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, 2006
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. [ü]

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

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 $28 billion. As of February 12, 2007, there were 869,536,783 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 2006 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 2007 Annual Meeting of Shareholders filed or 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 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's leading producer of primary aluminum, fabricated aluminum, and alumina, and is active 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. North America is the largest market with 59% of Alcoa's revenues. Europe is also a significant market with 24% of the company's revenues. In addition, Alcoa has investments and activities in Australia, Brazil, China, Iceland, Jamaica and Russia 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). Generally, 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) to this report.

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 reserves 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 2006, Alcoa consumed 33.9 million metric tons (mt) of bauxite from its own reserves, 6.6 million mt from related third parties and 3.1 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	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)[3] (100%)	2020[4]
	Trombetas	Mineração Rio do Norte S.A. (MRN)[5] (100%)	2046[4]
Guinea	Boké	Compagnie des Bauxites de Guinée (CBG)[6] (100%)	2038[7]
Jamaica	Clarendon/Manchester Plateau	Alcoa Minerals of Jamaica, L.L.C.[8] (50%) Clarendon Alumina Production Ltd.[9] (50%)	2042
Suriname	Lelydorp	BHP Billiton (45%) Suriname Aluminum Company, L.L.C. (Suralco)[8] (55%)	2033[10]
	Coermotibo	BHP Billiton (45%) Suralco (55%)	2033[10]
	Kaimangrasi	BHP Billiton (45%) Suralco (55%)	2033[10]

1 Alcoa also has interests at the following locations that are bauxite reserves or do not currently produce bauxite: Cape Bougainville and Mitchell Plateau in Australia, Juruti in Brazil (scheduled for completion in 2008 and expected to initially produce 2.6 million mt per year (mtpy)) and Klaverblad (expected to produce bauxite beginning in 2007), 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 In August 2003, Alcoa acquired the 40.9% shareholding in Aluminio held by affiliates of Camargo Correa S.A. (collectively the "Camargo Group"). Prior to the acquisition, Alcoa had owned approximately 59% of Aluminio and the Camargo Group had been the principal minority shareholder since 1984.

4 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.

5 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 Alcan Inc. (Alcan), 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.

6 AWA LLC owns a 45% interest in Halco (Mining), Inc. Halco owns 51% and 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.

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

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

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

10 While mining rights extend until 2033, bauxite reserves may be exhausted before that date. Alternative bauxite resources are being evaluated in the western part of 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%)	2,480	2,480
Brazil	Poços de Caldas	Aluminio (100%)	390	390
	São Luís (Alumar)	Abalco[3] (18.9%) Alcan[5] (10%) Aluminio (35.1%) BHP Billiton[5] (36%)	1,400	756
Jamaica	Jamalco	Alcoa Minerals of Jamaica, L.L.C.[3] (50%) Clarendon Alumina Production Ltd. (50%)	1,275	638
Spain	San Ciprián	Alúmina Española, S.A.[3] (100%)	1,450	1,450
Suriname	Suralco	BHP Billiton[5] (45%) Suralco[3] (55%)	2,207	1,214
U.S.	Point Comfort, Tex.	AWA LLC[3] (100%)	2,305	2,305
TOTAL			17,891	15,617

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 would increase production at the facility by 657,000 mtpy. Ramp up to full production at the Pinjarra refinery was achieved in the fourth quarter of 2006. Nameplate capacity was reduced, however, during the month of December due to a power failure experienced at the refinery. Full power has since been restored.

5 The named company or an affiliate holds this interest.

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. Alcoa has worked with the Government to conduct feasibility studies related to the bauxite resources. The parties expect to continue discussions during 2007 on the feasibility of the project.

In September 2005, Alcoa announced that its Board of Directors approved plans to make further investments in the company's Brazilian "upstream" operations, including a 2.1 million mtpy expansion of the Alumar consortium alumina refinery in São Luís, state of Maranhao (expected to increase the refinery's capacity from 1.4 million mtpy to approximately 3.5 million mtpy beginning in late 2008, with Alcoa's share of the total facility output more than doubling to 1.89 million mtpy based on its 54% ownership stake through AWAC) and the modernization of the Poços de Caldas aluminum smelter, in the state of Minas Gerais.

In November 2005, AWA LLC and Alcan 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. If established, the joint venture would be 51% owned by Vinacomin and 49% owned by AWAC.

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 (feasibility study) following completion of pre-feasibility work scheduled for the first half of 2007.

The 1.5 million mtpy planned expansion of the Jamalco alumina refinery in Clarendon, Jamaica is subject to supply of natural gas by the Government of Jamaica and acceptable market conditions. The Government of Jamaica continues to negotiate with third party suppliers to procure natural gas to be supplied to Jamalco, but no final agreement has been reached. Alcoa is proceeding with the Early Works Program, which will add 146,000 mtpy of production to Jamalco, bringing the total capacity to 1.420 million mtpy. The Early Works Program is expected to be substantially complete by the end of the first quarter of 2007. As a result of the Early Works Program, Alcoa's ownership in Jamalco will increase to approximately 55%, with the Government of Jamaica owning approximately 45%.

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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%)	185	185[3]
	Portland	AofA (55%) CITIC (22.5%) Marubeni (22.5%)	353	194[3]
Brazil	Poços de Caldas	Aluminio (100%)	96	96
	São Luís (Alumar)	Aluminio (60%) BHP Billiton (40%)	438	263
Canada	Baie Comeau, Que.	Alcoa (100%)	438	438
	Bécancour, Que.	Alcoa (74.95%) Alcan[4] (25.05%)	409	307
	Deschambault, Que.	Alcoa (100%)	254	254
Italy	Fusina	Alcoa (100%)	44	44
	Portovesme	Alcoa (100%)	150	150
Spain	Avilés	Alcoa (100%)	90	90
	La Coruña	Alcoa (100%)	84	84
	San Ciprián	Alcoa (100%)	225	225
U.S.	Evansville, Ind. (Warrick)	Alcoa (100%)	309[5]	309[5]
	Frederick, Md. (Eastalco)	Alcoa (100%)	195[6]	195[6]
	Badin, N.C.	Alcoa (100%)	60[7]	60[7]
	Massena West, N.Y.	Alcoa (100%)	130	130
	Massena East, N.Y.	Alcoa (100%)	125	125
	Mount Holly, S.C.	Alcoa (50.33%) Century Aluminum Company (49.67%)	229	115
	Alcoa, Tenn.	Alcoa (100%)	215	215
	Rockdale, Tex.	Alcoa (100%)	267	267
	Ferndale, Wash. (Intalco)	Alcoa (100%)	279[8]	279[8]
	Wenatchee, Wash.	Alcoa (100%)	184[9]	184[9]
TOTAL			4,759	4,209

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. Due to an equipment fault in November 2005, the Portland smelter lost power resulting in the loss of a number of pots on one potline. The pots were progressively returned to service during 2006, with potlines operating at full capacity by the end of the third quarter of 2006.

4 Owned through Alcan subsidiary Pechiney Reynolds Quebec, Inc.

5 The Warrick facility currently has one idled potline.

6 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 the Eastalco smelter from Mitsui & Co. Ltd. resulting in Alcoa owning 100% of the facility.

7 The Badin, North Carolina facility has been idled since August 2002. In addition, one of the two idled potlines is undergoing decommissioning and will not be returned to service. The decommissioning has resulted in reduction of Nameplate and Alcoa Capacities by 60 mtpy.

