided that any extension of the statute of limitation relating to such payment of taxes for the taxable year of the Eligible Employee with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest and reimbursement for the expenses shall be limited to issues with respect to which an additional Gross-Up Payment would be payable hereunder and the Eligible Employee shall be entitled to settle or contest as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority. If after the Company has made any such payment on behalf of the Eligible Employee, the Eligible Employee becomes entitled to receive any refund with respect to such claims, the Eligible Employee shall promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the Company has made any such payment of behalf of the Eligible Employee pursuant to the above section, a determination is made that the Eligible Employee shall not be entitled to any refund with respect to such claim and the Company does not notify the Eligible Employee in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such payment shall not be required to be repaid and the amount of such payment shall off-set to the extent thereof the amount of Gross-Up Payment required to be paid.

(f) In order to comply with Section 409A of the Code, any Gross-Up Payment, as determined pursuant to this Section 2.2, shall in all events be paid by the Company no later than the end of the Eligible Employee's taxable year next following the Eligible Employee's taxable year in which the Excise Tax (and any income or other related taxes or interest or penalties thereon) on a Payment are remitted to the Internal Revenue Service or any other applicable taxing authority or, in the case of amounts relating to a claim described in Section 2.2(e) that does not result in the remittance of any federal, state, local and foreign income, excise, social security and other taxes, the calendar year in which the claim is finally settled or otherwise resolved. Notwithstanding any other provision of this Section 2.2, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of the Eligible Employee, all or any portion of any Gross-Up Payment, and the Eligible Employee hereby consents to such withholding.

2.3 Legal Fees. The Company shall pay to the Eligible Employee all legal fees and expenses incurred by the Eligible Employee in disputing in good faith any issue hereunder or in seeking in good faith to obtain or enforce any benefit or right provided by this Plan; provided, that the payment of legal fees hereunder by the Company shall not be required if the Eligible Employee pursues such dispute in a manner inconsistent with the provisions of Sections 3.4 and 3.5 hereof; and provided further, that, the Eligible Employee shall be required to repay any such amounts to the Company to the extent that an arbitrator issues a final, unappealable order setting forth a determination that the position taken by the Eligible Employee was frivolous or advanced in bad faith. Subject to Section 2.2(e) hereof, the Company shall pay to the Eligible Employee all legal fees and expenses incurred in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit provided hereunder. Such payments shall be made within fourteen (14) business days after delivery of the Eligible Employee's written requests for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require. In order to comply with Section 409A of the Code, in no event shall the payments by the Company under this Section 2.3 be made later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, provided, that the Eligible Employee shall have submitted an invoice for such fees and expenses at least fourteen (14) business days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Eligible Employee's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit.

2.4 Withholding. The Company shall be entitled to withhold from amounts to be paid to the Severed Employee hereunder any federal, state or local withholding or other taxes or charges (or foreign equivalents of such taxes or charges) which it is from time to time required to withhold.

2.5 Status of Plan Payments. Neither Severance Pay nor any payment made pursuant to Section 2.1(c) or (d) hereof shall constitute "compensation" (or similar term) under the Company's and its Affiliates' employee benefit plans, including any DB Pension Plan or DC Pension Plan.

2.6 Mitigation; Setoff. The Severed Employee is not required to seek other employment or attempt in any way to reduce any amounts payable to him or her under the Plan. Further, except as specifically provided in Section 2.1(b), no payment or benefit provided for in this Plan shall be reduced by any compensation earned by the Severed Employee as a result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Severed Employee to the Company or its Affiliates, or otherwise.

Section 3. PLAN ADMINISTRATION; CLAIMS PROCEDURES.

3.1 The Committee shall administer the Plan and may interpret and construe the terms of the Plan, prescribe, amend and rescind rules and regulations under the Plan and make all other determinations necessary or advisable for the administration of the Plan, subject to all of the provisions of the Plan, including, without limitation, Section 3.4. Any determination by the Committee shall be final and binding with respect to the subject matter thereof on all Eligible Employees.

3.2 The Committee may delegate any of its duties hereunder to such person or persons from time to time as it may designate.

3.3 The Committee is empowered, on behalf of the Plan, to engage accountants, legal counsel and such other personnel as it deems necessary or advisable to assist it in the performance of its duties under the Plan. The functions of any such persons engaged by the Committee shall be limited to the specified services and duties for which they are engaged, and such persons shall have no other duties, obligations or responsibilities under the Plan. Such persons shall exercise no discretionary authority or discretionary control respecting the management of the Plan. All reasonable expenses thereof shall be borne by the Company.

3.4 In the event of a claim by a Severed Employee, such Severed Employee shall present the reason for his or her claim, dispute or controversy in writing to the Committee. The Committee shall, within sixty (60) days after receipt of such written claim, dispute or controversy, send a written notification to the

Severed Employee as to its disposition. In the event the claim, dispute or controversy is wholly or partially denied, such written notification shall (i) state the specific reason or reasons for the denial, (ii) make specific reference to pertinent Plan provisions on which the denial is based, (iii) provide a description of any additional material or information necessary for the Severed Employee to perfect the claim, dispute or controversy and an explanation of why such material or information is necessary, and (iv) set forth the procedure by which the Severed Employee may appeal the denial of his or her claim, dispute or controversy. In the event a Severed Employee wishes to appeal the denial of his or her claim, dispute or controversy he or she may request a review of such denial by making application in writing to the Committee within sixty (60) days after receipt of such denial. Such Severed Employee (or his or her duly authorized legal representative) may, upon written request to the Committee, review any documents pertinent to his or her claim, dispute or controversy and submit in writing, issues and comments in support of his or her position. Within sixty (60) days after receipt of a written appeal (unless special circumstances require an extension of time, but in no event more than one hundred twenty (120) days after such receipt), the Committee shall notify the Severed Employee of the final decision. The final decision shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, and specific references to the pertinent Plan provisions on which the decision is based. Notwithstanding the foregoing, any claim, dispute or controversy regarding whether an Eligible Employee was terminated for Cause shall be submitted to the Board in accordance with Section 1.6, and upon the mutual agreement of the Severed Employee and the Committee, any claim, dispute or controversy that has been submitted by the Severed Employee in writing to the Committee may be submitted directly to arbitration in accordance with Section 3.5.

3.5 Any unresolved claim, dispute or controversy arising under or in connection with the Plan, and which is not resolved in accordance with Section 3.4, shall be settled exclusively by arbitration in New York City or at any other mutually agreed upon location. All claims, disputes and controversies shall be submitted to the CPR Institute for Dispute Resolution ("CPR") in accordance with the CPR's rules then in effect; provided, however, that the evidentiary standards set forth in this Agreement shall apply. The claim, dispute or controversy shall be heard and decided by three arbitrators selected from CPR's employment panel. The arbitrator's decision shall be final and binding on all parties. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

3.6 Any purported termination of an Eligible Employee's employment shall be communicated by written Notice of Termination from one party hereto to the other party in accordance with Section 5.8. For purposes of this

Agreement, a “Notice of Termination” shall mean a notice which shall indicate the specific termination provision in this Plan relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Eligible Employee’s employment under the provision so indicated, and shall specify the Severance Date (which, in the case of a termination by the Company, shall not be less than thirty (30) days and, in the case of a termination by the Eligible Employee, shall not be less than fifteen (15) days nor more than sixty (60) days, respectively, from the date such Notice of Termination is given). The Company and the Eligible Employee shall take all steps necessary (including with regard to any post-termination services by the Eligible Employee) to ensure that any termination described in this Section 3.6 constitutes a Separation from Service occurring on the Severance Date.

Section 4. PLAN MODIFICATION OR TERMINATION.

The Plan may be amended or terminated by the Board at any time; provided, however, that the Committee may make amendments to the Plan (i) that are required by law, (ii) that will have minimal effect upon the Company’s cost of providing benefits, or (iii) that do not change or alter the character and intent of the Plan; and further provided that the Plan may not be terminated, or amended in any manner that adversely affects any Eligible Employee, (A) within three years immediately following a Change in Control, or (B) during the pendency of a Potential Change in Control.

Section 5. GENERAL PROVISIONS.

5.1 Except as otherwise provided herein or by law, no right or interest of any Eligible Employee under the Plan shall be assignable or transferable, in whole or in part, either directly or by operation of law or otherwise, including without limitation by execution, levy, garnishment, attachment, pledge or in any manner; no attempted assignment or transfer thereof shall be effective; and no right or interest of any Eligible Employee under the Plan shall be liable for, or subject to, any obligation or liability of such Eligible Employee. When a payment is due under this Plan to an Eligible Employee who is unable to care for his or her affairs, payment may be made directly to his or her legal guardian or personal representative.

Nothing herein is intended to affect an employee’s rights under any unemployment law or severance contract or plan.

5.2 Neither the establishment of the Plan, nor any modification thereof, nor the creation of any fund, trust or account, nor the payment of any benefits shall be construed as giving any Eligible Employee, or any person whomsoever, the right to be retained in the service of the Company, and all Eligible Employees shall remain subject to discharge to the same extent as if the Plan had never been adopted.

5.3 If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and this Plan shall be construed and enforced as if such provisions had not been included.

5.4 This Plan shall inure to the benefit of and be binding upon the heirs, executors, administrators, successors and assigns of the parties, including each Eligible Employee, present and future, and any successor to the Company. If an Eligible Employee shall die while any amount would still be payable to such Eligible Employee hereunder if the Eligible Employee had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to the executor, personal representative or administrators of the Eligible Employee's estate.

5.5 The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan.

5.6 The Plan shall not be funded. No Eligible Employee shall have any right to, or interest in, any assets of the Company which may be applied by the Company to the payment of benefits or other rights under this Plan.

5.7 Any notice or other communication required or permitted pursuant to the terms hereof shall have been duly given when delivered or mailed by United States Mail, first class, postage prepaid, addressed to the intended recipient at his, her or its last known address.

5.8 This Plan shall be construed and enforced according to the laws of the State of New York to the extent not preempted by federal law, which shall otherwise control.

Exhibit 10.(tt)

ALCOA INC.

Omnibus Amendment to Rules and Terms and Conditions
of all Awards under the
2004 Alcoa Stock Incentive Plan

1. The 2004 Alcoa Stock Incentive Plan (the "Plan") defines "Fair Market Value" as follows:

   "Fair Market Value" means, with respect to any property, the market value of such property determined by such methods or procedures as shall be established from time to time by the Committee.

2. The Committee has determined to apply the following definition of "Fair Market Value" to Awards granted under the 2004 Alcoa Stock Incentive Plan:

   Fair market value per share of common stock on any given date is the closing price per share of common stock on that date as reported on the New York Stock Exchange or other stock exchange on which the common stock principally trades. If the New York Stock Exchange or such other exchange is not open for business on the date fair market value is being determined, the closing price as reported for the next business day on which that exchange is open for business will be used.

3. The foregoing definition shall apply to all Awards granted under the Plan on or after the effective date hereof, and shall amend the definition of "fair market value" in the Rules for Stock Option Awards, the Rules for Stock Awards, the Rules for Performance Share Awards and the Terms and Conditions for Special Retention Stock Awards applicable to such grants.

Effective date: January 1, 2007

Alcoa
390 Park Avenue
New York, New York 10022 USA

Alain J.P. Belda
Chairman and Chief Executive Officer

February 15, 2008

Mr. Klaus Kleinfeld
Alcoa Inc.
390 Park Avenue
New York, New York 10022

Dear Klaus:

As President and Chief Operating Officer, you are a key part of the senior executive management team of Alcoa Inc. (the "Company"). The business relationships you have developed both inside and outside of the Company, your knowledge of the Company's business affairs and your management experience are all of great importance to the Company, and I value your continuing contributions. As I am sure you can also appreciate, it is important to the Company's future success that you, me and the other members of the senior executive leadership team are able to enhance our ability to increase shareholder value, and if necessary, to ease transitions when it is in the best interest of the Company to do so. Accordingly, it is my pleasure to be able to provide you with this letter agreement (the "Agreement") which sets forth the terms of an arrangement between you and the Company concerning your continuing and post-employment obligations.

<u>Voluntary Resignation or Retirement</u>

You may terminate your employment relationship with the Company by voluntarily resigning or by retiring. If you wish to resign or retire, you will provide the Company with at least three (3) months' advance written notice (the "Notice Period"), after which the following conditions shall apply:

A. <u>The Company Accepts Your Notice of Resignation or Retirement</u>. If the Company accepts your notice to resign or retire, your active service with the Company will be terminated at the end of the Notice Period. Except for the lump sum payment upon your execution of the release attached as Exhibit A (the "Release Agreement") and discussed in paragraph C, subsequent to the Notice Period there will be no further compensation paid by the Company.

During the Notice Period, the Company may in its sole discretion, assign you such duties as it sees fit, or elect to advance your resignation or retirement date. Should the Company advance your resignation or retirement date, the Company will continue to pay your base salary through the Notice Period.

B. The Company Requests You to Extend Your Notice Period. If the Company at it sole discretion, desires that you stay longer than the Notice Period, at the Company's request and with your mutual agreement, the Notice Period will be extended for an additional agreed upon period of time (the "Extended Notice Period"). The Extended Notice Period will not exceed twenty-four (24) months.

During either the Notice Period or the Extended Notice Period, the Company may in its sole discretion, assign you such duties as it sees fit, or elect to advance your resignation or retirement date. Should the Company advance your resignation or retirement date, the Company will continue to pay your base salary through the Notice Period and the Extended Notice Period. If you fulfill your obligations as set forth in this Agreement, continue to work through the Extended Notice Period and you execute the Release Agreement, following the date of your resignation or retirement the Company will continue to pay you your monthly base salary as of your last day of employment with the Company, less any amounts required or authorized to be withheld by law, for a period which is equivalent to the Extended Notice Period ("Salary Equivalent"). The Salary Equivalent will be paid in lieu of any other involuntary separation benefits, severance payments or any other such payments which you may be eligible to receive from the Company. It is also understood that the Salary Equivalent will not be paid to you in the event that you receive severance pay and benefits under the Company's Change in Control Severance Plan. In addition, if you fulfill the aforementioned obligations, you will be provided with additional pension accrual equivalent to the Extended Notice Period. Upon your retirement, your retirement benefit will be calculated as if you had the additional pension accrual. The additional pension benefit as calculated under the plan will be paid to you as a non-qualified retirement benefit. After your resignation or retirement at the end of the Extended Notice Period you will also be provided with continued healthcare benefits for a period equivalent to the Extended Notice Period.

C. Severance. In conjunction with your execution of the Release Agreement, the Company shall pay you a lump sum payment in an amount equal to $50,000.00 (the "Severance Payment"), less all amounts required to be withheld by law. The Release Agreement will become effective pursuant to its terms.

Involuntary Termination

The Company may terminate your employment for any reason, including with or without Cause.

Any voluntary termination of your employment will be deemed an involuntary termination of your employment "without Cause" under this Agreement (a "Qualifying Termination") if such resignation occurs during the thirty (30) day period following the date on which the current Chief Executive Officer and Chairman retires and you are not immediately thereafter appointed to succeed him as Chief Executive Officer and Chairman of the Board; provided, the appointment of a non-executive Chairman of the Board at any time will not constitute a basis for a Qualifying Termination provided that you, at such time as you then are or thereafter become the Chief Executive Officer, report directly to the Board.

If you are involuntarily terminated or if a Qualifying Termination has occurred, the following conditions shall apply:

A. Involuntary Termination with Cause. In the event that it is determined by the Company that your active service will be terminated for reasons which in its sole discretion constitute Cause, your service will be immediately terminated and there will be no further compensation paid by the Company.

For purposes of this Agreement, "Cause" shall have the following meaning: (i) any refusal by you to follow the lawful directives of the Board, or while you are Chief Operating Officer, the lawful directives of the Chief Executive Officer, which are consistent with the scope and nature of your duties and responsibilities; (ii) your conviction of, or plea of guilty or *nolo contendere* to a felony or of any crime involving moral turpitude, fraud or embezzlement; (iii) any gross negligence or willful misconduct in the conduct of your duties; (iv) any material breach of any one or more of the restrictive covenants as are applicable to senior executives of the Company as of October 1, 2007, including without limitation, the restrictive covenants under this Agreement; or (v) any violation of any statutory or common law duty of loyalty to the Company or any of its subsidiaries; provided, no act or omission shall be "willful" if conducted in good faith and with a reasonable belief that such conduct was in the best interests of the Company.

B. Involuntary Termination without Cause or a Qualifying Termination. In the event that a Qualifying Termination event has occurred or it is determined by the Company that your active service will be terminated for reasons, which in its sole discretion are without Cause, and you fulfill your obligations as set forth in this

Agreement, and execute the Release Agreement, the Company shall pay you an amount equivalent to your base salary plus your target annual bonus as of your last day of employment with the Company, less any amounts required or authorized to be withheld by law, for a period of two (2) years following your termination date ("Salary Continuance"). The Salary Continuance will be paid in lieu of any other involuntary separation benefits, severance payments, or any other such payments which you may be eligible to receive from the Company. It is also understood that the Salary Continuance will not be paid to you in the event that you receive severance pay and benefits under the Company's Change in Control Severance Plan. In conjunction with your execution of the Release Agreement, the Company shall pay you the Severance Payment. In addition, if you fulfill the aforementioned obligations, you will be provided with two (2) additional years of pension accrual. Upon your retirement, your retirement benefit will be calculated as if you had two additional years of pension accrual. The additional pension benefit as calculated under the plan will be paid to you as a non-qualified retirement benefit. After your termination, you will be provided with continued healthcare benefits for a period of two (2) years after your termination date.

If you are entitled to receive severance benefits under this Agreement, you will not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, and any amount received from subsequent employment will not offset your Salary Continuation payments (as defined under this Agreement).

Restrictive Covenants

In light of the unique character of your position with the Company, the business relationships you have developed and will continue to develop while employed by the Company, and your knowledge of the Company's business affairs including the Confidential Information (as defined below), and with the acknowledgment of the continuing consideration which you will receive from the Company as a member of its senior executive management team, and the personal financial security which is provided under this Agreement in the event of your Involuntary Termination, or in the event of a change in control as defined in the Company's Change in Control Severance Plan, you agree to the following Restrictive Covenants:

Noncompetition: During your employment and for a period of two (2) years thereafter (regardless of whether the termination of your employment is voluntary or involuntary), you will not directly or indirectly provide services, whether as a director, officer, partner, owner, employee, inventor, consultant, advisor, agent, or otherwise, to any domestic or international business or firm that is engaged or has plans to become engaged in the manufacturing, fabricating, distributing or selling of aluminum and/or aluminum related products for the aerospace, automotive, packaging, home exterior or other aluminum fabricated product markets, the mining of bauxite, conversion and refining of bauxite into alumina and/or the sale or distribution of alumina or alumina related chemical products or any other line of business in which the Company is involved or becomes involved during your employment with the Company (collectively, the "Aluminum Business"). However, you may own up to five percent (5%) of the outstanding securities of any publicly traded company.

It is not the Company's intention to restrict or limit your activities, unless it is believed that there is a substantial possibility that your future employment, or activities in any of the lines of business in which the Company is engaged may be detrimental to the Company. So as to not unduly restrict your future employment, if you desire to enter into any employment arrangement or relationship with any entity in the above identified markets within the two year period, please consult with me to discuss your intended relationship with the competitive entity. You and the Company recognize that due to the many different businesses which presently compete, or which in the future may compete with the Company in the Aluminum Business, the Company will discuss your desire to enter into a business or professional relationship with any manufacturer or firm which may be perceived as a competitor. Please contact the Company's General Counsel if you wish to discuss future business relationships.

Nonsolicitation: During your employment and for a period of two (2) years thereafter (regardless of whether the termination of your employment was voluntary or involuntary), you will not directly or indirectly (i) solicit, induce or attempt to solicit or induce any current or future employee of the Company to leave the Company for any reason, or (ii) solicit business from, or engage in business with, any current or future customer or supplier of the Company which you met and dealt with during your employment with the Company for any purpose. In the event that you become aware that any present or future employee of the Company has been hired by any business or firm with which you are then affiliated, you will immediately notify the Company's General Counsel to confirm your non-solicitation of said employee.

Confidentiality: During your employment with the Company and at all times thereafter, you will maintain the confidentiality of any and all information about the Company which is not generally known or available outside the Company, including without limitation, strategic plans, technical and operating know-how, business strategy, trade secrets, customer information, business operations and other proprietary information ("Confidential Information"), and you will not, directly or indirectly, disclose any Confidential Information to any person or entity, or use any Confidential Information, whether for your benefit or the benefit of any new employer or any other person or entity, or in any other manner that is detrimental to or inconsistent with any interest of the Company. If you receive notice that you may be required to disclose any

Confidential Information pursuant to a subpoena or other lawful process, you must notify the Company's General Counsel immediately.

You acknowledge and agree that given the nature of the Company's business, which is conducted throughout the world, and your position of confidence and trust with the Company, the scope and duration of these Restrictive Covenants are reasonable and necessary to protect the legitimate business interests of the Company. You further acknowledge that you have received substantial compensation from the Company and that your general skills and abilities are such that you can be gainfully employed in noncompetitive employment, and that this Agreement will in no way prevent you from earning a living following your employment with the Company.

You also recognize and agree that any breach or threatened or anticipated breach of any part of these Restrictive Covenants will result in irreparable harm to the Company, and that the remedy at law for any such breach or threatened breach will be inadequate. Accordingly, in addition to any other legal or equitable remedies that may be available to the Company, you agree that the Company shall be entitled to obtain an injunction, without posting a bond, to prevent any breach or threatened breach of any part of these Restrictive Covenants. You agree to reimburse the Company for all costs and expenses, including reasonable attorney's fees and costs, incurred by the Company in connection with the enforcement of its rights under this Agreement.

In the event that any court of competent jurisdiction finds that the limitations set forth in these Restrictive Covenants are overly broad with respect to duration, geographic scope or scope of prohibited activities, such court shall have the authority to reduce the duration, area or activities of such provisions so as to be enforceable to the maximum extent compatible with applicable law, and such provisions shall then be enforced as modified. In the event that a court reduces the duration of the restriction, any unpaid Salary Equivalent or Salary Continuance, as set forth above, shall be reduced on a pro rata basis.

<u>Governing Law; Jurisdiction</u>

This Agreement shall be governed and interpreted in accordance with the laws of the State of New York without reference to its choice of law principles. Any action arising out of or related to this Agreement shall be brought in the state or Federal courts located in New York City, and you and the Company consent to the jurisdiction and venue of such courts.

<u>Amendment; Waiver</u>

No provision of this Agreement may be modified, waived, or discharged unless such waiver, modification or discharge is in writing and signed by the Chief Executive Officer of the Company. Any failure by you or the Company to enforce any of the provisions of this Agreement shall not be construed to be a waiver of such provisions or any right to enforce each and every provision in the future. A waiver of any breach of this Agreement shall not be construed as a waiver of any other or subsequent breach.

Successors; Binding Agreement

The Company shall have the right to assign its rights and obligations under this Agreement to any entity that acquires all or substantially all of the assets of the Company and continues the Company’s business. The rights and obligations of the Company under this Agreement shall inure to the benefit and shall be binding upon the successors and assigns of the Company.

Severability

In the event that any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remainder of this Agreement shall not in way be affected or impaired thereby.

Entire Agreement

You acknowledge that you have not relied upon any representations (whether oral or written) from the Company, other than as set forth in this Agreement. This Agreement sets forth the entire agreement and understanding between you and the Company and merges and supersedes any and all prior discussions, agreements, arrangements and understandings with regard to the subject matter hereof, and may not be modified, amended, discharged or supplemented in any respect, except by a subsequent writing signed by you and the Company. In the event that the Salary Equivalent, Salary Continuance, Severance Payment, additional years of pension service and continued healthcare benefits in the aggregate are more than 2.99 times of your base salary and bonus, the payments which you will be eligible to receive under this Agreement will be reduced accordingly. Except for involuntary separation benefits or other similar severance payments, this Agreement does not supersede the terms of your employment agreement dated August 14, 2007 or any other compensation plans, stock option programs, welfare benefit plans, or other such plans or programs in which you are eligible to participate, or may become eligible to participate.

If you agree to the terms of this Agreement, please sign on the line provided on the next page and return two signed copies to Donna Dabney, Corporate Secretary . A fully executed copy will be returned to you for your files after it is signed by the Company.

Sincerely,
ALCOA INC.

By: /s/ Alain J.P. Belda

Title: Chairman of the Board and
Chief Executive Officer

Dated: February 15, 2008

Agreed to and accepted:

/s/ Klaus Kleinfeld

Klaus Kleinfeld
President and Chief Operating Officer

Exhibit A

RELEASE AGREEMENT

RELEASE AGREEMENT (this “Release Agreement”), dated as of _________________, between Alcoa Inc. (the “Company”), and Klaus Kleinfeld (“Releasor”).

WHEREAS, Releasor was employed by the Company as President and Chief Operating Officer;

WHEREAS, Releasor and the Company are parties to a letter agreement dated October 1, 2007 (the “Letter Agreement”).

WHEREAS, Releasor’s employment with the Company terminated as of _________________.

NOW, THEREFORE, in consideration of the promises and of the releases, representations, covenants and obligations contained herein, the parties hereto agree as follows:

1. Severance Payment. Subject to Releasor’s execution of this Release Agreement and compliance with the terms of the Letter Agreement, the Company shall pay Releasor an amount equal to $50,000.00, less all amounts required or authorized to be withheld by law including, but not limited to, any applicable federal, state or local taxes following the Effective Date (as defined in paragraph 5 below).

2. Release. Releasor knowingly and voluntarily releases and forever discharges the Company, its parents, and each of their respective subsidiaries and affiliates, together with their respective present and former directors, managers, officers, shareholders, employees, agents, and each of their respective predecessors,

heirs, executors, administrators, successors and assigns (collectively, the "Releasees") from any and all debts, obligations, demands, actions, causes of action, accounts, covenants, contracts, agreements, damages, omissions, promises, and any and all claims and liabilities whatsoever, of every name and nature, known or unknown, suspected or unsuspected, both in law and equity ("Claims"), which Releasor ever had, now has, or may hereafter claim to have by reason of any matter, cause or thing whatsoever arising out of or relating to: (a) any events, occurrences or omissions from the beginning of time to the time Releasor signs this Release Agreement, or (b) Releasor's employment with the Company or termination thereof (the "Release"). The Release shall apply to any Claim of any type, including, without limitation, any and all Claims of any type that you may have arising under the common law, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans With Disabilities Act of 1990, the Family and Medical Leave Act of 1993, the Employee Retirement Income Security Act of 1974, or the New York State and City Human Rights Laws, each as amended, and any other federal, state or local statutes, regulations, ordinances or common law creating employment-related causes of action, or under any policy, agreement, understanding or promise, written or oral, formal or informal, between Releasor and any of the Releasees, and all Claims for alleged tortious, defamatory or fraudulent conduct; provided, however, that nothing in the Release shall: (i) affect any vested employee benefits to which Releasor may be entitled under any existing employee benefit plans of the Company, or (ii) prohibit Releasor from enforcing this Release Agreement or the Letter Agreement. By signing this Release Agreement, Releasor represents that he or she shall not be entitled to any personal recovery in any action or proceeding that may be commenced on his or her behalf in any way arising out or relating to any of the matters that are the subject of the Release.

3. Representation. Releasor represents that he or she has not commenced or joined in any claim, charge or action against any of the Releasees, arising out of or relating in any way to Releasor's relationship with the Company, or the termination thereof.

4. Continuation of Restrictions. Releasor represents and agrees that the obligations and representations set forth in the Restrictive Covenants in the Letter Agreement, on their stated terms, regarding noncompetition, nonsolicitation and confidentiality, shall remain in full force and effect.

5. Consultation with Attorney; Voluntary Agreement. Releasor represents that the Company has advised Releasor to consult with an attorney of Releasor's choosing prior to signing this Release Agreement. Releasor further represents that he or she understands and agrees that he or she has the right and has been given the opportunity to review this Release Agreement, with an attorney of Releasor's choice.

Releasor further represents that he or she understands and agrees that the Company is under no obligation to offer the payment set forth in paragraph 1 above, and that Releasor is under no obligation to consent to this Release Agreement, and that Releasor has entered into this Release Agreement freely and voluntarily. Releasor shall have twenty-one (21) days to consider this Release Agreement, unless Releasor is terminated in connection with a an exit incentive or other group termination program, in which case Releasor shall have forty-five (45) days to consider this Release Agreement. In either case, once Releasor has signed this Release Agreement, Releasor shall have seven (7) additional days from the date of execution to revoke his or her consent. Any such revocation shall be made in writing to _______________ and shall be deemed to have been duly given when hand delivered or when mailed by United States certified mail, return receipt requested. If no such revocation occurs, this Release Agreement shall become effective on the eighth (8th) day after Releasor shall have executed and returned it to the Company (the "Effective Date"). In the event that Releasor revokes his or her consent to this Release Agreement prior to the Effective Date, this Release Agreement shall be null and void and no payments shall be due hereunder.

6. Entire Agreement. Releasor acknowledges that he or she has not relied upon any representations (whether oral or written) from the Company, other than as set forth in this Release Agreement. This Release Agreement sets forth the entire agreement and understanding between Releasor and the Company and merges and supersedes any and all prior discussions, agreements, arrangements and understandings with regard to the subject matter hereof, except for the Letter Agreement, and may not be modified, amended, discharged or supplemented in any respect, except by a subsequent writing signed by Releasor and the Company.

7. Successors; Binding Agreement. The Company shall have the right to assign its rights and obligations under this Release Agreement to any entity that acquires all or substantially all of the assets of the Company and continues the Company's business. The rights and obligations of the Company under this Release Agreement shall inure to the benefit and shall be binding upon the successors and assigns of the Company.

8. Severability. In the event that any one or more of the provisions of this Release Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remainder of this Release Agreement shall not in way be affected or impaired thereby.

9. Governing Law; Jurisdiction. Without reference to any principles concerning choice of law, this Release Agreement shall be governed and interpreted in accordance with the laws of the State of New York. Any action arising out of or related to this Release Agreement shall be brought in the state or Federal courts located in New

York City, and you and the Company consent to the jurisdiction and venue of such courts.

10. Counterparts. This Release Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company and Releasor have executed this Release Agreement, on the date and year set forth below.

ALCOA INC.

By: ______________________________

[NAME]
[TITLE]

____

[NAME]
Dated: ______________________________

Exhibit 12

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
FOR THE YEAR ENDED DECEMBER 31,
(in millions, except ratios)

	2007	2006	2005	2004	2003
Earnings:					
Income from continuing operations before taxes on income	$4,491	$3,432	$1,970	$2,153	$1,645
Minority interests' share of earnings of majority-owned subsidiaries without fixed charges	—	—	—	—	—
Equity income	(71)	(72)	(26)	(145)	(138)
Fixed charges added to earnings	458	440	387	313	346
Distributed income of less than 50 percent-owned persons	51	37	40	59	35
Amortization of capitalized interest:					
Consolidated	21	21	25	25	21
Proportionate share of 50 percent-owned persons	—	—	—	—	—
Total earnings	$4,950	$3,858	$2,396	$2,405	$1,909
Fixed Charges:					
Interest expense:					
Consolidated	$ 401	$ 384	$ 339	$ 271	$ 314
Proportionate share of 50 percent-owned persons	3	5	3	3	4
	404	389	342	274	318
Amount representative of the interest factor in rents:					
Consolidated	52	49	43	37	27
Proportionate share of 50 percent-owned persons	2	2	2	2	1
	54	51	45	39	28
Fixed charges added to earnings	458	440	387	313	346
Interest capitalized:					
Consolidated	199	128	58	27	21
Proportionate share of 50 percent-owned persons	4	2	—	—	—
	203	130	58	27	21
Preferred stock dividend requirements of majority-owned subsidiaries	—	—	—	—	—
Total fixed charges	$ 661	$ 570	$ 445	$ 340	$ 367
Ratio of earnings to fixed charges	7.5	6.8	5.4	7.1	5.2

Selected Financial Data

Exhibit 13

(in millions, except per-share amounts and ingot prices)

For the year ended December 31,	2007	2006	2005	2004	2003
Sales	$30,748	$30,379	$25,568	$22,609	$20,282
Income from continuing operations	2,571	2,161	1,257	1,369	1,012
(Loss) income from discontinued operations	(7)	87	(22)	(59)	(27)
Cumulative effect of accounting changes	—	—	(2)	—	(47)
Net income	2,564	2,248	1,233	1,310	938
Earnings (loss) per share:					
Basic:					
Income from continuing operations	$ 2.98	$ 2.49	$ 1.44	$ 1.57	$ 1.18
Income (loss) from discontinued operations	—	.10	(.03)	(.07)	(.03)
Cumulative effect of accounting changes	—	—	—	—	(.06)
Net income	$ 2.98	$ 2.59	$ 1.41	$ 1.50	$ 1.09
Diluted:					
Income from continuing operations	$ 2.95	$ 2.47	$ 1.43	$ 1.56	$ 1.18
Income (loss) from discontinued operations	—	.10	(.03)	(.07)	(.04)
Cumulative effect of accounting changes	—	—	—	—	(.06)
Net income	$ 2.95	$ 2.57	$ 1.40	$ 1.49	$ 1.08
Alcoa's average realized price per metric ton of aluminum	$ 2,784	$ 2,665	$ 2,044	$ 1,867	$ 1,543
LME average 3-month price per metric ton of aluminum ingot	2,661	2,594	1,900	1,721	1,428
Cash dividends paid per common share	$ .68	$ .60	$ .60	$ .60	$ .60
Total assets	38,803	37,183	33,696	32,609	31,711
Short-term borrowings	569	462	285	258	63
Commercial paper	856	1,472	912	630	—
Long-term debt, including amounts due within one year	6,573	5,287	5,334	5,398	7,210

The financial information for all prior periods presented has been reclassified to reflect assets held for sale. See Note B to the Consolidated Financial Statements for additional information.

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

2007: Sale of a significant investment in China, restructuring and other charges associated with the disposition and planned sale of businesses, including a related discrete income tax charge, a goodwill impairment charge based on a certain business review, and costs resulting from an acquisition offer for Alcan Inc.

2006: Disposition of a non-core business, restructuring and other charges, including impairment charges associated with the formation of a joint venture and other assets to be disposed of, and lower income tax expense associated with discrete items

2005: Acquisitions and dispositions of businesses, restructuring and other charges, the sale of investments, and a tax benefit resulting from the finalization of certain tax reviews and audits

2004: Disposition of businesses, restructuring and other charges, changes in the provision for income taxes, the restructuring of debt and associated settlement of interest rate swaps, the effects of the Bécancour strike, the sale of a portion of Alcoa's interest in the Juruti bauxite project, environmental charges, the termination of an alumina tolling arrangement, and discontinued operations

2003: Acquisitions and dispositions of businesses, restructuring and other charges, insurance settlements related to environmental matters, changes in the provision for income taxes, discontinued operations, and the adoption of a new accounting standard

The data presented in the Selected Financial Data table should be read in conjunction with the information provided in Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Consolidated Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in millions, except per-share amounts and ingot prices; production and shipments in thousands of metric tons [kmt])

Forward-Looking Statements

Certain statements in this report under this caption and elsewhere relate to future events and expectations and, as such, constitute forward-looking statements. Forward-looking statements also include those containing such words as "anticipates," "believes," "estimates," "expects," "hopes," "targets," "should," "will," "will likely result," "forecast," "outlook," "projects," or similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements of Alcoa Inc. and its subsidiaries ("Alcoa" or the "company") to be different from those expressed or implied in the forward-looking statements. For a discussion of some of the specific factors that may cause such a difference, see Note N to the Consolidated Financial Statements and the disclosures included under Segment Information, Market Risks and Derivative Activities, and Environmental Matters. For additional information on forward-looking statements and risk factors, see Alcoa's Form 10-K, Part I, Item 1A for the year ended December 31, 2007. Alcoa disclaims any intention or obligation (other than as required by law) to update or revise any forward-looking statements.

Overview

Our Business

Alcoa is the world leader in the production and management of primary aluminum, fabricated aluminum, and alumina combined, through its active and growing participation in all major aspects of the industry: technology, mining, refining, smelting, fabricating, and recycling. Aluminum is a commodity that is traded on the London Metal Exchange (LME) and priced daily based on market supply and demand. Aluminum and alumina represent approximately three-fourths of Alcoa's revenues, and the price of aluminum influences the operating results of Alcoa. Nonaluminum products include precision castings, industrial fasteners, consumer products, food service and flexible packaging products, plastic closures, and electrical distribution systems for cars and trucks. Alcoa's products are used worldwide in aircraft, automobiles, commercial transportation, packaging, consumer products, building and construction, and industrial applications.

Alcoa is a global company operating in 44 countries. Based upon the country where the point of sale occurred, North America and Europe generated 57% and 25%, respectively, of Alcoa's sales. In addition, Alcoa has investments and activities in Australia, Brazil, China, Iceland, Jamaica, Guinea, and Russia, all of which present opportunities for substantial growth. Governmental policies and other economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates, affect the results of operations in these countries.

Management Review of 2007 and Outlook for the Future

In 2007, Alcoa continued to focus on creating long-term value through living our values, serving our customers, delivering on shareholder value, pushing forward on profitable growth projects, and executing ideas and innovative solutions faster. These actions contributed to the following financial achievements:

- Highest sales in company history of $30,748, despite the absence of seven months of revenue from the soft alloy extrusion business;
- Income from continuing operations of $2,571, or $2.95 per diluted share, the highest in company history;
- Highest cash from operations in company history of $3,111, which includes pension contributions of $322, and is essentially equal to capital expenditures net of minority interest contributions;
- Significant investments in refinery expansions, bauxite mine development, and expansion projects in China and Russia, and the start-up of the Iceland smelter and Mosjøen, Norway anode facility; and
- Debt-to-capital ratio of 30.2%, even while making aggressive capital investments and substantial share repurchases, which represented approximately 8% of outstanding shares.

In 2007, the company's results were positively impacted by the following: higher realized prices for alumina and aluminum; strong demand in the aerospace and packaging markets; and the monetization of an investment in the Aluminum Corporation of China Limited (Chalco). Alcoa's revenues climbed, once again, to the highest level in company history in 2007, as the company continued to capitalize on strong markets and opportunistic investments. During 2007, the company was also faced with numerous challenges, including significantly higher costs for energy and input costs, such as freight and carbon; considerable depreciation of the U.S. dollar against the Australian dollar, the Euro, the Brazilian real, and the Canadian dollar; production upsets in Guinea, Jamaica, Rockdale, TX and Tennessee; start-up costs at the Iceland smelter; asset impairments and restructuring charges associated with a strategic business review; and transaction costs and interest charges associated with the offer for Alcan Inc. (Alcan).

As management looks to 2008 and beyond, management will work toward the following goals:

- Continuing to improve margins through productivity and value-added products in order to help offset the significant increases in energy, raw materials, and other input costs;
- Investing in strategic growth projects, such as: manufacturing facilities in China and other parts of Asia; bauxite reserves and hydroelectric projects in Brazil; and potential smelter development in Greenland and Iceland, as well as smelter positions in China and the Middle East, most likely through joint ventures; and
- Delivering new products and applications to new markets, as well as existing markets, including the aerospace, commercial transportation, defense, and oil and gas markets, through innovative technology solutions.

Results of Operations

Earnings Summary

Alcoa's income from continuing operations for 2007 was $2,571, or $2.95 per diluted share, compared with $2,161, or $2.47 per share, in 2006. The increase in income from continuing operations was primarily due to the following: higher realized prices for alumina and aluminum; strong demand in the downstream businesses serving the aerospace and packaging markets; a gain on the sale of the investment in Chalco; a favorable adjustment related to the estimated fair value of the soft alloy extrusion business, a decrease in the charge recorded for last-in, first-out (LIFO) inventory reserves; a non-recurring foreign currency gain in Russia; and the absence of labor contract and strike preparation costs recognized in 2006.

These positive impacts were mostly offset by the following items: significant increases in energy, raw materials, and other input costs; net unfavorable foreign currency movements due to a significantly weaker U.S. dollar; asset impairments and restructuring charges associated with the Packaging and Consumer businesses, the Electrical and Electronic Solutions business, and the Automotive Castings business, as well as a discrete income tax charge related to the Packaging and Consumer businesses; smelter curtailment costs associated with the power outage in Tennessee and the shutdown of one of the potlines in Rockdale; startup costs at the Iceland smelter; costs associated with the national labor strike in Guinea, the repairs of the refinery in Jamaica, and the restart of one of Intalco's smelter lines; transaction costs and interest charges associated with the offer for Alcan; stock-based compensation expense for reloaded options; and the absence of a favorable legal settlement that occurred in 2006 related to a former Reynolds distribution business.

Net income for 2007 was $2,564, or $2.95 per diluted share, compared with $2,248, or $2.57 per share, in 2006. Net income of $2,564 in 2007 included a loss from discontinued operations of $7, comprised of an $11 loss, primarily related to working capital and other adjustments associated with the 2006 sale of the home exteriors business, partially offset by net operating income of $4 of discontinued businesses.

Alcoa's income from continuing operations for 2006 was $2,161, or $2.47 per diluted share, compared with $1,257, or $1.43 per share, in 2005. The increase in income from continuing operations was primarily due to the following: higher realized prices for alumina and aluminum as LME prices increased by 37% over 2005 levels; strong demand in the downstream businesses serving the aerospace, building and construction, commercial transportation and distribution markets; the absence of a $58 charge for the closure of the Hamburger Aluminium-Werk facility in Germany in 2005; a $26 favorable legal settlement related to a former Reynolds distribution business; and higher dividend and interest income.

Partially offsetting these increases were the following items: continued cost increases for energy and raw materials; increase in stock-based compensation expense due to the adoption of a new accounting standard; labor contract and strike-related costs; restructuring charges of $379 associated with the re-positioning of downstream operations and the formation of a joint venture related to the soft alloy extrusion business and other assets to be disposed of; the absence of the $180 gain related to the 2005 sale of Alcoa's stake in Elkem ASA (Elkem); and the absence of a $37 gain on the sale of Alcoa's railroad assets recognized in 2005.

Net income for 2006 was $2,248, or $2.57 per diluted share, compared with $1,233, or $1.40 per share, in 2005. Net income of $2,248 in 2006 included income from discontinued operations of $87, comprised of $110 for the gain on the sale of the home exteriors business, offset by $23 primarily related to net operating losses of discontinued businesses.

Sales—Sales for 2007 were $30,748 compared with sales of $30,379 in 2006, an increase of $369 or 1%. The increase was primarily due to higher realized prices for alumina and aluminum of 7% and 4%, respectively; an increase in primary aluminum volume; higher demand in the aerospace and packaging markets; and favorable foreign currency movements due to a stronger Euro. These positive contributions were mostly offset by the absence of seven months of sales associated with the soft alloy extrusion business.

Sales for 2006 were $30,379 compared with sales of $25,568 in 2005, an increase of $4,811, or 19%. Almost one-half of this increase was the result of a 31% increase in the realized price of alumina and a 30% increase in the realized price of aluminum. Volumes also increased as demand remained strong primarily in the downstream businesses serving the aerospace, building and construction, commercial transportation and distribution markets. Partially offsetting these positive contributions were unfavorable foreign currency exchange movements.

Cost of Goods Sold—COGS as a percentage of sales was 78.9% in 2007 compared with 76.8% in 2006. The percentage increase was negatively impacted by significant increases in energy, raw materials, and other input costs, as a result of global inflation, and unfavorable foreign currency movements due to a weaker U.S. dollar. Other items that contributed to the higher percentage include smelter curtailment costs associated with the power outage in Tennessee and the shutdown of one of the potlines in Rockdale; repair costs at the Jamaica refinery due to the damage caused by Hurricane Dean; startup costs at the Iceland smelter; costs associated with the national labor strike in Guinea; restart costs for one of Intalco's smelter lines; and the absence of a 2006 favorable legal settlement related to a former Reynolds distribution business. All of these items were partially offset by the absence of the soft alloy extrusion business; the increase in sales; a decrease in the charge recorded for LIFO inventory reserves; and the absence of labor contract and strike preparation costs that occurred in 2006. In 2008, the receipt of insurance proceeds related to production upsets that occurred at various facilities during 2007, including Tennessee and Jamalco, is anticipated.

COGS as a percentage of sales was 76.8% in 2006 compared with 81.0% in 2005. Higher realized prices for alumina and aluminum and strong volumes more than offset global cost inflation, primarily related to energy, raw materials, labor and transportation, and increases in LIFO inventory reserves. A $36 favorable legal settlement related to a former Reynolds distribution business also contributed to the percentage improvement.

Selling, General Administrative, and Other Expenses—SG&A expenses were $1,472, or 4.8% of sales, in 2007 compared with $1,402, or 4.6% of sales, in 2006. Expenses increased by $70 primarily due to $46 in transaction costs (investment banking, legal, audit-related, and other third-party expenses) related to the offer for Alcan, an increase in stock-based compensation expense as a result of reload features of exercised stock options, and unfavorable foreign currency movements due to a weaker U.S. dollar. Partially offsetting these increases was the absence of seven months of expenses related to the soft alloy extrusion business.

SG&A expenses were $1,402, or 4.6% of sales, in 2006 compared with $1,295, or 5.1% of sales, in 2005. Expenses increased by $107 primarily due to increases in stock-based compensation resulting from the adoption of a new accounting standard, deferred compensation, and marketing costs associated with consumer products.

Research and Development Expenses—R&D expenses were $249 in 2007 compared with $213 in 2006 and $192 in 2005. The increase in 2007 as compared to 2006 was primarily due to expenditures related to various projects for the businesses within the Flat-Rolled Products segment and the Primary Metals segment. The increase in 2006 as compared to 2005 was primarily due to additional spending related to inert anode technology within the Primary Metals segment and small increases across various other projects.

Provision for Depreciation, Depletion, and Amortization—The provision for DD&A was $1,268 in 2007 compared with $1,280 in 2006. The decrease of $12, or 1%, was primarily due to the cessation of depreciation beginning in November 2006 related to the soft alloy extrusion business and beginning in October 2007 associated with the businesses in the Packaging and Consumer segment, all of which was the result of the classification of these businesses as held for sale. These decreases were mostly offset by an increase in depreciation related to placing growth projects into service, such as the Pinjarra, Australia refinery expansion and the Jamaica Early Works Program that were both placed in service during 2006, and the start-up of operations related to the Iceland smelter and the Mosjøen anode facility during 2007.

The provision for depreciation, depletion, and amortization was $1,280 in 2006 compared with $1,256 in 2005. The increase of $24, or 2%, was primarily due to the start-up of operations related to the Alumar, Brazil smelter expansion and the Pinjarra refinery expansion.

Goodwill Impairment Charge—In 2007, Alcoa recorded an impairment charge of $133 ($93 after-tax) for goodwill related to its Electrical and Electronic Solutions business (EES) (formerly the Alcoa Fujikura Limited (AFL) wire harness business). See Restructuring and Other Charges below for additional information.

Restructuring and Other Charges—Restructuring and other charges for each of the three years in the period ended December 31, 2007 were comprised of the following:

	2007	2006	2005
Asset impairments	$286	$442	$ 86
Layoff costs	90	107	238
Other exit costs	55	37	16
Reversals of previously recorded layoff and other exit costs*	(32)	(43)	(48)
Restructuring and other charges	$399	$543	$292

*Reversals of previously recorded layoff and other exit costs resulted from changes in facts and circumstances that led to changes in estimated costs.

Employee termination and severance costs were recorded based on approved detailed action plans submitted by the operating locations that specified positions to be eliminated, benefits to be paid under existing severance plans, union contracts or statutory requirements, and the expected timetable for completion of the plans.

2007 Restructuring Program – In 2007, Alcoa recorded restructuring and other charges of $399 ($307 after-tax and minority interests), which were comprised of the following components: $331 ($234 after-tax) in asset impairments and $53 ($36 after-tax) in severance charges associated with a strategic review of certain businesses; a $62 ($23 after-tax) reduction to the original impairment charge recorded in 2006 related to the estimated fair value of the soft alloy extrusion business, which was contributed to a joint venture effective June 1, 2007 (see the 2006 Restructuring Program for additional information); and $77 ($60 after-tax and minority interests) in net charges comprised of severance charges of $37 ($34 after-tax and minority interests) related to the elimination of approximately 400 positions and asset impairments of $17 ($11 after-tax) of various other businesses and facilities, other exit costs of $55 ($37 after-tax and minority interests), primarily for accelerated depreciation associated with the shutdown of certain facilities in 2007 related to the 2006 Restructuring Program and reversals of previously recorded layoff and other exit costs of $32 ($22 after-tax and minority interests) due to normal attrition and changes in facts and circumstances.

In April 2007, Alcoa announced it was exploring strategic alternatives for the potential disposition of the businesses within the Packaging and Consumer segment, the Automotive Castings business, and EES. In September 2007, management completed its review of strategic alternatives and determined that the best course of action was to sell the Packaging and Consumer and Automotive Castings businesses, and to significantly restructure the EES business in order to improve its returns and profitability.

As a result of this decision, the assets and related liabilities of the Packaging and Consumer and Automotive Castings businesses were classified as held for sale. In the third quarter of 2007, Alcoa recorded impairment charges of $215 ($140 after-tax) related to the Packaging and Consumer businesses and $68 ($51 after-tax) for the Automotive Castings business to reflect the write-down of the carrying value of the assets of these businesses to their respective estimated fair values. In addition, Alcoa recorded a $464 discrete income tax charge related to goodwill associated with the planned sale of the Packaging and Consumer businesses that would have been non-deductible for tax purposes under the transaction structure contemplated at the time. In November 2007, Alcoa completed the sale of the Automotive Castings business and recognized a loss of $4 ($2 after-tax) in Restructuring and other charges on the Statement of Consolidated Income. In December 2007, Alcoa agreed to sell the Packaging and Consumer businesses for $2,700 in cash, and reduced the impairment charge by $26 ($17 after-tax) and the discrete income tax charge by $322 as a result of the structure of the agreed upon sale. Severance and other exit costs may be incurred subsequent to 2007 as Alcoa finalizes negotiations with the buyer of the Packaging and Consumer businesses.

The EES business designs and manufactures electrical and electronic systems, wire harnesses and components for the ground transportation industry worldwide. In the third quarter of 2007, Alcoa recorded severance charges of $53 ($36 after-tax) for the elimination of approximately 5,900 positions related to restructurings at various EES facilities in North America and Europe. This restructuring includes the closure of two facilities, one in the U.S. and the other in Europe, which are expected to close in the third quarter of 2008 and the first half of 2009, respectively. Alcoa anticipates recognizing an additional $5 or less ($4 after-tax) of costs, such as contract termination costs, retention payments, legal fees and other exit costs, associated with these restructuring actions in future periods. The majority of the severance associated with the North American and European facilities is anticipated to be complete by the end of 2008, and the remaining portions of the plan are expected to be complete no later than the first half of 2009. Also in the third quarter of 2007, Alcoa recorded impairment charges of $133 ($93 after-tax) for goodwill and $74 ($60 after-tax) for various fixed assets, as the forecasted future earnings and cash flows of the EES business no longer supported the carrying values of such assets.

As of December 31, 2007, approximately 1,400 of the 6,300 employees were terminated. Cash payments of $28 were made against the 2007 program reserves in 2007. As a result of the implementation of this restructuring plan, Alcoa expects to eliminate approximately $80 (pretax) on an annual basis from its cost base once the program has been completed.

2006 Restructuring Program – In November 2006, Alcoa executed a plan to re-position several of its downstream operations in order to further improve returns and profitability, and to enhance productivity and efficiencies through a targeted restructuring of operations, and the creation of a soft alloy extrusion joint venture. The restructuring program encompassed identifying assets to be disposed of, plant closings and consolidations, and will lead to the elimination of approximately 6,700 positions across the company's global businesses. Restructuring charges of $543 ($379 after-tax and minority interests) were recorded in 2006 and were comprised of the following components: $107 of charges for employee termination and severance costs spread globally across the company; $442 related to asset impairments for structures, machinery, equipment, and goodwill, more than half of which relates to the soft alloy extrusion business; and $37 for other exit costs, consisting primarily of accelerated depreciation associated with assets for which the useful life has been changed due to plans to close certain facilities in the near term and environmental clean-up costs. Partially offsetting these charges was $43 of income related to the reversal of previously recorded layoff and other exit costs resulting from new facts and circumstances that arose subsequent to the original estimates. As a result of the implementation of this restructuring plan, Alcoa expects to eliminate approximately $130 (pretax) on an annual basis from its cost base once the program has been completed. In 2007, Alcoa has realized savings of approximately $50 associated with the actions taken under this program.

The significant components of the 2006 restructuring program were as follows:

– The hard and soft alloy extrusion businesses, included within the Extruded and End Products segment, were restructured through the following actions:

- Alcoa signed a letter of intent with Orkla ASA's SAPA Group (Sapa) to create a joint venture that would combine its soft alloy extrusion business with Sapa's Profiles extruded aluminum business. Effective June 1, 2007, the joint venture was completed. The new venture is majority-owned by Orkla ASA and operated by Sapa. In 2006, Alcoa recorded an impairment charge of $301 to reduce the carrying value of the soft alloy extrusion business' assets to their estimated fair value. In conjunction with the contribution of the soft alloy extrusion business to the joint venture, Alcoa recorded a $62 ($23 after-tax) reduction to the original impairment charge recorded in 2006.
- Consolidation of selected operations within the global hard alloy extrusion production operations serving the aerospace, automotive and industrial products markets, resulting in charges of $7 for severance costs associated with the elimination of approximately 325 positions, primarily in the U.S. and Europe.

– Operations within the Flat-Rolled Products segment were affected by the following actions:

- Restructuring of the can sheet operations resulting in the elimination of approximately 320 positions, including the closure of the Swansea facility in the U.K. in the first quarter of 2007, resulting in charges of $33, comprised of $16 for severance costs and $17 for other exit costs, including accelerated depreciation.
- Conversion of the temporarily-idled San Antonio, TX rolling mill into a temporary research and development facility serving Alcoa's global flat-rolled products business, resulting in a $53 asset impairment charge as these assets have no alternative future uses.
- Charges for asset impairments of $47 related to a global flat-rolled product asset portfolio review and rationalization.

– Restructuring and consolidation of the Engineered Solutions segment's automotive and light vehicle wire harness and component operations, including the closure of the manufacturing operations of the AFL Seixal plant in Portugal and restructuring of the AFL light vehicle and component operations in the U.S. and Mexico, resulting in charges of $38, primarily related to severance charges for the elimination of approximately 4,800 positions.

– Reduction within the Primary Metals and Alumina segments' operations by approximately 330 positions to further strengthen the company's position on the global cost curve. This action resulted in charges of $44, consisting of $24 for asset impairments, $14 for severance costs and $6 for other exit costs.

– Consolidation of selected operations within the Packaging and Consumer segment, resulting in the elimination of approximately 440 positions and charges of $19, consisting of $10 related to severance costs and $9 for other exit costs, consisting primarily of accelerated depreciation.

– Restructuring at various other locations accounted for the remaining charges of $35, more than half of which are for severance costs related to approximately 400 layoffs and the remainder for asset impairments and other exit costs.

As of December 31, 2007, 3,700 of the approximately 6,200 employees (excludes terminations associated with the Packaging and Consumer segment referenced above) had been terminated. Cash payments of $63 and $2 were made against the 2006 program reserves in 2007 and 2006, respectively.

2005 Restructuring Program – As a result of the global realignment of Alcoa's organization structure, designed to optimize operations in order to better serve customers, a restructuring plan was developed to identify opportunities to streamline operations on a global basis. The restructuring program consisted of the elimination of jobs across all segments of the company, various plant closings and consolidations, and asset disposals. Restructuring charges of $292 ($190 after-tax and minority interests) were recorded in 2005 and were comprised of the following components: $238 of charges for employee termination and severance costs associated with approximately 8,450 salaried and hourly employees, spread globally across the company; $86 related to asset impairments for structures, machinery, and equipment; and $16 for exit costs, consisting primarily of accelerated depreciation associated with assets for which the useful life has been changed due to plans to close certain facilities in the near term. Reversals of previously recorded layoff and other costs were primarily due to Alcoa's decision to sell certain locations that it previously planned to shut down in 2005. In 2007, Alcoa realized the $180 (pretax) in annual savings that was anticipated under this program.

The significant components of the 2005 restructuring program were as follows:

– In December 2005, the company temporarily curtailed production at its Eastalco, MD smelter because it was not able to secure a new, competitive power supply for the facility. A charge of $14 was recorded for the termination of approximately 550 people.

– The automotive operations, included in the Engineered Solutions segment, were restructured to improve efficiencies and included the following actions:

- A restructuring of the cast auto wheels business occurred, which ultimately included the sale of the wheels facility in Italy. Total charges recorded in 2005 were $71, consisting of $15 for severance costs associated with approximately 450 employees, $46 for asset impairments, and $10 loss on sale of the facility in Italy.
- Headcount reductions in the AFL automotive business resulted in a charge of $27 for the termination of approximately 3,900 employees, primarily in Mexico.

– The global extruded and end products businesses were restructured to optimize operations and increase productivity and included the following actions:

- Headcount reductions across various businesses resulted in a charge of $50 for the termination of 1,050 employees in the U.S., Europe, and Latin America.
- Charges of $15 were recorded for asset disposals at various U.S. and European extrusion plants related to certain assets which the businesses have ceased to operate.

– The restructuring associated with the packaging and consumer businesses consisted of plant consolidations and closures designed to strengthen the operations, resulting in charges of $39, comprised of $23 for the termination of 1,620 employees primarily in the U.S., $8 for asset disposals, and $8 for other exit costs. Other exit costs primarily consisted of accelerated depreciation.

As of December 31, 2007, the terminations associated with the 2005 restructuring program are essentially complete. Cash payments of $21 and $45 were made against the 2005 program reserves in 2007 and 2006, respectively.

Alcoa does not include restructuring and other charges in the segment results. The pretax impact of allocating restructuring and other charges to the segment results would have been as follows:

	2007	2006	2005
Alumina	$ —	$ 4	$ 6
Primary metals	(2)	26	36
Flat-rolled products	56	134	15
Extruded and end products	(55)	318	70
Engineered solutions	198	37	109
Packaging and consumer	189	15	39
Segment total	386	534	275
Corporate	13	9	17
Total restructuring and other charges	$399	$543	$292

Interest Expense—Interest expense was $401 in 2007 compared with $384 in 2006, resulting in an increase of $17, or 4%. The increase was primarily due to the amortization of $30 in commitment fees paid and capitalized in June 2007 and an expense of $37 for additional commitment fees paid in July 2007, both of which were paid to secure an 18-month $30,000 senior unsecured credit facility associated with the offer for Alcan, and a higher average debt level, partially offset by an increase in the amount of interest capitalized related to construction projects, including the Iceland smelter, the Juruti bauxite mine and São Luís refinery expansion in Brazil, and the Mosjøen anode facility.

Interest expense was $384 in 2006 compared with $339 in 2005, resulting in an increase of $45, or 13%. The increase was principally caused by higher average effective interest rates and increased borrowings, somewhat offset by an increase in interest capitalized.

Other Income, net—Other income, net, was $1,913 in 2007 compared with $193 in 2006. The increase of $1,720 was primarily due to the sale of Alcoa's investment in Chalco, which resulted in a gain of $1,754, net of transaction fees and other expenses, and a non-recurring foreign currency gain in Russia, slightly offset by a decrease in the amount of dividends received from Chalco between periods, and the absence of interest related to a Brazilian court settlement in 2006.

Other income, net, was $193 in 2006 compared with $480 in 2005. The decrease of $287, or 60%, was primarily due to the absence of the $345 gain on the sale of Alcoa's stake in Elkem and the absence of the $67 gain on the sale of railroad assets, both of which occurred in 2005, partially offset by the absence of a $90 charge recognized in 2005 for impairment, layoff, and other costs related to the closure of the Hamburger Aluminium-Werk facility in Germany, an increase in dividend income of $26 related to Alcoa's stake in Chalco, and higher interest income primarily due to $15 of interest earned related to a Brazilian court settlement.

Income Taxes—Alcoa's effective tax rate was 34.6% in 2007 compared with the U.S. federal statutory rate of 35% and Alcoa's effective tax rate of 24.3% in 2006. The effective tax rate in 2007 differs from the U.S. federal statutory rate of 35% primarily due to lower taxes on foreign income, mostly offset by a discrete income tax charge of $142 related to goodwill that is non-deductible for tax purposes associated with the planned sale of the Packaging and Consumer businesses.

Alcoa's effective tax rate was 24.3% in 2006 compared with the U.S. federal statutory rate of 35% and Alcoa's effective tax rate of 23.0% in 2005. The effective tax rate in 2006 differs from the U.S. federal statutory rate of 35% primarily due to lower taxes on foreign income, a $60 discrete income tax benefit from the finalization of certain tax reviews and audits, and a $23 discrete income tax benefit attributable to the reversal of valuation allowances related to international net operating losses.

Management anticipates that the effective tax rate in 2008 will be similar to the effective tax rates for 2007 and 2006 excluding the impacts of discrete tax items.

Minority Interests—Minority interests' share of income from operations was $365 in 2007 compared with $436 in 2006. The $71 decrease was principally due to lower earnings at Alcoa World Alumina and Chemicals (AWAC) driven mainly by unfavorable foreign currency movements due to a weaker U.S. dollar and a significant increase in energy costs.

Minority interests' share of income from operations was $436 in 2006 compared with $259 in 2005. The $177 increase was primarily due to higher earnings at AWAC attributed primarily to higher realized prices and increased volumes.

(Loss) Income From Discontinued Operations—Loss from discontinued operations was $7 in 2007 compared with income of $87 in 2006 and a loss of $22 in 2005. The loss of $7 was comprised of an $11 loss, primarily related to working capital and other adjustments associated with the 2006 sale of the home exteriors business, partially offset by net operating income of $4 of discontinued businesses. The income of $87 in 2006 was comprised of a $110 after-tax gain related to the sale of the home exteriors business, offset by $20 of net operating losses and a loss of $3 related to the 2005 sale of the imaging and graphics communications business. The loss of $22 in 2005 was comprised of $43 of net losses associated with businesses impaired or sold in 2005, including a $28 loss for asset impairments associated with the closure of Hawesville, KY automotive casting facility, partially offset by $21 in net operating income. See Note B to the Consolidated Financial Statements for additional information.

In the third quarter of 2006, Alcoa reclassified its home exteriors business to discontinued operations upon the signing of a definitive sale agreement with Ply Gem Industries, Inc. In the first quarter of 2006, Alcoa reclassified the Hawesville automotive casting facility to discontinued operations upon closure of the facility. The results of the Extruded and End Products segment and the Engineered Solutions segment have been reclassified to reflect the movement of the home exteriors business and the automotive casting facility, respectively, into discontinued operations. In October 2006, Alcoa completed the sale of the home exteriors business to Ply Gem Industries, Inc. for $305 in cash and recognized an after-tax gain of $110.

In the third quarter of 2005, Alcoa reclassified the imaging and graphics communications business of Southern Graphic Systems, Inc. (SGS) to discontinued operations based on the decision to sell the business. The results of the Packaging and Consumer segment were reclassified to reflect the movement of this business into discontinued operations. In December 2005, Alcoa completed the sale of SGS to Citigroup Venture Capital Equity Partners, LP for $408 in cash and recognized an after-tax gain of $9.

Cumulative Effect of Accounting Change—Effective December 31, 2005, Alcoa adopted Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47) and recorded a cumulative effect adjustment of $2, consisting primarily of costs for regulated waste materials related to the demolition of certain power facilities. See Note C to the Consolidated Financial Statements for additional information.

Segment Information

Alcoa's operations consist of six worldwide segments: Alumina, Primary Metals, Flat-Rolled Products, Extruded and End Products, Engineered Solutions, and Packaging and Consumer. Alcoa's management reporting system measures the after-tax operating income (ATOI) of each segment. Certain items, such as interest income, interest expense, foreign currency translation gains/losses, certain effects of LIFO inventory accounting, minority interests, restructuring and other charges, discontinued operations, and accounting changes are excluded from segment ATOI. In addition, certain expenses, such as corporate general administrative and selling expenses and depreciation and amortization on corporate assets, are not included in segment ATOI. Segment assets exclude cash, cash equivalents, short-term investments, and deferred taxes. Segment assets also exclude items such as corporate fixed assets, LIFO reserves, goodwill allocated to corporate, assets held for sale, and other amounts.

ATOI for all segments totaled $3,174 in 2007, $3,551 in 2006, and $2,139 in 2005. See Note Q to the Consolidated Financial Statements for additional information. The following discussion provides shipments, sales, and ATOI data of each segment, and production data for the Alumina and Primary Metals segments for each of the three years in the period ended December 31, 2007.

Alumina

	2007	2006	2005
Alumina production (kmt)	15,084	15,128	14,598
Third-party alumina shipments (kmt)	7,834	8,420	7,857
Third-party sales	$ 2,709	$ 2,785	$ 2,130
Intersegment sales	2,448	2,144	1,707
Total sales	$ 5,157	$ 4,929	$ 3,837
ATOI	$ 956	$ 1,050	$ 682

This segment consists of Alcoa's worldwide alumina system that includes the mining of bauxite, which is then refined into alumina. Alumina is sold directly to internal and external smelter customers worldwide or is processed into industrial chemical products. Slightly more than half of Alcoa's alumina production is sold under supply contracts to third parties worldwide, while the remainder is used internally.

In 2007, alumina production decreased by 44 kmt compared to 2006. Impacts from the national labor strike in Guinea and Hurricane Dean weighed on production with 8% and 14% decreases at Point Comfort, TX and Jamaica, respectively, offsetting a 4% increase at Pinjarra. Paranam (Suriname), São Luís, Wagerup (Australia), and Pinjarra set production records in 2007. In 2006, alumina production increased by 530 kmt compared to 2005. Eight of Alcoa's nine refineries achieved production records in 2006 with the largest percentage increases coming from the Paranam refinery (11% increase in production) and the efficiency upgrade expansion at the Pinjarra refinery (8% increase in production).

Third-party sales for the Alumina segment decreased 3% in 2007 compared with 2006, primarily due to a 7% reduction in third-party shipments more than offsetting an LME-driven increase in realized prices. Third-party sales for this segment increased 31% in 2006 compared with 2005, largely due to a 31% increase in realized price driven by higher LME prices and a 7% increase in third-party volumes.

ATOI for the Alumina segment declined 9% in 2007 compared with 2006, principally due to unfavorable foreign currency movements due to a weaker U.S. dollar, significantly higher energy costs, and rising freight cost, all of which more than offset increases in realized prices. ATOI for this segment rose 54% in 2006 compared with 2005, primarily due to higher realized prices and increased total volumes. These positive contributions were somewhat offset by higher raw materials, energy, and maintenance costs.

In 2008, Alcoa will focus on expansion of the São Luís refinery (total additional alumina production of 2,100 kmt; Alcoa's share is 1,134 kmt; to begin production in 2009) and the development of the Juruti bauxite mine (total additional 2,600 kmt of bauxite, Alcoa's share is 1,560 kmt; to begin production late in 2008). Increased volumes are anticipated along with continued higher energy and freight costs.

Primary Metals

	2007	2006	2005
Aluminum production (kmt)	3,693	3,552	3,554
Third-party aluminum shipments (kmt)	2,291	2,087	2,154
Alcoa's average realized price per metric ton of aluminum	$ 2,784	$ 2,665	$2,044
Third-party sales	$ 6,576	$ 6,171	$4,698
Intersegment sales	4,994	6,208	4,808
Total sales	$11,570	$12,379	$9,506
ATOI	$ 1,445	$ 1,760	$ 822

This segment consists of Alcoa's worldwide smelter system. Primary Metals receives alumina, primarily from the Alumina segment, and produces primary aluminum to be used by Alcoa's fabricating businesses, as well as sold to external customers, aluminum traders, and commodity markets. Results from the sale of aluminum powder, scrap, and excess power are also included in this segment, as well as the results of aluminum derivative contracts. Primary aluminum produced by Alcoa and used internally is transferred to other segments at prevailing market prices. The sale of primary aluminum represents at least 90% of this segment's third-party sales.

In 2007, aluminum production rose 141 kmt due to the Intalco, WA smelter's completed restart of one potline in the second quarter of 2007, the acquisition of the minority interests in the Intalco smelter in June 2006, and the Iceland smelter's start-up in the second quarter of 2007. In 2006, aluminum production decreased by 2 kmt due to the decline in production associated with the temporary curtailment of the Eastalco smelter, partially offset by the first quarter 2006 completion of the Alumar smelter expansion and the second quarter 2006 acquisition of the minority interests in the Intalco smelter.

Third-party sales for the Primary Metals segment increased 7% in 2007 compared with 2006, primarily due to an increase in realized prices of 4% and improved volumes, mainly due to shipments made in 2007 to the newly-formed soft alloy extrusion joint venture, which is majority-owned and operated by a third-party; prior to June 2007, shipments to the Extruded and End Products segment's soft alloy extrusion business were included in intersegment sales. Third-party sales for this segment increased 31% in 2006 compared with 2005, primarily due to an increase in realized prices of 30%. In 2007, intersegment sales decreased 20% compared with 2006 due to the absence of shipments to the soft alloy extrusion business that occurred in 2006 and production curtailments associated with the Tennessee and Rockdale smelters that occurred in 2007. Intersegment sales increased 29% in 2006 compared with 2005 due to higher realized prices and higher internal demand.

ATOI for the Primary Metals segment declined 18% in 2007 compared with 2006 as unfavorable foreign currency movements related to a weaker U.S. dollar; costs associated with the Rockdale and Tennessee smelter curtailments; continued increases in raw material, freight, and energy costs; and Iceland smelter start-up costs were partially offset by higher realized prices. ATOI for this segment increased 114% in 2006 compared with 2005 as higher realized prices were partially offset by higher income taxes related to effective tax rate changes in Canada, Brazil and Europe; increased raw materials and energy costs; unfavorable foreign currency exchange movements; and the Iceland smelter start-up costs.

Alcoa currently has 452,000 metric tons per year (mtpy) of idle capacity on a base capacity of 4,573,000 mtpy. In 2007, idle capacity decreased by 93,000 mtpy as compared to 2006 due to the completed restart of one of Intalco's smelter lines. Base capacity increased by 364,000 mtpy in 2007 due primarily to the completion of the 344,000 mtpy Iceland smelter. Base capacity increased by 205,000 mtpy in 2006 as compared to 2005 primarily due to the completion of the Alumar smelter expansion and the acquisition of the minority interests in its Intalco and Eastalco smelters.

In 2008, the Iceland smelter is expected to yield production of approximately 300 kmt. The restart of the Intalco smelter's second potline that occurred in the second quarter of 2007 is expected to add an additional 25 kmt of production. In addition, the recovery from the Rockdale and Tennessee smelters' 2007 curtailments is anticipated to increase production by approximately 70 kmt.

Flat-Rolled Products

	2007	2006	2005
Third-party aluminum shipments (kmt)	2,327	2,273	2,156
Third-party sales	$9,171	$8,297	$6,836
Intersegment sales	241	246	128
Total sales	$9,412	$8,543	$6,964
ATOI	$ 200	$ 255	$ 288

This segment's principal business is the production and sale of aluminum plate, sheet, and foil. This segment includes rigid container sheet (RCS), which is sold directly to customers in the packaging and consumer market and is used to produce aluminum beverage cans. Seasonal increases in RCS sales are generally experienced in the second and third quarters of the year. This segment also includes sheet and plate used in the transportation, building and construction, and distribution markets (mainly used in the production of machinery and equipment and consumer durables), which is sold directly to customers and through distributors. Approximately two-thirds of the third-party sales in this segment are derived from sheet and plate, and foil used in industrial markets, while the remaining one-third of third-party sales consists of RCS. While the customer base for flat-rolled products is large, a significant amount of sales of RCS, sheet, and plate is to a relatively small number of customers.

Third-party sales for the Flat-Rolled Products segment climbed 11% in 2007 compared with 2006. The increase was primarily due to passing through material price increases, favorable product mix associated with aerospace, higher volumes in the aerospace and packaging markets, and favorable foreign currency movements due to a stronger Euro. These increases were somewhat offset by the absence of sales associated with the shutdown of the Swansea, U.K. can sheet facility in the first quarter of 2007, as well as lower volumes in the distribution, automotive and commercial transportation markets. Third-party sales for this segment increased 21% in 2006 compared with 2005. The increase was primarily due to passing through material price increases, favorable product mix associated with aerospace, and higher volumes in the aerospace, commercial transportation, packaging, and distribution markets.

ATOI for the Flat-Rolled Products segment declined 22% in 2007 compared with 2006, primarily due to cost increases for direct materials and energy; higher ramp-up costs at facilities in both Russia and China; and the impact of distributor de-stocking in the second half of 2007; somewhat offset by favorable pricing and product mix, and higher volumes in the markets noted previously. ATOI for this segment decreased 11% in 2006 compared with 2005, primarily due to higher direct material, energy and other cost inflation, which more than offset favorable product mix and higher volumes in the markets noted previously. Recent acquisitions in China also contributed to the decline in results in 2006.

In 2008, much of the distributor de-stocking experienced in the second half of 2007 is expected to ease early in the year. Improved performance in Russia is anticipated, as equipment installations are completed and production stability improves. Continued start-up costs are expected in China as the Bohai hot mill construction project is completed.

Extruded and End Products

	2007	2006	2005
Third-party aluminum shipments (kmt)	506	877	853
Third-party sales	$3,246	$4,419	$3,729
Intersegment sales	88	99	64
Total sales	$3,334	$4,518	$3,793
ATOI	$ 109	$ 60	$ 39

This segment consists of extruded products, some of which are further fabricated into a variety of end products, and includes hard alloy extrusions and architectural extrusions. These products primarily serve the building and construction, distribution, aerospace, automotive, and commercial transportation markets. These products are sold directly to customers and through distributors. Prior to June 2007, this segment included a soft alloy extrusion business. In June 2007, Alcoa contributed its soft alloy extrusion business to a newly-formed joint venture in exchange for an equity investment in the joint venture. As such, this segment's results now include equity income of the joint venture instead of separate revenues and costs of its former soft alloy extrusion business.