8 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 is operating at approximately one-third of its capacity but expects to re-start a second potline during the first half of 2007, anticipated to add 95,000 tons of production for the year.

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

Alcoa currently has 545,000 mtpy of idle capacity against a base capacity of 4,209,000 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. The parties are working on the selection of a new site and will resume negotiations later in 2007.

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 to a total of 263,000 mtpy and Aluminio's share of smelter output from 53.66% to 60%.

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.

During 2006, Alcoa continued construction on its new 344,000 mtpy Fjarðaál aluminum smelter in east Iceland. Alcoa broke ground on the new smelter in July 2004. The smelter is scheduled to begin production during the second quarter of 2007.

In 2006, Alcoa continued construction of a new anode plant in Mosjøen, Norway. The facility, being built together with Elkem AS, will produce anodes for Alcoa's Fjarðaál, Iceland and Elkem Aluminium ANS' Mosjøen, Norway smelters. Construction of the anode plant remains on schedule with completion expected in 2007.

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. In August 2005, pursuant to the MOU discussed immediately below, Alcoa and the Government of Ghana announced plans to re-start up to three potlines representing 120,000 mtpy. As of year-end 2005, two potlines had been restarted. Throughout 2006, however, the smelter operated at approximately 38% capacity due to power restrictions related to water levels at Lake Volta, and is currently operating just under two full potlines. Ghana is subject to power restrictions and future production of the smelter will be subject to energy availability.

As noted in the Alumina Refining Facilities and Capacity section above, in January 2005, Alcoa and the Government of the Republic of Ghana signed an MOU, under which the parties would evaluate the development of an integrated aluminum industry in Ghana, including aluminum production. The parties expect to continue discussions during 2007 regarding the feasibility of the project.

At the end of 2005, the shareholders of Hamburger Aluminium-Werk closed the 132,000 mtpy Hamburg, Germany smelter due to escalating power costs. Effective December 1, 2006, Alcoa, Austria Metall AG and Norsk Hydro each sold their 33.33% ownership interest to Trimet Aluminium AG.

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. 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. With the Badin smelter idled, power generated from APGI's Yadkin system is largely being sold to an affiliate, Alcoa Power Marketing, Inc. and then sold into the market. The Tennessee smelter also purchases power from the Tennessee Valley Authority under a contract that extends to 2010.

In the Pacific Northwest, Alcoa has a contract with Chelan County Public Utility District located in the State of Washington that is sufficient to supply about half of the capacity of the Wenatchee smelter through October 2011. In addition, Alcoa has a contract through September 2011 with the Bonneville Power Administration (BPA) 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. The mine became fully operational in late 2006. The mine is capable of 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 operation of the power plant that supplies the Warrick smelter from Vectren (formerly Southern Indiana Gas & Electric Company) until at least 2008. In July 2005, Alcoa announced its plans to invest approximately $330 million at the Warrick power plant to improve environmental performance, operational efficiency and lower costs. This project is well underway.

Power for the Rockdale smelter has historically been 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. The company has opened a new lignite mine, the Three Oaks Mine, on adjacent land it owns or controls. Mining in the Sandow Mine ceased in 2005 and the fuel supply for the company-owned and TXU-owned units has transitioned from the Sandow Mine to the Three Oaks Mine. The three company-owned generating units supplied about one-half of the total electricity requirements of the smelter, but were retired from operation in December 2006. TXU currently supplies the smelter with required electricity through 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 late 2006, TXU and Alcoa signed definitive agreements, subject to a number of conditions precedent, under which TXU would construct, own and operate a new circulating fluidized bed power plant adjacent to the existing Sandow Unit Four Power Plant. Alcoa would supply lignite for the new unit from the Three Oaks Mine, and would purchase a portion of the plant's electricity output. Alcoa and TXU have agreed to interim power arrangements to meet the Rockdale smelter's requirements while the new generation unit is being developed.

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 re-licensed its St. Lawrence-FDR Hydro Project. The company is currently in discussions with NYPA to extend the power supply arrangements in order to facilitate potential technical improvements in the plants, but may terminate either of these contracts with one year's notice.

The Deschambault and Bécancour smelters located 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 of its power needs 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 signed in June 2004 and 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's investment participation in this project is 27.23%. Aluminio receives its share of the plant's output, which is sufficient to cover 51% of its operating needs at the Poços de Caldas smelter.

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 currently-purchased needs at the Poços de Caldas smelter.

With Machadinho and Barra Grande, Aluminio's current power self-sufficiency is approximately 38%, to meet a total energy demand of approximately 690 megawatts from Brazilian primary plants.

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

- *Estreito*, northern Brazil – Aluminio's share is 25.49%
- *Serra do Facão*, in the southeast of Brazil – a consortium of which Aluminio expects to own approximately 34%

In January 2007, a shareholder agreement was concluded by investors in the Serra do Facão hydroelectric plant which formalized the creation of a company, Romania, to construct the power plant. 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.

Aluminio also owns 42% of ETAU, a Brazilian company that holds and operates an electric transmission line in southern Brazil, optimizing the transportation of the energy generated in the Barra Grande hydroelectric power plant.

Europe – Electricity

The company purchases electricity for its Italian smelters in the recently deregulated market, under contracts expiring in December 2009 for both the Portovesme and Fusina smelters. A new law went into effect on May 14, 2005, extending through December 2010 the special tariff conditions applicable to the Italian smelters. This provision has been communicated by the Italian Government to the European Union (EU) as a non-state-aid measure; however, the EU has opened an ongoing investigation into whether this provision should be considered unlawful state aid. It is expected that the outcome of the investigation by the EU Commission be known by the end of the second quarter of 2007. If the investigation concludes that the extension of special conditions applicable to the smelters 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.

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 2010.

Iceland – Electricity

As noted above, Alcoa broke ground in 2004 on construction of its new Fjarðaál smelter in eastern Iceland. Central to those arrangements is a 40-year power contract under which Landsvirkjun, the Icelandic national power company, will build the Kárahnjukár dam and power project, and supply competitively priced electricity to the smelter.

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. The power contract for the smelter in Germany, in which the company previously held minority interest, ran through December 2005; at the end of 2005, the shareholders closed the smelter due to escalating power costs. 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 2006 for each of the company's segments are listed below.

Alumina

bauxite
caustic soda
electricity
fuel oil
natural gas

Primary Metals

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

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
polyvinyl chloride resin compound
primary aluminum (billet)
steel
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.

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.

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 is the largest holder of the shares of Chalco listed on stock exchanges outside China.

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.

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 combine Alcoa's soft alloy extrusion business with Sapa's extruded aluminum business. Alcoa's soft alloy extrusion business currently operates twenty-two facilities in eight countries (three of which, located in the United States, will be divested and not included in the joint venture); Sapa's profiles business has eighteen facilities in twelve countries. The new venture will be majority owned and operated by Sapa. The parties intend to eventually offer an IPO of the combined entity. It is anticipated that the joint venture will be formed by the end of the first quarter of 2007, subject to customary government approvals. Alcoa will continue to own and operate its hard alloy extrusion business which serves the aerospace, automotive, and selected other markets. This report does not constitute an offer of any securities for sale.