Third-party sales for the Extruded and End Products segment decreased 27% in 2007 compared with 2006, mostly due to the absence of seven months of revenues associated with the contribution of the soft alloy extrusion business to a joint venture somewhat offset by higher volumes and prices, and favorable foreign currency exchange movements in the building and construction business due to a stronger Euro. Third-party sales for this segment increased 19% in 2006 compared with 2005, principally due to higher prices, stronger volumes and improved mix in the industrial, distribution, and building and construction markets.

ATOI for the Extruded and End Products segment increased 82% in 2007 compared with 2006, primarily due to the absence of depreciation related to the assets of the soft alloy extrusion business that were classified as held for sale prior to the formation of the joint venture, favorable product mix and prices in hard alloy extrusions, and favorable prices and higher volumes in the building and construction business. These increases were somewhat offset by weaker markets for soft alloy extrusion in Europe and the U.S. ATOI for this segment increased 54% in 2006 compared with 2005, primarily as a result of volume gains, improved pricing and mix in the aerospace and building and construction markets, somewhat offset by unfavorable conversion costs and decreased productivity in the soft alloy business.

In 2008, this segment will reflect equity income from the soft alloy extrusion joint venture for the entire year.

Engineered Solutions

	2007	2006	2005
Third-party aluminum shipments (kmt)	112	139	145
Third-party sales	$5,725	$5,456	$5,032
ATOI	$ 316	$ 331	$ 203

This segment includes titanium, aluminum, and super alloy investment castings; forgings and fasteners; electrical distribution systems; aluminum wheels; and integrated aluminum structural systems used in the aerospace, automotive, commercial transportation, and power generation markets. These products are sold directly to customers and through distributors.

Third-party sales for the Engineered Solutions segment increased 5% in 2007 compared with 2006. The increase was principally due to aerospace and power generation increases more than offsetting the decline in commercial transportation and North American automotive. Third-party sales for this segment increased 8% in 2006 compared with 2005. The increase was primarily due to continued strong demand in the commercial transportation and aerospace markets, market share gains in fasteners, wheels and heavy truck, as well as capturing raw material increases in prices. These positive contributions were somewhat offset by volume declines in the automotive market.

ATOI for the Engineered Solutions segment declined 5% in 2007 compared with 2006, largely due to declines in the automotive segment associated with volume reductions, expenses associated with significant consolidation and repositioning of automotive operations, and demand decline in the North America heavy truck market. These negative impacts were substantially offset by continued strong demand and operational performance in the aerospace and industrial gas turbine markets and productivity improvements. ATOI for this segment increased 63% in 2006 compared with 2005, primarily due to increased volumes, favorable pricing and mix in the businesses serving the aerospace and commercial vehicle markets and strong productivity improvements across all of the businesses.

In 2008, continued strength in the aerospace and industrial gas turbine markets and benefits from the 2007 restructuring in the automotive operations are anticipated. Market conditions in the North American commercial transportation market, the titanium ingot market and North American automotive demand will continue to be soft. Productivity improvements are expected to continue across all businesses.

Packaging and Consumer

	2007	2006	2005
Third-party aluminum shipments (kmt)	157	169	151
Third-party sales	$3,288	$3,235	$3,139
ATOI	$ 148	$ 95	$ 105

This segment includes consumer, foodservice, and flexible packaging products; food and beverage closures; and plastic sheet and film for the packaging industry. The principal products in this segment include aluminum foil; plastic wraps and bags; plastic beverage and food closures; flexible packaging products; thermoformed plastic containers; and extruded plastic sheet and film. Consumer products are marketed under brands including Reynolds Wrap®, Diamond®, Baco®, and Cut-Rite®. Seasonal increases generally occur in the second and fourth quarters of the year for such products as consumer foil and plastic wraps and bags, while seasonal slowdowns for closures generally occur in the fourth quarter of the year. Products are generally sold directly to customers, consisting of supermarkets, beverage companies, food processors, retail chains, and commercial foodservice distributors. In December 2007, Alcoa announced it has agreed to sell the businesses within this segment to Rank Group Limited for $2,700 in cash.

Third-party sales for the Packaging and Consumer segment increased 2% in 2007 compared with 2006, primarily due to higher volume and favorable pricing and mix across all businesses. Third-party sales for this segment increased 3% in 2006 compared with 2005, principally due to higher volumes in the consumer products and closures businesses, somewhat offset by a decrease in volume in the foodservice packaging business.

ATOI for the Packaging and Consumer segment climbed 56% in 2007 compared with 2006, primarily due to productivity improvements across all businesses and the cessation of depreciation beginning in October 2007, as the assets of this segment were classified as held for sale due to management's announced intent to actively pursue the sale of these businesses. ATOI for this segment decreased 10% in 2006 compared with 2005 as increases in volumes and productivity gains were more than offset by higher raw materials costs, unfavorable mix and reduced pricing in the foodservice packaging business.

In 2008, the sale of the businesses within this segment is expected to be complete by the end of the first quarter. This segment will continue to be classified as held for sale while the results of operations will be included in continuing operations until the sale closes.

Reconciliation of ATOI to Consolidated Net Income—The following table reconciles total segment ATOI to consolidated net income:

	2007	2006	2005
Total segment ATOI	$3,174	$3,551	$2,139
Unallocated amounts (net of tax):			
Impact of LIFO	(24)	(170)	(99)
Interest income	40	58	42
Interest expense	(261)	(250)	(220)
Minority interests	(365)	(436)	(259)
Corporate expense	(388)	(317)	(312)
Restructuring and other charges	(307)	(379)	(197)
Discontinued operations	(7)	87	(22)
Accounting change	—	—	(2)
Other	702	104	163
Consolidated net income	$2,564	$2,248	$1,233

Items required to reconcile segment ATOI to consolidated net income include:

- The impact of LIFO inventory accounting;
- The after-tax impact of interest income and expense;
- Minority interests;
- Corporate expense comprised of general administrative and selling expenses of operating the corporate headquarters and other global administrative facilities, along with depreciation and amortization on corporate-owned assets;
- Restructuring and other charges (excluding minority interests);
- Discontinued operations;
- Accounting changes for conditional asset retirement obligations in 2005; and
- Other, which includes intersegment profit and other metal adjustments, differences between estimated tax rates used in the segments and the corporate effective tax rate, and other nonoperating items such as foreign currency translation gains/losses.

The significant changes in the reconciling items between ATOI and consolidated net income for 2007 compared with 2006 consisted of:

- A $146 decrease in the Impact of LIFO, primarily due to a significantly lower increase in metal prices in 2007 as compared to 2006;
- An $18 decrease in Interest income, mainly due to the absence of $11 in interest earned on a 2006 Brazilian court settlement;
- An $11 increase in Interest expense, primarily due to $43 in credit facility commitment fees related to the offer for Alcan, partially offset by an increase in capitalized interest related to construction projects, including the Iceland smelter, the Juruti bauxite mine, the São Luís refinery expansion, and the Mosjøen anode facility;
- A $71 decrease in Minority interests principally due to lower earnings at AWAC driven mainly by unfavorable foreign currency movements due to a weaker U.S. dollar and a significant increase in energy costs;
- A $71 increase in Corporate expense, mostly due to $30 in transaction costs related to the offer for Alcan and an increase in stock-based compensation expense as a result of reload features of exercised stock options;
- A $72 decrease in Restructuring and other charges, due to a slightly smaller restructuring program in 2007 as compared to 2006;
- A change of $94 in Discontinued operations, primarily due to the absence of a $110 gain recognized on the sale of the home exteriors business in 2006; and
- A $598 increase in Other, principally due to a $1,140 gain on the sale of the Chalco investment, partially offset by a $142 discrete income tax charge related to goodwill that is non-deductible for tax purposes associated with the planned sale of the Packaging and Consumer businesses, a $93 goodwill impairment charge related to the restructuring actions of the EES business; the absence of $83 in discrete income tax benefits in 2006 related to the finalization of certain tax reviews and audits and the reversal of valuation allowances related to international net operating losses; the absence of a $26 favorable legal settlement in 2006 related to a former Reynolds distribution business; and an increase in income taxes in order to reconcile the estimated tax rates used in the segments with Alcoa's effective tax rate.

The significant changes in the reconciling items between ATOI and consolidated net income for 2006 compared with 2005 consisted of:

- A $71 increase related to the Impact of LIFO, primarily due to cost inflation factors that increased the LIFO inventory reserves;
- A $177 increase in Minority interests, primarily due to higher earnings at AWAC, attributed to higher realized prices and increased volumes;
- An increase in Restructuring and other charges, due to the company's 2006 global restructuring program, including an after-tax impairment charge of $211 associated with the expected contribution of assets to the previously mentioned soft alloy joint venture and other assets to be disposed of;
- A change of $109 in Discontinued operations, primarily due to the $110 gain recognized on the sale of the home exteriors business; and
- A decrease in Other of $59, primarily due to the absence of a $180 gain on the 2005 sale of Alcoa's stake in Elkem, partially offset by the absence of a $58 charge related to the 2005 closure of the Hamburger Aluminium-Werk facility in Germany; a $26 favorable legal settlement related to a former Reynolds distribution business; and a $17 increase in dividend income related to Alcoa's stake in Chalco.

Market Risks and Derivative Activities

In addition to the risks inherent in its operations, Alcoa is exposed to financial, market, political, and economic risks. The following discussion provides information regarding Alcoa's exposure to the risks of changing commodity prices, interest rates, and foreign currency exchange rates.

Alcoa's commodity and derivative activities are subject to the management, direction, and control of the Strategic Risk Management Committee (SRMC). The SRMC is composed of the chief executive officer, the chief financial officer, and other officers and employees that the chief executive officer selects. The SRMC reports to the Board of Directors on the scope of its activities.

The interest rate, foreign currency, aluminum, and other commodity contracts are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility, and to cover underlying exposures. The company is not involved in energy-trading activities, weather derivatives, or other nonexchange commodity trading activities.

Commodity Price Risks—Alcoa is a leading global producer of primary aluminum and aluminum fabricated products. As a condition of sale, customers often require Alcoa to enter into long-term, fixed-price commitments. These commitments expose Alcoa to the risk of higher aluminum prices between the time the order is committed and the time that the order is shipped. Alcoa also sells aluminum products to third parties at then-current market prices and is exposed to the risk of lower market prices at the time of shipment. Alcoa uses futures contracts, totaling 773 kmt at December 31, 2007, to reduce the aluminum price risk associated with a portion of these fixed-price firm commitments. The effects of this hedging activity will be recognized in earnings over the designated hedge periods in 2008 to 2010.

Alcoa has also entered into futures and options contracts, totaling 588 kmt at December 31, 2007, to hedge a portion of future production. The effects of this hedging activity will be recognized in earnings over the designated hedge periods in 2008 to 2011.

Alcoa has also entered into futures and option contracts to minimize its price risk related to other customer sales and pricing arrangements. Alcoa has not qualified these contracts for hedge accounting treatment, and therefore, the fair value gains and losses on these contracts are recorded in earnings. These contracts totaled 183 kmt at December 31, 2007. In addition, Alcoa has power supply and other contracts that contain pricing provisions related to the LME aluminum price. The LME-linked pricing features are considered embedded derivatives. A majority of these embedded derivatives have been designated as hedges of future sales of aluminum. Gains and losses on the remainder of these embedded derivatives are recognized in earnings.

The net mark-to-market pretax earnings impact from aluminum derivative and hedging activities was a loss of $33 in 2007.

Alcoa purchases natural gas, fuel oil, and electricity to meet its production requirements and believes it is highly likely that such purchases will continue in the future. These purchases expose the company to the risk of higher prices. To hedge a portion of these risks, Alcoa uses futures and forward contracts. The effects of this hedging activity will be recognized in earnings over the designated hedge periods in 2008 to 2011.

Financial Risk

Interest Rates—Alcoa uses interest rate swaps to help maintain a strategic balance between fixed- and floating-rate debt and to manage overall financing costs. For a portion of its fixed-rate debt, the company has entered into pay floating, receive fixed interest rate swaps to effectively change the fixed interest rates to floating interest rates.

Currencies—Alcoa is subject to exposure from fluctuations in foreign currency exchange rates. Foreign currency exchange contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. These contracts cover periods consistent with known or expected exposures through 2008.

Fair Values and Sensitivity Analysis—The following table shows the fair values of outstanding derivative contracts at December 31, 2007 and the effect on fair values of a hypothetical change (increase or decrease of 10%) in the market prices or rates that existed at December 31, 2007:

	Fair value (loss)/gain	Index change of + / - 10%
Aluminum	$ (896)	$ 199
Interest rates	5	33
Other commodities, principally energy related	(30)	36
Currencies	65	—

Aluminum consists primarily of losses on hedge contracts, embedded derivatives in power contracts in Iceland and Brazil, and Alcoa's share of losses on hedge contracts of Norwegian smelters that are accounted for under the equity method.

Material Limitations—The disclosures with respect to commodity prices, interest rates, and foreign currency exchange risk do not take into account the underlying commitments or anticipated transactions. If the underlying items were included in the analysis, the gains or losses on the futures contracts may be offset. Actual results will be determined by a number of factors that are not under Alcoa's control and could vary significantly from those factors disclosed.

Alcoa is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, as well as credit or performance risk with respect to its hedged customers' commitments. Although nonperformance is possible, Alcoa does not anticipate nonperformance by any of these parties. Contracts are with creditworthy counterparties and are further supported by cash, treasury bills, or irrevocable letters of credit issued by carefully chosen banks. In addition, various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts.

See Notes A, K, and X to the Consolidated Financial Statements for additional information on derivative instruments.

Environmental Matters

Alcoa continues to participate in environmental assessments and cleanups at a number of locations. These include 32 owned or operating facilities and adjoining properties, 32 previously owned or operating facilities and adjoining properties, and 66 waste sites, including Superfund sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. See Note A to the Consolidated Financial Statements for additional information.

As assessments and cleanups proceed, the liability is adjusted based on progress made in determining the extent of remedial actions and related costs and damages. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements, and technological changes. Therefore, it is not possible to determine the outcomes or to estimate with any degree of accuracy the potential costs for certain of these matters.

The following discussion provides additional details regarding the current status of Alcoa's significant sites where the final outcome cannot be determined or the potential costs in the future cannot be estimated.

Massena, NY—Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa's Massena plant site, under order from the U.S. Environmental Protection Agency (EPA) issued under the Comprehensive Environmental Response, Compensation and Liability Act, also known as Superfund. Sediments and fish in the river contain varying levels of polychlorinated biphenyls (PCBs).

In 2002, Alcoa submitted an Analysis of Alternatives Report that detailed a variety of remedial alternatives with estimated costs ranging from $2 to $525. Because the selection of the $2 alternative (natural recovery) was considered remote, Alcoa adjusted the reserve for the Grasse River in 2002 to $30 representing the low end of the range of possible alternatives, as no single alternative could be identified as more probable than the others.

In June of 2003, based on river observations during the spring of 2003, the EPA requested that Alcoa gather additional field data to assess the potential for sediment erosion from winter river ice formation and breakup. The results of these additional studies, submitted in a report to the EPA in April of 2004, suggest that this phenomenon has the potential to occur approximately every 10 years and may impact sediments in certain portions of the river under all remedial scenarios. The EPA informed Alcoa that a final remedial decision for the river could not be made without substantially more information, including river pilot studies on the effects of ice formation and breakup on each of the remedial techniques. Alcoa submitted to the EPA, and the EPA approved, a Remedial Options Pilot Study (ROPS) to gather this information. The scope of this study includes sediment removal and capping, the installation of an ice control structure, and significant monitoring.

In May of 2004, Alcoa agreed to perform the study at an estimated cost of $35. Most of the construction work was completed in 2005 with monitoring work proposed through 2008. The findings will be incorporated into a revised Analysis of Alternatives Report, which is expected to be submitted in 2008. This information will be used by the EPA to propose a remedy for the entire river. Alcoa adjusted the reserves in the second quarter of 2004 to include the $35 for the ROPS. This was in addition to the $30 previously reserved.

The reserves for the Grasse River were re-evaluated in the fourth quarter of 2006 and an adjustment of $4 was made. This adjustment covers commitments made to the EPA for additional investigation work, for the on-going monitoring program, including that associated with the ROPS program, to prepare a revised Analysis of Alternatives Report, and for an interim measure that involves, annually, the mechanical ice breaking of the river to prevent the formation of ice jams until a permanent remedy is selected. This reserve adjustment is intended to cover these commitments through 2008 when the revised Analysis of Alternatives report will be submitted.

With the exception of the natural recovery remedy, none of the existing alternatives in the 2002 Analysis of Alternatives Report is more probable than the others and the results of the ROPS are necessary to revise the scope and estimated cost of many of the current alternatives.

The EPA's ultimate selection of a remedy could result in additional liability. Alcoa may be required to record a subsequent reserve adjustment at the time the EPA's Record of Decision is issued, which is expected in 2009 or later.

Sherwin, TX—In connection with the sale of the Sherwin alumina refinery, which was required to be divested as part of the Reynolds merger in 2000, Alcoa has agreed to retain responsibility for the remediation of the then existing environmental conditions, as well as a pro rata share of the final closure of the active waste disposal areas, which remain in use. Alcoa's share of the closure costs is proportional to the total period of operation of the active waste disposal areas. Alcoa estimated its liability for the active disposal areas by making certain assumptions about the period of operation, the amount of material placed in the area prior to closure, and the appropriate technology, engineering, and regulatory status applicable to final closure. The most probable cost for remediation has been reserved. It is reasonably possible that an additional liability, not expected to exceed $75, may be incurred if actual experience varies from the original assumptions used.

East St. Louis, IL—In response to questions regarding environmental conditions at the former East St. Louis, operations, Alcoa entered into an administrative order with the EPA in December 2002 to perform a remedial investigation and feasibility study of an area used for the disposal of bauxite residue from historic alumina refining operations. A draft feasibility study was submitted to the EPA in April 2005. The feasibility study includes remedial alternatives that range from no further action at $0 to significant grading, stabilization, and water management of the bauxite residue disposal areas at $75. Because the selection of the $0 alternative was considered remote, Alcoa increased the environmental reserve for this location by $15 in the second quarter of 2005, representing the low end of the range of possible alternatives, which met the remedy selection criteria, as no alternative could be identified as more probable than the others. In 2007, the EPA temporarily suspended their final review of the feasibility study based on Alcoa's request for additional time to fully explore site redevelopment and material use options. Ultimately, the EPA's selection of a remedy could result in additional liability, and Alcoa may be required to record a subsequent reserve adjustment at the time the EPA's Record of Decision is issued, which is expected in 2008 or later.

Based on the foregoing, it is possible that Alcoa's financial position, liquidity, or results of operations, in a particular period, could be materially affected by matters relating to these sites. However, based on facts currently available, management believes that adequate reserves have been provided and that the disposition of these matters will not have a materially adverse effect on the financial position, liquidity, or the results of operations of the company.

Alcoa's remediation reserve balance was $279 and $319 at December 31, 2007 and 2006 (of which $51 and $49 was classified as a current liability), respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. In 2007, the remediation reserve was decreased by $10 consisting of a $15 adjustment for the liabilities associated with a previously owned smelter site and a $5 adjustment for liabilities at the Russian rolling mills and extrusion plants, both of which were partially offset by a net increase of $10 in liabilities associated with various locations. The $15 and $5 adjustments, which were recorded as a credit to Cost of goods sold on the Statement of Consolidated Income, were made after further investigations were completed and Alcoa was able to obtain additional information about the environmental condition and the associated liabilities related to these sites. Payments related to remediation expenses applied against the reserve were $30 in 2007. These amounts include expenditures currently mandated, as well as those not required by any regulatory authority or third-party.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be approximately 2% of cost of goods sold.

Liquidity and Capital Resources

Alcoa's approach to cash management and the strengthening of its balance sheet is a disciplined one. In 2007, this approach included a continued concentration on working capital management, the extension of debt maturities in order to strengthen the company's capital structure, and a continued focus on divestitures of various investments, assets and businesses no longer considered part of management's vision for Alcoa's future. Capital spending increased 14%, as Alcoa made continued progress on brownfield expansions in refining and on the development of a bauxite mine, and completed construction of the greenfield smelter project in Iceland and the anode facility in Mosjøen.

Cash provided from operations and from financing activities is anticipated to be adequate to cover dividends, debt repayments, capital expenditures, and other business needs over the next 12 months.

Cash from Operations

Cash from operations in 2007 was $3,111 compared with $2,567 in 2006, resulting in an increase of $544, or 21%. The improvement of $544 is principally related to a $1,532 positive change associated with working capital, primarily due to improvements in receivables, inventories, and accounts payable and accrued expenses; higher net income of $316; and a cash inflow of $93 related to a long-term aluminum supply contract. These positive impacts were partially offset by a significant increase in non-cash adjustments, mostly related to the sale of the Chalco investment.

Cash from operations in 2006 was $2,567 compared with $1,676 in 2005, resulting in an increase of $891, or 53%. Cash inflows were principally due to a significant increase in earnings in 2006, partially offset by a $593 increase in receivables and inventories, primarily due to increased prices; $397 in pension contributions; and a $294 decrease in accounts payable and accrued expenses.

Financing Activities

Cash used for financing activities was $1,538 in 2007 compared with $20 in 2006. The change of $1,518 was primarily due to a

$2,206 increase in the repurchase of common stock due to a significant increase in the number of shares repurchased as a result of the January 2007 and October 2007 authorized programs; a $1,177 change in the net change in commercial paper, mostly due to the repayment of commercial paper with the majority of the proceeds from the issuance of new long-term debt in 2007; an $837 increase in payments on long-term debt, primarily related to the January 2007 purchase of $333 of outstanding 4.25% Notes due August 2007 and the repayment of the remaining $459 of outstanding 4.25% Notes in August 2007; $126 in payments for debt issuance costs, including a commitment fee of $30 paid to secure a credit facility related to the offer for Alcan; and a $66 increase in dividends paid to shareholders as a result of the eight cents per share annual increase approved in January 2007. Partially offsetting these cash inflows was a $2,021 increase in additions to long-term debt, principally due to proceeds received of $1,994 (net of $6 in original issue discounts) from the issuance of new 5.55% Notes due 2017, 5.9% Notes due 2027, and 5.95% Notes due 2037; a $679 increase in common stock issued for stock compensation plans related to cash received for the exercise of stock options; and a $132 increase in minority interest contributions, primarily from an increase in contributions received from Alumina Limited, related to their share of capital spending at the São Luís and Juruti facilities.

Cash used for financing activities was $20 in 2006 compared with $324 in 2005. The change of $304 was primarily due to an increase in net borrowings of $368 in 2006 as compared to 2005, and an $84 increase in common stock issued for stock compensation plans. Partially offsetting these cash inflows was an increase of $182 in cash paid for the repurchase of approximately nine million shares of common stock related to Alcoa's share repurchase program.

In October 2007, Alcoa entered into a Five-Year Revolving Credit Agreement, dated as of October 2, 2007 (the "Credit Agreement"), with a syndicate of lenders and issuers named therein. The Credit Agreement provides a $3,250 senior unsecured revolving credit facility (the "Credit Facility"), the proceeds of which are to be used to provide working capital or for other general corporate purposes of Alcoa, including support of Alcoa's commercial paper program. Subject to the terms and conditions of the Credit Agreement, Alcoa may from time to time request increases in lender commitments under the Credit Facility, not to exceed $500 in aggregate principal amount, and may also request the issuance of letters of credit, subject to a letter of credit sub-limit of $500 under the Credit Facility.

The Credit Facility matures on October 2, 2012, unless extended or earlier terminated in accordance with the provisions of the Credit Agreement. Alcoa may make two one-year extension requests during the term of the Credit Facility, with any extension being subject to the lender consent requirements set forth in the Credit Agreement.

The Credit Facility is unsecured and amounts payable under it will rank *pari passu* with all other unsecured, unsubordinated indebtedness of Alcoa. Borrowings under the Credit Facility may be denominated in U.S. dollars or Euros. Loans will bear interest at (i) a base rate or (ii) a rate equal to LIBOR plus an applicable margin based on the credit ratings of Alcoa's outstanding senior unsecured long-term debt. Based on Alcoa's current long-term debt ratings, the applicable margin on LIBOR loans will be 0.33% per annum. Loans may be prepaid without premium or penalty, subject to customary breakage costs.

The Credit Facility replaces $3,000 in aggregate principal amount of revolving credit facilities maintained by Alcoa under the following credit agreements, which were terminated effective October 2, 2007: (i) $1,000 Five-Year Revolving Credit Agreement dated as of April 22, 2005, (ii) $1,000 Five-Year Revolving Credit Agreement dated as of April 23, 2004, as amended, and (iii) $1,000 Five-Year Revolving Credit Agreement dated as of April 25, 2003, as amended (collectively, the "Former Credit Agreements").

The Credit Agreement includes covenants substantially similar to those in the Former Credit Agreements, including, among others, (a) a leverage ratio, (b) limitations on Alcoa's ability to incur liens securing indebtedness for borrowed money, (c) limitations on Alcoa's ability to consummate a merger, consolidation or sale of all or substantially all of its assets and (d) limitations on Alcoa's ability to change the nature of its business.

The obligation of Alcoa to pay amounts outstanding under the Credit Facility may be accelerated upon the occurrence of an "Event of Default" as defined in the Credit Agreement. Such Events of Default include, among others, (a) Alcoa's failure to pay the principal of, or interest on, borrowings under the Credit Facility, (b) any representation or warranty of Alcoa in the Credit Agreement proving to be materially false or misleading, (c) Alcoa's breach of any of its covenants contained in the Credit Agreement, and (d) the bankruptcy or insolvency of Alcoa.

There were no amounts outstanding under the Credit Agreement at December 31, 2007 and the Former Credit Agreements at December 31, 2006.

Standard and Poor's Ratings Services' (S&P) long-term debt rating of Alcoa is BBB+ and its short-term debt rating is A-2. The current outlook, which was revised in July 2007, is stable, as S&P cited Alcoa's implementation of necessary strategic initiatives at its upstream operations to maintain its long-term competitive business position as a result of inflationary pressures and growth prospects in the alumina markets. Moody's Investors Service's (Moody's) long-term debt rating of Alcoa is Baa1 and its short-term debt rating of Alcoa is Prime-2. The current outlook, which was revised in November 2007, is stable, as Moody's cited the divestiture or closure of underperforming businesses and solid cash flow management. Fitch Ratings' (Fitch) long-term debt rating of Alcoa is A- and its short-term debt rating is F2. The current outlook, which was revised in July 2007, is negative, as Fitch cited the potential for additional leverage over the next 18 months.

Investing Activities

Cash used for investing activities was $1,625 in 2007 compared with $2,841 in 2006. The decrease in cash used of $1,216 was primarily due to a $1,976 increase in sales of investments, mostly related to the $1,942 in proceeds received from the sale of the Chalco investment. This cash inflow was partially offset by a $431 increase in capital expenditures, principally related to higher spending on certain growth projects, including the São Luís refinery expansion; the development of the Juruti bauxite mine; and projects at various facilities in Russia, Hungary, and China; all of which were partially offset by a decrease in capital expenditures related to the Iceland smelter and the Mosjøen anode facility, as these two projects were placed in service during 2007, and the Early Works Program in Jamaica, as this project was completed near the end of 2006; and a decrease of $189 in proceeds from the sales of assets and businesses, principally due to the $305 in cash received for the sale of the home exteriors business in 2006 as compared to the $70 and $33 in cash received from the sales of a mine in Texas and the Automotive Castings business, respectively, in 2007.

Cash used for investing activities was $2,841 in 2006 compared with $1,035 in 2005. The increase of $1,806 was primarily due to an increase in capital expenditures of $1,067 as Alcoa continues to invest in growth projects, including refining expansions, bauxite mine development and the construction of the greenfield smelter in Iceland; a decrease of $1,046 in proceeds from the sale of investments due to the 2005 sales of Alcoa's interests in Elkem and Integris Metals; and a decrease of $133 in proceeds from the sale of assets, primarily due to the $305 in cash proceeds received in 2006 for the sale of the home exteriors business as compared to the $408 in cash proceeds received from the sale of the SGS business in 2005. These changes were partially offset by a decrease of $468 in acquisitions, including minority interests, due to the 2005 acquisitions of two Russian facilities and the minority interest in AFL.

Capital expenditures were $3,636 in 2007 compared with $3,205 and $2,138 in 2006 and 2005, respectively. Of the total capital expenditures in 2007, approximately 64% related to growth projects, including the construction of the Iceland smelter, the Mosjøen anode facility, the refinery expansion in São Luís, the development of the Juruti bauxite mine, and projects at various facilities in Russia, Hungary, and China. Also included are costs related to environmental control in new and expanded facilities totaling $274 in 2007, $182 in 2006, and $95 in 2005. Total capital expenditures are anticipated to be in the range of $2,900 to $3,100 in 2008.

Alcoa added $131, $58, and $30, to its investments in 2007, 2006, and 2005, respectively. In 2007, 2006, and 2005, Alcoa invested an additional $31, $26, and $19, respectively, in the Dampier to Bunbury Natural Gas Pipeline in Western Australia. Also in 2007, Alcoa made additional investments related to its various hydroelectric facilities in Brazil.

For a discussion of long-term liquidity, see the disclosures included in Contractual Obligations and Off-Balance Sheet Arrangements that follows.

Critical Accounting Policies and Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make judgments, estimates, and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Areas that require significant judgments, estimates, and assumptions include the accounting for derivatives and hedging activities; environmental matters; asset retirement obligations; the testing of goodwill and other intangible assets for impairment; the impairment of properties, plants, and equipment; estimated proceeds on businesses to be divested; pension plans and other postretirement benefits; stock-based compensation; and income taxes.

Management uses historical experience and all available information to make these judgments and estimates, and actual results will inevitably differ from those estimates and assumptions that are used to prepare the company's Consolidated Financial Statements at any given time. Despite these inherent limitations, management believes that Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related Notes provide a meaningful and fair perspective of the company. A discussion of the judgments and uncertainties associated with accounting for derivatives and hedging activities and environmental matters can be found in the Market Risks and Derivative Activities and the Environmental Matters sections, respectively.

A summary of the company's significant accounting policies is included in Note A to the Consolidated Financial Statements. Management believes that the application of these policies on a consistent basis enables the company to provide the users of the Consolidated Financial Statements with useful and reliable information about the company's operating results and financial condition.

Asset Retirement Obligations. Alcoa recognizes asset retirement obligations (AROs) related to legal obligations associated with the normal operation of Alcoa's bauxite mining, alumina refining, and aluminum smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure. Alcoa also recognizes AROs for any significant lease restoration obligation, if required by a lease agreement, and for the disposal of regulated waste materials related to the demolition of certain power facilities. The fair values of these AROs are recorded on a discounted basis, at the time the obligation is incurred, and accreted over time for the change in present value. Additionally, Alcoa capitalizes asset retirement costs by increasing the carrying amount of the related long-lived assets and depreciating these assets over their remaining useful life.

Certain conditional asset retirement obligations (CAROs) related to alumina refineries, aluminum smelters, and fabrication facilities have not been recorded in the Consolidated Financial Statements due to uncertainties surrounding the ultimate settlement date. A CARO is a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within Alcoa's control. Such uncertainties exist as a result of the perpetual nature of the structures, maintenance and upgrade programs, and other factors. At the date a reasonable estimate of the ultimate settlement date can be made, Alcoa would record a retirement obligation for the removal, treatment, transportation, storage and (or) disposal of various regulated assets and hazardous materials such as asbestos, underground and aboveground storage tanks, PCBs, various process residuals, solid wastes, electronic equipment waste and various other materials. Such amounts may be material to the Consolidated Financial Statements in the period in which they are recorded. If Alcoa was required to demolish all such structures immediately, the estimated CARO as of December 31, 2007 ranges from less than $1 to $52 per structure in today's dollars.

Goodwill and Other Intangible Assets. Goodwill and indefinite-lived intangible assets are tested annually for impairment and whenever events or circumstances change, such as a significant adverse change in business climate or the decision to sell a business, that would make it more likely than not that an impairment may have occurred. The evaluation of impairment involves comparing the current fair value of each reporting unit to the recorded value, including goodwill. Alcoa uses a discounted cash flow model (DCF model) to determine the current fair value of its reporting units. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market share, sales volumes and prices, costs to produce, discount rate, and working capital changes. Management considers historical experience and all available information at the time the fair values of its reporting units are estimated. However, fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill.

Properties, Plants, and Equipment. Properties, plants, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets (asset group) may not be recoverable. Recoverability of assets is determined by comparing the estimated undiscounted net cash flows of the operations related to the assets (asset group) to their carrying amount. An impairment loss would be recognized when the carrying amount of the assets (asset group) exceeds the estimated undiscounted net cash flows. The amount of the impairment loss to be recorded is calculated as the excess of the carrying value of the assets (asset group) over their fair value, with fair value determined using the best information available, which generally is a discounted cash flow analysis.

Discontinued Operations and Assets Held For Sale. The fair values of all businesses to be divested are estimated using accepted valuation techniques such as a DCF model, valuations performed by third parties, earnings multiples, or indicative bids, when available. A number of significant estimates and assumptions are involved in the application of these techniques, including the forecasting of markets and market share, sales volumes and prices, costs and expenses, and multiple other factors. Management considers historical experience and all available information at the time the estimates are made; however, the fair values that are ultimately realized upon the sale of the businesses to be divested may differ from the estimated fair values reflected in the Consolidated Financial Statements.

Pension Plans and Other Postretirement Benefits. Liabilities and expenses for pension plans and other postretirement benefits are determined using actuarial methodologies and incorporate significant assumptions, including the rate used to discount the future estimated liability, the long-term rate of return on plan assets, and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age, and mortality). The rate used to discount future estimated liabilities is determined considering the rates available at year-end on debt instruments that could be used to settle the obligations of the plan. The impact on the liabilities of a change in the discount rate of 1/4 of 1% is approximately $400 and either a charge or credit of $22 to after-tax earnings in the following year. The long-term rate of return on plan assets is estimated by considering historical returns and expected returns on current and projected asset allocations and is generally applied to a five-year average market value of assets. A change in the assumption for the long-term rate of return on plan assets of 1/4 of 1% would impact after-tax earnings by approximately $16 for 2008. The 10-year moving average of actual performance has consistently met or exceeded 9% over the past 20 years.

In 2007, a credit of $659 ($426 after-tax) was recorded in other comprehensive loss due to a net decrease in the accumulated benefit obligations as a result of a 25 basis point increase in the discount rate, which was partially offset by plan amendments, and the recognition of actuarial losses and prior service costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106 and 132(R),” (SFAS 158). In addition, a credit of $80 was recorded in other comprehensive loss due to the reclassification of deferred taxes related to the Medicare Part D prescription drug subsidy. In 2006, a net charge of $1,065 ($693 after-tax) was recorded in other comprehensive loss comprised of a charge of $1,353 ($877 after-tax) related to the adoption of SFAS 158, partially offset by a credit of $288 ($184 after-tax) due to the reduction in the minimum pension liability, as a result of asset returns of 11% and a decrease to the accumulated benefit obligations resulting from a 25 basis point increase in the discount rate.

Stock-based Compensation. Alcoa recognizes compensation expense for employee equity grants using the non-substantive vesting period approach, in which the expense (net of estimated forfeitures) is recognized ratably over the requisite service period based on the grant date fair value. Determining the fair value of stock options at the grant date requires judgment including estimates for the average risk-free interest rate, expected volatility, expected exercise behavior, expected dividend yield, and expected forfeitures. If any of these assumptions differ significantly from actual, stock-based compensation expense could be impacted.

Prior to 2006, Alcoa used the nominal vesting approach related to retirement-eligible employees, in which the compensation expense is recognized ratably over the original vesting period. As part of Alcoa’s stock-based compensation plan design, individuals that are retirement-eligible have a six-month requisite service period in the year of grant. Equity grants are issued in January each year. As a result, a larger portion of expense will be recognized in the first and second quarters of each year for these retirement-eligible employees. Compensation expense recorded in 2007 and 2006 was $97 ($63 after-tax) and $72 ($48 after-tax), respectively. Of this amount, $19 and $20 in 2007 and 2006, respectively, pertains to the acceleration of expense related to retirement-eligible employees.

As of January 1, 2005, Alcoa switched from the Black-Scholes pricing model to a lattice model to estimate fair value at the grant date for future option grants. On December 31, 2005, Alcoa accelerated the vesting of 11 million unvested stock options granted to employees in 2004 and on January 13, 2005. The 2004 and 2005 accelerated options had weighted average exercise prices of $35.60 and $29.54, respectively, and in the aggregate represented approximately 12% of Alcoa’s total outstanding options. The decision to accelerate the vesting of the 2004 and 2005 options was made primarily to avoid recognizing the related compensation expense in future Consolidated Financial Statements upon the adoption of a new accounting standard. The accelerated vesting of the 2004 and 2005 stock options reduced Alcoa’s after-tax stock option compensation expense in 2007 and 2006 by $7 and $21, respectively.

An additional change was made to the stock-based compensation program for 2006 grants. Plan participants can choose whether to receive their award in the form of stock options, restricted stock units (stock awards), or a combination of both. This choice is made before the grant is issued and is irrevocable. This choice resulted in an increased stock award expense in both 2007 and 2006 in comparison to 2005.

Income Taxes. The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, the provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid, and result from differences between the financial and tax bases of Alcoa’s assets and liabilities and are adjusted for changes in tax rates and tax laws when enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Deferred tax assets for which no valuation allowance is recorded may not be realized upon changes in facts and circumstances. Tax benefits related to uncertain tax positions taken or expected to be taken on a tax return are recorded when such benefits meet a more likely than not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that the appropriate taxing authority has completed their examination even though the statute of limitations remains open, or the statute of limitation expires. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized. Alcoa also has unamortized tax-deductible goodwill of $311 resulting from intercompany stock sales and reorganizations (generally at a 30% to 34% rate). Alcoa recognizes the tax benefits associated with this tax-deductible goodwill as it is being amortized for local income tax purposes rather than in the period in which the transaction is consummated.

Related Party Transactions

Alcoa buys products from and sells products to various related companies, consisting of entities in which Alcoa retains a 50% or less equity interest, at negotiated arms- length prices between the two parties. These transactions were not material to the financial position or results of operations of Alcoa for all periods presented.

Recently Adopted Accounting Standards

On January 1, 2007, Alcoa adopted FASB Interpretation (FIN) No. 48, “Accounting for Uncertainty in Income Taxes–an interpretation of FASB Statement No. 109,” (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements, uncertain tax positions that it has taken or expects to take on a tax return. This Interpretation requires that a company recognize in its financial statements the impact of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

Effective January 1, 2007, Alcoa adopted FASB Staff Position (FSP) No. FIN 48-1, “Definition of Settlement in FASB Interpretation No. 48,” (FSP FIN 48-1), which was issued on May 2, 2007. FSP FIN 48-1 amends FIN 48 to provide guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The term “effectively settled” replaces the term “ultimately settled” when used to describe recognition, and the terms “settlement” or “settled” replace the terms “ultimate settlement” or “ultimately settled” when used to describe measurement of a tax position under FIN 48. FSP FIN 48-1 clarifies that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open.

The adoption of FIN 48 and FSP FIN 48-1 did not have an impact on the Consolidated Financial Statements. See Note T to the Consolidated Financial Statements for the required disclosures in accordance with the provisions of FIN 48.

Alcoa adopted SFAS 158 effective December 31, 2006. SFAS 158 requires an employer to recognize the funded status of each of its defined pension and postretirement benefit plans as a net asset or liability in its statement of financial position with an offsetting amount in accumulated other comprehensive income, and to recognize changes in that funded status in the year in which changes occur through comprehensive income. Following the adoption of SFAS 158, additional minimum pension liabilities and related intangible assets are no longer recognized. The adoption of SFAS 158 resulted in the following impacts: a reduction of $119 in existing prepaid pension costs and intangible assets, the recognition of $1,234 in accrued pension and postretirement liabilities, and a charge of $1,353 ($877 after-tax) to accumulated other comprehensive loss. See Note W to the Consolidated Financial Statements for additional information.

Additionally, SFAS 158 requires an employer to measure the funded status of each of its plans as of the date of its year-end statement of financial position. This provision becomes effective for Alcoa for its December 31, 2008 year-end. The funded status of the majority of Alcoa’s pension and other postretirement benefit plans are currently measured as of December 31.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements,” (SAB 108). SAB 108 was issued to provide interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 were effective for Alcoa for its December 31, 2006 year-end. The adoption of SAB 108 did not have a material impact on Alcoa’s Consolidated Financial Statements.

On January 1, 2006, Alcoa adopted SFAS No. 123 (revised 2004), “Share-Based Payment”, (SFAS 123(R)), which requires the company to recognize compensation expense for stock-based compensation based on the grant date fair value. SFAS 123(R) revises SFAS No. 123, “Accounting for Stock-Based Compensation,” and supersedes Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Alcoa elected the modified prospective application method for adoption, and prior period financial statements have not been restated. As a result of the implementation of SFAS 123(R), Alcoa recognized additional compensation expense of $29 ($19 after-tax) in 2006 comprised of $11 ($7 after-tax) and $18 ($12 after-tax) related to stock options and stock awards, respectively. See Note R to the Consolidated Financial Statements for additional information.

Effective January 1, 2006, Alcoa adopted Emerging Issues Task Force (EITF) Issue No. 04-6, “Accounting for Stripping Costs Incurred During Production in the Mining Industry,” (EITF 04-6). EITF 04-6 requires that stripping costs incurred during the production phase of a mine are to be accounted for as variable production costs that should be included in the costs of the inventory produced (that is, extracted) during the period that the stripping costs are incurred. Upon adoption, Alcoa recognized a cumulative effect adjustment in the opening balance of retained earnings of $3, representing the reduction in the net book value of post-production stripping costs of $8, offset by a related deferred tax liability of $3 and minority interests of $2.

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51,” (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a noncontrolling interest, sometimes called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS 160 requires, among other items, that a noncontrolling interest be included in the consolidated statement of financial position within equity separate from the parent’s equity; consolidated net income to be reported at amounts inclusive of both the parent’s and noncontrolling interest’s shares and, separately, the amounts of consolidated net income attributable to the parent and noncontrolling interest all on the consolidated statement of income; and if a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. SFAS 160 becomes effective for Alcoa on January 1, 2009. Management is currently evaluating the potential impact of SFAS 160 on the Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations,” (SFAS 141(R)). SFAS 141(R) replaces SFAS No. 141, “Business Combinations,” (SFAS 141) and retains the fundamental requirements in SFAS 141, including that the purchase method be used for all business combinations and for an acquirer to be identified for each business combination. This standard defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control instead of the date that the consideration is transferred. SFAS 141(R) requires an acquirer in a business combination, including business combinations achieved in stages (step acquisition), to recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values of that date, with limited exceptions. It also requires the recognition of assets acquired and liabilities assumed arising from certain contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. SFAS 141(R) becomes effective for Alcoa for any business combination with an acquisition date on or after January 1, 2009. Management is currently evaluating the potential impact of SFAS 141(R) on the 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 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). SFAS 159 becomes effective for Alcoa on January 1, 2008. Management has determined that the adoption of SFAS 159 will not have a material impact on the Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157, as it relates to financial assets and financial liabilities, becomes effective for Alcoa on January 1, 2008. On February 12, 2008, the FASB issued FSP No. FAS 157-2, “Effective Date of FASB Statement No. 157,” which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until January 1, 2009 for calendar year-end entities. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. Management has determined that the adoption of SFAS 157, as it relates to financial assets and financial liabilities, except for pension plan assets in regards to the funded status recorded on the Consolidated Balance Sheet, will not have a material impact on the Consolidated Financial Statements. Management is currently evaluating the potential impact of SFAS 157, as it relates to pension plan assets, nonfinancial assets and nonfinancial liabilities, on the Consolidated Financial Statements.

In April 2007, the FASB issued FSP No. FIN 39-1, “Amendment of FASB Interpretation No. 39,” (FSP FIN 39-1). FSP FIN 39-1 amends FIN No. 39, “Offsetting of Amounts Related to Certain Contracts,” by permitting entities that enter into master netting arrangements as part of their derivative transactions to offset in their financial statements net derivative positions against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral or the obligation to return cash collateral under those arrangements. FSP FIN 39-1 becomes effective for Alcoa on January 1, 2008. Management has determined that the adoption of FSP FIN 39-1 will not have a material impact on the Consolidated Financial Statements.

In March 2007, the EITF issued EITF Issue No. 06-10, “Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements,” (EITF 06-10). Under the provisions of EITF 06-10, an employer is required to recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions,” or Accounting Principles Board Opinion No. 12, “Omnibus Opinion—1967,” if the employer has agreed to maintain a life insurance policy during the employee’s retirement or provide the employee with a death benefit based on the substantive arrangement with the employee. The provisions of EITF 06-10 also require an employer to recognize and measure the asset in a collateral assignment split-dollar life insurance arrangement based on the nature and substance of the arrangement. EITF 06-10 becomes effective for Alcoa on January 1, 2008. Management has determined that the adoption of EITF 06-10 will not have a material impact on the Consolidated Financial Statements.

In January 2008, the FASB issued Statement 133 Implementation Issue No. E23, “Hedging—General: Issues Involving the Application of the Shortcut Method under Paragraph 68” (Issue E23). Issue E23 provides guidance on certain practice issues related to the application of the shortcut method by amending paragraph 68 of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” with respect to the conditions that must be met in order to apply the shortcut method for assessing hedge effectiveness of interest rate swaps. The provisions of Issue E23 become effective for Alcoa for hedging arrangements designated on or after January 1, 2008. Additionally, preexisting hedging arrangements must be assessed on January 1, 2008 to determine whether the provisions of Issue E23 were met as of the inception of the hedging arrangement. Management has determined that Issue E23 will not have any impact on its preexisting hedging arrangements.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations. The company is required to make future payments under various contracts, including long-term purchase obligations, debt agreements, and lease agreements. Alcoa also has commitments to fund its pension plans, provide payments for postretirement benefit plans and finance capital projects. The company has grouped these contractual obligations in the same manner as they are classified in the Statement of Consolidated Cash Flows in order to provide a better understanding of the nature of the obligations and to provide a basis for comparison to historical information. As of December 31, 2007, a summary of Alcoa's outstanding contractual obligations is as follows (amounts do not reflect any changes for subsequent events):

	Total	2008	2009-2010	2011-2012	Thereafter
Operating activities:					
Energy-related purchase obligations	$17,472	$1,557	$2,020	$2,013	$ 11,882
Raw material purchase obligations	3,753	1,578	1,609	434	132
Other purchase obligations	413	334	53	20	6
Interest related to total debt	4,500	416	763	610	2,711
Operating leases	1,260	304	462	254	240
Estimated minimum required pension funding	1,390	80	520	790	—
Postretirement benefit payments	2,890	295	600	595	1,400
Layoff and other restructuring payments	157	117	40	—	—
Deferred revenue arrangements	269	82	55	16	116
Uncertain tax contingencies	42	—	—	—	42
Financing activities:					
Total debt	7,998	1,627	586	1,160	4,625
Dividends to shareholders					
Investing activities:					
Capital projects	3,144	2,244	775	125	—
Payments related to acquisitions	75	75	—	—	—
Totals	$43,363	$8,709	$7,483	$6,017	$ 21,154

Obligations for Operating Activities

Energy-related purchase obligations consist primarily of electricity and natural gas contracts with expiration dates ranging from less than 1 year to 40 years. The majority of raw material and other purchase obligations have expiration dates of 24 months or less. Certain purchase obligations contain variable pricing components, and, as a result, actual cash payments may differ from the estimates provided in the preceding table. Operating leases represent multi-year obligations for certain computer equipment, plant equipment, vehicles, and buildings.

Interest related to total debt is based on interest rates in effect as of December 31, 2007 and is calculated on debt with maturities that extend to 2037. The effect of outstanding interest rate swaps, which are accounted for as fair value hedges, are included in interest related to total debt. As of December 31, 2007, these hedges effectively convert the interest rate from fixed to floating on $1,890 of debt through 2018. As the contractual interest rates for certain debt and interest rate swaps are variable, actual cash payments may differ from the estimates provided in the preceding table.

Estimated minimum required pension funding and postretirement benefit payments are based on actuarial estimates using current assumptions for discount rates, expected return on long-term assets, rate of compensation increases, and health care cost trend rates. The minimum required cash outlays for pension funding are estimated to be $80 for 2008 and $150 for 2009. The increase in the projected funding is the result of the reduction of available pension funding credits from 2008 to 2009. The funding estimate is $370 for 2010, $410 for 2011 and $380 for 2012. The expected pension contributions in 2009 and later also reflect the impacts of the Pension Protection Act of 2006 that was signed into law on August 17, 2006. Pension contributions are expected to decline beginning in 2012 if all actuarial assumptions are realized and remain the same in the future. Postretirement benefit payments are expected to approximate $300 annually, net of the estimated subsidy receipts related to Medicare Part D, and are reflected in the preceding table through 2017. Alcoa has determined that it is not practicable to present pension funding and postretirement benefit payments beyond 2012 and 2017, respectively.

Layoff and other restructuring payments primarily relate to severance costs and are expected to be paid within one year. Amounts scheduled to be paid greater than one year are related to ongoing site remediation work and special termination benefit payments.

Deferred revenue arrangements require Alcoa to deliver aluminum and alumina over the specified contract period. While these obligations are not expected to result in cash payments, they represent contractual obligations for which the company would be obligated if the specified product deliveries could not be made. The longest such contract expires in 2037.

Uncertain tax contingencies are positions taken or expected to be taken on an income tax return that may result in additional payments to tax authorities. The amount in the preceding table includes interest and penalties accrued related to such positions as of December 31, 2007. The total amount of uncertain tax contingencies is included in the "Thereafter" column as the company is not able to reasonably estimate the timing of potential future payments. If a tax authority agrees with the tax position taken or expected to be taken or the applicable statute of limitations expires, then additional payments will not be necessary.

Obligations for Financing Activities

Total debt amounts in the preceding table represent the principal amounts of all outstanding debt, including short-term borrowings, commercial paper and long-term debt. Maturities for long-term debt extend to 2037.

The company has historically paid quarterly dividends on its preferred and common stock. Including dividends on preferred stock, Alcoa paid $590 in dividends to shareholders during 2007. Amounts are not included in the preceding table because all dividends are subject to approval by the company's Board of Directors. In January 2007, Alcoa announced an increase in its annual common stock dividend from $0.60 per share to $0.68 per share. As of December 31, 2007, there were 827,401,800 shares of common stock outstanding. It is expected that the increase in the annual common stock dividend will be offset over time due to the repurchase of common stock. In October 2007, Alcoa's Board of Directors approved a new share repurchase program. The new program authorizes the purchase of up to 25% (or approximately 217 million shares) of the outstanding common stock of Alcoa at December 31, 2006, in the open market or though privately negotiated transactions, directly or through brokers or agents, and expires on December 31, 2010. This new program superseded the share repurchase program that was approved by Alcoa's Board of Directors in January 2007, which authorized the repurchase of up to 87 million shares of Alcoa common stock. The shares repurchased under the January 2007 program count against the shares authorized for repurchase under the new program. During 2007, Alcoa repurchased 68 million shares, including 43 million shares under the January 2007 program.

Obligations for Investing Activities

Alcoa has made announcements indicating its participation in several significant expansion projects. These projects include the expansion of an alumina refinery in São Luis; the development of a bauxite mine in Juruti; global rolled products expansion projects in Russia, Hungary and China; and the continued investment in several hydroelectric power projects in Brazil. These projects are in various stages of development and, depending on business and (or) regulatory circumstances, may not be completed. The amounts included in the preceding table for capital projects represent the amounts that have been approved by management for these and other projects as of December 31, 2007. Funding levels may vary in future years based on anticipated construction schedules of the projects. It is anticipated that significant expansion projects will be funded through various sources, including cash provided from operations. Alcoa anticipates that financing required to execute all of these investments will be readily available over the time frame required.

Payments related to acquisitions are based on provisions in certain acquisition agreements that state additional funds are due to the seller from Alcoa if the businesses acquired achieve stated financial and operational thresholds. Amounts are only presented in the preceding table if it is has been determined that payment is more likely than not to occur. Certain additional contingent payments related to prior acquisitions are not included in the preceding table as they have not met such standard.

Off-Balance Sheet Arrangements. As of December 31, 2007, Alcoa has maximum potential future payments for guarantees issued on behalf of certain third parties of $513. These guarantees expire at various dates in 2008 through 2018 and relate primarily to project financing for hydroelectric power projects in Brazil. Alcoa also has standby letters of credit in the amount of $485 issued as of December 31, 2007. These letters of credit relate to environmental, insurance and other activities, and expire at various dates in 2008 through 2014.

In November 2007, Alcoa entered into a program to sell a senior undivided interest in certain customer receivables, without recourse, on a continuous basis to a third-party for cash. As of December 31, 2007, Alcoa received $100 in cash proceeds, which reduced Receivables from customers on the Consolidated Balance Sheet. Alcoa services the customer receivables for the third-party at market rates; therefore, no servicing asset or liability was recorded.

Alcoa also has an existing program with a different third-party to sell certain customer receivables. The sale of receivables under this program was conducted through a qualifying special purpose entity (QSPE) that is bankruptcy remote, and, therefore, is not consolidated by Alcoa. As of December 31, 2007 and 2006, Alcoa sold trade receivables of $139 and $84 to the QSPE.

Management's Reports to Alcoa Shareholders

Management's Report on Financial Statements and Practices

The accompanying Consolidated Financial Statements of Alcoa Inc. and its subsidiaries (the "Company") were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in the annual report is consistent with that in the financial statements.

Management also recognizes its responsibility for conducting the Company's affairs according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in key policy statements issued from time to time regarding, among other things, conduct of its business activities within the laws of the host countries in which the Company operates and potentially conflicting outside business interests of its employees. The Company maintains a systematic program to assess compliance with these policies.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on the assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2007, based on criteria in *Internal Control—Integrated Framework* issued by the COSO.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Management's Certifications

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required by the Sarbanes-Oxley Act have been included as Exhibits 31 and 32 in the Company's Form 10-K. In addition, in 2007, the Company's Chief Executive Officer provided to the New York Stock Exchange the annual CEO certification regarding the Company's compliance with the New York Stock Exchange's corporate governance listing standards.

Alain J. P. Belda
Chairman and
Chief Executive Officer

Charles D. McLane, Jr.
Executive Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Alcoa Inc.:

In our opinion, the accompanying consolidated balance sheets and the related statements of consolidated income, shareholders' equity and consolidated cash flows present fairly, in all material respects, the financial position of Alcoa Inc. and its subsidiaries (Alcoa) at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Alcoa maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Alcoa's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on Alcoa's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note A to the consolidated financial statements, Alcoa changed its method of accounting for benefit plans, stock-based compensation and mine stripping costs in 2006.

As discussed in Note C to the consolidated financial statements, Alcoa changed its method of accounting for conditional asset retirement obligations in 2005.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
February 15, 2008

Statement of Consolidated Income

(in millions, except per-share amounts)

For the year ended December 31,	2007	2006	2005
Sales (Q)	$30,748	$30,379	$25,568
Cost of goods sold (exclusive of expenses below)	24,248	23,318	20,704
Selling, general administrative, and other expenses	1,472	1,402	1,295
Research and development expenses	249	213	192
Provision for depreciation, depletion, and amortization	1,268	1,280	1,256
Goodwill impairment charge (E)	133	—	—
Restructuring and other charges (D)	399	543	292
Interest expense (V)	401	384	339
Other income, net (O)	(1,913)	(193)	(480)
Total costs and expenses	26,257	26,947	23,598
Income from continuing operations before taxes on income	4,491	3,432	1,970
Provision for taxes on income (T)	1,555	835	454
Income from continuing operations before minority interests' share	2,936	2,597	1,516
Less: Minority interests' share	365	436	259
Income from continuing operations	2,571	2,161	1,257
(Loss) income from discontinued operations (B)	(7)	87	(22)
Cumulative effect of accounting change (C)	—	—	(2)
Net Income	$ 2,564	$ 2,248	$ 1,233
Earnings (loss) per Common Share (S)			
Basic:			
Income from continuing operations	$ 2.98	$ 2.49	$ 1.44
Income (loss) from discontinued operations	—	.10	(.03)
Cumulative effect of accounting change	—	—	—
Net income	$ 2.98	$ 2.59	$ 1.41
Diluted:			
Income from continuing operations	$ 2.95	$ 2.47	$ 1.43
Income (loss) from discontinued operations	—	.10	(.03)
Cumulative effect of accounting change	—	—	—
Net income	$ 2.95	$ 2.57	$ 1.40

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

Consolidated Balance Sheet
(in millions)

December 31,	2007	2006
Assets		
Current assets:		
Cash and cash equivalents (X)	$ 483	$ 506
Receivables from customers, less allowances of $72 in 2007 and $68 in 2006	2,602	2,788
Other receivables	451	301
Inventories (G)	3,326	3,380
Prepaid expenses and other current assets	1,224	1,378
Total current assets	8,086	8,353
Properties, plants, and equipment, net (H)	16,879	14,007
Goodwill (E)	4,806	4,885
Investments (I)	2,038	1,718
Other assets (J)	4,046	3,939
Assets held for sale (B)	2,948	4,281
Total Assets	$38,803	$37,183
Liabilities		
Current liabilities:		
Short-term borrowings (K and X)	$ 569	$ 462
Commercial paper (K and X)	856	340
Accounts payable, trade	2,787	2,407
Accrued compensation and retirement costs	943	949
Taxes, including taxes on income	644	851
Other current liabilities	1,165	1,360
Long-term debt due within one year (K and X)	202	510
Total current liabilities	7,166	6,879
Commercial paper (K and X)	—	1,132
Long-term debt, less amount due within one year (K and X)	6,371	4,777
Accrued pension benefits (W)	1,098	1,540
Accrued postretirement benefits (W)	2,753	2,956
Other noncurrent liabilities and deferred credits (L)	1,943	2,002
Deferred income taxes (T)	545	762
Liabilities of operations held for sale (B)	451	704
Total liabilities	20,327	20,752
Minority interests (M)	2,460	1,800
Commitments and contingencies (N)		
Shareholders' Equity		
Preferred stock (R)	55	55
Common stock (R)	925	925
Additional capital	5,774	5,817
Retained earnings	13,039	11,066
Treasury stock, at cost	(3,440)	(1,999)
Accumulated other comprehensive loss	(337)	(1,233)
Total shareholders' equity	16,016	14,631
Total Liabilities and Equity	$38,803	$37,183

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

Statement of Consolidated Cash Flows

(in millions)

For the year ended December 31,	2007	2006	2005
Cash from Operations			
Net income	$ 2,564	$ 2,248	$ 1,233
Adjustments to reconcile net income to cash from operations:			
Depreciation, depletion, and amortization	1,269	1,280	1,258
Deferred income taxes	248	(68)	(16)
Equity (income) loss, net of dividends	(116)	(89)	35
Goodwill impairment charge (E)	133	—	—
Restructuring and other charges (D)	399	543	292
Gains from investing activities—asset sales (O)	(1,800)	(25)	(406)
Provision for doubtful accounts	15	22	19
Loss (income) from discontinued operations (B)	7	(87)	22
Minority interests	365	436	259
Cumulative effect of accounting change (C)	—	—	2
Stock-based compensation (R)	97	72	25
Excess tax benefits from stock-based payment arrangements	(79)	(17)	—
Other	(81)	(222)	12
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency translation adjustments:			
Decrease (increase) in receivables	517	(109)	(465)
Decrease (increase) in inventories	186	(509)	(403)
(Increase) in prepaid expenses and other current assets	(129)	(175)	(27)
Increase (decrease) in accounts payable and accrued expenses	79	(285)	656
(Decrease) increase in taxes, including taxes on income	(169)	30	(124)
Cash received (paid) on long-term aluminum supply contract	93	—	(93)
Pension contributions	(322)	(397)	(383)
Net change in other noncurrent assets and liabilities	(172)	(41)	(208)
Decrease (increase) in net assets held for sale	8	(44)	(44)
Cash provided from continuing operations	3,112	2,563	1,644
Cash (used for) provided from discontinued operations	(1)	4	32
Cash provided from operations	3,111	2,567	1,676
Financing Activities			
Net change in short-term borrowings	94	126	5
Net change in commercial paper	(617)	560	282
Additions to long-term debt (K)	2,050	29	278
Debt issuance costs (K)	(126)	—	—
Payments on long-term debt (K)	(873)	(36)	(254)
Common stock issued for stock compensation plans	835	156	72
Excess tax benefits from stock-based payment arrangements	79	17	—
Repurchase of common stock	(2,496)	(290)	(108)
Dividends paid to shareholders	(590)	(524)	(524)
Dividends paid to minority interests	(368)	(400)	(75)
Contributions from minority interests	474	342	—
Cash used for financing activities	(1,538)	(20)	(324)
Investing Activities			
Capital expenditures	(3,636)	(3,201)	(2,116)
Capital expenditures of discontinued operations	—	(4)	(22)
Acquisitions of minority interests (F and P)	(3)	(1)	(199)
Acquisitions, net of cash acquired (F and P)	(15)	8	(262)
Proceeds from the sale of assets and businesses	183	372	505
Additions to investments	(131)	(58)	(30)
Sales of investments (I)	2,011	35	1,081
Net change in short-term investments and restricted cash	3	(4)	(8)
Other	(37)	12	16
Cash used for investing activities	(1,625)	(2,841)	(1,035)
Effect of exchange rate changes on cash and cash equivalents	29	38	(12)
Net change in cash and cash equivalents	(23)	(256)	305
Cash and cash equivalents at beginning of year	506	762	457
Cash and cash equivalents at end of year	$ 483	$ 506	$ 762

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

Statement of Shareholders' Equity
(in millions, except per-share amounts)

December 31,	Comprehensive income	Preferred stock	Common stock	Additional capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total shareholders' equity
Balance at end of 2004		$ 55	$ 925	$ 5,775	$ 8,636	$ (1,926)	$ (165)	$ 13,300
Comprehensive income:								
Net income	$ 1,233				1,233			1,233
Other comprehensive (loss) income:								
Change in minimum pension liability, net of tax benefit and minority interests of $80	(148)							
Foreign currency translation adjustments	(542)							
Unrealized gains on available-for-sale securities, net of tax expense of $52	96							
Unrecognized gains (losses) on derivatives, net of tax benefit and minority interests of $87 (X):								
Net change from periodic revaluations	123							
Net amount reclassified to income	(137)							
Net unrecognized losses on derivatives	(14)							
Comprehensive income	$ 625						(608)	(608)
Cash dividends: Preferred @ $3.75 per share					(2)			(2)
Common @ $.60 per share					(522)			(522)
Common stock issued: compensation plans				(55)		135		80
Repurchase of common stock						(108)		(108)
Balance at end of 2005		55	925	5,720	9,345	(1,899)	(773)	13,373
Comprehensive income:								
Net income	$ 2,248				2,248			2,248
Other comprehensive income (loss):								
Change in minimum pension liability, net of tax expense and minority interests of $104	184							
Foreign currency translation adjustments	659							
Unrealized gains on available-for-sale securities, net of tax expense of $53	98							
Unrecognized losses on derivatives, net of tax benefit and minority interests of $152 (X):								
Net change from periodic revaluations	(473)							
Net amount reclassified to income	(51)							
Net unrecognized losses on derivatives	(524)							
Comprehensive income	$ 2,665						417	417
Cash dividends: Preferred @ $3.75 per share					(2)			(2)
Common @ $.60 per share					(522)			(522)
Stock-based compensation				72				72
Common stock issued: compensation plans				(13)		190		177
Repurchase of common stock						(290)		(290)
Cumulative effect adjustment due to the adoption of SFAS 158, net of tax and minority interests							(877)	(877)
Cumulative effect adjustment due to the adoption of EITF 04-6, net of tax and minority interests					(3)			(3)
Other				38				38
Balance at end of 2006		55	925	5,817	11,066	(1,999)	(1,233)	14,631
Comprehensive income:								
Net income	$ 2,564				2,564			2,564
Other comprehensive income (loss):								
Change in unrecognized losses and prior service cost related to pension and postretirement benefit plans, net of tax expense and minority interests of $153	506							
Foreign currency translation adjustments	880							
Unrealized gains on available-for-sale securities, net of tax benefit of $222:								
Unrealized holding gains	747							
Net amount reclassified to income	(1,159)							
Net change in unrealized gains on available-for-sale securities	(412)							
Unrecognized losses on derivatives, net of tax benefit and minority interests of $30 (X):								
Net change from periodic revaluations	(69)							
Net amount reclassified to income	(9)							
Net unrecognized losses on derivatives	(78)							
Comprehensive income	$ 3,460						896	896
Cash dividends: Preferred @ $3.75 per share					(2)			(2)
Common @ $.68 per share					(589)			(589)
Stock-based compensation				97				97
Common stock issued: compensation plans				(140)		1,055		915
Repurchase of common stock						(2,496)		(2,496)
Balance at end of 2007		$ 55	$ 925	$ 5,774	$ 13,039	$ (3,440)	$ (337)*	$ 16,016

* Comprised of unrealized foreign currency translation adjustments of $1,532, unrecognized losses and prior service cost, net, related to pension and postretirement benefit plans of $(1,307), unrealized gains on available-for-sale securities of $3, and unrecognized net losses on derivatives of $(565), all net of tax and applicable minority interests.

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

A. Summary of Significant Accounting Policies

Basis of Presentation. The Consolidated Financial Statements of Alcoa Inc. and its subsidiaries ("Alcoa" or the "company") are prepared in conformity with accounting principles generally accepted in the United States of America and require management to make certain estimates and assumptions. These may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. They also may affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates upon subsequent resolution of identified matters.

Principles of Consolidation. The Consolidated Financial Statements include the accounts of Alcoa and companies in which Alcoa has a controlling interest. Intercompany transactions have been eliminated. The equity method of accounting is used for investments in affiliates and other joint ventures over which Alcoa has significant influence (ownership between twenty and fifty percent) but does not have effective control. Investments in affiliates in which Alcoa cannot exercise significant influence (ownership interest less than twenty percent) are accounted for on the cost method.

Alcoa also evaluates consolidation of entities under Financial Accounting Standards Board (FASB) Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 requires management to evaluate whether an entity or interest is a variable interest entity and whether Alcoa is the primary beneficiary. Consolidation is required if both of these criteria are met. Alcoa does not have any variable interest entities requiring consolidation.

Cash Equivalents. Cash equivalents are highly liquid investments purchased with an original maturity of three months or less.

Inventory Valuation. Inventories are carried at the lower of cost or market, with cost for a substantial portion of U.S. and Canadian inventories determined under the last-in, first-out (LIFO) method. The cost of other inventories is principally determined under the average-cost method. See Note G for additional information.

Properties, Plants, and Equipment. Properties, plants, and equipment are recorded at cost. Depreciation is recorded principally on the straight-line method at rates based on the estimated useful lives of the assets, averaging 33 years for structures and approximately 16 years for machinery and equipment, as useful lives range between 5 and 25 years. For greenfield smelters, the units of production method is used to record depreciation. Gains or losses from the sale of assets are generally recorded in other income (see policy that follows for assets classified as held for sale and discontinued operations). Repairs and maintenance are charged to expense as incurred. Interest related to the construction of qualifying assets is capitalized as part of the construction costs. Depletion related to mineral reserves is recorded using the units of production method. See Notes H and V for additional information.

Properties, plants, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets (asset group) may not be recoverable. Recoverability of assets is determined by comparing the estimated undiscounted net cash flows of the operations related to the assets (asset group) to their carrying amount. An impairment loss would be recognized when the carrying amount of the assets (asset group) exceeds the estimated undiscounted net cash flows. The amount of the impairment loss to be recorded is calculated as the excess of the carrying value of the assets (asset group) over their fair value, with fair value determined using the best information available, which generally is a discounted cash flow analysis.

Goodwill and Other Intangible Assets. Goodwill and intangible assets with indefinite useful lives are not amortized. Intangible assets with finite useful lives are amortized generally on a straight-line basis over the periods benefited, with a weighted average useful life of 13 years.

Goodwill and indefinite-lived intangible assets are tested annually for impairment and whenever events or circumstances change, such as a significant adverse change in business climate or the decision to sell a business, that would make it more likely than not that an impairment may have occurred. If the carrying value of goodwill or an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized. The evaluation of impairment involves comparing the current fair value of each of Alcoa's reporting units to their recorded value, including goodwill. Alcoa uses a discounted cash flow model (DCF model) to determine the current fair value of its reporting units. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market share, sales volumes and prices, costs to produce, discount rate, and working capital changes. Management considers historical experience and all available information at the time the fair values of its reporting units are estimated. However, fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill. See Note E for additional information.

Accounts Payable Arrangements. Alcoa participates in computerized payable settlement arrangements with certain vendors and third-party intermediaries. The arrangements provide that, at the vendor's request, the third-party intermediary advances the amount of the scheduled payment to the vendor, less an appropriate discount, before the scheduled payment date. Alcoa makes payment to the third-party intermediary on the date stipulated in accordance with the commercial terms negotiated with its vendors. The amounts outstanding under these arrangements that will be paid through the third-party intermediaries are classified as short-term borrowings in the Consolidated Balance Sheet and as cash provided from financing activities in the Statement of Consolidated Cash Flows. Alcoa records imputed interest related to these arrangements as interest expense in the Statement of Consolidated Income. See Note K for additional information.

Revenue Recognition. Alcoa recognizes revenue when title, ownership, and risk of loss pass to the customer.

Alcoa periodically enters into long-term supply contracts with alumina and aluminum customers and receives advance payments for product to be delivered in future periods. These advance payments are recorded as deferred revenue, and revenue is recognized as shipments are made and title, ownership, and risk of loss pass to the customer during the term of the contracts.

Environmental Expenditures. Expenditures for current operations are expensed or capitalized, as appropriate. Expenditures relating to existing conditions caused by past operations, and which do not contribute to future revenues, are expensed. Liabilities are recorded when remediation efforts are probable and the costs can be reasonably estimated. The liability may include costs such as site investigations, consultant fees, feasibility studies, outside contractor, and monitoring expenses. Estimates are generally not discounted or reduced by potential claims for recovery. Claims for recovery are recognized as agreements are reached with third parties. The estimates also include costs related to other potentially responsible parties to the extent that Alcoa has reason to believe such parties will not fully pay their proportionate share. The liability is periodically reviewed and adjusted to reflect current remediation progress, prospective estimates of required activity, and other factors that may be relevant, including changes in technology or regulations. See Note N for additional information.

Asset Retirement Obligations. Alcoa recognizes asset retirement obligations (AROs) related to legal obligations associated with the normal operation of Alcoa's bauxite mining, alumina refining, and aluminum smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure. Alcoa also recognizes AROs for any significant lease restoration obligation, if required by a lease agreement, and for the disposal of regulated waste materials related to the demolition of certain power facilities. The fair values of these AROs are recorded on a discounted basis, at the time the obligation is incurred, and accreted over time for the change in present value. Additionally, Alcoa capitalizes asset retirement costs by increasing the carrying amount of the related long-lived assets and depreciating these assets over their remaining useful life.

Certain conditional asset retirement obligations (CAROs) related to alumina refineries, aluminum smelters, and fabrication facilities have not been recorded in the Consolidated Financial Statements due to uncertainties surrounding the ultimate settlement date. A CARO is a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within Alcoa's control. Such uncertainties exist as a result of the perpetual nature of the structures, maintenance and upgrade programs, and other factors. At the date a reasonable estimate of the ultimate settlement date can be made, Alcoa would record a retirement obligation for the removal, treatment, transportation, storage and (or) disposal of various regulated assets and hazardous materials such as asbestos, underground and aboveground storage tanks, polychlorinated biphenyls (PCBs), various process residuals, solid wastes, electronic equipment waste and various other materials. Such amounts may be material to the Consolidated Financial Statements in the period in which they are recorded.

Income Taxes. The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, the provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid, and result from differences between the financial and tax bases of Alcoa's assets and liabilities and are adjusted for changes in tax rates and tax laws when enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Deferred tax assets for which no valuation allowance is recorded may not be realized upon changes in facts and circumstances. Tax benefits related to uncertain tax positions taken or expected to be taken on a tax return are recorded when such benefits meet a more likely than not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that the appropriate taxing authority has completed their examination even though the statute of limitations remains open, or the statute of limitation expires. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized. Alcoa also has unamortized tax-deductible goodwill of $311 resulting from intercompany stock sales and reorganizations (generally at a 30% to 34% rate). Alcoa recognizes the tax benefits associated with this tax-deductible goodwill as it is being amortized for local income tax purposes rather than in the period in which the transaction is consummated.

Stock-Based Compensation. Alcoa recognizes compensation expense for employee equity grants using the non-substantive vesting period approach, in which the expense (net of estimated forfeitures) is recognized ratably over the requisite service period based on the grant date fair value. Determining the fair value of stock options at the grant date requires judgment including estimates for the average risk-free interest rate, expected volatility, expected exercise behavior, expected dividend yield, and expected forfeitures. If any of these assumptions differ significantly from actual, stock-based compensation expense could be impacted.

Prior to 2006, Alcoa used the nominal vesting approach related to retirement-eligible employees, in which the compensation expense is recognized ratably over the original vesting period. As part of Alcoa's stock-based compensation plan design, individuals that are retirement-eligible have a six-month requisite service period in the year of grant. Equity grants are issued in January each year. As a result, a larger portion of expense will be recognized in the first and second quarters of each year for these retirement-eligible employees. Compensation expense recorded in 2007 and 2006 was $97 ($63 after-tax) and $72 ($48 after-tax), respectively. Of this amount, $19 and $20 in 2007 and 2006, respectively, pertains to the acceleration of expense related to retirement-eligible employees.