In 2006, Alcoa restructured the following joint ventures and investments:

Alcoa Kobe Transportation Products, Inc. (AKTP) and Kobe Alcoa Transportation Products Ltd. (KATP). Effective December 31, 2006, AKTP was dissolved and Alcoa sold its shares in KATP to Kobe Steel, Ltd. (Kobe). Both AKTP and KATP were joint ventures formed as part of the Alcoa and Kobe arrangement in the 1990's to pursue opportunities in the transportation sheet products market. Both joint ventures were owned 50% by Alcoa and 50% by Kobe. AKTP, was engaged in the research and development of aluminum sheet products for the transportation industry. Alcoa will distribute 50% of the proceeds of the dissolved joint venture to Kobe. KATP was engaged in the manufacturing and marketing of aluminum sheet products for worldwide transportation markets. Separately, Alcoa and Kobe are in discussion about a potential joint research and development arrangement on various items including, but not limited to, brazing sheet.

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, Dura-Bright® surface treatments, Presto® storage bags, Cut-Rite® wax paper, Baco® household wraps, Reynolds® plastic wrap and Reynolds Wrap® aluminum foil. 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 the world's leading producer of alumina, primary aluminum and fabricated aluminum. 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. Alcoa conducts these activities within its businesses and at the Alcoa Technical Center near Pittsburgh, Pennsylvania. Expenditures for R&D activities were $213 million in 2006, $192 million in 2005 and $178 million in 2004. Expenditure amounts reported for 2005 and 2004 have been adjusted from those stated in Alcoa's prior reports because of reclassifications due to discontinued operations.

Most of the major process and product 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 product and 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 2006, 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 anode assembly testing, although there remain technical and cost targets to overcome. Technical targets include improvement of anode life, 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. No timetable has been established for commercial use. Progress was also made on carbothermic projects, which if commercially feasible may reduce capital and operating costs, as well as provide environmental benefits related to waste reduction.

In the semi-fabrication businesses, the "simultaneous multi-alloy casting" process was developed with plans to commercialize it in 2007. The company has also moved from R&D to "pilot scale" on its continuous cast-rolled products process. A number of products were commercialized in 2006 such as those included in the "Extra Bright Dura Bright" brand and "Reynobond-Kevlar Hurricane" brand products.

The company currently has at least forty 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 48 and 49, and in Note Y to the financial statements beginning on page 70.

Employees

Total worldwide employment at year-end 2006 was 123,000 people.

On May 31, 2006, the master labor agreement between Alcoa and the United Steelworkers covering 15 locations in the United States and approximately 9,000 employees was scheduled to expire. Work stoppage did not occur at any of the covered locations and on June 22, 2006, a new four-year labor agreement was ratified. The new master agreement includes structural changes in employee and retiree health care programs, resulting in additional employee cost sharing through plan design changes and premium contributions. The contract also contains provisions for a signing bonus upon ratification, wage increases and pension factor increases for longer service employees.

During the fourth quarter of 2006, Alcoa and the United Autoworkers Local 1050 (UAW) ratified a new four-year labor agreement that covers approximately 830 employees at Alcoa's Cleveland Works facility. UAW employees returned to work on January 2, 2007, following an eight-week strike during which salaried workers operated the plant.

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 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.

Alcoa is the world's leading producer of primary aluminum, fabricated aluminum, and alumina. The aluminum industry is highly cyclical, with prices subject to worldwide market forces of supply and demand and other influences. Prices can be volatile. Although 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, and is product and segment diversified, 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 due to droughts or hurricanes;
- 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, 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. 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 projects are in various stages of development or negotiation in Australia, Brazil, Ghana, 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, China, Ghana, Guinea, Iceland, India, Jamaica, Korea, Mexico, Norway, Russia, Suriname, Trinidad 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. In particular, lower valuation of the U.S. dollar against other currencies, particularly the 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.

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.

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. 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 technology. 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 agreements in several parts of the world may result in emission restrictions on carbon dioxide and other greenhouse gases.

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.

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

Item 1B. Unresolved Staff Comments.

None.

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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 5-6.

PRIMARY METALS

See the table and related text in the **Primary Aluminum Facilities and Capacity** section on pages 7-9.

FLAT-ROLLED PRODUCTS

Sheet and Plate:	Asia:	2 locations in 1 country.
	Australia:	2 locations.
	Europe:	8 locations in 6 countries.
	South America:	1 location.
	United States:	10 locations in 9 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.
	Europe:	1 location.
	United States:	1 location.

EXTRUDED AND END PRODUCTS

Extrusion, Tube:	Europe:	13 locations in 8 countries.
	Mexico	1 location.
	South America:	4 locations in 1 country.
	United States:	17 locations in 15 states.
Architectural Extrusions:	Africa:	1 location.
	Canada:	2 locations in 2 provinces.
	Europe:	18 locations in 9 countries.
	South America:	3 locations in 1 country.
	United States:	11 locations in 9 states.

ENGINEERED SOLUTIONS

Aerospace:	Asia:	1 location.
	Canada:	2 locations in 2 provinces.
	Europe:	8 locations in 4 countries.
	United States:	18 locations in 13 states.
Automotive Components:	Asia:	1 location.
	Australia:	2 locations.
	Canada:	2 locations in 2 provinces.
	Europe:	3 locations in 3 countries.
	Mexico:	2 locations.
	South America:	1 location.
	United States:	11 locations in 8 states.
AFL Automotive:	Asia:	1 location.
	Canada:	1 location.
	Central America:	2 locations in 1 country.
	Europe:	14 locations in 8 countries.
	Mexico:	6 locations.
	South America:	1 location.
	United States:	12 locations in 4 states.
Castings:	Asia:	1 location.
	Canada:	3 locations in 2 provinces.
	Europe:	7 locations in 5 countries.
	Mexico:	1 location.
	South America:	1 location.
	United States:	14 locations in 10 states.
Auto Engineering:	Europe:	4 locations in 3 countries.
	United States:	4 locations in 3 states.
Fasteners:	Asia:	2 locations in 1 country.
	Australia:	1 location.
	Europe:	10 locations in 4 countries.
	Mexico:	1 location.
	United States:	10 locations in 6 states.

PACKAGING AND CONSUMER

Consumer Products:	Canada:	1 location.
	Europe:	3 locations in 2 countries.
	United States:	9 locations in 7 states.
Flexible Packaging:	Asia:	1 location.
	Europe:	1 location.
	United States:	6 locations in 4 states.

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Closures:	Africa:	1 location.
	Asia:	5 locations in 4 countries.
	Canada:	1 location.
	Central America:	1 location.
	Europe:	3 locations in 3 countries.
	Indonesia:	1 location.
	Mexico:	2 locations.
	Middle East:	1 location.
	South America:	6 locations in 5 countries.
	United States:	4 locations in 4 states.
Foodservice Packaging:	Canada:	3 locations in 2 provinces.
	Europe:	2 locations in 2 countries.
	United States:	7 locations in 7 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 corporate center is located at 201 Isabella Street, Pittsburgh, Pennsylvania 15212-5858. Alcoa's principal office is located at 390 Park Avenue, New York, New York 10022-4608.

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 U 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 for 2006 continuing through 2008. The reserves for the Grasse River were routinely reevaluated in 2006 and an adjustment of $4.1 million was made to cover commitments made to EPA for additional investigation work, for the on-going monitoring program including that associated with the ROPS program, 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. 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 2008 or later.

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.

As previously reported, in September 1998, Hurricane Georges struck the U.S. Virgin Islands, including the St. Croix Alumina LLC 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 LLC. 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 LLC facility. The suit, which has been removed to the District Court of the Virgin Islands, names St. Croix Alumina LLC, 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 LLC 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 LLC 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 LLC and has a pending motion to dismiss.