As of January 1, 2005, Alcoa switched from the Black-Scholes pricing model to a lattice model to estimate fair value at the grant date for future option grants. On December 31, 2005, Alcoa accelerated the vesting of 11 million unvested stock options granted to employees in 2004 and on January 13, 2005. The 2004 and 2005 accelerated options had weighted average exercise prices of $35.60 and $29.54, respectively, and in the aggregate represented approximately 12% of Alcoa's total outstanding options. The decision to accelerate the vesting of the 2004 and 2005 options was made primarily to avoid recognizing the related compensation expense in future Consolidated Financial Statements upon the adoption of a new accounting standard. The accelerated vesting of the 2004 and 2005 stock options reduced Alcoa's after-tax stock option compensation expense in 2007 and 2006 by $7 and $21, respectively.

An additional change was made to the stock-based compensation program for 2006 grants. Plan participants can choose whether to receive their award in the form of stock options, restricted stock units (stock awards), or a combination of both. This choice is made before the grant is issued and is irrevocable. This choice resulted in increased stock award expense in both 2007 and 2006 in comparison to 2005.

Derivatives and Hedging. Derivatives are held as part of a formally documented risk management program. The derivatives are straightforward and are held for purposes other than trading. For derivatives designated as fair value hedges, Alcoa measures hedge effectiveness by formally assessing, at least quarterly, the historical high correlation of changes in the fair value of the hedged item and the derivative hedging instrument. For derivatives designated as cash flow hedges, Alcoa measures hedge effectiveness by formally assessing, at least quarterly, the probable high correlation of the expected future cash flows of the hedged item and the derivative hedging instrument. The ineffective portions of both types of hedges are recorded in revenues or other income or expense in the current period. A gain of $4 was recorded in 2007 (gains of $10 and $11 in 2006 and 2005, respectively) for the ineffective portion of aluminum hedges. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, future gains or losses on the derivative are recorded in other income or expense. No hedging transactions ceased to qualify as hedges in 2007, 2006 or 2005.

Alcoa accounts for interest rate swaps related to its existing long-term debt and hedges of firm customer commitments for aluminum as fair value hedges. As a result, the fair values of the derivatives and changes in the fair values of the underlying hedged items are reported in other current and noncurrent assets and liabilities in the Consolidated Balance Sheet. Changes in the fair values of these derivatives and underlying hedged items generally offset and are recorded each period in sales or interest expense, consistent with the underlying hedged item.

Alcoa accounts for hedges of foreign currency exposures and certain forecasted transactions as cash flow hedges. The fair values of the derivatives are recorded in other current and noncurrent assets and liabilities in the Consolidated Balance Sheet. The effective portions of the changes in the fair values of these derivatives are recorded in other comprehensive loss (losses of $565 and $487 at December 31, 2007 and 2006, respectively) and are reclassified to sales, cost of goods sold, or other income in the period in which earnings are impacted by the hedged items or in the period that the transaction no longer qualifies as a cash flow hedge. These contracts cover the same periods as known or expected exposures, generally not exceeding five years. Assuming market rates remain constant with the rates at December 31, 2007, a loss of $101 is expected to be recognized in earnings over the next 12 months.

If no hedging relationship is designated, the derivative is marked to market through earnings.

Cash flows from financial instruments are recognized in the Statement of Consolidated Cash Flows in a manner consistent with the underlying transactions. See Notes K and X for additional information.

Foreign Currency. The local currency is the functional currency for Alcoa's significant operations outside the U.S., except certain operations in Canada, Brazil, Russia and Iceland, where the U.S. dollar is used as the functional currency. The determination of the functional currency for Alcoa's operations is made based on the appropriate economic and management indicators.

Acquisitions. Alcoa's acquisitions are accounted for using the purchase method. The purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair market values. Any excess purchase price over the fair market value of the net assets acquired is recorded as goodwill. For all acquisitions, operating results are included in the Statement of Consolidated Income since the dates of the acquisitions. See Note F for additional information.

Discontinued Operations and Assets Held For Sale. For those businesses where management has committed to a plan to divest, each business is valued at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. The fair values are estimated using accepted valuation techniques such as a DCF model, valuations performed by third parties, earnings multiples, or indicative bids, when available. A number of significant estimates and assumptions are involved in the application of these techniques, including the forecasting of markets and market share, sales volumes and prices, costs and expenses, and multiple other factors. Management considers historical experience and all available information at the time the estimates are made; however, the fair values that are ultimately realized upon the sale of the businesses to be divested may differ from the estimated fair values reflected in the Consolidated Financial Statements. Depreciation is no longer recorded on assets of businesses to be divested once they are classified as held for sale.

Businesses to be divested are classified in the Consolidated Financial Statements as either discontinued operations or assets held for sale. For businesses classified as discontinued operations, the balance sheet amounts and income statement results are reclassified from their historical presentation to assets and liabilities of operations held for sale on the Consolidated Balance Sheet and to discontinued operations in the Statement of Consolidated Income, respectively, for all periods presented. The gains or losses associated with these divested businesses are recorded in income (loss) from discontinued operations in the Statement of Consolidated Income. The Statement of Consolidated Cash Flows is also reclassified for assets held for sale and discontinued operations for all periods presented. Additionally, segment information does not include the operating results of businesses classified as discontinued operations. Management does not expect any continuing involvement with these businesses following the sales, and these businesses are expected to be disposed of within one year.

For businesses classified as assets held for sale that do not qualify for discontinued operations treatment, the balance sheet and cash flow amounts are reclassified from their historical presentation to assets and liabilities of operations held for sale. The income statement results continue to be reported in the historical income statement categories as income from continuing operations. The gains or losses associated with these divested businesses are generally recorded in restructuring and other charges in the Statement of Consolidated Income. The segment information includes the operating results of businesses classified as assets held for sale for all periods presented. Management expects that Alcoa will have continuing involvement with these businesses following the sale, primarily in the form of equity participation, or ongoing aluminum or other significant supply contracts.

Recently Adopted Accounting Standards. On January 1, 2007, Alcoa adopted FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109," (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements, uncertain tax positions that it has taken or expects to take on a tax return. This Interpretation requires that a company recognize in its financial statements the impact of tax positions that meet a "more likely than not" threshold, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

Effective January 1, 2007, Alcoa adopted FASB Staff Position (FSP) No. FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48," (FSP FIN 48-1), which was issued on May 2, 2007. FSP FIN 48-1 amends FIN 48 to provide guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The term "effectively settled" replaces the term "ultimately settled" when used to describe recognition, and the terms "settlement" or "settled" replace the terms "ultimate settlement" or "ultimately settled" when used to describe measurement of a tax position under FIN 48. FSP FIN 48-1 clarifies that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open.

The adoption of FIN 48 and FSP FIN 48-1 did not have an impact on the accompanying Consolidated Financial Statements. See Note T for the required disclosures in accordance with the provisions of FIN 48.

Alcoa adopted Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)," (SFAS 158), effective December 31, 2006. The adoption of SFAS 158 resulted in the following impacts: a reduction of $119 in existing prepaid pension costs and intangible assets, the recognition of $1,234 in accrued pension and postretirement liabilities, and a charge of $1,353 ($877 after-tax) to accumulated other comprehensive loss. See Note W for additional information.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," (SAB 108). SAB 108 was issued to provide interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provisions of SAB 108 were effective for Alcoa for its December 31, 2006 year-end. The adoption of SAB 108 did not have a material impact on Alcoa's Consolidated Financial Statements.

On January 1, 2006, Alcoa adopted SFAS No. 123 (revised 2004), "Share-Based Payment," (SFAS 123(R)), which requires the company to recognize compensation expense for stock-based compensation based on the grant date fair value. SFAS 123(R) revises SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Alcoa elected the modified prospective application method for adoption, and prior period financial statements have not been restated. As a result of the implementation of SFAS 123(R), Alcoa recognized additional compensation expense of $29 ($19 after-tax) in 2006 comprised of $11 ($7 after-tax) and $18 ($12 after-tax) related to stock options and stock awards, respectively. See Note R for additional information.

Effective January 1, 2006, Alcoa adopted Emerging Issues Task Force (EITF) Issue No. 04-6, "Accounting for Stripping Costs Incurred During Production in the Mining Industry," (EITF 04-6). EITF 04-6 requires that stripping costs incurred during the production phase of a mine are to be accounted for as variable production costs that should be included in the costs of the inventory produced (that is, extracted) during the period that the stripping costs are incurred. Upon adoption, Alcoa recognized a cumulative effect adjustment in the opening balance of retained earnings of $3, representing the reduction in the net book value of post-production stripping costs of $8, offset by a related deferred tax liability of $3 and minority interests of $2.

Recently Issued Accounting Standards. In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51," (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a noncontrolling interest, sometimes called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS 160 requires, among other items, that a noncontrolling interest be included in the consolidated statement of financial position within equity separate from the parent's equity; consolidated net income to be reported at amounts inclusive of both the parent's and noncontrolling interest's shares and, separately, the amounts of consolidated net income attributable to the parent and noncontrolling interest all on the consolidated statement of income; and if a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. SFAS 160 becomes effective for Alcoa on January 1, 2009. Management is currently evaluating the potential impact of SFAS 160 on the Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," (SFAS 141(R)). SFAS 141(R) replaces SFAS No. 141, "Business Combinations," (SFAS 141) and retains the fundamental requirements in SFAS 141, including that the purchase method be used for all business combinations and for an acquirer to be identified for each business combination. This standard defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control instead of the date that the consideration is transferred. SFAS 141(R) requires an acquirer in a business combination, including business combinations achieved in stages (step acquisition), to recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values of that date, with limited exceptions. It also requires the recognition of assets acquired and liabilities assumed arising from certain contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. SFAS 141(R) becomes effective for Alcoa for any business combination with an acquisition date on or after January 1, 2009. Management is currently evaluating the potential impact of SFAS 141(R) on the 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 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). SFAS 159 becomes effective for Alcoa on January 1, 2008. Management has determined that the adoption of SFAS 159 will not have a material impact on the Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157, as it relates to financial assets and financial liabilities, becomes effective for Alcoa on January 1, 2008. On February 12, 2008, the FASB issued FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157," which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until January 1, 2009 for calendar year-end entities. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. Management has determined that the adoption of SFAS 157, as it relates to financial assets and financial liabilities, except for pension plan assets in regards to the funded status recorded on the Consolidated Balance Sheet, will not have a material impact on the Consolidated Financial Statements. Management is currently evaluating the potential impact of SFAS 157, as it relates to pension plan assets, nonfinancial assets and nonfinancial liabilities, on the Consolidated Financial Statements.

In April 2007, the FASB issued FSP No. FIN 39-1, "Amendment of FASB Interpretation No. 39," (FSP FIN 39-1). FSP FIN 39-1 amends FIN No. 39, "Offsetting of Amounts Related to Certain Contracts," by permitting entities that enter into master netting arrangements as part of their derivative transactions to offset in their financial statements net derivative positions against the fair value of amounts (or amounts that approximate fair value) recognized for the right to reclaim cash collateral or the obligation to return cash collateral under those arrangements. FSP FIN 39-1 becomes effective for Alcoa on January 1, 2008. Management has determined that the adoption of FSP FIN 39-1 will not have a material impact on the Consolidated Financial Statements.

In March 2007, the EITF issued EITF Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements," (EITF 06-10). Under the provisions of EITF 06-10, an employer is required to recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," or Accounting Principles Board Opinion No. 12, "Omnibus Opinion—1967," if the employer has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit based on the substantive arrangement with the employee. The provisions of EITF 06-10 also require an employer to recognize and measure the asset in a collateral assignment split-dollar life insurance arrangement based on the nature and substance of the arrangement. EITF 06-10 becomes effective for Alcoa on January 1, 2008. Management has determined that the adoption of EITF 06-10 will not have a material impact on the Consolidated Financial Statements.

In January 2008, the FASB issued Statement 133 Implementation Issue No. E23, "Hedging—General: Issues Involving the Application of the Shortcut Method under Paragraph 68" (Issue E23). Issue E23 provides guidance on certain practice issues related to the application of the shortcut method by amending paragraph 68 of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," with respect to the conditions that must be met in order to apply the shortcut method for assessing hedge effectiveness of interest rate swaps. The provisions of Issue E23 become effective for Alcoa for hedging arrangements designated on or after January 1, 2008. Additionally, preexisting hedging arrangements must be assessed on January 1, 2008 to determine whether the provisions of Issue E23 were met as of the inception of the hedging arrangement. Management has determined that Issue E23 will not have any impact on its preexisting hedging arrangements.

Reclassification. Certain amounts in previously issued financial statements were reclassified to conform to 2007 presentations. See Note B for additional information.

B. Discontinued Operations and Assets Held for Sale

For all periods presented in the accompanying Statement of Consolidated Income, businesses classified as discontinued operations include the Hawesville, KY automotive casting facility, the wireless component of the telecommunications business, and a small automotive casting business in the U.K. The home exteriors business was also included in discontinued operations in 2006 and 2005, and the telecommunications, protective packaging and the imaging and graphic communications businesses were also included in discontinued operations in 2005.

In the third quarter of 2006, Alcoa reclassified its home exteriors business to discontinued operations upon the signing of a definitive sale agreement with Ply Gem Industries, Inc. The sale of the home exteriors business was completed in the fourth quarter of 2006 (see Note F for additional information). In the first quarter of 2006, Alcoa reclassified the Hawesville automotive casting facility to discontinued operations upon closure of the facility. The results of the Extruded and End Products segment and the Engineered Solutions segment were reclassified to reflect the movement of the home exteriors business and the automotive casting facility, respectively, into discontinued operations. The Consolidated Financial Statements for all prior periods presented were reclassified to reflect these businesses in discontinued operations.

In the third quarter of 2005, Alcoa reclassified the imaging and graphics communications business of Southern Graphic Systems, Inc. (SGS) to discontinued operations based on the decision to sell the business. The results of the Packaging and Consumer segment were reclassified to reflect the movement of this business into discontinued operations. The sale was completed in the fourth quarter of 2005. The divestitures of the following businesses were completed in 2005: the telecommunications business, the protective packaging business, and the imaging and graphics communications business. See Note F for additional information.

The following table details selected financial information for the businesses included within discontinued operations:

	2007	2006	2005
Sales	$ —	$517	$1,033
(Loss) income from operations	$ (3)	$ (26)	$ 38
(Loss) gain on sale of businesses	(16)	176	50
Loss from impairment	(3)	(1)	(55)
Pretax (loss) income	(22)	149	33
Benefit (provision) for income taxes	15	(62)	(57)
Minority interests	—	—	2
(Loss) income from discontinued operations	$ (7)	$ 87	$ (22)

In 2007, the loss from discontinued operations of $7 was comprised of an $11 loss, primarily related to working capital and other adjustments associated with the 2006 sale of the home exteriors business, partially offset by net operating income of $4 of discontinued businesses. In 2006, the income from discontinued operations of $87 was comprised of a $110 gain related to the sale of the home exteriors business, offset by $20 of net operating losses and a loss of $3 related to the 2005 sale of the imaging and graphics communications business. In 2005, the loss from discontinued operations of $22 was comprised of $43 of net losses associated with businesses impaired or sold in 2005, including a $28 loss for asset impairments associated with the Hawesville automotive casting facility, partially offset by $21 in net operating income.

For both periods presented in the accompanying Consolidated Balance Sheet, the assets and liabilities of operations classified as held for sale include the businesses within the Packaging and Consumer segment, the Hawesville automotive casting facility, the wireless component of the telecommunications business, a small automotive casting business in the U.K. and the net assets of one of the three soft alloy extrusion facilities in the U.S. that were not contributed to the newly-formed soft alloy extrusion joint venture. The assets and related liabilities of the remaining Automotive Castings business, the net assets of the soft alloy extrusion business that were contributed to the joint venture in June 2007, and the net assets of two of the three soft alloy extrusion facilities in the U.S. that were not contributed to the newly-formed soft alloy extrusion joint venture were also classified as held for sale in 2006.

In the third quarter of 2007, Alcoa classified the assets and related liabilities of the remaining Automotive Castings business and the businesses within the Packaging and Consumer segment as held for sale based upon management's decision to sell these businesses. See Notes D and F for additional information.

In the fourth quarter of 2006, Alcoa reclassified its soft alloy extrusion business to assets held for sale upon the determination that it would be disposed of, including the signing of a letter of intent with Orkla ASA's SAPA Group (Sapa) to create a joint venture that would combine the soft alloy extrusion business with Sapa's Profiles extruded aluminum business. See Notes D and F for additional information.

The major classes of assets and liabilities of operations held for sale are as follows:

December 31,	2007	2006
Assets:		
Receivables, less allowances	$ 308	$ 672
Inventories	377	651
Properties, plants, and equipment, net	738	1,188
Goodwill	1,094	1,285
Intangibles	375	404
Other assets	56	81
Assets held for sale	$2,948	$4,281
Liabilities:		
Accounts payable	$ 304	$ 487
Accrued expenses	114	164
Other liabilities	33	53
Liabilities of operations held for sale	$ 451	$ 704

C. Asset Retirement Obligations

Alcoa has recorded AROs related to legal obligations associated with the normal operations of bauxite mining, alumina refining, and aluminum smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure.

Effective December 31, 2005, Alcoa adopted FIN No. 47, "Accounting for Conditional Asset Retirement Obligations," (FIN 47). FIN 47 clarifies the accounting for conditional asset retirement obligations (CAROs), as referenced in SFAS No. 143, "Accounting for Asset Retirement Obligations." A CARO is a legal obligation to perform an asset retirement activity in which the obligation is unconditional, but uncertainty exists about the timing and (or) method of settlement, which may or may not be under the control of Alcoa, and which prevents the reasonable estimation of the fair value of the CARO. Upon adoption, Alcoa recognized a cumulative effect adjustment of $2, consisting primarily of costs for regulated waste materials related to the demolition of certain power facilities. Pro forma amounts related to prior periods are not presented, as there is no impact on prior period financial statements.

In addition to the above CAROs, certain CAROs related to alumina refineries, aluminum smelters, and fabrication facilities have not been recorded in the Consolidated Financial Statements due to uncertainties surrounding the ultimate settlement date. Such uncertainties exist as a result of the perpetual nature of the structures, maintenance and upgrade programs, and other factors. At the date that a reasonable estimate of the ultimate settlement date can be made, Alcoa would record a retirement obligation for the removal, treatment, transportation, storage and (or) disposal of various regulated assets and hazardous materials such as asbestos, underground and aboveground storage tanks, PCBs, various process residuals, solid wastes, electronic equipment waste and various other materials. If Alcoa was required to demolish all such structures immediately, the estimated CARO as of December 31, 2007 ranges from less than $1 to $52 per structure in today's dollars.

The following table details the changes in the carrying amount of recorded AROs and CAROs:

December 31,	2007	2006
Balance at beginning of year	$291	$258
Accretion expense	13	13
Payments	(42)	(42)
Liabilities incurred	34	51
Translation and other	15	11
Balance at end of year	$311	$291

D. Restructuring and Other Charges

Restructuring and other charges for each of the three years in the period ended December 31, 2007 were comprised of the following:

	2007	2006	2005
Asset impairments	$286	$442	$ 86
Layoff costs	90	107	238
Other exit costs	55	37	16
Reversals of previously recorded layoff and other exit costs*	(32)	(43)	(48)
Restructuring and other charges	$399	$543	$292

*Reversals of previously recorded layoff and other exit costs resulted from changes in facts and circumstances that led to changes in estimated costs.

Employee termination and severance costs were recorded based on approved detailed action plans submitted by the operating locations that specified positions to be eliminated, benefits to be paid under existing severance plans, union contracts or statutory requirements, and the expected timetable for completion of the plans.

2007 Restructuring Program. In 2007, Alcoa recorded restructuring and other charges of $399 ($307 after-tax and minority interests), which were comprised of the following components: $331 ($234 after-tax) in asset impairments and $53 ($36 after-tax) in severance charges associated with a strategic review of certain businesses; a $62 ($23 after-tax) reduction to the original impairment charge recorded in 2006 related to the estimated fair value of the soft alloy extrusion business, which was contributed to a joint venture effective June 1, 2007 (see the 2006 Restructuring Program for additional information); and $77 ($60 after-tax and minority interests) in net charges comprised of severance charges of $37 ($34 after-tax and minority interests) related to the elimination of approximately 400 positions and asset impairments of $17 ($11 after-tax) of various other businesses and facilities, other exit costs of $55 ($37 after-tax and minority interests), primarily for accelerated depreciation associated with the shutdown of certain facilities in 2007 related to the 2006 Restructuring Program, and reversals of previously recorded layoff and other exit costs of $32 ($22 after-tax and minority interests) due to normal attrition and changes in facts and circumstances.

In April 2007, Alcoa announced it was exploring strategic alternatives for the potential disposition of the businesses within the Packaging and Consumer segment, the Automotive Castings business, and the Electrical and Electronic Solutions business (EES) (formerly the Alcoa Fujikura Limited (AFL) wire harness business). In September 2007, management completed its review of strategic alternatives and determined that the best course of action was to sell the Packaging and Consumer and Automotive Castings businesses, and to significantly restructure the EES business in order to improve its returns and profitability.

As a result of this decision, the assets and related liabilities of the Packaging and Consumer and Automotive Castings businesses were classified as held for sale (see Note B for additional information). In the third quarter of 2007, Alcoa recorded impairment charges of $215 ($140 after-tax) related to the Packaging and Consumer businesses and $68 ($51 after-tax) for the Automotive Castings business to reflect the write-down of the carrying value of the assets of these businesses to their respective estimated fair values. In addition, Alcoa recorded a $464 discrete income tax charge related to goodwill associated with the planned sale of the Packaging and Consumer businesses that would have been non-deductible for tax purposes under the transaction structure contemplated at the time. In November 2007, Alcoa completed the sale of the Automotive Castings business and recognized a loss of $4 ($2 after-tax) in Restructuring and other charges on the accompanying Statement of Consolidated Income (see Note F for additional information). In December 2007, Alcoa agreed to sell the Packaging and Consumer businesses for $2,700 in cash, and reduced the impairment charge by $26 ($17 after-tax) and the discrete income tax charge by $322 as a result of the structure of the agreed upon sale (see Note F for additional information). Severance and other exit costs may be incurred subsequent to 2007 as Alcoa finalizes negotiations with the buyer of the Packaging and Consumer businesses.

The EES business designs and manufactures electrical and electronic systems, wire harnesses and components for the ground transportation industry worldwide. In the third quarter of 2007, Alcoa recorded severance charges of $53 ($36 after-tax) for the elimination of approximately 5,900 positions related to restructurings at various EES facilities in North America and Europe. This restructuring includes the closure of two facilities, one in the U.S. and the other in Europe, which are expected to close in the third quarter of 2008 and the first half of 2009, respectively. Alcoa anticipates recognizing an additional $5 or less ($4 after-tax) of costs, such as contract termination costs, retention payments, legal fees and other exit costs, associated with these restructuring actions in future periods. The majority of the severance associated with the North American and European facilities is anticipated to be complete by the end of 2008, and the remaining portions of the plan are expected to be complete no later than the first half of 2009. Also in the third quarter of 2007, Alcoa recorded impairment charges of $133 ($93 after-tax) for goodwill (see Note E for additional information) and $74 ($60 after-tax) for various fixed assets, as the forecasted future earnings and cash flows of the EES business no longer supported the carrying values of such assets.

As of December 31, 2007, approximately 1,400 of the 6,300 employees were terminated. Cash payments of $28 were made against the 2007 program reserves in 2007.

2006 Restructuring Program. In November 2006, Alcoa executed a plan to re-position several of its downstream operations in order to further improve returns and profitability, and to enhance productivity and efficiencies through a targeted restructuring of operations, and the creation of a soft alloy extrusion joint venture. The restructuring program encompassed identifying assets to be disposed of, plant closings and consolidations, and will lead to the elimination of approximately 6,700 positions across the company's global businesses. Restructuring charges of $543 ($379 after-tax and minority interests) were recorded in 2006 and were comprised of the following components: $107 of charges for employee termination and severance costs spread globally across the company; $442 related to asset impairments for structures, machinery, equipment, and goodwill, more than half of which relates to the soft alloy extrusion business; and $37 for other exit costs, consisting primarily of accelerated depreciation associated with assets for which the useful life has been changed due to plans to close certain facilities in the near term and environmental clean-up costs. Partially offsetting these charges was $43 of income related to the reversal of previously recorded layoff and other exit costs resulting from new facts and circumstances that arose subsequent to the original estimates.

The significant components of the 2006 restructuring program were as follows:

– The hard and soft alloy extrusion businesses, included within the Extruded and End Products segment, were restructured through the following actions:

- Alcoa signed a letter of intent with Sapa to create a joint venture that would combine its soft alloy extrusion business with Sapa's Profiles extruded aluminum business. Effective June 1, 2007, the joint venture was completed. The new venture is majority-owned by Orkla ASA and operated by Sapa. In 2006, Alcoa recorded an impairment charge of $301 to reduce the carrying value of the soft alloy extrusion business' assets to their estimated fair value. In conjunction with the contribution of the soft alloy extrusion business to the joint venture, Alcoa recorded a $62 ($23 after-tax) reduction to the original impairment charge recorded in 2006. See Note I for additional information.
- Consolidation of selected operations within the global hard alloy extrusion production operations serving the aerospace, automotive and industrial products markets, resulting in charges of $7 for severance costs associated with the elimination of approximately 325 positions, primarily in the U.S. and Europe.

– Operations within the Flat-Rolled Products segment were affected by the following actions:

- Restructuring of the can sheet operations resulting in the elimination of approximately 320 positions, including the closure of the Swansea facility in the U.K. in the first quarter of 2007, resulting in charges of $33, comprised of $16 for severance costs and $17 for other exit costs, including accelerated depreciation.
- Conversion of the temporarily-idled San Antonio, TX rolling mill into a temporary research and development facility serving Alcoa's global flat-rolled products business, resulting in a $53 asset impairment charge as these assets have no alternative future uses.
- Charges for asset impairments of $47 related to a global flat-rolled product asset portfolio review and rationalization.

– Restructuring and consolidation of the Engineered Solutions segment's automotive and light vehicle wire harness and component operations, including the closure of the manufacturing operations of the AFL Seixal plant in Portugal and restructuring of the AFL light vehicle and component operations in the U.S. and Mexico, resulting in charges of $38, primarily related to severance charges for the elimination of approximately 4,800 positions.

– Reduction within the Primary Metals and Alumina segments' operations by approximately 330 positions to further strengthen the company's position on the global cost curve. This action resulted in charges of $44, consisting of $24 for asset impairments, $14 for severance costs and $6 for other exit costs.

– Consolidation of selected operations within the Packaging and Consumer segment, resulting in the elimination of approximately 440 positions and charges of $19, consisting of $10 related to severance costs and $9 for other exit costs, consisting primarily of accelerated depreciation.

– Restructuring at various other locations accounted for the remaining charges of $35, more than half of which are for severance costs related to approximately 400 layoffs and the remainder for asset impairments and other exit costs.

As of December 31, 2007, 3,700 of the approximately 6,200 employees (excludes terminations associated with the Packaging and Consumer segment referenced above) had been terminated.

Cash payments of $63 and $2 were made against the 2006 program reserves in 2007 and 2006, respectively.

2005 Restructuring Program. As a result of the global realignment of Alcoa's organization structure, designed to optimize operations in order to better serve customers, a restructuring plan was developed to identify opportunities to streamline operations on a global basis. The restructuring program consisted of the elimination of jobs across all segments of the company, various plant closings and consolidations, and asset disposals. Restructuring charges of $292 ($190 after-tax and minority interests) were recorded in 2005 and were comprised of the following components: $238 of charges for employee termination and severance costs associated with approximately 8,450 salaried and hourly employees, spread globally across the company; $86 related to asset impairments for structures, machinery, and equipment; and $16 for exit costs, consisting primarily of accelerated depreciation associated with assets for which the useful life has been changed due to plans to close certain facilities in the near term. Reversals of previously recorded layoff and other costs were primarily due to Alcoa's decision to sell certain locations that it previously planned to shut down in 2005.

The significant components of the 2005 restructuring program were as follows:

– In December 2005, the company temporarily curtailed production at its Eastalco, MD smelter because it was not able to secure a new, competitive power supply for the facility. A charge of $14 was recorded for the termination of approximately 550 people.

– The automotive operations, included in the Engineered Solutions segment, were restructured to improve efficiencies and included the following actions:

- A restructuring of the cast auto wheels business occurred, which ultimately included the sale of the wheels facility in Italy. Total charges recorded in 2005 were $71, consisting of $15 for severance costs associated with approximately 450 employees, $46 for asset impairments, and $10 loss on sale of the facility in Italy.
- Headcount reductions in the AFL automotive business resulted in a charge of $27 for the termination of approximately 3,900 employees, primarily in Mexico.

– The global extruded and end products businesses were restructured to optimize operations and increase productivity and included the following actions:

- Headcount reductions across various businesses resulted in a charge of $50 for the termination of 1,050 employees in the U.S., Europe, and Latin America.
- Charges of $15 were recorded for asset disposals at various U.S. and European extrusion plants related to certain assets which the businesses have ceased to operate.

– The restructuring associated with the packaging and consumer businesses consisted of plant consolidations and closures designed to strengthen the operations, resulting in charges of $39, comprised of $23 for the termination of 1,620 employees primarily in the U.S., $8 for asset disposals, and $8 for other exit costs. Other exit costs primarily consisted of accelerated depreciation.

As of December 31, 2007, the terminations associated with the 2005 restructuring program are essentially complete. Cash payments of $21 and $45 were made against the 2005 program reserves in 2007 and 2006, respectively.

Alcoa does not include restructuring and other charges in the segment results. The pretax impact of allocating restructuring and other charges to the segment results would have been as follows:

	2007	2006	2005
Alumina	$ —	$ 4	$ 6
Primary metals	(2)	26	36
Flat-rolled products	56	134	15
Extruded and end products	(55)	318	70
Engineered solutions	198	37	109
Packaging and consumer	189	15	39
Segment total	386	534	275
Corporate	13	9	17
Total restructuring and other charges	$399	$543	$292

The remaining reserves are expected to be paid in cash in 2008, with the exception of approximately $40 to $45, which is expected to be paid over the next several years for ongoing site remediation work and special termination benefit payments. Activity and reserve balances for restructuring charges are as follows:

	Employee termination and severance costs	Other exit costs	Total
Reserve balances at December 31, 2004	$ 21	$ 39	$ 60
2005:			
Cash payments	(76)	(7)	(83)
Restructuring charges	216	6	222
Reversals of previously recorded restructuring charges	(40)	—	(40)
Reserve balances at December 31, 2005	121	38	159
2006:			
Cash payments	(39)	(2)	(41)
Restructuring charges	100	16	116
Reversals of previously recorded restructuring charges	(29)	(12)	(41)
Reserve balances at December 31, 2006	153	40	193
2007:			
Cash payments	(101)	(13)	(114)
Restructuring charges	88	22	110
Reversals of previously recorded restructuring charges	(25)	(7)	(32)
Reserve balances at December 31, 2007	$ 115	$ 42	$ 157

E. Goodwill and Other Intangible Assets

The following table details the changes in the carrying amount of goodwill:

December 31,	2007	2006
Balance at beginning of year	$4,885	$4,832
Acquisition of businesses	8	16
Impairment charge	(133)	—
Translation and other adjustments	46	37
Balance at end of year	$4,806	$4,885

In 2007, Alcoa recorded an impairment charge of $133 ($93 after-tax) based on a business review of EES performed by management that determined that the forecasted future earnings and cash flows of the EES business no longer supported the carrying value of goodwill because of continued deterioration in the automotive market (see Note D for additional information).

Other intangible assets, which are recorded in Other assets on the accompanying Consolidated Balance Sheet, are as follows:

December 31, 2007	Gross carrying amount	Accumulated amortization
Computer software	$ 833	$ (362)
Patents and licenses	139	(73)
Other intangibles	84	(38)
Total amortizable intangible assets	1,056	(473)
Indefinite-lived trade names and trademarks	26	—
Total other intangible assets	$1,082	$ (473)

December 31, 2006	Gross carrying amount	Accumulated amortization
Computer software	$ 750	$ (290)
Patents and licenses	134	(61)
Other intangibles	92	(29)
Total amortizable intangible assets	976	(380)
Indefinite-lived trade names and trademarks	18	—
Total other intangible assets	$ 994	$ (380)

Computer software consists primarily of software costs associated with an enterprise business solution (EBS) within Alcoa to drive common systems among all businesses.

Amortization expense related to the intangible assets in the tables above for the years ended December 31, 2007, 2006, and 2005 was $75, $70, and $59, respectively. Amortization expense is expected to be in the range of approximately $80 to $90 annually from 2008 to 2012.

F. Acquisitions and Divestitures

2007 Acquisitions. In May 2007, Alcoa announced an offer to purchase all of the outstanding common shares of Alcan Inc. (Alcan), for a combination of cash and stock. In July 2007, Alcan's board of directors agreed to recommend acceptance of a takeover offer by Rio Tinto plc, and Alcoa effectively withdrew its offer for Alcan due to said agreement. In 2007, Alcoa recorded $46 ($30 after-tax) in transaction costs (investment banking, legal, audit-related, and other third-party expenses) related to the offer for Alcan in Selling, general administrative, and other expenses on the accompanying Statement of Consolidated Income. In addition, in July 2007, Alcoa fully amortized $30 ($19 after-tax) in commitment fees that were paid and capitalized in June 2007 and expensed $37 ($24 after-tax) in commitment fees that were paid in July 2007. These commitment fees were paid to secure an 18-month $30,000 senior unsecured credit facility associated with the offer for Alcan. The $67 in commitment fees was recorded in Interest expense on the accompanying Statement of Consolidated Income.

During 2007, Alcoa completed two acquisitions, including one for an outstanding minority interest in Russia, and made a final contingent payment related to its 2002 acquisition of Fairchild Fasteners (Fairchild), all for a total cash cost of $18. None of these transactions had a material impact on Alcoa's Consolidated Financial Statements.

2007 Divestitures. In December 2007, Alcoa agreed to sell the businesses included in the Packaging and Consumer segment to New Zealand's Rank Group Limited (Rank) for $2,700 in cash, subject to certain post-closing adjustments. The transaction will consist of a combination of assets and shares of stock in certain subsidiaries of the Packaging and Consumer businesses, and is expected to be completed by the end of the first quarter of 2008. In conjunction with the sale agreement, Alcoa entered into a metal supply agreement with Rank. The results of operations of the Packaging and Consumer businesses will continue to be reflected in the Packaging and Consumer segment until their eventual disposition, unless facts and circumstances change. See Notes B and D for additional information. The Packaging and Consumer segment generated sales of $3,288 in 2007 and has approximately 9,300 employees in 22 countries. The following is a description of the four businesses within Packaging and Consumer:

- Flexible Packaging, manufacturers of laminated, printed, and extruded non-rigid packaging materials such as pouch, blister packaging, unitizing films, high quality shrink labels and foil lidding for the pharmaceutical, food and beverage, tobacco and industrial markets;
- Closure Systems International, a leading global manufacturer of plastic and aluminum packaging closures and capping equipment for beverage, food and personal care customers;
- Consumer Products, a leading manufacturer of branded and private label foil, wraps and bags, and includes the Reynolds® and Baco® branded products;
- Food Packaging, makers of stock and customer products for the foodservice, supermarket, food processor and agricultural markets, including foil, film, and both plastic and foil food containers.

In November 2007, Alcoa completed the sale of its Automotive Castings business to Compass Automotive Group, LLC (Compass), a portfolio company of Monomoy Capital Partners, L.P. for $33 in cash, which is included in Proceeds from the sale of assets and businesses on the accompanying Statement of Consolidated Cash Flows. A loss of $72 ($53 after-tax) was recognized in Restructuring and other charges on the accompanying Statement of Consolidated Income, of which $68 ($51 after-tax) was recorded in the third quarter of 2007 as an impairment charge to reflect the write-down of the carrying value of the assets of the business to its estimated fair value (see Note D for additional information). This business produced cast aluminum components, including steering knuckles, swing arms and control arms through a Vacuum Riserless Casting/Pressure Riserless Casting (VRC/PRC) process. The Automotive Castings business employed approximately 530 employees and consisted of two operating locations, one in Fruitport, MI (the Michigan Casting Center) and one in Farsund, Norway (the Scandinavian Casting Center). This business generated approximately $150 in sales in 2006. Separately from the sale transaction, Alcoa entered into an agreement with Compass to supply metal to the Michigan Casting Center.

In September 2007, Alcoa sold its investment in the Aluminum Corporation of China Limited (Chalco) for $1,942 in cash proceeds and recognized a gain of $1,754 ($1,140 after-tax). See Note I for additional information.

In September 2007, Alcoa completed the sale of a lignite mine in Texas to TXU Mining Company LP for $140, which consisted of $70 in cash and a $70 note receivable due in 2009. No material gain or loss was recognized on the transaction. The cash proceeds are included in Proceeds from the sale of assets and businesses on the accompanying Statement of Consolidated Cash Flows and the note receivable was recorded in Other assets on the accompanying Consolidated Balance Sheet. In conjunction with this transaction, Alcoa entered into a supply agreement with TXU Mining Company LP to supply lignite for use at Alcoa's power plant in Rockdale, TX.