As previously reported, in 2001 and 2002, two companion lawsuits were filed in the Court of Lafayette County, Arkansas on behalf of nearly 400 current or former residents of the City of Stamps, Arkansas, the City of Stamps and former employees of Red River Aluminum, Inc. (RRA), a dross processor. The 2001 action was transferred to Miller County, Arkansas. The suits named 12 defendants (including Alcoa, Alumax Inc. (Alumax) and Reynolds) that sent dross to RRA for processing. Plaintiffs filed claims for personal injuries and property damage and alleged that the defendants violated Arkansas environmental statutes relating to the alleged contamination associated with RRA's operations in Stamps. The 2001 action was settled in May 2004. The cost of the settlement was previously reserved and was not material to Alcoa. The 2002 action was dismissed, without prejudice, at the request of plaintiffs in June 2004. In June 2004, the City of Stamps withdrew its claims, without prejudice. In June 2005, the City of Stamps filed a lawsuit in the U.S. District Court for the Western District of Arkansas (El Dorado Division). The suit was almost identical to its 2002 suit in state court that was withdrawn. The new suit named 16 defendants (including Alcoa, Alumax and Reynolds). The defendants in this case were aluminum manufacturers and processors who sent aluminum dross and scrap aluminum to RRA in order to recover aluminum contained within these materials. This secondary smelting process generates salt cake, which was left in 30-foot high mounds covering 8 to 10 acres of the RRA site. RRA was saving the salt cake with the belief that it could extract additional, usable aluminum from the material and sell it on the open market. In addition, the City of Stamps named the Arkansas Department of Environmental Quality, and the Arkansas Commissioner of State Lands, Arkansas State Land Office, as "Necessary Parties." The City of Stamps alleged that these entities were necessary parties because they held title and control access to the RRA site, respectively. The City of Stamps alleged violation of the Arkansas Solid Waste Management Act and other causes of action (negligence, nuisance and trespass). In addition, the City of Stamps sought injunctive relief for remediation of the site as well as compensatory and punitive damages. Alcoa responded to the City of Stamps complaint in August 2005. In October 2005, the City of Stamps filed an amended complaint that included a count under the Resource Conservation and Recovery Act. Alcoa responded to the amended complaint in November 2005. In August 2006, all remaining claims in this litigation were resolved and the Company's payment was not material to its financial condition.

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. Howmet is awaiting a decision from the Environmental Appeals Board.

As previously reported, the issuance of an Environmental Operating Permit ("EOP") for the 344,000 mtpy Fjarðaál Project in Iceland was based upon a comparison study of the former Norsk Hydro 420,000 mtpy Reyðarál environmental impact assessment ("Comparison Study"). In early 2004, a third party challenged the procedures of the Icelandic Planning Agency (PA) in that regard, maintaining that the Ministry of the Environment should have required a full environmental impact assessment (EIA) be undertaken for the Fjarðaál Project, rather than making a decision based upon the Comparison Study prior to issuance of the EOP. In January 2005, an Icelandic District Court found, in part, in favor of the plaintiff's position. The Icelandic government, the plaintiff and Fjarðaál all filed appeals from the ruling to the Icelandic Supreme Court. On June 9, 2005, the Icelandic Supreme Court upheld the decision of the Icelandic District Court, and found that a new EIA, rather than the Comparison Study, should have been conducted. At the same time, the Icelandic Supreme Court dismissed plaintiff's claims that the EOP should be invalidated.
Construction has continued on the Project under previously-issued building permits, and on April 7, 2006, Alcoa submitted its new EIA to the PA. The EIA was accepted by the PA on August 31, 2006, and Alcoa then applied to the Icelandic Environment and Food Agency for a new EOP. The new EOP was issued on January 25, 2007.

As previously reported, in May 2005**,** Alcoa World Alumina LLC and St. Croix Alumina LLC. 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 LLC 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.

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 has not been set. Alcoa's motion for permission to adduce evidence on class certification is not expected to be heard before the first quarter of 2007. The company intends to defend this action vigorously.

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. Preliminary motions have been filed and discovery is underway.

As previously reported, in January 2006, Alcoa Inc. and Alcoa Fuels, Inc. were sued in the Warrick Circuit Court in Indiana by Billy Musgrave, Jr. and Kim Musgrave, on behalf of themselves and all persons similarly situated. The lawsuit concerns alleged harm from alleged exposure to waste that was disposed in designated pits at the Squaw Creek Mine in the 1970s. The Petition seeks certification of a class of plaintiffs and recovery for damages and punitive damages, but does not specify a claimed amount. Alcoa removed the case to the United States District Court for the Southern District of Indiana. On February 1, 2007, plaintiffs' motion for leave to file an amended complaint, proposing to drop the class allegations against Alcoa and Alcoa Fuels, and their renewed motion for remand to state court were both granted.

In October 2006, forty-one plaintiffs sued Alcoa Inc. and Alcoa Fuels, Inc. in Warrick Circuit Court in Indiana. This lawsuit asserts similar claims against Alcoa and Alcoa Fuels as the plaintiffs in the Musgrave case mentioned above and involves some of the prior class members, as well as new plaintiffs who are non-employees. The alleged harm occurred from alleged exposure to waste that was disposed of in designated pits at the Squaw Creek Mine in the 1970s. Alcoa removed the case to the United States District Court for the Southern District of Indiana and has filed a motion to consolidate with the Musgrave case.

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.

As previously reported, the U.S. Environmental Protection Agency, the U.S. Department of Justice (DOJ), three citizens groups and Alcoa entered into a consent decree in 2003 in order to settle alleged violations of the Clean Air Act at Alcoa's Rockdale, Texas power plant. The consent decree was executed by Alcoa on March 27, 2003 and lodged with the U.S. District Court for the Western District of Texas on April 19, 2003. The court ordered entry of the consent decree on July 28, 2003. On July 18, 2006, pursuant to the terms of the consent decree, DOJ submitted a demand for stipulated penalties for alleged violations of opacity and sulphur dioxide limits at the power plant. The total demand for stipulated penalties was $9,175,000. This matter was settled with all parties on January 31, 2007 with Alcoa agreeing to a payment of $1,851,718.

In August 2006, Reynolds finalized a consent order with the New York State Department of Environmental Conservation ("NYSDEC") requiring it to pay an initial penalty of $143,000 to resolve violations in March, April and June 2006 of its permitted monthly fluoride air emission limit at its Massena East Plant. The consent order required Reynolds to implement corrective action by December 31, 2006, and set a stipulated penalty schedule that takes effect for any fluoride emissions exceeding a monthly average of 2.7 lbs of fluoride per ton of aluminum produced. Reynolds paid an additional $73,000 in stipulated penalties because average fluoride emissions exceeded this monthly consent order threshold in July and August 2006. The facility continues to implement improvements to meet its fluoride air emissions limit. NYSDEC has agreed to extend the consent order until June 30, 2007 to give the facility additional time to implement corrective action.

On December 1, 2006, St. Croix Alumina, LLC 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 complaint seeks the completion of certain actions regarding the facility, a civil fine and exemplary damages for alleged violations of the Coastal Zone Management Act and a construction permit issued pursuant to that Act.

On January 2, 2007, St. Croix Alumina, LLC, 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 and exemplary damages for alleged violations of the Coastal Zone Management Act and a construction permit issued pursuant to that Act.

On January 22, 2007, the City of Point Comfort, Texas filed suit against Alcoa World Aluminum, 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.

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.

As previously reported, in May 2005 Alcoa was served with a Federal Grand Jury subpoena by the Antitrust Division of the DOJ. The DOJ is investigating possible criminal violations of the antitrust laws and related matters concerning the aluminum fluoride industry. Aluminum fluoride is used in the process of smelting aluminum in all of the company's smelters worldwide. The company produces aluminum fluoride for internal use and third party sales. The company also purchases aluminum fluoride from others and is a net purchaser. Antitrust authorities in Canada and Australia have also made inquiries to the company. The company has cooperated with all three authorities in their respective investigations and has completed production of requested documents and has filed narrative answers to all questions posed.

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 is 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 seeks payment of Brazilian Real $669 million (equivalent to approximately US$304 million) and encompasses fiscal years from 2000 to 2005. Alcoa Aluminio believes that the claim is without merit and will present its defenses at all appropriate levels – administrative or judicial – of the Brazilian legal system. On September 4, 2006, a favorable first administrative level decision was rendered finding the claim against Alcoa Aluminio to be without merit. The next administrative level is presently reviewing the case.

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 $17 million (pre-tax) per month in higher power costs at its Italian smelters. 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.

On November 17, 2006, a suit was filed by Charles Curtis and others against Alcoa individually and as fiduciary of the Employee's Group Benefits Plan of Alcoa, Plan II in the United States District Court for the Eastern District of Tennessee. The suit was filed on behalf of more than 2,000 post-May 31, 1993 retirees, alleging that the company's implementation of a financial liability cap for retiree medical benefits is in violation of their right to life-time vested retiree medical benefits at no cost. The company is vigorously defending against the action. Prior to June 1, 1993, United Steelworker retirees received medical benefits at no cost. In 1993, Alcoa, Reynolds and the United Steelworkers Union agreed that the company would limit its financial liability for providing retiree medical benefits for employees who retired after May 31, 1993. This limitation was based on the company's per capita cost of providing the benefit during the final year of the collective bargaining agreement. As a result of the capped liability, post May 31, 1993 retirees were expected to begin to pay a portion of their retiree medical benefits after the expiration of the bargaining agreement. The company's limitation was increased during 1996 negotiations as well as 2001 negotiations so that post May 31, 1993 retirees continued to receive benefits at no cost. Bargaining Unit employees and retirees were aware of the limitation through bargaining agreement side letters and/or summary plan description communications. During the May 2006 negotiations, the parties agreed to implement the company's financial limitation beginning January 1, 2007, and retirees would begin to pay monthly premiums, deductibles and co-payments for their Alcoa provided medical coverage.

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 2006.

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, 2007 are listed below.

Alain J. P. Belda, 63, 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. Mr. Alain Belda's brother, Ricardo E. Belda, retired as an executive officer of the company on September 1, 2006.

William F. Christopher, 52, 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.

Joseph R. Lucot, 43, Vice President and Corporate Controller. Mr. Lucot was elected a Vice President of Alcoa in November 2006 and was elected to his current position effective January 1, 2007. He served as chief financial officer for Alcoa's Global Rolled Products, Hard Alloy Extrusions and Asia group in 2006. He became chief financial officer for Global Extruded and End Products and Alcoa Europe in 2002. He was Vice President, Finance for Alcoa's Primary Products business unit in 2001. He joined Alcoa in 1997 as Assistant Controller.

Charles D. McLane, **Jr.**, 53, Vice President and Chief Financial Officer. Mr. McLane was elected to his current position effective January 1, 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, 59, 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, 58, 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.

Paul D. Thomas, 50, 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, 53, 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.

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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 80 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 (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (b)(c)
January 1 – January 31, 2006	48,982	$ 30.24	-	26,200,282
February 1 – February 28, 2006	1,479,800	30.03	1,479,800	24,720,482
March 1 – March 31, 2006	528,412	29.90	520,200	24,200,282
Total for quarter ended March 31, 2006	2,057,194	30.00	2,000,000	24,200,282
April 1 – April 30, 2006	2,066,050	33.92	2,000,000	22,200,282
May 1 – May 31, 2006	2,636,111	31.54	2,600,000	19,600,282
June 1 – June 30, 2006	-	-	-	19,600,282
Total for quarter ended June 30, 2006	4,702,161	32.59	4,600,000	19,600,282
July 1 – July 31, 2006	2,501,872	31.93	2,500,000	17,100,282
August 1 – August 31, 2006	-	-	-	17,100,282
September 1 – September 30, 2006	5,689	27.76	-	17,100,282
Total for quarter ended September 30, 2006	2,507,561	31.92	2,500,000	17,100,282
October 1 – October 31, 2006	-	-	-	17,100,282
November 1 – November 30, 2006	7,566	28.99	-	17,100,282
December 1 – December 31, 2006	2,626	30.92	-	17,100,282
Total for quarter ended December 31, 2006	10,192	29.49	-	17,100,282

(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) Alcoa's share repurchase program was approved by Alcoa's Board of Directors and publicly announced on July 13, 2001. The program authorized the repurchase of up to 50 million shares of Alcoa common stock from time to time, directly or through brokers or agents.

(c) On January 19, 2007, Alcoa's Board of Directors approved and Alcoa publicly announced a new share repurchase program. The new program authorizes purchase of up to 87 million shares of Alcoa common stock from time to time, directly or through brokers or agents and has no expiration date. This new program supersedes the program authorized in 2001.

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.

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 41 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 43 through 73 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 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 42 of the Annual Report and is incorporated by reference.

(c) Attestation Report of the Registered Public Accounting Firm

Management's assessment of the effectiveness of Alcoa's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is on page 43 of the Annual Report and is incorporated by reference.

(d) Changes in Internal Control over Financial Reporting

Except as otherwise discussed herein, there have been no significant changes in internal control over financial reporting that occurred during the fourth quarter of 2006, 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 "Alcoa Stock Ownership – 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.

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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, 2006.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights *(a)*	Weighted-average exercise price of outstanding options, warrants and rights *(b)*	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) *(c)*
Equity compensation plans approved by security holders[1]	84,694,807[1]	$ 33.97	41,539,486[2]
Equity compensation plans not approved by security holders[3, 4]	0	0	0
Total	84,694,807[1]	$ 33.97	41,539,486[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:

- 79,409,124 stock options
- 565,264 performance options at target
- 4,076,935 stock awards
- 643,484 performance share awards (316,300 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:

- 34,295,405 stock options and stock appreciation rights
- 7,244,081 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 4,618,675 shares of Alcoa common stock are to be issued upon exercise of the outstanding options. The options have a weighted average exercise price of $29.58. 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, 2005) 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.

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.

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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” and “Transactions with Related Persons” of the Proxy Statement and in Attachment C (Related Person Transaction Approval Policy) thereto 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 A (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 43 through 73 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, 2007 on the company’s financial statement schedule filed as a part hereof for the fiscal years ended December 31, 2006, 2005 and 2004.

Schedule II – Valuation and Qualifying Accounts For the Years Ended December 31, 2006, 2005 and 2004.

(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(b) to the company’s Annual Report on Form 10-K for the year ended December 31, 2005.
4(a).	Articles. See Exhibit 3(a) above.