In June 2007, Alcoa contributed virtually all of its soft alloy extrusion business to a newly-formed joint venture in exchange for a 46% equity investment in the joint venture. See Note I for additional information.

2006 Acquisitions. In September 2006, Alcoa completed the acquisition of its 70% interest in the aluminum brazing sheet venture in Kunshan City, China. Alcoa will be the managing partner in the venture, with the remaining 30% shares held by Shanxi Yuncheng Engraving Group. The total acquisition price was approximately $61.

In June 2006, Alcoa completed the acquisition of the minority interests (including the purchase of certain raw material inventories) in its Intalco and Eastalco aluminum smelters in Ferndale, Washington, and Frederick, Maryland, respectively, in exchange for the assumption of certain liabilities related to the facilities and receipt of a net cash payment of $25.

2006 Divestitures. In October 2006, Alcoa completed the sale of the home exteriors business to Ply Gem Industries, Inc. for $305 in cash and recognized a gain of $181 ($110 after-tax). In 2007, Alcoa adjusted the gain by $17 ($11 after-tax), primarily related to working capital and other post-closing adjustments. The home exteriors business was reflected in discontinued operations in the Consolidated Financial Statements.

2005 Acquisitions. In December 2005, Alcoa purchased the remaining 30% minority interest in the Alcoa Closure Systems International (Tianjin) Co., Ltd. joint venture owned by its partner, China Suntrust Investment Group Co., Ltd., for $7 in cash. The joint venture, established in 1994 to produce plastic closures for beverages, is now a wholly-owned subsidiary.

In October 2005, Alcoa completed the formation of Alcoa Bohai Aluminum Industries Company Limited, a consolidated joint venture between Alcoa and the China International Trust & Investment Corporation (CITIC). Alcoa holds a 73% interest and is the managing partner in the new venture, which produces aluminum rolled products at the Bohai plant in Qinghuangdao, China. The transaction resulted in $2 of goodwill. Alcoa contributed an additional $37 and $118 in 2007 and 2006, respectively, and has fulfilled its obligation for additional cash contributions under the joint venture agreement.

In June 2005, Alcoa completed the purchase of the remaining 40% interest in the Alcoa (Shanghai) Aluminum Products Ltd. joint venture from its partner Shanghai Light Industrial Equipment (Group) Company, Ltd. for $16 in cash. Alcoa (Shanghai) Aluminum Products Ltd. is now a wholly-owned subsidiary and will continue to sell foil products to customers throughout Asia. The transaction resulted in $2 of goodwill.

On March 31, 2005, Alcoa finalized an agreement with Fujikura Ltd. of Japan in which Alcoa obtained complete ownership of the AFL automotive business and Fujikura obtained complete ownership of the AFL telecommunications business through a tax-free exchange. Fujikura exchanged all of its AFL shares for shares of a new telecommunications entity and $176 in cash. The transaction resulted in a reduction of goodwill for the AFL automotive business of $44 based upon valuation and other studies. The agreement provides for a contingent payment to Fujikura in 2008 based upon the amount, if any, by which the average annual earnings from 2005 through 2007 for the automotive business exceed a targeted amount. Due to the losses in the automotive business during the referenced period as well as the 2007 write-off of goodwill and various fixed assets (see Note D for additional information), no such contingent payment will be made.

On January 31, 2005, Alcoa acquired two fabricating facilities located in the Russian Federation. The facilities, located in Belaya Kalitva and Samara, were purchased for $257 in cash. Goodwill of $4 was recorded on this transaction. The final allocation of the purchase price was based upon valuation and other studies, including environmental and other contingent liabilities, which were completed in 2006. In connection with this transaction, Alcoa also made a $93 payment related to a long-term aluminum supply contract, which was recorded in other noncurrent assets in the Consolidated Financial Statements. In January 2007, this $93 was repaid to Alcoa as provided for in the contract, and is reflected in the cash from operations section on the accompanying Statement of Consolidated Cash Flows. The long-term aluminum supply contract is still in place and none of the provisions of the contract changed due to the receipt of the $93. The purchase agreement also provides for contingent payments between 2006 and 2010, based on the performance of the Russian facilities, with a potential carryforward period of an additional five years. The maximum amount of total contingent payments is $85. These contingent payments, if paid, will be recorded as an adjustment to the purchase price. No contingent payments were made during 2007 or 2006.

The results of these facilities are recorded in the Flat-Rolled Products segment, the Extruded and End Products segment, and the Engineered Solutions segment.

2005 Divestitures. In December 2005, Alcoa completed the sale of its imaging and graphics communications business, SGS, to Citigroup Venture Capital Equity Partners, LP for $408 in cash and recognized a gain of $63 ($9 after-tax). SGS was reflected in discontinued operations in the Consolidated Financial Statements.

In September 2005, Alcoa sold its railroad assets to RailAmerica Transportation Corp., a subsidiary of RailAmerica Inc., for $78 in cash, resulting in a gain of $67 ($37 after-tax). Alcoa and RailAmerica have entered into long-term service agreements under which RailAmerica will provide services to Alcoa facilities that utilize the railroads.

In September 2005, Alcoa completed the sale of its protective packaging business to Forest Resources LLC for $13 in cash and recorded a loss of $6 ($4 after-tax). This business was reflected in discontinued operations in the Consolidated Financial Statements.

In April 2005, Alcoa sold its stock in Elkem ASA (Elkem) to Orkla ASA for $869 in cash, resulting in a gain of $345 ($180 after-tax), which was recorded in other income in the Statement of Consolidated Income.

In January 2005, Alcoa sold its interest in Integris Metals Inc., a metals distribution joint venture in which Alcoa owned a 50% interest, to Ryerson Tull. The investment was sold for $410 in cash and the assumption of Integris' debt, which was approximately $234. Alcoa received cash of $205, and no material gain or loss was recorded on the transaction.

In connection with acquisitions made prior to 2005, Alcoa could be required to make additional contingent payments of approximately $75 in 2008 based upon the achievement of various financial and operating targets. During 2007, 2006 and 2005, Alcoa made contingent payments in each year of $13 related to the Fairchild acquisition. These payments were recorded as adjustments to goodwill and are included in Acquisitions, net of cash acquired on the accompanying Statement of Consolidated Cash Flows. Alcoa is no longer subject to contingent payments related to the Fairchild acquisition.

Pro forma results of the company, assuming all acquisitions were made at the beginning of each period presented, would not have been materially different from the results reported.

G. Inventories

December 31,	2007	2006
Finished goods	$ 849	$ 925
Work in process	1,044	1,121
Bauxite and alumina	652	535
Purchased raw materials	547	574
Operating supplies	234	225
	$3,326	$3,380

Approximately 40% and 43% of total inventories at December 31, 2007 and 2006, respectively, were valued on a LIFO basis. If valued on an average-cost basis, total inventories would have been $1,069 and $1,028 higher at December 31, 2007 and 2006, respectively. During 2007, LIFO inventory quantities were reduced, which resulted in a partial liquidation of the LIFO base. The impact of this liquidation increased net income by $20 in 2007.

H. Properties, Plants, and Equipment, at Cost

December 31,	2007	2006
Land and land rights, including mines	$ 467	$ 439
Structures	7,375	6,239
Machinery and equipment	19,772	17,424
	27,614	24,102
Less: accumulated depreciation, depletion, and amortization	14,722	13,682
	12,892	10,420
Construction work in progress	3,987	3,587
	$16,879	$14,007

As of December 31, 2007 and 2006, the net carrying values of idled assets were $227 and $311, respectively.

I. Investments

December 31,	2007	2006
Equity investments	$1,952	$ 823
Other investments	86	895
	$2,038	$1,718

Equity investments are primarily comprised of a 50% investment in Elkem Aluminium ANS, which is a joint venture between Alcoa and Elkem that owns and operates two aluminum smelters in Norway, and investments in several hydroelectric power construction projects in Brazil (see Note N for additional information). As of December 31, 2007, Equity investments also included Alcoa's share of a newly-formed soft alloy extrusion joint venture.

Effective June 1, 2007, Alcoa completed the formation of a joint venture with Sapa combining Alcoa's soft alloy extrusion business (excluding three facilities each in the U.S. and Brazil) with Sapa's Profiles extruded aluminum business. The new joint venture, Sapa AB, is expected to have annual sales of approximately $4,500 and 12,000 employees, and is majority-owned and operated by Sapa. As of December 31, 2007, Alcoa's ownership percentage in the joint venture was 46% and the carrying value of the investment was approximately $800. The equity income from Alcoa's 46% ownership share is reflected in the Extruded and End Products segment. Prior to June 1, 2007, the assets and liabilities of Alcoa's soft alloy extrusion business were classified as held for sale (see Note B for additional information). In conjunction with the contribution of the soft alloy extrusion business to the joint venture, Alcoa recorded a $62 ($23 after-tax) reduction to the original impairment charge recorded in the fourth quarter of 2006. This adjustment was primarily the result of a higher estimated fair value of the soft alloy extrusion business than what was reflected in the original impairment charge, and was recorded as income in Restructuring and other charges on the accompanying Statement of Consolidated Income (see Note D for additional information). The carrying value and ownership percentage of Alcoa's investment as of December 31, 2007 are subject to post-closing adjustments based upon certain provisions in the joint venture agreement.

The three facilities in Brazil that were excluded from the joint venture are being retained by Alcoa. The net assets of the three U.S. facilities not contributed to the joint venture were classified as held for sale in all periods prior to October 2007. In October 2007, Alcoa completed the sale of two of the three U.S. facilities for approximately $15 in cash while the third such U.S. facility ceased operations. An immaterial loss was recognized on the sale.

Other investments are primarily comprised of available-for-sale securities and are carried at fair value with unrealized gains and losses recorded in other comprehensive income. As of December 31, 2006, Other investments also included Alcoa's 7% interest in Chalco.

In September 2007, Alcoa sold its investment in Chalco for $1,942 in cash proceeds, net of transaction fees, which is reflected in Sales of investments on the accompanying Statement of Consolidated Cash Flows. Prior to its sale, the Chalco investment was classified and accounted for as an available-for-sale security. Alcoa's original cost basis of its 7% interest in Chalco was $184 and this transaction resulted in a gain of $1,754 ($1,140 after-tax), net of transaction fees and other expenses, which was recorded in Other income, net on the accompanying Statement of Consolidated Income and is reflected in Gains from investing activities—asset sales on the accompanying Statement of Consolidated Cash Flows. Alcoa reclassified $1,159 (after-tax) in cumulative unrealized holding gains from other comprehensive income to net income (see Statement of Shareholders' Equity), as these gains were realized through the sale transaction. As of December 31, 2006, cumulative unrealized gains, net of taxes, were $414 related to the Chalco investment.

J. Other Assets

December 31,	2007	2006
Intangibles, net (E)	$ 609	$ 614
Deferred income taxes	1,587	1,859
Prepaid pension benefit (W)	216	90
Prepaid gas transmission contract	261	230
Cash surrender value of life insurance	470	445
Deferred charges and other	903	701
	$4,046	$3,939

K. Debt

Long-Term Debt.

December 31,	2007	2006
4.25% Notes, due 2007	$ —	$ 792
6.625% Notes, due 2008	150	150
7.375% Notes, due 2010	511	1,000
6.5% Notes, due 2011	584	1,000
6% Notes, due 2012	517	1,000
5.375% Notes, due 2013	600	600
5.55% Notes, due 2017	750	—
6.5% Bonds, due 2018	250	250
5.72% Notes, due 2019	750	—
5.87% Notes, due 2022	627	—
5.9% Notes, due 2027	625	—
6.75% Bonds, due 2028	300	300
5.95% Notes due 2037	625	—
Medium-term notes, due 2008–2013 (7.1% and 7.2% average rates in 2007 and 2006, respectively)	43	73
Alcoa Alumínio S.A. (Alumínio) 7.5% Export notes, due 2008	21	40
Fair value adjustments	20	(57)
Other	200	139
	6,573	5,287
Less: amount due within one year	202	510
	$6,371	$4,777

The amount of long-term debt maturing in each of the next five years, including the effects of fair value adjustments, is $202 in 2008, $60 in 2009, $526 in 2010, $636 in 2011, and $524 in 2012.

In January 2007, Alcoa completed a public debt offering under its existing shelf registration statement for $2,000 in new senior notes. The $2,000 is comprised of $750 of 5.55% Notes due 2017, $625 of 5.9% Notes due 2027, and $625 of 5.95% Notes due 2037 (collectively, the “Senior Notes”). Alcoa received $1,979 in net proceeds from the public debt offering reflecting original issue discounts and the payment of financing costs. A portion of the net proceeds from the Senior Notes was used by Alcoa to repay $1,132 of its commercial paper outstanding as of December 31, 2006 in January 2007. The $1,132 was reflected as long-term on the December 31, 2006 Consolidated Balance Sheet due to the fact that this amount was refinanced with new long-term debt instruments. Additionally, Alcoa used a portion of the net proceeds to pay $338 related to a tender offer of its 4.25% Notes due 2007 (see below). The remaining net proceeds were used to repay new commercial paper that was borrowed in January 2007 prior to the issuance of the Senior Notes and for general corporate purposes. Alcoa paid $15 in financing costs associated with the issuance of the Senior Notes. These costs were deferred and will be amortized, along with the original issue discounts, to interest expense using the effective interest method over the respective terms of the Senior Notes. Interest on the Senior Notes is paid semi-annually in February and August, which commenced in August 2007. Alcoa has the option to redeem the Senior Notes, as a whole or in part, at any time or from time to time, on at least 30 days but not more than 60 days prior notice to the holders of the Senior Notes at a redemption price specified in the Senior Notes. The Senior Notes are subject to repurchase upon the occurrence of a change in control repurchase event (as defined in the Senior Notes) at a repurchase price in cash equal to 101% of the aggregate principal amount of the Senior Notes repurchased, plus any accrued and unpaid interest on the Senior Notes repurchased. The Senior Notes rank *pari passu* with Alcoa’s other senior unsecured unsubordinated indebtedness.

Also in January 2007, Alcoa commenced a tender offer (the “Offer”) to purchase for cash any and all of its 4.25% Notes due 2007 (the “2007 Notes”). Upon expiration of the Offer, $333 of the aggregate outstanding principal amount of the 2007 Notes was validly tendered and accepted. At December 31, 2006, the 2007 Notes had an outstanding balance of $792 and an original maturity of August 15, 2007. The $333 was reflected as long-term on the December 31, 2006 Consolidated Balance Sheet due to the fact that this amount was refinanced with new long-term debt instruments. Alcoa paid a total of $338, which consisted of the purchase price of $331 for the tendered 2007 Notes plus $7 in accrued and unpaid interest, to the holders of the tendered 2007 Notes on February 1, 2007. An immaterial gain was recognized for the early retirement of the $333 principal amount. On August 15, 2007, Alcoa repaid the $459 of outstanding principal of the 2007 Notes that was not tendered under the Offer.

Lastly, in January 2007, Alcoa commenced offers to exchange up to $500 of each of its outstanding 7.375% Notes due 2010 (2010 notes), 6.5% Notes due 2011 (2011 notes), and 6% Notes due 2012 (2012 notes), (collectively, the “old notes”), for up to $1,500 of new Notes due 2019 and 2022. At December 31, 2006, each of the old notes had an outstanding balance of $1,000. Upon expiration of the exchange offers in February 2007, principal amounts of $489 of 2010 notes, $416 of 2011 notes, and $483 of 2012 notes were validly tendered and accepted. In exchange for the tendered amounts, Alcoa issued $750 of 5.72% Notes due 2019 and $627 of 5.87% Notes due 2022 (collectively, the “new notes”), and paid $98 in cash. The $98 consisted of $75 for the exchange price, which included an early participation incentive for those holders that tendered old notes by February 5, 2007, $11 in principal to retire tendered old notes not exchanged, and the remainder was for accrued and unpaid interest on the tendered old notes. The $75, along with $6 in financing costs associated with the exchange offers plus the remaining unamortized debt issuance costs, original issue discounts, and terminated interest rate swaps associated with the old notes, were deferred and will be amortized to interest expense using the effective interest method over the respective terms of the new notes. Alcoa recognized an immaterial loss for the early retirement of the $11 in old notes. Interest on the new notes is paid semi-annually in February and August, which commenced in August 2007. Alcoa has the option to redeem the new notes, as a whole or in part, at any time or from time to time, on at least 30 days but not more than 60 days prior notice to the holders of the new notes at a redemption price specified in the new notes. The new notes are subject to repurchase upon the occurrence of a change in control repurchase event (as defined in the new notes) at a repurchase price in cash equal to 101% of the aggregate principal amount of the new notes repurchased, plus any accrued and unpaid interest on the new notes repurchased. The new notes rank *pari passu* with Alcoa’s other senior unsecured unsubordinated indebtedness.

On February 23, 2007, Alcoa entered into a registration rights agreement (the “Agreement”) related to the new notes. Under the Agreement, Alcoa agreed to file a registration statement in order to exchange the new notes for registered securities having terms identical in all material respects to the new notes, except that the registered securities would not contain transfer restrictions. Alcoa filed the registration statement with the Securities and Exchange Commission (SEC) on March 19, 2007 and it was declared effective on April 2, 2007. The registered exchange offer was made on April 3, 2007 and expired on May 2, 2007. Upon expiration of the registered exchange offer, virtually all of the new notes were exchanged for registered securities. This exchange had no impact on the accompanying Consolidated Financial Statements. Under the Agreement, Alcoa also agreed that under certain circumstances it would file a shelf registration statement with the SEC covering resales by holders of the new notes in lieu of the registered exchange offer. In the event of a registration default, as defined in the Agreement, additional interest would accrue on the aggregate principal amount of the new notes affected by such default at a rate per annum equal to 0.25% during the first 90 days immediately following the occurrence of any registration default, and would increase to a maximum of 0.50% thereafter. As of December 31, 2007, Alcoa is not in default under the Agreement and management has determined that the likelihood of such a default is remote. The Agreement had no impact on the accompanying Consolidated Financial Statements.

Alumínio's export notes are collateralized by receivables due under an export contract. Certain financial ratios must be maintained, including the maintenance of a minimum debt service ratio, as well as a certain level of tangible net worth of Alumínio and its subsidiaries. The tangible net worth calculation excludes the effects of foreign currency changes.

The fair value adjustments result from changes in the carrying amounts of certain fixed-rate borrowings that have been designated as being hedged. Of the $20 in 2007, $5 related to outstanding hedges and $15 related to hedges that were settled early. Of the $(57) in 2006, $(111) related to outstanding hedges and $54 related to hedges that were settled early. The adjustments for hedges that were settled early are being recognized as reductions of interest expense over the remaining maturity of the related debt (through 2028). See Note X for additional information on interest rate swaps.

Commercial Paper. Commercial paper was $856 at December 31, 2007 and $1,472 at December 31, 2006. The commercial paper outstanding at December 31, 2006 included $1,132 that was classified as long-term on the Consolidated Balance Sheet because this amount was refinanced with new long-term debt instruments in January 2007 (see above). Commercial paper matures at various times within one year and had an annual weighted average interest rate of 5.4% and 5.1% during 2007 and 2006, respectively.

In October 2007, Alcoa entered into a Five-Year Revolving Credit Agreement, dated as of October 2, 2007 (the "Credit Agreement"), with a syndicate of lenders and issuers named therein. The Credit Agreement provides a $3,250 senior unsecured revolving credit facility (the "Credit Facility"), the proceeds of which are to be used to provide working capital or for other general corporate purposes of Alcoa, including support of Alcoa's commercial paper program. Subject to the terms and conditions of the Credit Agreement, Alcoa may from time to time request increases in lender commitments under the Credit Facility, not to exceed $500 in aggregate principal amount, and may also request the issuance of letters of credit, subject to a letter of credit sub-limit of $500 under the Credit Facility.

The Credit Facility matures on October 2, 2012, unless extended or earlier terminated in accordance with the provisions of the Credit Agreement. Alcoa may make two one-year extension requests during the term of the Credit Facility, with any extension being subject to the lender consent requirements set forth in the Credit Agreement.

The Credit Facility is unsecured and amounts payable under it will rank *pari passu* with all other unsecured, unsubordinated indebtedness of Alcoa. Borrowings under the Credit Facility may be denominated in U.S. dollars or Euros. Loans will bear interest at (i) a base rate or (ii) a rate equal to LIBOR plus an applicable margin based on the credit ratings of Alcoa's outstanding senior unsecured long-term debt. Based on Alcoa's current long-term debt ratings, the applicable margin on LIBOR loans will be 0.33% per annum. Loans may be prepaid without premium or penalty, subject to customary breakage costs.

The Credit Facility replaces $3,000 in aggregate principal amount of revolving credit facilities maintained by Alcoa under the following credit agreements, which were terminated effective October 2, 2007: (i) $1,000 Five-Year Revolving Credit Agreement dated as of April 22, 2005, (ii) $1,000 Five-Year Revolving Credit Agreement dated as of April 23, 2004, as amended, and (iii) $1,000 Five-Year Revolving Credit Agreement dated as of April 25, 2003, as amended (collectively, the "Former Credit Agreements").

The Credit Agreement includes covenants substantially similar to those in the Former Credit Agreements, including, among others, (a) a leverage ratio, (b) limitations on Alcoa's ability to incur liens securing indebtedness for borrowed money, (c) limitations on Alcoa's ability to consummate a merger, consolidation or sale of all or substantially all of its assets and (d) limitations on Alcoa's ability to change the nature of its business.

The obligation of Alcoa to pay amounts outstanding under the Credit Facility may be accelerated upon the occurrence of an "Event of Default" as defined in the Credit Agreement. Such Events of Default include, among others, (a) Alcoa's failure to pay the principal of, or interest on, borrowings under the Credit Facility, (b) any representation or warranty of Alcoa in the Credit Agreement proving to be materially false or misleading, (c) Alcoa's breach of any of its covenants contained in the Credit Agreement, and (d) the bankruptcy or insolvency of Alcoa.

There were no amounts outstanding under the Credit Agreement at December 31, 2007 and the Former Credit Agreements at December 31, 2006.

Short-Term Borrowings. Short-term borrowings were $569 and $462 at December 31, 2007 and 2006, respectively. These amounts included $321 and $275 at December 31, 2007 and 2006, respectively, related to accounts payable settlement arrangements with certain vendors and third-party intermediaries.

L. Other Noncurrent Liabilities and Deferred Credits

December 31,	2007	2006
Deferred alumina and aluminum sales revenue	$ 187	$ 269
Environmental remediation (N)	228	270
Asset retirement obligations	282	258
Fair value of derivative contracts	599	542
Accrued compensation and retirement costs	443	403
Other noncurrent liabilities	204	260
	$1,943	$2,002

M. Minority Interests

The following table summarizes the minority shareholders' interests in the equity of Alcoa's majority-owned consolidated subsidiaries:

December 31,	2007	2006
Alcoa of Australia	$1,189	$1,031
Alcoa World Alumina LLC	965	547
Norsk Anodes ANS	206	118
Other	100	104
	$2,460	$1,800

During 2007 and 2006, Alcoa received $474 and $342, respectively, in contributions from minority shareholders related to Alcoa World Alumina LLC and other interests in Norway, Russia and China.

N. Commitments and Contingencies

Litigation. In November 2006, in Curtis v. Alcoa Inc., Civil Action No. 3:06cv448 (E.D. Tenn.), a class action was filed by plaintiffs representing approximately 13,000 retired former employees of Alcoa or Reynolds Metals Company and spouses and dependents of such retirees alleging violation of the Employee Retirement Income Security Act (ERISA) and the Labor-Management Relations Act by requiring plaintiffs, beginning January 1, 2007, to pay health insurance premiums and increased co-payments and co-insurance for certain medical procedures and prescription drugs. Plaintiffs allege these changes to their retiree health care plans violate their rights to vested health care benefits. Plaintiffs additionally allege that Alcoa has breached its fiduciary duty to plaintiffs under ERISA by misrepresenting to them that their health benefits would never change. Plaintiffs seek injunctive and declaratory relief, back payment of benefits and attorneys' fees. Alcoa has consented to treatment of plaintiffs' claims as a class action. During the fourth quarter of 2007, following briefing and argument, the court ordered consolidation of the plaintiffs' motion for preliminary injunction with trial, certified a plaintiff class, bifurcated and stayed the plaintiffs' breach of fiduciary duty claims, struck the plaintiffs' jury demand, but indicated it would use an advisory jury, and set a trial date of September 17, 2008. Alcoa estimates that, in the event of an unfavorable outcome, the maximum exposure would be an additional postretirement benefit liability of approximately $300 and approximately $40 of expense (includes an interest cost component) annually, on average, for the next 11 years. Alcoa believes that it has valid defenses and intends to defend this matter vigorously. However, as this litigation is in its preliminary stages, the company is unable to reasonably predict the outcome.

In addition to the litigation discussed above, various other lawsuits, claims, and proceedings have been or may be instituted or asserted against Alcoa, including those pertaining to environmental, product liability, and safety and health matters. While the amounts claimed may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that the company's financial position, liquidity, or results of operations in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are pending or asserted will not have a material adverse effect, individually or in the aggregate, on the financial position, liquidity, or the results of operations of the company.

Environmental Matters. Alcoa continues to participate in environmental assessments and cleanups at a number of locations. These include 32 owned or operating facilities and adjoining properties, 32 previously owned or operating facilities and adjoining properties, and 66 waste sites, including Superfund sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated.

As assessments and cleanups proceed, the liability is adjusted based on progress made in determining the extent of remedial actions and related costs and damages. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements, and technological changes. Therefore, it is not possible to determine the outcomes or to estimate with any degree of accuracy the potential costs for certain of these matters.

The following discussion provides additional details regarding the current status of Alcoa's significant sites where the final outcome cannot be determined or the potential costs in the future cannot be estimated.

Massena, NY—Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa's Massena plant site, under order from the U.S. Environmental Protection Agency (EPA) issued under the Comprehensive Environmental Response, Compensation and Liability Act, also known as Superfund. Sediments and fish in the river contain varying levels of PCBs.

In 2002, Alcoa submitted an Analysis of Alternatives Report that detailed a variety of remedial alternatives with estimated costs ranging from $2 to $525. Because the selection of the $2 alternative (natural recovery) was considered remote, Alcoa adjusted the reserve for the Grasse River in 2002 to $30 representing the low end of the range of possible alternatives, as no single alternative could be identified as more probable than the others.

In June of 2003, based on river observations during the spring of 2003, the EPA requested that Alcoa gather additional field data to assess the potential for sediment erosion from winter river ice formation and breakup. The results of these additional studies, submitted in a report to the EPA in April of 2004, suggest that this phenomenon has the potential to occur approximately every 10 years and may impact sediments in certain portions of the river under all remedial scenarios. The EPA informed Alcoa that a final remedial decision for the river could not be made without substantially more information, including river pilot studies on the effects of ice formation and breakup on each of the remedial techniques. Alcoa submitted to the EPA, and the EPA approved, a Remedial Options Pilot Study (ROPS) to gather this information. The scope of this study includes sediment removal and capping, the installation of an ice control structure, and significant monitoring.

In May of 2004, Alcoa agreed to perform the study at an estimated cost of $35. Most of the construction work was completed in 2005 with monitoring work proposed through 2008. The findings will be incorporated into a revised Analysis of Alternatives Report, which is expected to be submitted in 2008. This information will be used by the EPA to propose a remedy for the entire river. Alcoa adjusted the reserves in the second quarter of 2004 to include the $35 for the ROPS. This was in addition to the $30 previously reserved.

The reserves for the Grasse River were re-evaluated in the fourth quarter of 2006 and an adjustment of $4 was made. This adjustment covers commitments made to the EPA for additional investigation work, for the on-going monitoring program, including that associated with the ROPS program, to prepare a revised Analysis of Alternatives Report, and for an interim measure that involves, annually, the mechanical ice breaking of the river to prevent the formation of ice jams until a permanent remedy is selected. This reserve adjustment is intended to cover these commitments through 2008 when the revised Analysis of Alternatives report will be submitted.

With the exception of the natural recovery remedy, none of the existing alternatives in the 2002 Analysis of Alternatives Report is more probable than the others and the results of the ROPS are necessary to revise the scope and estimated cost of many of the current alternatives.

The EPA's ultimate selection of a remedy could result in additional liability. Alcoa may be required to record a subsequent reserve adjustment at the time the EPA's Record of Decision is issued, which is expected in 2009 or later.

Sherwin, TX—In connection with the sale of the Sherwin alumina refinery, which was required to be divested as part of the Reynolds merger in 2000, Alcoa has agreed to retain responsibility for the remediation of the then existing environmental conditions, as well as a pro rata share of the final closure of the active waste disposal areas, which remain in use. Alcoa's share of the closure costs is proportional to the total period of operation of the active waste disposal areas. Alcoa estimated its liability for the active disposal areas by making certain assumptions about the period of operation, the amount of material placed in the area prior to closure, and the appropriate technology, engineering, and regulatory status applicable to final closure. The most probable cost for remediation has been reserved. It is reasonably possible that an additional liability, not expected to exceed $75, may be incurred if actual experience varies from the original assumptions used.

East St. Louis, IL—In response to questions regarding environmental conditions at the former East St. Louis operations, Alcoa entered into an administrative order with the EPA in December 2002 to perform a remedial investigation and feasibility study of an area used for the disposal of bauxite residue from historic alumina refining operations. A draft feasibility study was submitted to the EPA in April 2005. The feasibility study includes remedial alternatives that range from no further action at $0 to significant grading, stabilization, and water management of the bauxite residue disposal areas at $75. Because the selection of the $0 alternative was considered remote, Alcoa increased the environmental reserve for this location by $15 in the second quarter of 2005, representing the low end of the range of possible alternatives, which met the remedy selection criteria, as no alternative could be identified as more probable than the others. In 2007, the EPA temporarily suspended their final review of the feasibility study based on Alcoa's request for additional time to fully explore site redevelopment and material use options. Ultimately, the EPA's selection of a remedy could result in additional liability, and Alcoa may be required to record a subsequent reserve adjustment at the time the EPA's Record of Decision is issued, which is expected in 2008 or later.

Based on the foregoing, it is possible that Alcoa's financial position, liquidity, or results of operations, in a particular period, could be materially affected by matters relating to these sites. However, based on facts currently available, management believes that adequate reserves have been provided and that the disposition of these matters will not have a materially adverse effect on the financial position, liquidity, or the results of operations of the company.

Alcoa's remediation reserve balance was $279 and $319 at December 31, 2007 and 2006 (of which $51 and $49 was classified as a current liability), respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. In 2007, the remediation reserve was decreased by $10 consisting of a $15 adjustment for the liabilities associated with a previously owned smelter site and a $5 adjustment for liabilities at the Russian rolling mills and extrusion plants, both of which were partially offset by a net increase of $10 in liabilities associated with various locations. The $15 and $5 adjustments, which were recorded as a credit to Cost of goods sold on the accompanying Statement of Consolidated Income, were made after further investigations were completed and Alcoa was able to obtain additional information about the environmental condition and the associated liabilities related to these sites. Payments related to remediation expenses applied against the reserve were $30 in 2007. These amounts include expenditures currently mandated, as well as those not required by any regulatory authority or third-party.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be approximately 2% of cost of goods sold.

Investments. Alumínio is a participant in several hydroelectric power construction projects in Brazil for purposes of increasing its energy self-sufficiency and providing a long-term, low-cost source of power for its facilities. Two of these projects, Machadinho and Barra Grande, were completed in 2002 and 2006, respectively.

Alumínio committed to taking a share of the output of the Machadinho and Barra Grande projects each for 30 years at cost (including cost of financing the project). In the event that other participants in either one of these projects fail to fulfill their financial responsibilities, Alumínio may be required to fund a portion of the deficiency. In accordance with the respective agreements, if Alumínio funds any such deficiency, its participation and share of the output from the respective project will increase proportionately.

In January 2007, Alumínio exercised pre-emptive rights to acquire an additional ownership interest of 4.67% in Machadinho for $18. This additional investment provides an additional 15 megawatts of assured energy. This transaction was approved by the Brazilian Energy Agency, antitrust regulators, and other third parties. In September 2007, Alumínio's ownership interest of 31.89% was reduced by 0.9% due to the admission of a new investor to the Machadinho consortium.

With Machadinho and Barra Grande, Alumínio's current power self-sufficiency is approximately 40%, to meet a total energy demand of approximately 690 megawatts from Brazilian primary plants. Alumínio accounts for the Machadinho and Barra Grande hydroelectric projects on the equity method. Alumínio's investment participation in these projects is 30.99% for Machadinho and 42.18% for Barra Grande. Its total investment in these projects was $241 and $175 at December 31, 2007 and 2006, respectively. Alcoa's maximum exposure to loss on these completed projects is approximately $575, which represents Alcoa's investment and guarantees of debt as of December 31, 2007.

In the first quarter of 2006, Alumínio acquired an additional 6.41% share in the Estreito hydroelectric power project, reaching 25.49% of total participation in the consortium. This additional share entitles Alumínio to 38 megawatts of assured energy. Alumínio's share of the project is estimated to have installed capacity of approximately 280 megawatts and assured power of approximately 150 megawatts. In December 2006, the consortium obtained the environmental installation license, after completion of certain socioeconomic and cultural impact studies as required by a governmental agency. Construction began in the first quarter of 2007.

In the first quarter of 2007, construction began on the Serra do Facão hydroelectric power project. The implementation of construction activities had been temporarily suspended in 2004 due to the temporary suspension of the project's installation permit by legal injunction issued by the Brazilian Judicial Department (Public Ministry). Since 2004, this project was placed on hold due to unattractive market conditions. In mid-2006, market conditions became favorable and Alumínio proceeded with plans to begin construction. In September 2006, the national environmental agency renewed the installation permit allowing construction to commence. Alumínio's share of the Serra do Facão project is 34.97%, which decreased by 4.53% in the first quarter of 2007 due to the approval of a new shareholder structure, and entitles Alumínio to approximately 65 megawatts of assured power.

In 2004, Alcoa acquired a 20% interest in a consortium, which subsequently purchased the Dampier to Bunbury Natural Gas Pipeline (DBNGP) in Western Australia, in exchange for an initial cash investment of $17. This investment was classified as an equity investment. Alcoa has made additional contributions of $76, including $31 and $26 in 2007 and 2006, respectively, and committed to invest an additional $37 to be paid as the pipeline expands through 2009. In 2007, the remaining commitment was increased by a net $5, consisting of a $10 increase to reserve for the significant weakening of the U.S. dollar, as these contributions are transacted in Australian dollars, and a decrease of $5 based on a revision in the consortium's forecast of equity requirements related to the future expansion of the DBNGP. The investment in the DBNGP was made in order to secure a competitively priced long-term supply of natural gas to Alcoa's refineries in Western Australia. In addition to its equity ownership, Alcoa has an agreement to purchase gas transmission services from the DBNGP. Alcoa's maximum exposure to loss on the investment and the related contract is approximately $385 as of December 31, 2007.

Purchase Obligations. Alcoa is party to unconditional purchase obligations for energy that expire between 2012 and 2028. Commitments related to these contracts total $115 in 2008, $115 in 2009, $111 in 2010, $107 in 2011, $103 in 2012, and $1,146 thereafter. Expenditures under these contracts totaled $110 in 2007, $86 in 2006, and $26 in 2005. Additionally, Alcoa has entered into other purchase commitments for energy, raw materials and other goods and services which total $3,354 in 2008, $2,061 in 2009, $1,395 in 2010, $1,216 in 2011, $1,041 in 2012, and $10,874 thereafter.

Operating Leases. Certain computer equipment, plant equipment, vehicles, and buildings are under operating lease agreements. Total expense from continuing operations for all leases was $315 in 2007, $286 in 2006, and $261 in 2005. Under long-term operating leases, minimum annual rentals are $304 in 2008, $249 in 2009, $213 in 2010, $155 in 2011, $99 in 2012, and a total of $240 for 2013 and thereafter.

Letters of Credit. Alcoa has standby letters of credit related to environmental, insurance, and other activities. The total amount committed under these letters of credit, which expire at various dates in 2008 through 2014, was $485 at December 31, 2007.

Guarantees. Alcoa has issued guarantees, primarily related to project financing for hydroelectric power projects in Brazil. The total amount committed under these guarantees, which expire at various dates in 2008 through 2018, was $513 at December 31, 2007.

Other. In July 2006, the European Commission (EC) announced that it has opened an investigation to establish whether an extension of the regulated preferential electricity tariff granted by Italy to some energy-intensive industries complies with European Union state aid rules. The new Italian power tariff modifies the preferential tariff that was in force until December 31, 2005 and extends it through 2010. Alcoa has been operating in Italy for more than 10 years under a power supply structure approved by the EC in 1996. That measure, like the new one, was based on Italian state legislation that provides a competitive power supply to the primary aluminum industry and is not considered state aid by the Italian Government. The EC's announcement states that it has doubts about the measure's compatibility with European Union legislation and concerns about distortion of competition in the European market of primary aluminum, where energy is an important part of the production costs. The opening of an in-depth investigation gives interested parties the opportunity to comment on the proposed measures; it does not prejudge the outcome of the procedure. It is Alcoa's understanding that the Italian Government's continuation of the electricity tariff was done in conformity with all applicable laws and regulations. Alcoa believes that the total potential impact from a loss of the tariff would be approximately $20 (pretax) per month in higher power costs at its Italian smelters. The estimated total potential impact has increased since 2006 due predominately to the weakening of the U.S. dollar, as the liability would be payable in Euros in the event of a negative outcome. While Alcoa believes that any additional cost would only be assessed prospectively from the date of the EC's decision on this matter, it is possible that the EC could rule that the assessment must be retroactively applied to January 2006. A decision by the EC is not expected until late in 2008. On November 29, 2006, Alcoa filed an appeal before the European Court of First Instance seeking the annulment of the decision of the EC to open the investigation alleging that such decision did not follow the applicable procedural rules. This appeal, which may be withdrawn by Alcoa at any time, is expected to be resolved late in 2008 as well.