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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.
10(g).	Five-Year Revolving Credit Agreement, dated as of April 22, 2005, incorporated by reference to exhibit 10(a) to the company's Current Report on Form 8-K dated April 25, 2005.
10(h).	Five-Year Revolving Credit Agreement, dated as of April 23, 2004, incorporated by reference to exhibit 10(b) to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
10(h)(1).	Amendment Agreement dated as of April 22, 2005 in respect of the Five-Year Revolving Credit Agreement dated as of April 23, 2004, incorporated by reference to exhibit 10(b) to the company's Current Report on Form 8-K dated April 25, 2005.
10(i).	Revolving Credit Agreement (Five-Year), dated as of April 25, 2003, incorporated by reference to exhibit 10(b) to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
10(i)(1).	Amendment Agreement dated as of April 22, 2005 in respect of the Revolving Credit Agreement (Five-Year) dated as of April 25, 2003, incorporated by reference to exhibit 10(c) to the company's Current Report on Form 8-K dated April 25, 2005.

10(j).	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(j)(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(j)(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(k).	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(k)(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(k)(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 for the year ended December 31, 2002.
10(l).	Incentive Compensation Plan, as amended effective January 1, 1993, incorporated by reference to exhibit 10(c) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1992.
10(l)(1).	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(l)(2).	Incentive Compensation Plan of Alcoa Inc., as revised September 15, 2006, incorporated by reference to exhibit 10.1 to the company's Current Report on Form 8-K dated September 20, 2006.
10(m).	Employees' Excess Benefit Plan, Plan C, as amended and restated in 1994, effective January 1, 1989, incorporated by reference to exhibit 10(d) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1994.
10(m)(1).	Amendments to Employees' Excess Benefit Plan, Plan C, effective January 1, 2000, incorporated by reference to exhibit 10(d)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2000.
10(m)(2).	Amendments to Employees' Excess Benefit Plan, Plan C, effective January 1, 2002, incorporated by reference to exhibit 10(l)(2) to the company's Annual Report on Form 10-K for the year ended December 31, 2002.
10(n).	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(o).	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(o)(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(p).	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(p)(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(p)(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(q).	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(q)(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(q)(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(q)(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(q)(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(q)(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(q)(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(r).	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(s).	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(t).	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(u).	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(v).	Alcoa Supplemental Pension Plan for Senior Executives, effective January 1, 1999, incorporated by reference to exhibit 10(q) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1998.

10(v)(1).	Amendments to Alcoa Supplemental Pension Plan for Senior Executives, effective January 1, 2000, incorporated by reference to exhibit 10(q)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2000.
10(w).	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(x).	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(x)(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(x)(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(x)(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(y).	Alcoa Inc. Change in Control Severance Plan, incorporated by reference to exhibit 10(z) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2001.
10(z).	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(aa).	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(bb).	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(cc).	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(dd).	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(ee).	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(ff).	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(gg).	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(gg)(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(gg)(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(gg)(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(hh).	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(ii).	Summary of Non-Employee Director Compensation effective January 1, 2005, incorporated by reference to exhibit 10(nn) to the company's Annual Report on Form 10-K for the year ended December 31, 2004.
10(jj).	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(kk).	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(ll).	Summary of named executive officer salary increases, effective July 1, 2005, incorporated by reference to exhibit 10(d) to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
10(mm).	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(nn).	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(oo).	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(pp).	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(qq).	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(rr).	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(ss).	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(tt).	Global Expatriate Employee Policy (pre-January 1, 2003), incorporated by reference to exhibit 10(tt) to the company's Annual Report on Form 10-K for the year ended December 31, 2005.
10(uu).	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(vv).	Summary of Terms of Relocation for Helmut Wieser, effective January 1, 2007.
10(ww).	Summary of Relocation Benefits for Paul D. Thomas.
12.	Computation of Ratio of Earnings to Fixed Charges.
13.	Portions of Alcoa's 2006 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(j) through 10(ww) 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, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated February 15, 2007 appearing in the 2006 Annual Report to Shareholders of Alcoa Inc. and its subsidiaries (which report, consolidated financial statements and assessment 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, 2007

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

Col. A	Col. B	Col.C		Col. D	Col. E
		Additions			
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:					
2006	$ 62	$ 8	$ 11	$ 6	$ 75
2005	$ 67	$ 9	$ (1)	$ 13	$ 62
2004	$ 82	$ 10	$ 1	$ 26	$ 67
Income tax valuation allowance:					
2006	$ 467	$ 120	$ (14)	$ 37	$ 536
2005(C)	$ 461	$ 20	$ 7	$ 21	$ 467
2004(C)	$ 487	$ 10	$ —	$ 36	$ 461

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.

(C) These amounts have been revised from the prior year presentation to include amounts previously excluded to reflect them on a “gross” basis. Such amounts were not included in the valuation allowance balances nor in the related gross deferred tax asset balances in the prior year Form 10-K report, but were instead reflected as a reduction of the deferred tax assets, effectively presenting them on a “net” basis. The change to “gross” rather than “net” presentation of these amounts had no impact on reported income tax expense for any period.

The financial information of all prior periods presented has been reclassified to reflect discontinued operations and 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, 2007	By	/s/ Joseph R. Lucot Joseph R. Lucot Vice President and Corporate 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, 2007
/s/ Charles D. McLane, Jr. Charles D. McLane, Jr.	Vice President and Chief Financial Officer (Principal Financial Officer)	February 15, 2007

Kathryn S. Fuller, Carlos Ghosn, Joseph T. Gorman, Judith M. Gueron, Klaus Kleinfeld, James W. Owens, Henry B. Schacht, Franklin A. Thomas and Ernesto Zedillo, each as a Director, on February 15, 2007, by Donna C. Dabney, their Attorney-in-Fact.*

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

Exhibit 10(f)

BLAKE DAWSON WALDRON

LAWYERS

Enterprise Funding Agreement

Alcoa Inc

Alumina Limited

Alcoa Australian Holdings Pty Ltd

Alcoa of Australia Limited

Enterprise Funding Partnership

Level 39
101 Collins St
Melbourne VIC 3000
Telephone: (03) 9679 3000
Fax: (03) 9679 3111

18 September 2006
Ref: MMCD DMK 03 1377 4951

CONTENTS

ENTERPRISE FUNDING AGREEMENT

DATE 18 September 2006

PARTIES

Alcoa Inc of Alcoa Corporate Center, 201 Isabella Street, Pittsburgh, Pennsylvania, United States of America (**Alcoa**)

Alumina Limited ABN 85 004 820 419 of Level 12, IBM Centre, 60 City Road, Southbank, Victoria, Australia (**Alumina**)

Alcoa Australian Holdings Pty Ltd ABN 33 096 987 370 of corner Davy and Marmion Streets, Booragoon, Western Australia, Australia (**AAH**)

Alcoa of Australia Limited ABN 93 004 879 298 of corner Davy and Marmion Streets, Booragoon, Western Australia, Australia (**AofA**)

Enterprise Funding Partnership between AAH and Alumina constituted by the Partnership Agreement dated on or about the date of this document (**Enterprise Funding Partnership**)

RECITALS

A. Alumina and Alcoa are participants in the unincorporated global venture known as Alcoa World Alumina and Chemicals (**AWAC**). The operations of AWAC are conducted by the Enterprise Companies (including AofA) which are owned (directly or indirectly) as to 60% by Alcoa and 40% by Alumina.

B. The AWAC Documents regulate the operations of AWAC and provide, amongst other things, for the distribution of the profits of AWAC to Alcoa and Alumina (directly or indirectly via their respective Affiliates) and for the funding by Alcoa and Alumina (directly or indirectly via their respective Affiliates) of the activities of AWAC undertaken by the Enterprise Companies.

C. AAH and Alumina are the shareholders of AofA and are partners in the Enterprise Funding Partnership, which has been formed to provide funding to AofA and other Enterprise Companies for certain activities of AWAC.