In January 2007, the EC announced that it has opened an investigation to establish whether the regulated electricity tariffs granted by Spain comply with European Union state aid rules. Alcoa has been operating in Spain for more than nine years under a power supply structure approved by the Spanish Government in 1986, an equivalent tariff having been granted in 1983. The investigation is limited to the year 2005 and it is focused both on the energy-intensive consumers and the distribution companies. The investigation provided 30 days to any interested party to submit observations and comments to the EC. With respect to the energy-intensive consumers, the EC is opening the investigation on the assumption that prices paid under the tariff in 2005 were lower than the pool price mechanism, therefore being, in principle, artificially below market conditions. Alcoa has submitted comments in which the company has provided evidence that prices paid by energy-intensive consumers were in line with the market, in addition to various legal arguments defending the legality of the Spanish tariff system. Therefore, it is Alcoa's understanding that the Spanish tariff system for electricity is in conformity with all applicable laws and regulations, and therefore no state aid is present in that tariff system. Alcoa believes that the total potential impact from an unfavorable decision would be approximately $11 (pretax). While Alcoa believes that any additional cost would only be assessed for the year 2005, it is possible that the EC could extend its investigation to later years. A decision by the EC is not expected until late in 2008. If the EC's investigation concludes that the regulated electricity tariffs for industries are unlawful, Alcoa will have an opportunity to challenge the decision in the European Union courts.

O. Other Income, Net

	2007	2006	2005
Equity income	$ 71	$ 72	$ 26
Interest income	62	89	65
Dividend income	31	45	19
Foreign currency losses, net	(28)	(48)	(27)
Gains from asset sales	1,800	25	406
Other income (expense), net	(23)	10	(9)
	$1,913	$193	$480

In 2007, equity income included $14 related to the newly-formed soft alloy extrusion joint venture (see Notes F and I for additional information) and gains from asset sales included a $1,754 gain on the sale of Alcoa's investment in Chalco (see Notes F and I for additional information).

In 2006, interest income included $15 of interest earned related to a Brazilian court settlement.

In 2005, equity income included an impairment charge of $90 related to the closure of the Hamburger Aluminium-Werk facility in Hamburg, Germany. The charge was comprised of $65 for asset impairments and $25 for employee layoff costs and other shutdown costs. Also in 2005, gains from asset sales included a $345 gain on the sale of Alcoa's stake in Elkem and a $67 gain on the sale of railroad assets (see Note F for additional information).

The dividend income in 2007, 2006 and 2005 is virtually all related to Alcoa's former stake in Chalco.

P. Cash Flow Information

Cash payments for interest and income taxes are as follows:

	2007	2006	2005
Interest, net of amount capitalized*	$ 359	$423	$328
Income taxes, net of amount refunded	1,376	695	413

*The amounts for 2006 and 2005 have been revised from the prior year presentation to reflect interest amounts capitalized.

The details related to acquisitions are as follows:

	2007	2006	2005
Fair value of assets acquired	$19	$ 84	$ 373
Liabilities assumed	(3)	(91)	(102)
Minority interests acquired	3	—	190
Cash paid (received)	19	(7)	461
Less: cash acquired	1	—	—
Net cash paid (received)	$18	$ (7)	$ 461

In 2007, Alcoa sold its Three Oaks Mine for $140, which consisted of $70 in cash and a $70 note receivable. The $70 in cash is reflected in the Proceeds from the sale of assets and businesses on the accompanying Statement of Consolidated Cash Flows. The $70 note receivable is not reflected in the accompanying Statement of Consolidated Cash Flows as it represents a non-cash activity.

Q. Segment and Geographic Area Information

Alcoa is primarily a producer of aluminum products. Aluminum and alumina represent approximately three-fourths of Alcoa's revenues. Nonaluminum products include precision castings, industrial fasteners, consumer products, food service and flexible packaging products, plastic closures, and electrical distribution systems for cars and trucks. Alcoa's segments are organized by product on a worldwide basis. Alcoa's management reporting system evaluates performance based on a number of factors; however, the primary measure of performance is the after-tax operating income (ATOI) of each segment. Certain items such as interest income, interest expense, foreign currency translation gains/losses, certain effects of LIFO inventory accounting, minority interests, restructuring and other charges, discontinued operations, and accounting changes are excluded from segment ATOI. In addition, certain expenses, such as corporate general administrative and selling expenses and depreciation and amortization on corporate assets, are not included in segment ATOI. Segment assets exclude cash, cash equivalents, short-term investments, and deferred taxes. Segment assets also exclude items such as corporate fixed assets, LIFO reserves, goodwill allocated to corporate, assets held for sale, and other amounts.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (see Note A). Transactions among segments are established based on negotiation among the parties. Differences between segment totals and Alcoa's consolidated totals for line items not reconciled are in Corporate.

Alcoa's products are used worldwide in packaging, consumer products, transportation (including aerospace, automotive, truck trailer, rail, and shipping), building and construction, and industrial applications. Total exports from the U.S. from continuing operations were $3,120 in 2007, $2,588 in 2006, and $2,021 in 2005.

Alcoa's reportable segments are as follows:

Alumina. This segment consists of Alcoa's worldwide alumina system that includes the mining of bauxite, which is then refined into alumina. Alumina is sold directly to internal and external smelter customers worldwide or is processed into industrial chemical products. Slightly more than half of Alcoa's alumina production is sold under supply contracts to third parties worldwide, while the remainder is used internally.

Primary Metals. This segment consists of Alcoa's worldwide smelter system. Primary Metals receives alumina, primarily from the Alumina segment, and produces primary aluminum to be used by Alcoa's fabricating businesses, as well as sold to external customers, aluminum traders, and commodity markets. Results from the sale of aluminum powder, scrap, and excess power are also included in this segment, as well as the results of aluminum derivative contracts. Primary aluminum produced by Alcoa and used internally is transferred to other segments at prevailing market prices. The sale of primary aluminum represents at least 90% of this segment's third-party sales.

Flat-Rolled Products. This segment's principal business is the production and sale of aluminum plate, sheet, and foil. This segment includes rigid container sheet (RCS), which is sold directly to customers in the packaging and consumer market and is used to produce aluminum beverage cans. Seasonal increases in RCS sales are generally experienced in the second and third quarters of the year. This segment also includes sheet and plate used in the transportation, building and construction, and distribution markets (mainly used in the production of machinery and equipment and consumer durables), which is sold directly to customers and through distributors. Approximately two-thirds of the third-party sales in this segment are derived from sheet and plate, and foil used in industrial markets, while the remaining one-third of third-party sales consists of RCS. While the customer base for flat-rolled products is large, a significant amount of sales of RCS, sheet, and plate is to a relatively small number of customers.

Extruded and End Products. This segment consists of extruded products, some of which are further fabricated into a variety of end products, and includes hard alloy extrusions and architectural extrusions. These products primarily serve the building and construction, distribution, aerospace, automotive, and commercial transportation markets. These products are sold directly to customers and through distributors. Prior to June 2007, this segment included a soft alloy extrusion business. In June 2007, Alcoa contributed its soft alloy extrusion business to a newly-formed joint venture in exchange for an equity investment in the joint venture. As such, this segment's results now include equity income of the joint venture instead of separate revenues and costs of its former soft alloy extrusion business

Engineered Solutions. This segment includes titanium, aluminum, and super alloy investment castings; forgings and fasteners; electrical distribution systems; aluminum wheels; and integrated aluminum structural systems used in the aerospace, automotive, commercial transportation, and power generation markets. These products are sold directly to customers and through distributors.

Packaging and Consumer. This segment includes consumer, foodservice, and flexible packaging products; food and beverage closures; and plastic sheet and film for the packaging industry. The principal products in this segment include aluminum foil; plastic wraps and bags; plastic beverage and food closures; flexible packaging products; thermoformed plastic containers; and extruded plastic sheet and film. Consumer products are marketed under brands including Reynolds Wrap®, Diamond®, Baco®, and Cut-Rite®. Seasonal increases generally occur in the second and fourth quarters of the year for such products as consumer foil and plastic wraps and bags, while seasonal slowdowns for closures generally occur in the fourth quarter of the year. Products are generally sold directly to customers, consisting of supermarkets, beverage companies, food processors, retail chains, and commercial foodservice distributors. In December 2007, Alcoa announced it has agreed to sell the businesses within this segment to Rank for $2,700 in cash (see Note F for additional information).

Alcoa's reportable segments, as reclassified for assets held for sale, are as follows:

	Alumina	Primary Metals	Flat-Rolled Products	Extruded and End Products	Engineered Solutions	Packaging and Consumer	Total
2007							
Sales:							
Third-party sales	$ 2,709	$ 6,576	$ 9,171	$ 3,246	$ 5,725	$ 3,288	$30,715
Intersegment sales	2,448	4,994	241	88	—	—	7,771
Total sales	$ 5,157	$11,570	$ 9,412	$ 3,334	$ 5,725	$ 3,288	$38,486
Profit and loss:							
Equity income	$ 1	$ 57	$ —	$ 14	$ —	$ —	$ 72
Depreciation, depletion, and amortization	267	410	223	39	172	89	1,200
Income taxes	340	542	95	54	140	68	1,239
ATOI	956	1,445	200	109	316	148	3,174
Assets:							
Capital expenditures	$ 1,207	$ 1,313	$ 519	$ 89	$ 225	$ —	$ 3,353
Equity investments	292	835	—	814	10	—	1,951
Goodwill	17	938	183	88	2,443	—	3,669
Total assets	6,875	11,858	5,404	2,025	5,723	—	31,885
2006							
Sales:							
Third-party sales	$ 2,785	$ 6,171	$ 8,297	$ 4,419	$ 5,456	$ 3,235	$30,363
Intersegment sales	2,144	6,208	246	99	—	—	8,697
Total sales	$ 4,929	$12,379	$ 8,543	$ 4,518	$ 5,456	$ 3,235	$39,060
Profit and loss:							
Equity (loss) income	$ (2)	$ 82	$ (2)	$ —	$ (4)	$ 1	$ 75
Depreciation, depletion, and amortization	192	395	219	118	169	124	1,217
Income taxes	428	726	68	18	101	33	1,374
ATOI	1,050	1,760	255	60	331	95	3,551
Assets:							
Capital expenditures	$ 837	$ 1,440	$ 399	$ 135	$ 138	$ —	$ 2,949
Equity investments	238	568	—	—	8	—	814
Goodwill	16	930	178	88	2,553	—	3,765
Total assets	5,250	10,530	5,192	1,178	5,847	—	27,997
2005							
Sales:							
Third-party sales	$ 2,130	$ 4,698	$ 6,836	$ 3,729	$ 5,032	$ 3,139	$25,564
Intersegment sales	1,707	4,808	128	64	—	—	6,707
Total sales	$ 3,837	$ 9,506	$ 6,964	$ 3,793	$ 5,032	$ 3,139	$32,271
Profit and loss:							
Equity (loss) income	$ —	$ (12)	$ —	$ —	$ 1	$ 1	$ (10)
Depreciation, depletion, and amortization	172	368	217	119	176	126	1,178
Income taxes	246	307	111	20	89	50	823
ATOI	682	822	288	39	203	105	2,139
Assets:							
Capital expenditures	$ 608	$ 869	$ 185	$ 114	$ 129	$ —	$ 1,905
Equity investments	215	384	4	—	8	—	611
Goodwill	15	923	158	98	2,503	—	3,697
Total assets	4,268	8,566	3,963	884	5,606	—	23,287

The following tables reconcile segment information to consolidated totals:

	2007	2006	2005
Sales:			
Total sales	$38,486	$39,060	$32,271
Elimination of intersegment sales	(7,771)	(8,697)	(6,707)
Corporate	33	16	4
Consolidated sales	$30,748	$30,379	$25,568
Net income:			
Total segment ATOI	$ 3,174	$ 3,551	$ 2,139
Unallocated amounts (net of tax):			
Impact of LIFO	(24)	(170)	(99)
Interest income	40	58	42
Interest expense	(261)	(250)	(220)
Minority interests	(365)	(436)	(259)
Corporate expense	(388)	(317)	(312)
Restructuring and other charges	(307)	(379)	(197)
Discontinued operations	(7)	87	(22)
Accounting change	—	—	(2)
Other	702	104	163
Consolidated net income	$ 2,564	$ 2,248	$ 1,233
Assets:			
Total segment assets	$31,885	$27,997	$23,287
Elimination of intersegment receivables	(640)	(727)	(193)
Unallocated amounts:			
Cash, cash equivalents, and short-term investments	485	507	764
Deferred tax assets	1,880	2,241	1,783
Corporate goodwill	1,137	1,120	1,135
Corporate fixed assets	956	791	753
LIFO reserve	(1,069)	(1,028)	(817)
Assets held for sale	2,948	4,281	4,738
Other	1,221	2,001	2,246
Consolidated assets	$38,803	$37,183	$33,696

Geographic information for revenues, which is based upon the country where the point of sale occurred, and long-lived assets is as follows:

	2007	2006	2005
Revenues:			
U.S.	$16,930	$17,141	$14,923
Australia	3,224	3,160	2,464
Spain	1,844	1,813	1,451
Hungary	1,325	1,148	855
Brazil	1,244	1,093	787
Germany	880	768	779
France	784	667	583
Italy	767	761	619
United Kingdom	730	956	887
Other	2,987	2,856	2,216
	$30,715	$30,363	$25,564
Long-lived assets:*			
U.S.	$ 4,694	$ 4,458	$ 4,453
Australia	2,868	2,520	2,172
Brazil	2,364	1,270	915
Iceland	1,776	1,244	475
Canada	1,701	1,761	1,820
Other	3,476	2,754	1,897
	$16,879	$14,007	$11,732

*The amounts for 2006 and 2005 have been revised from the prior year presentation to reflect only tangible long-lived assets.

R. Preferred and Common Stock

Preferred Stock. Alcoa has two classes of preferred stock. Serial preferred stock has 660,000 shares authorized with a par value of $100 per share and an annual $3.75 cumulative dividend preference per share. There were 546,024 of such shares outstanding at the end of each year presented. Class B serial preferred stock has 10 million shares authorized (none issued) and a par value of $1 per share.

Common Stock. There are 1.8 billion shares authorized at a par value of $1 per share, and 924,574,538 shares were issued at the end of each year presented. As of December 31, 2007, 99 million shares of common stock were reserved for issuance under Alcoa's stock-based compensation plans. Alcoa issues treasury shares upon the exercise of stock options and the conversion of stock awards.

In October 2007, Alcoa's Board of Directors approved a new share repurchase program. The new program authorizes the purchase of up to 25% (or approximately 217 million shares) of the outstanding common stock of Alcoa at December 31, 2006, in the open market or though privately negotiated transactions, directly or through brokers or agents, and expires on December 31, 2010. This new program superseded the share repurchase program that was approved by Alcoa's Board of Directors in January 2007, which authorized the repurchase of up to 87 million shares of Alcoa common stock. The shares repurchased under the January 2007 program count against the shares authorized for repurchase under the new program. During 2007, Alcoa repurchased 68 million shares, including 43 million shares under the January 2007 program.

Share Activity (number of shares)

	Common stock	
	Treasury	Outstanding
Balance at end of 2004	(53,594,455)	870,980,083
Treasury shares purchased	(4,334,000)	(4,334,000)
Stock issued:		
Compensation plans	3,622,430	3,622,430
Balance at end of 2005	(54,306,025)	870,268,513
Treasury shares purchased	(9,100,000)	(9,100,000)
Stock issued:		
Compensation plans	6,571,031	6,571,031
Balance at end of 2006	(56,834,994)	867,739,544
Treasury shares purchased	(67,712,689)	(67,712,689)
Stock issued:		
Compensation plans	27,374,945	27,374,945
Balance at end of 2007	(97,172,738)	827,401,800

Stock options under Alcoa's stock-based compensation plans have been granted at not less than market prices on the dates of grant. Beginning in 2006, performance stock options were granted to certain individuals. The final number of options granted is based on the outcome of Alcoa's annual return on capital results against the results of a comparator group of companies. However, an individual can earn a minimum number of options if Alcoa's return on capital meets or exceeds its cost of capital. Stock option features based on date of original grant are as follows:

Date of original grant	Vesting	Term	Reload feature
2002 and prior	One year	10 years	One reload over option term
2003	3 years (1/3 each year)	10 years	One reload in 2004 for 1/3 vesting in 2004
2004 and forward	3 years (1/3 each year)	6 years	None

In addition to the stock options described above, Alcoa granted stock awards that vest in three years from the date of grant. Certain of these stock awards were granted with the same performance conditions described above for performance stock options.

Beginning in 2006, plan participants can choose whether to receive their award in the form of stock options, stock awards, or a combination of both. This choice is made before the grant is issued and is irrevocable. This choice resulted in an increased stock award expense in both 2007 and 2006 in comparison to 2005.

The following table summarizes the total compensation expense recognized for all stock options and stock awards:

	2007	2006	2005
Compensation expense reported in income:			
Stock option grants	$31	$11	$—
Stock award grants	66	61	25
Total compensation expense before income taxes	97	72	25
Income tax benefit	34	24	9
Total compensation expense, net of income tax benefit	$63	$48	$16

Prior to January 1, 2006, no stock-based compensation expense was recognized for stock options. As a result of the implementation of SFAS 123(R), Alcoa recognized additional compensation expense of $11 ($7 after-tax) in 2006 related to stock options. This amount impacted basic and diluted earnings per share by $.01. There was no stock-based compensation expense capitalized in 2007, 2006 or 2005. Alcoa's net income and earnings per share for 2005 would have been reduced to the pro forma amounts shown below if employee stock option compensation expense had been determined based on the grant date fair value in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure an amendment of FASB Statement No. 123."

	2005
Net income, as reported	$1,233
Add: stock-option compensation expense reported in net income, net of income tax	—
Less: stock-option compensation expense determined under the fair value method, net of income tax	63
Pro forma net income	$1,170
Basic earnings per share:	
As reported	$ 1.41
Pro forma	1.34
Diluted earnings per share:	
As reported	1.40
Pro forma	1.33

As of January 1, 2005, Alcoa switched from the Black-Scholes pricing model to a lattice model to estimate fair value at the grant date for future option grants. The fair value of each new option grant is estimated on the date of grant using the lattice-pricing model with the following assumptions:

	2007	2006	2005
Weighted average fair value per option	$ 6.04	$ 5.98	$ 6.18
Average risk-free interest rate	4.75-5.16%	4.42-4.43%	2.65-4.20%
Expected dividend yield	2.2%	2.0%	1.8%
Expected volatility	22-29%	27-32%	27-35%
Expected annual forfeiture rate	3%	3%	—
Expected exercise behavior	35%	23%	32%
Expected life (years)	3.8	3.6	3.8

The fair value of each reload option grant is estimated on the reload date using the lattice-pricing model. In 2007, the weighted average fair value per reload option grant was $5.56 based on the following assumptions: an average risk-free interest rate of 4.94-5.11%; expected dividend yield of 2.2%; expected volatility of 22-24%; expected exercise behavior of 26%; and expected life of 1.5 years. In 2006 and 2005, the fair value and related assumptions for reload option grants were the same as the new option grants reflected in the table above.

The following assumption descriptions are applicable to both new option grants and reload option grants. The range of risk-free interest rates is based on a yield curve of interest rates at the time of the grant based on the contractual life of the option. Expected dividend yield is based on a five-year average. Expected volatility is based on historical and implied volatilities over the term of the option. Alcoa utilizes historical option exercise and forfeiture data to estimate expected annual pre- and post-vesting forfeitures. The expected exercise behavior assumption represents a weighted average exercise ratio of gains resulting from historical employee exercise behavior. The expected exercise behavior assumption is based on exercise patterns for grants issued in the most recent six years (five years for 2005).

The activity for stock options is as follows (options in millions):

	2007	2006	2005
Outstanding, beginning of year:			
Number of options	80.0	88.6	89.6
Weighted average exercise price	$33.97	$33.50	$33.34
Granted:			
Number of options	6.1	3.2	7.0
Weighted average exercise price	$41.14	$29.15	$29.48
Exercised:			
Number of options	(28.8)	(6.8)	(3.7)
Weighted average exercise price	$31.88	$23.82	$20.14
Expired or forfeited:			
Number of options	(5.0)	(5.0)	(4.3)
Weighted average exercise price	$37.19	$35.99	$35.34
Outstanding, end of year:			
Number of options	52.3	80.0	88.6
Weighted average exercise price	$35.63	$33.97	$33.50
Exercisable, end of year:			
Number of options	44.9	77.0	84.4
Weighted average exercise price	$35.16	$34.17	$34.03

The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005 was $269, $61, and $31, respectively. The cash received from exercises for the year ended December 31, 2007 was $835, and the tax benefit realized was $95.

The following tables summarize certain stock option information at December 31, 2007 (options and intrinsic value in millions):

Options Fully Vested and/or Expected to Vest*

Range of exercise price	Number	Weighted average remaining contractual life	Weighted average exercise price	Intrinsic Value
$12.16 - $19.93	0.2	0.52	$ 16.84	$ 4
$19.94 - $27.71	4.3	4.06	22.30	61
$27.72 - $35.49	13.5	3.19	30.69	79
$35.50 - $48.37	34.3	2.37	39.37	8
Total	52.3	2.76	35.63	$ 152

*Expected forfeitures are immaterial to the company and are not reflected in the table above.

Options Fully Vested and Exercisable

Range of exercise price	Number	Weighted average remaining contractual life	Weighted average exercise price	Intrinsic Value
$12.16 - $19.93	0.2	0.52	$ 16.84	$ 4
$19.94 - $27.71	4.3	4.06	22.26	61
$27.72 - $35.49	10.1	2.73	31.01	56
$35.50 - $48.37	30.3	2.38	38.49	8
Total	44.9	2.66	35.16	$ 129

Beginning in January of 2004, in addition to stock option awards, the company has granted stock awards and performance share awards. Both vest three years from the date of grant. Performance share awards are issued at target and the final award amount is determined at the end of the performance period.

The following table summarizes the outstanding stock and performance share awards (awards in millions):

	Stock Awards	Performance Share Awards	Total	Weighted average FMV per award
Outstanding, January 1, 2007	4.1	0.6	4.7	$ 30.38
Granted	2.7	0.4	3.1	31.37
Converted	(0.9)	(0.1)	(1.0)	30.81
Forfeited	(0.3)	—	(0.3)	29.51
Performance share adjustment	—	0.1	0.1	28.93
Outstanding, December 31, 2007	5.6	1.0	6.6	30.14

At December 31, 2007, there was $10 (pretax) of unrecognized compensation expense related to non-vested stock option grants, and $68 (pretax) of unrecognized compensation expense related to non-vested stock award grants. These expenses are expected to be recognized over a weighted average period of 1.9 years. As of December 31, 2007, the following table summarizes the unrecognized compensation expense expected to be recognized in future periods:

	Stock-based compensation expense (pretax)
2008	$ 47
2009	28
2010	3
Totals	$ 78

S. Earnings Per Share

Basic earnings per common share (EPS) amounts are computed by dividing earnings after the deduction of preferred stock dividends by the average number of common shares outstanding. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive share equivalents outstanding.

The information used to compute basic and diluted EPS on income from continuing operations is as follows (shares in millions):

	2007	2006	2005
Income from continuing operations	$2,571	$2,161	$1,257
Less: preferred stock dividends	2	2	2
Income from continuing operations available to common shareholders	$2,569	$2,159	$1,255
Average shares outstanding—basic	861	869	872
Effect of dilutive securities:			
Potential shares of common stock, attributable to stock options, stock awards, and performance awards	8	6	5
Average shares outstanding—diluted	869	875	877

Options to purchase 21 million, 59 million, and 73 million shares of common stock at a weighted average exercise price of $41.52, $37.03, and $36.02 per share were outstanding as of December 31, 2007, 2006, and 2005, respectively, but were not included in the computation of diluted EPS because they were anti-dilutive, as the exercise prices of the options were greater than the average market price of Alcoa's common stock.

T. Income Taxes

The components of income from continuing operations before taxes on income were as follows:

	2007	2006	2005
U.S.	$1,802	$ 374	$ 220
Foreign	2,689	3,058	1,750
	$4,491	$3,432	$1,970

The provision (benefit) for taxes on income from continuing operations before minority interests' share consisted of the following:

	2007	2006	2005
Current:			
Federal*	$ 508	$ 30	$ (50)
Foreign	776	918	482
State and local	23	(44)	38
	1,307	904	470
Deferred:			
Federal*	187	(120)	25
Foreign	68	(26)	(28)
State and local	(7)	77	(13)
	248	(69)	(16)
Total	$1,555	$ 835	$454

*Includes U.S. taxes related to foreign income

Included in discontinued operations is a tax benefit of $15 in 2007 and a tax cost of $62 in 2006 and $57 in 2005.

The exercise of employee stock options generated a tax benefit of $95 in 2007, $17 in 2006, and $9 in 2005. This amount was credited to additional capital and reduced current taxes payable.

Reconciliation of the U.S. federal statutory rate to Alcoa's effective tax rate for continuing operations is as follows:

	2007	2006	2005
U.S. federal statutory rate	35.0%	35.0%	35.0%
Taxes on foreign income	(3.7)	(7.3)	(7.5)
Permanent differences on restructuring charges and asset disposals	3.8	0.6	2.4
Audit and other adjustments to prior years' accruals	(0.1)	(3.4)*	(7.0)*
Other	(0.4)	(0.6)	0.1
Effective tax rate	34.6%	24.3%	23.0%

*These figures include the finalization of certain tax reviews and audits, decreasing the effective tax rate by approximately 1.7% and 6.2% in 2006 and 2005, respectively.

The components of net deferred tax assets and liabilities are as follows:

	2007		2006	
December 31,	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Depreciation	$ —	$ 1,394	$ —	$ 1,390
Employee benefits	1,548	—	1,794	—
Loss provisions	257	—	417	—
Deferred income/expense	32	103	51	99
Tax loss carryforwards	691	—	717	—
Tax credit carryforwards	335	—	321	—
Unrealized gains on available-for-sale securities	—	—	—	222
Derivatives and hedging activities	212	—	185	—
Other	217	127	196	69
	3,292	1,624	3,681	1,780
Valuation allowance	(517)	—	(536)	—
	$2,775	$ 1,624	$3,145	$ 1,780

Of the total deferred tax assets associated with the tax loss carryforwards, $228 expires over the next ten years, $241 over the next 20 years, and $222 is unlimited. Of the tax credit carryforwards, $304 expires over the next 10 years, with the balance expiring over the next fifteen years. Generally, the valuation allowance relates to loss carryforwards because the ability to generate sufficient future income in some jurisdictions is uncertain. Approximately $16 of the valuation allowance relates to acquired companies for which subsequently recognized benefits will reduce goodwill.

The cumulative amount of Alcoa's foreign undistributed net earnings for which no deferred taxes have been provided was $8,753 at December 31, 2007. Management has no plans to distribute such earnings in the foreseeable future. It is not practical to determine the deferred tax liability on these earnings.

Alcoa and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, Alcoa is no longer subject to income tax examinations by tax authorities for years prior to 2001. All U.S. tax years prior to 2007 have been audited by the Internal Revenue Service. Various state and foreign jurisdiction tax authorities are in the process of examining Alcoa's income tax returns for various tax years ranging from 2001 to 2006.

As described in Note A, Alcoa adopted FIN 48 and FSP FIN 48-1 effective January 1, 2007. The adoption of FIN 48 and FSP FIN 48-1 did not have an impact on the accompanying Consolidated Financial Statements. A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding interest and penalties) is as follows:

December 31,	2007
Balance at beginning of year	$22
Additions based on tax positions related to the current year	4
Additions for tax positions of prior years	14
Reductions for tax positions of prior years	(7)
Balance at end of year	$33

A portion of the $33 balance pertains to pre-acquisition costs and, therefore, would not impact the effective tax rate. In addition, state tax liabilities are stated before any offset for federal tax benefits. The effect of unrecognized tax benefits, if recorded, that would impact the annual effective tax rate is less than 1% of pretax book income. Alcoa does not anticipate that changes in its unrecognized tax benefits will have a material impact on the Statement of Consolidated Income during 2008.

It is Alcoa's policy to recognize interest and penalties related to income taxes as a component of the Provision for income taxes on the accompanying Statement of Consolidated Income. In 2007, Alcoa recognized $2 in interest and penalties. As of December 31, 2007, the amount accrued for the payment of interest and penalties was $9.

U. Accounts Receivable Securitizations

In November 2007, Alcoa entered into a program to sell a senior undivided interest in certain customer receivables, without recourse, on a continuous basis to a third-party for cash. As of December 31, 2007, Alcoa received $100 in cash proceeds, which reduced Receivables from customers on the accompanying Consolidated Balance Sheet. Alcoa services the customer receivables for the third-party at market rates; therefore, no servicing asset or liability was recorded.

Alcoa also has an existing program with a different third-party to sell certain customer receivables. The sale of receivables under this program was conducted through a qualifying special purpose entity (QSPE) that is bankruptcy remote, and, therefore, is not consolidated by Alcoa. As of December 31, 2007 and 2006, Alcoa sold trade receivables of $139 and $84 to the QSPE.

V. Interest Cost Components

	2007	2006	2005
Amount charged to expense	$401	$384	$339
Amount capitalized	199	128	58
	$600	$512	$397

W. Pension Plans and Other Postretirement Benefits

Alcoa maintains pension plans covering most U.S. employees and certain other employees. Pension benefits generally depend on length of service, job grade, and remuneration. Substantially all benefits are paid through pension trusts that are sufficiently funded to ensure that all plans can pay benefits to retirees as they become due. Most U.S. salaried and non-union hourly employees hired after March 1, 2006 will participate in a defined contribution plan instead of a defined benefit plan.

Alcoa maintains health care and life insurance benefit plans covering eligible U.S. retired employees and certain other retirees. Generally, the medical plans pay a percentage of medical expenses, reduced by deductibles and other coverages. These plans are generally unfunded, except for certain benefits funded through a trust. Life benefits are generally provided by insurance contracts. Alcoa retains the right, subject to existing agreements, to change or eliminate these benefits. All U.S. salaried and certain hourly employees hired after January 1, 2002 will not have postretirement health care benefits. All U.S. salaried and certain hourly employees that retire on or after April 1, 2008 will not have postretirement life insurance benefits. Alcoa uses a December 31 measurement date for the majority of its plans.

Alcoa adopted SFAS 158 effective December 31, 2006. SFAS 158 requires an employer to recognize the funded status of each of its defined pension and postretirement benefit plans as a net asset or liability in its statement of financial position with an offsetting amount in accumulated other comprehensive income, and to recognize changes in that funded status in the year in which changes occur through comprehensive income. Following the adoption of SFAS 158, additional minimum pension liabilities (AML) and related intangible assets are no longer recognized. The adoption of SFAS 158 resulted in the following impacts: a reduction of $119 in existing prepaid pension costs and intangible assets, the recognition of $1,234 in accrued pension and postretirement liabilities, and a charge of $1,353 ($877 after-tax) to accumulated other comprehensive loss. See the table labeled "Change due to the AML and adoption of SFAS 158 at December 31, 2006" for details of these impacts.

Additionally, SFAS 158 requires an employer to measure the funded status of each of its plans as of the date of its year-end statement of financial position. This provision becomes effective for Alcoa for its December 31, 2008 year-end. The funded status of the majority of Alcoa's pension and other postretirement benefit plans are currently measured as of December 31.

Obligations and Funded Status

December 31,	Pension benefits 2007	Pension benefits 2006	Postretirement benefits 2007	Postretirement benefits 2006
Change in projected benefit obligation				
Benefit obligation at beginning of year	$11,614	$11,332	$ 3,511	$ 3,656
Service cost	200	209	28	32
Interest cost	666	628	195	208
Amendments	67	32	(27)	(89)
Actuarial (gains) losses	(311)	(3)	(153)	37
Divestitures	(5)	—	(5)	1
Settlement/curtailment	(62)	—	(9)	—
Benefits paid, net of participants' contributions	(710)	(717)	(303)	(354)
Medicare Part D subsidy receipts	—	—	20	19
Other transfers, net	(51)	—	—	—
Exchange rate	193	133	3	1
Projected benefit obligation at end of year	$11,601	$11,614	$ 3,260	$ 3,511
Change in plan assets				
Fair value of plan assets at beginning of year	$10,097	$ 9,323	$ 189	$ 170
Actual return on plan assets	836	1,001	14	19
Employer contributions	374	369	—	—
Participants' contributions	36	30	—	—
Benefits paid	(716)	(719)	—	—
Administrative expenses	(19)	(20)	—	—
Divestitures	(3)	—	—	—
Other transfers, net	(51)	—	—	—
Settlement/curtailment	(64)	—	—	—
Exchange rate	162	113	—	—
Fair value of plan assets at end of year	$10,652	$10,097	$ 203	$ 189
Funded status	$ (949)	$ (1,517)	$ (3,057)	$ (3,322)
Amounts attributed to joint venture partners	16	12	9	10
Net funded status	$ (933)	$ (1,505)	$ (3,048)	$ (3,312)
Amounts recognized in the Consolidated Balance Sheet consist of:				
Before the adoption of SFAS 158				
Prepaid benefit	$ —	$ 157	$ —	$ —
Intangible asset	—	52	—	—
Accrued benefit liability	—	(1,232)	—	(2,438)
Liabilities of operations held for sale	—	(1)	—	(2)
Accumulated other comprehensive loss	—	1,430	—	—
Net amount recognized	$ —	$ 406	$ —	$ (2,440)
After the adoption of SFAS 158				
Noncurrent assets	$ 216	$ 90	$ —	$ —
Current liabilities	(24)	(28)	(295)	(354)
Noncurrent liabilities	(1,098)	(1,540)	(2,753)	(2,956)
Liabilities of operations held for sale	(27)	(27)	—	(2)
Net amount recognized	$ (933)	$ (1,505)	$ (3,048)	$ (3,312)
Amounts recognized in Accumulated Other Comprehensive Loss consist of:				
Net actuarial loss	$ 1,385	$ 1,856	$ 784	$ 999
Prior service cost (benefit)	118	66	(150)	(123)
Total, before tax effect	1,503	1,922	634	876
Less: Amounts attributed to joint venture partners	11	11	2	4
Net amount recognized, before tax effect	$ 1,492	$ 1,911	$ 632	$ 872
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income consist of:				
Net gain	$ (344)	$ —	$ (163)	$ —
Amortization of net loss	(127)	—	(55)	—
Prior service cost (benefit)	67	—	(30)	—
Amortization of prior service (benefit) cost	(15)	—	3	—
Curtailment—actuarial gain	—	—	3	—
Total, before tax effect	(419)	—	(242)	—
Less: Amounts attributed to joint venture partners	—	—	(2)	—
Net amount recognized, before tax effect	$ (419)	$ —	$ (240)	$ —

	Balance Prior to AML & SFAS 158 Adjustments	AML Adjustments	Balance Prior to SFAS 158 Adjustments	SFAS 158 Adjustments	Balance After AML & SFAS 158 Adjustments
Change due to the AML and adoption of SFAS 158 at December 31, 2006					
Pension benefits					
Prepaid pension costs*	$ 157	$ —	$ 157	$ (67)	$ 90
Intangible assets*	54	(2)	52	(52)	—
Accrued compensation and retirement costs	(219)	—	(219)	191	(28)
Accrued pension benefits	(1,168)	154	(1,014)	(553)	(1,567)
Accumulated other comprehensive loss (before tax and minority interests)	$ 1,582	$ (152)	$ 1,430	$ 481	$ 1,911
Deferred tax assets*	549	(55)	494	159	653
Minority interests	—	—	—	12	12
Accumulated other comprehensive loss (after-tax and minority interests)	$ 1,033	$ (97)	$ 936	$ 310	$ 1,246
Postretirement benefits					
Other current liabilities	$ (354)	$ —	$ (354)	$ —	$ (354)
Accrued postretirement benefits	(2,084)	—	(2,084)	(872)	(2,956)
Accumulated other comprehensive loss (before tax and minority interests)	$ —	$ —	$ —	$ 872	$ 872
Deferred tax assets*	—	—	—	305	305
Accumulated other comprehensive loss (after-tax and minority interests)	$ —	$ —	$ —	$ 567	$ 567

* Included in Other assets on the Consolidated Balance Sheet

Components of Net Periodic Benefit Costs

	Pension benefits			Postretirement benefits		
	2007	2006	2005	2007	2006	2005
Service cost	$ 200	$ 209	$ 209	$ 28	$ 32	$ 33
Interest cost	666	628	619	195	208	216
Expected return on plan assets	(787)	(740)	(719)	(17)	(15)	(14)
Amortization of prior service cost (benefit)	15	14	22	(3)	10	4
Recognized actuarial loss	127	118	95	55	63	59
Settlement/curtailment	—	—	—	(3)	—	—
Net periodic benefit costs	$ 221	$ 229	$ 226	$255	$298	$298

Amounts Expected to be Recognized in Net Periodic Benefit Costs

	Pension benefits	Postretirement benefits
	2008	2008
Prior service cost (benefit) recognition	$ 18	$ (10)
Actuarial loss recognition	91	45

For pension benefits, in 2007, a credit of $419 ($268 after-tax) was recorded in accumulated other comprehensive loss due to a decrease in the accumulated benefit obligations as a result of a 25 basis point increase in the discount rate, which was partially offset by plan amendments, and the recognition of actuarial losses and prior service costs in accordance with SFAS 158. In 2006, a net charge of $193 ($126 after-tax) was recorded in accumulated other comprehensive loss comprised of a charge of $481 ($310 after-tax and minority interests) due to the adoption of SFAS 158 and a credit of $288 ($184 after-tax) due to the reduction in the minimum pension liability, as a result of asset returns of 11% and a decrease to the accumulated benefit obligations resulting from a 25 basis point increase in the discount rate.