D. Under the Shareholders' Agreement, the shareholders of AofA agreed to cause AofA to distribute by way of dividends at least 30% of the net income of AofA for each financial year subject to the terms of that agreement.

E. The parties wish to record their agreement with respect to the payment of dividends by AofA and the funding of certain activities of AWAC, as set out in this document.

OPERATIVE PROVISIONS

1. INTERPRETATION

1.1 Definitions

The following definitions apply in this document.

1997 Act means the *Income Tax Assessment Act 1997* (Cth).

Affiliate means, in relation to an entity (the **first entity**):

(a) a Subsidiary of the first entity;

(b) an entity of which the first entity is a Subsidiary; or

(c) a Subsidiary of another entity of which the first entity is also a Subsidiary,

except that Alcoa's Affiliates do not include the Enterprise Companies.

AofA Board means the board of directors of AofA from time to time.

AofA Group means AofA and its Subsidiaries from time to time.

Auditor means the auditor of AofA from time to time, which at the Commencement Date and the date of this document is PricewaterhouseCoopers.

Available Cash means, in relation to any Dividend, the projected Cash Balances and Cash Equivalents of the AofA Group at the Dividend Payment Date as reasonably and in good faith estimated by Alcoa, after taking into account (by deduction):

(a) its cash requirements to cover any projected negative Free Cash Flow of the AofA Group during the remainder of the then current Quarter and the next three Quarters, as reasonably and in good faith estimated by Alcoa, as industrial leader of AWAC, under United States generally accepted accounting principles; and

(b) AofA's cash requirements for the payment of the next scheduled Dividend relating to a Minimum Dividend Amount, after taking into account any projected positive Free Cash Flow of the AofA Group from the Dividend Payment Date for the relevant Dividend until the Dividend Payment Date for that next scheduled Dividend relating to a Minimum Dividend Amount as reasonably and in good faith estimated by Alcoa; and

(c) any scheduled repayment or payment on or before the Dividend Payment Date by AofA of an amount of principal outstanding, and any interest thereon, under an Enterprise Loan made to AofA, in accordance with the terms of that Enterprise Loan.

While the Tax Rulings are in effect and:

(i) neither clause 4.7 nor clause 4.8 would prevent the making of a relevant Enterprise Loan to AofA; and

(ii) the approval requirements for equity requests referred to in clause 4.4(b)(i) would not prevent a relevant equity contribution to AofA (either because the relevant requirements are not applicable to the equity contribution, or because the relevant approval for the equity contribution is or will be provided),

Available Cash will be determined (including in respect of the calculation of Free Cash Flow in paragraphs (a) and (b) above) without having regard to any current or prospective growth and sustaining capital expenditure payments and incremental working capital requirements of the AofA Group.

AWAC Documents means:

(a) the agreements which established AWAC on 1 January 1995 and which govern its operation, including the Formation Agreement, the Charter and the LLC Agreement;

(b) the Shareholders' Agreement and the letter agreement dated 16 May 1995 between Alumina and Alcoa; and

(c) the constituent and governing documents of the Enterprise Companies, including the constitution of AofA.

Business Day means any day (other than Saturday or Sunday) on which registered banks are open for general business in Melbourne and New York.

Call means a notice provided under clause 4.1 or 4.11.

Cash Balances and Cash Equivalents means cash on hand, demand deposits and financial investments that are convertible to cash, less at call borrowings.

Cash Flow from Operating Activities means cash flow from operating activities, as determined in accordance with United States generally accepted accounting principles.

Charter means the Charter of the Strategic Council dated 21 December 1994 between Alcoa and Alumina.

Commencement Date means 1 January 2006.

Contribution Amount means, in relation to a Valid Call (or part of a Valid Call), an amount equal to:

(a) the amount of the Valid Call (or part of the Valid Call); less

(b) the amount of cash held by the Enterprise Funding Partnership which is available to fund the Valid Call (or part of the Valid Call).

Corporations Act means the *Corporations Act 2001* (Cth).

Current Financial Year means, in relation to a Dividend, the Financial Year in which the Dividend is to be paid.

Dividend means a dividend (whether final or interim) declared by AofA from time to time and that is payable to each Shareholder in respect of each of their shares in AofA (and in an equal amount per share for all of the Shareholders).

Dividend Payment Date means, in respect of a Dividend, the date on which the Dividend is paid (or, if earlier, the latest date on which the Dividend is required to be paid).

Enterprise Company means each of those entities owned (directly or indirectly) by Alumina and Alcoa as part of AWAC.

Enterprise Funding Requirements means, in relation to an Enterprise Company for a given period, an amount equal to the aggregate of:

(a) the growth and sustaining capital expenditure payments and incremental working capital requirements of the Enterprise Company during the relevant period;

(b) the amount equal to any projected negative Cash Flow from Operating Activities of the Enterprise Company during the relevant period; and

(c) where the Enterprise Company is Abalco S.A. or Omnia Minerios Ltda, the total amount of any outstanding loans provided to the Enterprise Company by any other Enterprise Company on or after 1 August 2005 but before 31 December 2006 that is due to be repaid by the Enterprise Company during the relevant period,

less, in the case of an Enterprise Company that is not a member of the AofA Group, the Enterprise Company's projected positive Cash Flow from Operating Activities (if any, and after deducting any scheduled repayment or payment by such company during the relevant period of an amount of principal outstanding, and any interest thereon, under an Enterprise Loan made to it, in accordance with the terms of that Enterprise Loan) for the relevant period.

Unless otherwise agreed by Alcoa and Alumina, capital requirements of an Enterprise Company for the acquisition of an existing bauxite or alumina business or other existing business shall not be considered an Enterprise Funding Requirement and shall be outside the scope of this document.

Enterprise Loan means a loan from the Enterprise Funding Partnership to an Enterprise Company under an agreement between those entities that is substantially on the terms set out in Schedule 1 (except to the extent otherwise agreed between Alumina and Alcoa) and otherwise as agreed between the Enterprise Funding Partnership and the relevant Enterprise Company.

Excess Dividends means all Dividends paid or to be paid by AofA after 1 January 2006 (other than Dividends paid or to be paid in respect of a Minimum Dividend Amount), including Quarterly Dividends and the Dividend of $118 million (equivalent to approximately US$85 million) paid in the first Quarter of 2006 (of a Total Dividend Amount of $364 million) and the Dividend of $270 million (equivalent to approximately US$200 million) paid in the second Quarter of 2006.

Financial Year means the period from 1 January 2006 to 31 December 2006 and then each succeeding period from 1 January to the next 31 December (or, if earlier, the date of termination of this document in accordance with its terms).

Free Cash Flow means Cash Flow from Operating Activities, less capital expenditures.

Formation Agreement means the Formation Agreement dated as of 21 December 1994 between Alcoa, Alcoa International Holdings Company, ASC Alumina Inc, Alumina, Alumina International Holdings Pty Ltd and Alumina (USA) Inc.

Funding Period means each period of three months beginning on 1 February, 1 May, 1 August and 1 November in each Financial Year (or such lesser period ending on the date of termination of this document in accordance with its terms).

Initial AofA Funding Period means the period from the Commencement Date to 31 January 2007.

Initial Non-AofA Funding Period means the period from the Commencement Date to 31 October 2006.