For postretirement benefits, in 2007, a credit of $240 ($158 after-tax) was recorded in accumulated other comprehensive loss due to a decrease in the accumulated benefit obligations as a result of a 25 basis point increase in the discount rate, plan amendments, and the recognition of actuarial losses and prior service costs in accordance with SFAS 158. In addition, a credit of $80 was recorded in accumulated other comprehensive loss due to the reclassification of deferred taxes related to the Medicare Part D prescription drug subsidy. In 2006, a charge of $872 ($567 after-tax) was recorded in accumulated other comprehensive loss due to the adoption of SFAS 158.

In 2007, Alcoa recorded a curtailment charge of $2 and curtailment income of $3 as a component of net periodic benefit cost related to its pension benefits and postretirement benefits, respectively. The curtailment charge of $2 was due to the contribution of Alcoa's soft alloy extrusion business to a newly-formed soft alloy extrusion joint venture (see Note I for additional information). The curtailment income of $3 consisted of income of $7 due to the elimination of the retiree life insurance benefit for certain U.S. employees who retire on or after April 1, 2008 and a charge of $4 related to the contribution of Alcoa's soft alloy extrusion business to a newly-formed joint venture. Also in 2007, Alcoa recorded a settlement credit of $2 as a component of net periodic benefit cost related to its pension benefits due to significant lump sum benefit payments.

The projected benefit obligation for all defined benefit pension plans was $11,601 and $11,614 at December 31, 2007 and 2006, respectively. The accumulated benefit obligation for all defined benefit pension plans was $11,216 and $11,187 at December 31, 2007 and 2006, respectively.

The aggregate projected benefit obligation and fair value of plan assets for the pension plans with benefit obligations in excess of plan assets were $9,933 and $8,771, respectively, as of December 31, 2007, and $11,365 and $9,817, respectively, as of December 31, 2006. The aggregate accumulated benefit obligation and fair value of plan assets with accumulated benefit obligations in excess of plan assets were $9,550 and $8,771, respectively, as of December 31, 2007, and $10,413 and $9,244, respectively, as of December 31, 2006.

The unrecognized net actuarial loss for pension benefit plans at December 31, 2007 of $1,385 has primarily resulted from the overall decline in interest rates over the past six years. To the extent those losses exceed certain thresholds, the excess will continue to be recognized as prescribed under SFAS No. 87, "Employers' Accounting for Pensions" (SFAS 87). Generally, these amounts are amortized over the estimated future service of plan participants, which is 11 years.

The benefit obligation for postretirement benefit plans and net amount recognized were $3,260 and $3,048, respectively, as of December 31, 2007, and $3,511 and $3,312, respectively, as of December 31, 2006. Of the net amount recognized, the current, noncurrent and liabilities of operations held for sale amounts were $295, $2,753 and $0, respectively, as of December 31, 2007, and $354, $2,956, and $2, respectively, as of December 31, 2006.

Alcoa pays a portion of the prescription drug cost for eligible retirees under certain of its postretirement benefit plans. These benefits were determined to be actuarially equivalent to the Medicare Part D prescription drug benefit of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. As a result, the net periodic benefit cost for postretirement benefits for the years ended December 31, 2007, 2006 and 2005 reflected a reduction of $58, $53 and $24, respectively, related to the recognition of the federal subsidy awarded under Medicare Part D. Future net periodic postretirement benefit costs will be adjusted to reflect the lower interest cost due to the reduction in the accumulated postretirement benefit obligation resulting from the impact of the federal subsidy. To the extent deferred gains and losses exceed certain thresholds, the excess will continue to be recognized as prescribed under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106).

The unrecognized net actuarial loss for postretirement benefit plans at December 31, 2007 of $784 primarily resulted from the overall decline in interest rates over the past six years. To the extent those losses exceed certain thresholds, the excess will continue to be recognized as prescribed under SFAS 106. Generally, these amounts are amortized over the estimated future service of plan participants, which is 11 years.

The four-year labor agreement between Alcoa and the United Steelworkers that was ratified on June 22, 2006 required a remeasurement of certain pension and postretirement benefit plans liabilities due to plan amendments. The discount rate was updated from the December 31, 2005 rate of 5.7% to 6.5% at May 31, 2006. The remeasurement resulted in a decrease in the pension and postretirement obligations of $276 and $76, respectively. The decrease in the liabilities reduces the plans' unrecognized net actuarial losses. To the extent that the unrecognized net actuarial losses exceed certain thresholds, the excess will continue to be recognized as prescribed under SFAS 87 and SFAS 106. Generally, these amounts are amortized over the estimated future service of plan participants. The net periodic benefit cost increases were $4 for pension and $23 for postretirement plans. Other comprehensive income included $94 due to the reduction in the minimum pension liability, primarily resulting from the remeasurement of the plan liability.

Assumptions

Weighted average assumptions used to determine benefit obligations are as follows:

December 31,	2007	2006
Discount rate	6.20%	5.95%
Rate of compensation increase	4.00	4.00

The discount rate is determined using a yield curve model developed by the company's external actuaries. The plans' projected benefit obligation cash flows are discounted using yields on high quality corporate bonds to produce a single equivalent rate. The plans' cash flows have an average duration of 11 years. The rate of compensation increase is based upon actual experience.

Weighted average assumptions used to determine the net periodic benefit cost are as follows:

	2007	2006	2005
Discount rate	5.95%	5.70%	6.00%
Expected long-term return on plan assets	9.00	9.00	9.00
Rate of compensation increase	4.00	4.00	4.50

The expected long-term return on plan assets is based on historical performance as well as expected future rates of return on plan assets considering the current investment portfolio mix and the long-term investment strategy. The 10-year moving average of actual performance has consistently met or exceeded 9% over the past 20 years.

Assumed health care cost trend rates are as follows:

	2007	2006	2005
Health care cost trend rate assumed for next year	7.0%	7.0%	8.0%
Rate to which the cost trend rate gradually declines	5.0%	5.0%	5.0%
Year that the rate reaches the rate at which it is assumed to remain	2012	2011	2010

The health care cost trend rate in the calculation of the 2006 benefit obligation was 7.0% from 2006 to 2007 and 6.5% from 2007 to 2008. Actual annual company health care trend experience over the past three years has ranged from 0% to 4.1%. The 7% trend rate will be used for 2008.

Assumed health care cost trend rates have an effect on the amounts reported for the health care plan. A one-percentage point change in these assumed rates would have the following effects:

	1% increase	1% decrease
Effect on total of service and interest cost components	$ 3	$ (2)
Effect on postretirement benefit obligations	45	(41)

Plan Assets

Alcoa's pension and postretirement plans' investment policy, weighted average asset allocations at December 31, 2007 and 2006, and target allocations for 2008, by asset category, are as follows:

		Plan assets at December 31,		Target %
Asset category	Policy range	2007	2006	2008
Equity securities	35–60%	54%	57%	43%
Debt securities	30–55%	35	34	46
Real estate	5–15%	6	5	6
Other	0–15%	5	4	5
Total		100%	100%	100%

The basic goal underlying the pension plan and postretirement plans' investment policy is to ensure that the assets of the plans, along with expected plan sponsor contributions, will be invested in a prudent manner to meet the obligations of the plans as those obligations come due. Investment practices must comply with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and any other applicable laws and regulations.

Numerous asset classes with differing expected rates of return, return volatility, and correlations are utilized to reduce risk by providing diversification. Debt securities comprise a significant portion of the portfolio due to their plan-liability-matching characteristics and to address the plans' cash flow requirements. Additionally, diversification of investments within each asset class is utilized to further reduce the impact of losses in single investments. The use of derivative instruments is permitted where appropriate and necessary for achieving overall investment policy objectives. Currently, the use of derivative instruments is not significant when compared to the overall investment portfolio.

Cash Flows

In 2007, contributions to Alcoa's pension plans were $322, of which $158 was voluntary. The minimum required cash contribution to the pension plans in 2008 is estimated to be $80.

Benefit payments, gross of expected subsidy receipts for postretirement benefits, expected to be paid to plan participants and expected subsidy receipts are as follows:

Year ended December 31,	Pension benefits	Post-retirement benefits	Subsidy receipts
2008	$ 770	$ 320	$ 25
2009	780	330	30
2010	800	330	30
2011	810	330	30
2012	830	330	35
2013 through 2017	4,335	1,580	180
	$8,325	$ 3,220	$ 330

Other Plans

Alcoa also sponsors a number of defined contribution pension plans. Expenses were $139 in 2007, $134 in 2006, and $127 in 2005.

X. Derivatives and Other Financial Instruments

Derivatives. Alcoa uses derivative financial instruments for purposes other than trading. Fair value (losses) gains of outstanding derivative contracts were as follows:

	2007	2006
Aluminum	$(896)	$(453)
Interest rates	5	(111)
Other commodities, principally energy related	(30)	(134)
Currencies	65	91

Aluminum consists primarily of losses on hedge contracts, embedded derivatives in power contracts in Iceland and Brazil, and Alcoa's share of losses on hedge contracts of Norwegian smelters that are accounted for under the equity method.

Fair Value Hedges

Aluminum. Customers often require Alcoa to enter into long-term, fixed-price commitments. These commitments expose Alcoa to the risk of higher aluminum prices between the time the order is committed and the time that the order is shipped. Alcoa's aluminum commodity risk management policy is to manage, principally through the use of futures and options contracts, the aluminum price risk associated with a portion of its firm commitments. These contracts cover known exposures, generally within three years.

Interest Rates. Alcoa uses interest rate swaps to help maintain a strategic balance between fixed- and floating-rate debt and to manage overall financing costs. As of December 31, 2007, the company had pay floating, receive fixed interest rate swaps that were designated as fair value hedges. These hedges effectively convert the interest rate from fixed to floating on $1,890 of debt through 2018. See Note K for additional information on interest rate swaps and their effect on debt and interest expense.

Currencies. Alcoa uses cross-currency interest rate swaps that effectively convert its U.S. dollar denominated debt into Brazilian real debt at local interest rates.

There were no transactions that ceased to qualify as a fair value hedge in 2007 and 2006.

Cash Flow Hedges

Interest Rates. There were no cash flow hedges of interest rate exposures outstanding as of December 31, 2007 and 2006.

Currencies. Alcoa is subject to exposure from fluctuations in foreign currency exchange rates. Foreign currency exchange contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. These contracts cover periods consistent with known or expected exposures through 2008. The U.S. dollar notional amount of all foreign currency exchange contracts was $59 and $154 as of December 31, 2007 and 2006, respectively. These contracts were hedging foreign currency exposure in Brazil.

Commodities. Alcoa anticipates the continued requirement to purchase aluminum and other commodities such as natural gas, fuel oil, and electricity for its operations. Alcoa enters into futures and forward contracts to reduce volatility in the price of these commodities.

Other

Alcoa has also entered into certain derivatives to minimize its price risk related to other customer sales and pricing arrangements. Alcoa has not qualified these contracts for hedge accounting treatment and therefore, the fair value gains and losses on these contracts are recorded in earnings. The impact to earnings was a loss of $12 in 2007 and a gain of $37 in 2006. The earnings impact was not significant in 2005.

Alcoa has entered into power supply and other contracts that contain pricing provisions related to the London Metal Exchange (LME) aluminum price. The LME-linked pricing features are considered embedded derivatives. A majority of these embedded derivatives have been designated as cash flow hedges of future sales of aluminum. Gains and losses on the remainder of these embedded derivatives are recognized in earnings. The impact to earnings was a loss of $25 in 2007, $38 in 2006, and $21 in 2005.

Material Limitations

The disclosures with respect to commodity prices, interest rates, and foreign currency exchange risk do not take into account the underlying commitments or anticipated transactions. If the underlying items were included in the analysis, the gains or losses on the futures contracts may be offset. Actual results will be determined by a number of factors that are not under Alcoa's control and could vary significantly from those factors disclosed.

Alcoa is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, as well as credit or performance risk with respect to its hedged customers' commitments. Although nonperformance is possible, Alcoa does not anticipate nonperformance by any of these parties. Contracts are with creditworthy counterparties and are further supported by cash, treasury bills, or irrevocable letters of credit issued by carefully chosen banks. In addition, various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts.

See Notes A and K for additional information on Alcoa's hedging and derivatives activities.

Other Financial Instruments. The carrying values and fair values of Alcoa's financial instruments are as follows:

	2007		2006	
December 31,	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 483	$ 483	$ 506	$ 506
Short-term investments	2	2	1	1
Noncurrent receivables	91	91	138	138
Available-for-sale investments	81	81	891	891
Short-term debt	202	202	510	510
Short-term borrowings	569	569	462	462
Commercial paper	856	856	1,472	1,472
Long-term debt	6,371	6,277	4,777	4,991

The methods used to estimate the fair values of certain financial instruments follow.

Cash and Cash Equivalents, Short-Term Investments, Short-Term Debt, Short-Term Borrowings, and Commercial Paper. The carrying amounts approximate fair value because of the short maturity of the instruments. The commercial paper outstanding at December 31, 2006 included $1,132 that was classified as long-term on the Consolidated Balance Sheet because this amount was refinanced with new long-term debt instruments in January 2007 (see Note K for additional information). However, this classification does not impact the actual maturity of the commercial paper for purposes of estimating fair value.

Noncurrent Receivables. The fair value of noncurrent receivables is based on anticipated cash flows which approximates carrying value.

Available-for-Sale Investments. The fair value of investments is based on readily available market values. Investments in marketable equity securities are classified as "available-for-sale" and are carried at fair value.

Long-Term Debt. The fair value is based on interest rates that are currently available to Alcoa for issuance of debt with similar terms and remaining maturities.

Y. Subsequent Events

On January 24, 2008, Alcoa entered into a Revolving Credit Agreement (RCA-1) with two financial institutions. RCA-1 provides a $1,000 senior unsecured revolving credit facility (RCF-1), which matures on March 28, 2008. Loans will bear interest at (i) a base rate or (ii) a rate equal to LIBOR plus an applicable margin of 0.58% per annum. Loans may be prepaid without premium or penalty, subject to customary breakage costs. If there are amounts borrowed under RCF-1 at the time Alcoa receives the proceeds from the sale of the Packaging and Consumer businesses, the company must use the net cash proceeds to prepay the amount outstanding under RCF-1. Additionally, upon Alcoa's receipt of such proceeds, the lenders' commitments under RCF-1 will be reduced by a corresponding amount, up to the total commitments then in effect under RCF-1, regardless of whether there is an amount outstanding under RCF-1.

On January 31, 2008, Alcoa entered into a Revolving Credit Agreement (RCA-2) with a financial institution. RCA-2 provides a $1,000 senior unsecured revolving credit facility (RCF-2), which matures on January 31, 2009. Loans will bear interest at (i) a base rate or (ii) a rate equal to LIBOR plus an applicable margin based on the credit ratings of Alcoa's outstanding senior unsecured long-term debt. Based on Alcoa's current long-term debt ratings, the applicable margin on LIBOR loans will be 0.93% per annum. Loans may be prepaid without premium or penalty, subject to customary breakage costs.

Amounts payable under RCF-1 and RCF-2 (collectively, the “RCFs”) will rank *pari passu* with all other unsecured, unsubordinated indebtedness of Alcoa. RCA-1 and RCA-2 (collectively, the “RCAs”) include covenants substantially similar to those in the October 2007 Credit Agreement (see Note K). The obligation of Alcoa to pay amounts outstanding under the RCFs may be accelerated upon the occurrence of an “Event of Default” as defined in the RCAs. Such Events of Default are also substantially similar to those in the October 2007 Credit Agreement (see Note K). As of February 15, 2008, there was $1,000 outstanding under RCF-1 and there was no amount outstanding under RCF-2.

On February 1, 2008, Alcoa announced that the company joined with the Aluminum Corporation of China to acquire 12% of the U.K. common stock of Rio Tinto plc (RTP) for approximately $14,000. Of this amount, Alcoa contributed $1,200 on February 6, 2008. The investment was made through a special purpose vehicle called Shining Prospect Pte. Ltd. (SPPL), which is a private limited liability company, created for the purpose of acquiring the RTP shares. The RTP shares were purchased on the open market through an investment broker. Alcoa will account for its approximately 8.5% stake in SPPL as an equity method investment.

Supplemental Financial Information (unaudited)

Quarterly Data
(dollars in millions, except per-share amounts)

	First	Second	Third	Fourth	Year
2007					
Sales	$7,908	$ 8,066	$7,387	$7,387	$30,748
Income from continuing operations	$ 673	$ 716	$ 558	$ 624	$ 2,571
(Loss) income from discontinued operations (B)	(11)	(1)	(3)	8	(7)
Net income	$ 662	$ 715	$ 555	$ 632	$ 2,564
Earnings (loss) per share:					
Basic:					
Income from continuing operations	$ .77	$ .82	$ .64	$ .74	$ 2.98
(Loss) income from discontinued operations	(.01)	—	—	.01	—
Net income	$ .76	$ .82	$ .64	$ .75	$ 2.98
Diluted:					
Income from continuing operations	$ .77	$ .81	$ .64	$ .74	$ 2.95
(Loss) income from discontinued operations	(.02)	—	(.01)	.01	—
Net income	$ .75	$ .81	$ .63	$ .75	$ 2.95

	First	Second	Third	Fourth	Year
2006					
Sales	$7,111	$ 7,797	$7,631	$7,840	$30,379
Income from continuing operations	$ 614	$ 749	$ 540	$ 258	$ 2,161
(Loss) income from discontinued operations (B)	(6)	(5)	(3)	101	87
Net income	$ 608	$ 744	$ 537	$ 359	$ 2,248
Earnings (loss) per share:					
Basic:					
Income from continuing operations	$ .71	$ .86	$ .62	$ .30	$ 2.49
(Loss) income from discontinued operations	(.01)	(.01)	—	.11	.10
Net income	$ .70	$ .85	$ .62	$ .41	$ 2.59
Diluted:					
Income from continuing operations	$ .70	$ .85	$ .62	$ .29	$ 2.47
(Loss) income from discontinued operations	(.01)	—	(.01)	.12	.10
Net income	$ .69	$ .85	$ .61	$ .41	$ 2.57

Number of Employees

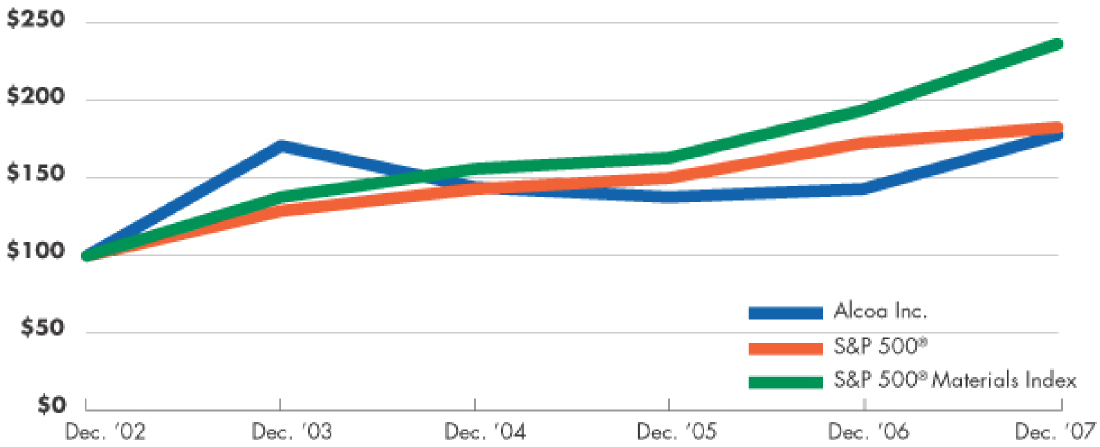
	2007	2006	2005
U.S.	38,000	43,400	45,300
Other Americas	28,000	33,400	35,800
Europe	32,000	37,100	39,300
Pacific	9,000	9,100	8,600
	107,000	123,000	129,000

Stock Performance Graphs (unaudited)

The following graphs compare the most recent five-year and 10-year performance of Alcoa Inc. common stock with (1) the Standard & Poor's 500® Index and (2) the Standard & Poor's 500® Materials Index. Alcoa Inc. is a component of the Standard & Poor's 500® Materials Index, a group of 33 companies which closely mirror the companies we use for return on capital comparisons to establish performance awards for senior management.

Five-Year Cumulative Total Return

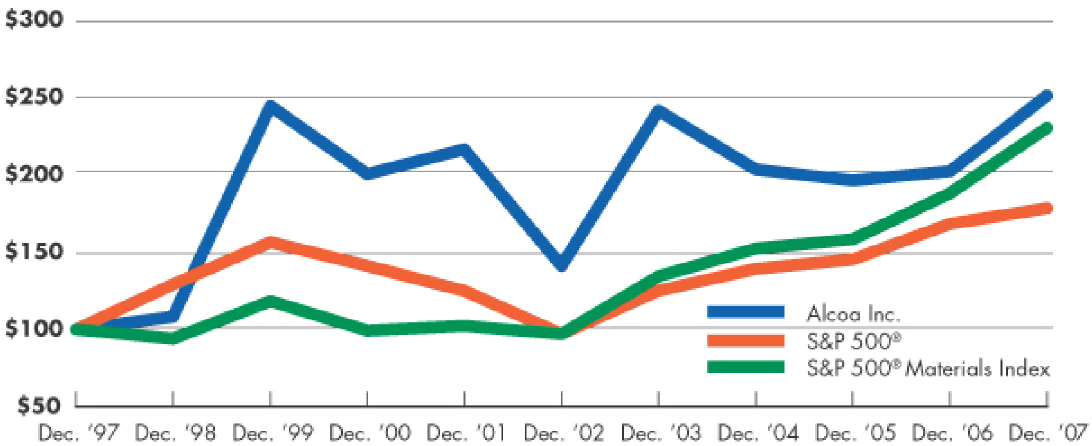
Based upon an initial investment of $100 on December 31, 2002 with dividends reinvested.



As of December 31,	2002	2003	2004	2005	2006	2007
Alcoa Inc.	$100	$171	$144	$138	$143	$178
S&P 500®	100	129	143	150	173	183
S&P 500® Materials Index	100	138	156	163	194	237

10-Year Cumulative Total Return

Based upon an initial investment of $100 on December 31, 1997 with dividends reinvested.



As of December 31,	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Alcoa Inc.	$100	$108	$244	$200	$216	$141	$241	$203	$196	$202	$251
S&P 500®	100	129	156	141	125	97	125	139	145	168	178
S&P 500® Materials Index	100	94	118	99	102	97	134	152	158	188	230

Source: Georgeson Shareholder Communications, Inc.

Shareowner Information

Annual Meeting
The annual meeting of shareowners will be at 2:00 p.m. Thursday, May 8, 2008, at the Carnegie Music Hall in the Oakland section of Pittsburgh.

Company News
Visit www.alcoa.com for Securities and Exchange Commission filings, quarterly earnings reports, and other company news.

Copies of the annual report and Forms 10-K and 10-Q may be requested at no cost at www.alcoa.com or by writing to Corporate Communications at the Corporate Center address.

Investor Information
Securities analysts and investors may write to Director – Investor Relations, Alcoa, 390 Park Avenue, New York, NY 10022-4608, call 1 212 836 2674, or e-mail investor.relations@alcoa.com.

Other Publications
For more information on Alcoa Foundation and Alcoa community investments, visit www.alcoa.com under "community."

For Alcoa's 2007 Sustainability Highlights Report, visit www.alcoa.com or write Director – Sustainability, Alcoa, 390 Park Avenue, New York, NY 10022-4608 or e-mail sustainability@alcoa.com.

Dividends
Alcoa's objective is to pay common stock dividends at rates competitive with other investments of equal risk and consistent with the need to reinvest earnings for long-term growth. In January 2007, Alcoa's Board of Directors approved a 13% increase in the quarterly common stock dividend from 15 cents per share to 17 cents per share. Quarterly dividends are paid to shareowners of record at each quarterly distribution date.

Dividend Reinvestment
The company offers a Dividend Reinvestment and Stock Purchase Plan for shareowners of Alcoa common and preferred stock. The plan allows shareowners to reinvest all or part of their quarterly dividends in shares of Alcoa common stock. Shareowners also may purchase additional shares under the plan with cash contributions. The company pays brokerage commissions and fees on these stock purchases.

Direct Deposit of Dividends
Shareowners may have their quarterly dividends deposited directly to their checking, savings, or money market accounts at any financial institution that participates in the Automated Clearing House (ACH) system.

Shareowner Services
Shareowners with questions on account balances, dividend checks, reinvestment, or direct deposit; address changes; lost or misplaced stock certificates; or other shareowner account matters may contact Alcoa's stock transfer agent, registrar, and dividend disbursing agent:

Computershare Trust Company, N.A. at 1 888 985 2058 (in the U.S. and Canada) or 1 781 575 2724 (all other calls) or through the Computershare Web site at www.computershare.com.

Telecommunications Device for the Deaf (TDD): 1 800 952 9245

For shareowner questions on other matters related to Alcoa, write to Corporate Secretary, Alcoa, 390 Park Avenue, New York, NY 10022-4608, call 1 212 836 2732, or e-mail corporate.secretary@ alcoa.com.

Stock Listing
Common: New York Stock Exchange Preferred: American Stock Exchange
Ticker symbol: AA

Quarterly Common Stock Information

	2007			2006		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$36.05	$28.09	$ .17	$32.20	$28.39	$ .15
Second	42.90	33.63	.17	36.96	28.55	.15
Third	48.77	30.25	.17	34.00	26.60	.15
Fourth	40.70	33.22	.17	31.33	26.39	.15
Year	48.77	28.09	$ .68	36.96	26.39	$ .60

Common Share Data

	Estimated number of shareowners*	Average shares outstanding (000)
2007	233,000	860,771
2006	248,000	868,820
2005	271,000	871,721
2004	295,000	869,907
2003	278,400	853,352

*These estimates include shareowners who own stock registered in their own names and those who own stock through banks and brokers.

Corporate Center
Alcoa
201 Isabella Street
Pittsburgh, PA 15212-5858
Telephone: 1 412 553 4545
Fax: 1 412 553 4498
Internet: www.alcoa.com

Alcoa Inc. is incorporated in the Commonwealth of Pennsylvania.

SUBSIDIARIES AND EQUITY ENTITIES OF THE REGISTRANT
(As of December 31, 2007)
(Reported Under Item 601 of Regulation S-K)

Name	State or Country of Organization
Alcoa Domestic LLC	Delaware
Alcoa Securities Corporation	Delaware
Alcoa Materials Management, Inc.	Delaware
AEES Inc.	Delaware
AEES Holding LLC.	Delaware
Alcoa Fujikura de Mexico, S. de R.L. de C.V.	Mexico
Howmet International Inc.	Delaware
Howmet Holdings Corporation	Delaware
Howmet Corporation	Delaware
Howmet Castings & Services, Inc.	Delaware
Alcoa International Holdings Company	Delaware
Alcoa Luxembourg S.à.r.l.	Luxembourg
Alcoa Europe Holding B.V.	Netherlands
Alcoa Europe S.A.	Switzerland
Norsk Alcoa Holdings A/S	Norway
Alcoa Global Treasury Services S.à.r.l.	Luxembourg
Alcoa Inversiones España S.L.	Spain
Alcoa Inespal, S.A.	Spain
Alúmina Española, S.A.	Spain
Aluminio Español, S.A.	Spain
Alcoa Inversiones Internacionales S.L.	Spain
Alcoa-Köfém Kft	Hungary
Alcoa Extrusión Internacional Holding S.L	Spain
Sapa AB[1]	Sweden
Alcoa Aluminio S.A.	Brazil
Alcoa à Íslandi ehf	Iceland
Alcoa Inter-America, Inc.	Delaware
Alcoa International (Asia) Limited	Hong Kong
Alcoa Australian Holdings Pty. Ltd	Australia
Alcoa of Australia Limited	Australia
Alcoa UK Holdings Limited	United Kingdom
Alcoa Manufacturing (G.B.) Limited	United Kingdom
Alcoa Extruded Products (UK) Limited	United Kingdom
Alcoa World Alumina LLC[2]	Delaware
AAC Holdings Company	Delaware
Alcoa Minerals of Jamaica, L.L.C.	Delaware
Suriname Aluminum Company, L.L.C.	Delaware
Alumax Inc.	Delaware
Alcoa Extrusions, Inc.	Pennsylvania
Alumax Mill Products, Inc.	Delaware
Aluminerie Lauralco, Inc.	Delaware
Alcoa-Lauralco Management Company	Nova Scotia
Alcoa WolinBec Company	Quebec

Name	State or Country of Organization
Laqmar Quebec G.P	Quebec
Alcoa-Aluminerie de Deschambault L.P.	Quebec
Alcoa Canada-Foreign Investment Company	Nova Scotia
Luxcoa L.L.C	Delaware
Alcoa-Lauralco Holdings Company	Nova Scotia
Cordant Technologies Holding Company	Delaware
Alcoa Global Fasteners, Inc.	Delaware
Huck International, Inc.	Delaware
Reynolds Metals Company	Delaware
Reynolds International, Inc.	Delaware
RMCC Company	Delaware
Alcoa Canada Ltd.	Quebec
Alcoa Ltd.	Quebec
Reynolds Bécancour, Inc.	Delaware
RB Sales Company, Limited	Delaware
Reynolds Consumer Products, Inc.	Delaware
Grupiara Participacoes S.A.	Brazil
Reynolds Food Packaging LLC	Delaware
RMC Delaware, Inc.	Delaware
IPC, Inc.	Delaware
Alcoa Kama, Inc.	Delaware

The names of particular subsidiaries and equity entities have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of the end of the year covered by this report, a "significant subsidiary" as that term is defined in Regulation S-X under the Securities Exchange Act of 1934.

1 This entity is a joint venture between Alcoa and Orkla ASA's Sapa Group in which Alcoa holds a 46% equity investment. Alcoa Extrusión Internacional Holding S.L. holds 18% and Alcoa International Holdings Company holds 28% of Alcoa's 46% equity investment.

2 Registered to do business in Alabama, Arkansas, California, Florida, Georgia, Louisiana, North Carolina, Pennsylvania and Texas under the name of Alcoa World Chemicals.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-74874), Form S-4 (No. 333-141419), and Form S-8 (Nos. 33-22346, 33-24846, 33-49109, 33-60305, 333-27903, 333-62663, 333-79575, 333-32516, 333-36208, 333-37740, 333-39708, 333-106411, 333-115717, 333-128445, and 333-146330) of Alcoa Inc. and its subsidiaries of our report dated February 15, 2008 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 15, 2008 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
February 15, 2008

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each of the undersigned Directors of Alcoa Inc. (the “Company”) hereby constitutes and appoints CHARLES D. MCLANE, JR., TONY R. THENE, PETER HONG and DONNA C. DABNEY, or any of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution, to do any and all acts and things and to execute any and all instruments that said attorneys-in-fact and agents, or any of them, may deem necessary or advisable or may be required:

(1) To enable the Company to comply with the Securities Exchange Act of 1934, as amended (the “1934 Act”), and any rules, regulations or requirements of the Securities and Exchange Commission (the “Commission”) in respect thereof, in connection with the filing under the 1934 Act of the Company’s Annual Report on Form 10-K for the year ended December 31, 2007 (the “2007 Annual Report”), including specifically, but without limiting the generality of the foregoing, power and authority to sign the name of each of the undersigned in the capacity of Director of the Company to the 2007 Annual Report to be filed with the Commission and to any instruments or documents filed as part of or in connection with the 2007 Annual Report, including any amendments or supplements thereto;

(2) To enable the Company to comply with the Securities Act of 1933, as amended (the “1933 Act”), and any rules, regulations or requirements of the Commission in respect thereof, in connection with the registration under the 1933 Act during 2008 of the offer and sale or delivery of shares of common stock of the Company to be issued under the 2004 Alcoa Stock Incentive Plan (the “2004 Plan”) or the Alcoa Stock Incentive Plan (the “Stock Incentive Plan”), including specifically, but without limiting the generality of the foregoing, power and authority to sign the name of each of the undersigned in the capacity of Director of the Company to any registration statement on Form S-8, or on such other form as may be appropriate, to be filed with the Commission in respect of said shares and the 2004 Plan or the Stock Incentive Plan, or either of them, to any and all pre-effective amendments, post-effective amendments and supplements to any such registration statement, and to any instruments or documents filed as part of or in connection with any such registration statement or any such amendments or supplements thereto; and

(3) To enable the Company to comply with the 1933 Act, and any rules, regulations or requirements of the Commission in respect thereof, in connection with the registration under the 1933 Act during 2008 of the offer and sale or delivery of up to 15 million shares of common stock of the Company to be issued under the Company’s employee savings plans (together with interests in such plans), including, without limitation, the Alcoa Savings Plan for Bargaining Employees, the Alcoa Savings Plan for Non-Bargaining Employees, the Alcoa Savings Plan for Subsidiary and Affiliate Employees, and employee savings plans sponsored by entities acquired by the Company from time to time (the “Plans”), including specifically, but without limiting the generality of the foregoing, power and authority to sign the name of each of the undersigned in the capacity of Director of the Company to any registration statement on Form S-8, or on such other form as may be appropriate, to be filed with the Commission in respect of said shares and the Plans (or interests in such Plans), or any of them, to any and all pre-effective amendments, post-effective amendments and supplements to any such registration statement, and to any instruments or documents filed as part of or in connection with any such registration statement or any such amendments or supplements thereto; and

granting unto each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as the undersigned might or could do in person, and each of the undersigned hereby ratifies and confirms all that said attorneys-in-fact and agents, or any of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has subscribed these presents this 18th day of January, 2008.

/s/ Kathryn S. Fuller
Kathryn S. Fuller

/s/ Carlos Ghosn
Carlos Ghosn

/s/ Joseph T. Gorman
Joseph T. Gorman

/s/ Judith M. Gueron
Judith M. Gueron

/s/ Klaus Kleinfeld
Klaus Kleinfeld

/s/ James W. Owens
James W. Owens

/s/ Henry B. Schacht
Henry B. Schacht

/s/ Ratan N. Tata
Ratan N. Tata

/s/ Franklin A. Thomas
Franklin A. Thomas

/s/ Ernesto Zedillo
Ernesto Zedillo

Exhibit 31

Certifications

I, Alain J.P. Belda, certify that:

1. I have reviewed this annual report on Form 10-K of Alcoa Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2008

/s/ Alain J.P. Belda
Title: Chairman of the Board and Chief Executive Officer

Exhibit 31

Certifications

I, Charles D. McLane, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Alcoa Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 15, 2008

/s/ Charles D. McLane, Jr.
Title: Executive Vice President and Chief Financial Officer

Exhibit 32

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Alcoa Inc., a Pennsylvania corporation (the “Company”), does hereby certify that:

The Annual Report on Form 10-K for the year ended December 31, 2007 (the “Form 10-K”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 15, 2008

/s/ Alain J.P. Belda

Name: Alain J.P. Belda
Title: Chairman of the Board and Chief Executive Officer

Dated: February 15, 2008

/s/ Charles D. McLane, Jr.

Name: Charles D. McLane, Jr.
Title: Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-K and shall not be considered filed as part of the Form 10-K.

February 15, 2008

Securities & Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

Re: Alcoa Inc.
2007 Form 10-K

Ladies and Gentlemen:

In accordance with General Instruction D(3) to Form 10-K, I wish to inform you that the Consolidated Financial Statements in the Form 10-K, which are incorporated by reference from the Annual Report, do not reflect a change from the preceding year in any accounting principles or practices or in the method of applying any such principles or practices, with the exception of the implementation of Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," and FASB Staff Position No. FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48." This change is disclosed in Note A to the Consolidated Financial Statements.

Very truly yours,

/s/ Tony R. Thene

Tony R. Thene
Vice President and Controller

Attachment

cc: NYSE Euronext, Inc.
11 Wall Street
New York, NY 10005

American Stock Exchange LLC
86 Trinity Place
New York, NY 10006