Insolvency Event means:

(a) in relation to any Australian party, the occurrence of any of the following:

- (i) it has proceedings commenced (other than proceedings that are frivolous, vexatious or lacking in good faith or that are dismissed within 90 days), a resolution passed or an order of a court made under any bankruptcy, reorganisation or similar laws of Australia or any of its constituent states or territories by or against that party, or for the winding up, liquidation or dissolution of that party or its business, other than for the purpose of a solvent reconstruction or amalgamation;
- (ii) it has proceedings commenced (other than proceedings that are frivolous, vexatious or lacking in good faith or that are dismissed within 90 days), a resolution passed or an order of a court made for it to enter an arrangement, compromise or composition with or assignment for the benefit of its creditors, a class of them or any of them, other than for the purpose of a solvent reconstruction or amalgamation;
- (iii) it has a receiver appointed for all or any of its assets;
- (iv) it stops or suspends or threatens to stop or suspend payment of all or a class of its debts, or otherwise admits in writing its inability to pay its debts as they become due; or
- (v) it becomes insolvent or suffers any event similar or analogous to those set out in paragraphs (a)(i) to (iv) above;

(b) in relation to Alcoa, the occurrence of any of the following:

(i) it has proceedings commenced (other than proceedings that are frivolous, vexatious or lacking in good faith or that are dismissed within 90 days), a resolution passed or an order of a court made under any bankruptcy, reorganisation or similar laws of the United States of America or any of its constituent states by or against Alcoa, or for the winding up, liquidation or dissolution of Alcoa or its business, other than for the purpose of a solvent reconstruction or amalgamation;

(ii) it has proceedings commenced (other than proceedings that are frivolous, vexatious or lacking in good faith or that are dismissed within 90 days), a resolution passed or an order of a court made for it to enter an arrangement, compromise or composition with or assignment for the benefit of its creditors, a class of them or any of them, other than for the purpose of a solvent reconstruction or amalgamation;

(iii) it has a receiver appointed for all or any of its assets;

(iv) it stops or suspends or threatens to stop or suspend payment of all or a class of its debts, or otherwise admits in writing its inability to pay its debts as they become due; or

(v) it becomes insolvent or suffers any event similar or analogous to those set out in paragraphs (b)(i) to (iv) above; and

(c) in relation to any other party from time to time, the party becomes insolvent or suffers any event similar or analogous to those set out in paragraphs (a)(i) to (iv).

Interim Net Income means, in relation to a period, the amount of the after tax net income of AofA (before minorities) for the period under United States generally accepted accounting principles, as reasonably and in good faith determined by AofA.

LLC Agreement means the Amended and Restated Limited Liability Company Agreement of Alcoa World Alumina LLC dated as of 31 December 1994 between Alcoa, ASC Alumina Inc, Alumina International Holdings Pty Ltd and Alumina (USA) Inc.

Minimum Dividend Amount means, in relation to a Dividend required to be paid in a given Financial Year in accordance with clauses 3.1(a) and 3.3, an amount equal to 30% of the net income of AofA for the preceding Financial Year, as determined under United States generally accepted accounting principles and certified by the Auditor.

Partners means the partners in the Enterprise Funding Partnership from time to time, which, as at the date of this document, are AAH and Alumina.

Partnership Agreement means the Partnership Agreement dated on or about the date of this document between AAH and Alumina in relation to and constituting the Enterprise Funding Partnership as amended from time to time.

Quarter means each period of three months ending on 31 March, 30 June, 30 September and 31 December in each Financial Year (or such lesser period ending on the date of termination of this document in accordance with its terms).

Quarterly 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 Quarterly Dividend under clause 3.8(a) for the purposes of clause 3.4.

Share means the proportionate interest (directly and indirectly) of Alcoa and Alumina in AWAC, which, as at the Commencement Date and the date of this document, is 40% in the case of Alumina and 60% in the case of Alcoa, as adjusted from time to time in accordance with the AWAC Documents.

Shareholders means the holders of ordinary shares in AofA, which, as at the Commencement Date and the date of this document, are AAH and Alumina.

Shareholders' Agreement means the agreement dated 10 May 1996 between AAH (as assignee of the rights and obligations of Alcoa International Holdings Company in accordance with the Deed of Accession dated 1 November 2005) and Alumina (as amended), and includes that agreement as its interpretation and operation are modified by the letter agreement dated 16 May 1995 between Alumina and Alcoa.

Strategic Council means the AWAC Strategic Council formed pursuant to the Charter.

Subsidiary has the meaning given in the Corporations Act, but an entity will also be taken to be a Subsidiary of an entity if it is controlled by that entity (as defined in section 50AA of the Corporations Act) and:

(a) a trust may be a Subsidiary, for the purpose of which a unit or other beneficial interest will be regarded as a share; and

(b) an entity may be a Subsidiary of a trust if it would have been a Subsidiary if that trust were a corporation.

Tax includes any tax, levy, impost, deduction, charge, rate, duty (including stamp duty), compulsory loan or withholding that is levied or imposed by a government or a governmental, semi-governmental or judicial entity or authority, and any related interest, penalty, charge, fee or other amount.

Tax Event means:

(a) the expiry, termination, withdrawal or other cessation of effect of a Tax Ruling where a substitute or replacement Tax Ruling, having an effect which is not materially less favourable to the relevant recipient than the substituted or replaced Tax Ruling, has not been granted and is not reasonably anticipated to be granted within three months of the expiry, termination, withdrawal or other cessation of effect of the Tax Ruling; or

(b) (i) the introduction, commencement or repeal or amendment; or

(ii) the change in the interpretation, application or administration by any relevant Tax authority or regulatory body; or

(iii) the change in the application, as result of the discovery and correction after the date of this document of a previously incorrect application, by Alcoa or any of its Affiliates that is an entity resident in the United States for income tax purposes,

of any Tax law or regulation in any jurisdiction (in the case of paragraphs (i) and (ii)) or in the United States (in the case of paragraph (iii)) after the date of this document (**Tax Law Change Event**) where:

(iv) the Tax Law Change Event is applicable to Alcoa or any of its Affiliates (including AAH), Alumina or any of its Affiliates, the Enterprise Funding Partnership or an Enterprise Company (or any other relevant person to the extent agreed by Alcoa and Alumina) with respect to any mechanism by which Valid Calls are funded (including Enterprise Loans) or the receipt or payment of Excess Dividends; and

(v) in the case of a Tax Law Change Event that is applicable to a person who is a Partner, Shareholder or Enterprise Company, the Tax Law Change Event occurred after that person became a Partner, Shareholder or first becomes the recipient of an Enterprise Loan or other relevant funding mechanism (as the case may be).

Tax Ruling Applications means the applications for binding private rulings submitted on behalf of AofA, AAH, Alumina and the Enterprise Funding Partnership by Deloitte Touche Tohmatsu Ltd to the Australian Deputy Commissioner of Taxation on 16 August 2006.

Tax Rulings means the rulings issued after the date of this document by the Australian Commissioner of Taxation in respect of, and having an effect which is not materially less favourable to any of the relevant recipients than the rulings requested in, the Tax Ruling Applications, or any substitute or replacement ruling or rulings having an effect which is not materially less favourable to any of the relevant recipients than the substituted or replaced ruling or rulings.

Total Dividend Amount means, in respect of a Dividend, the amount of the Dividend (on a per share basis) multiplied by the total number of shares in AofA in respect of which the Dividend is paid or required to be paid.

Valid Call means a Call that is valid under clause 4.2, 4.10(c) or 4.11.

1.2 Rules for interpreting this document

Headings are for convenience only, and do not affect interpretation. The following rules also apply in interpreting this document, except where the context makes it clear that a rule is not intended to apply.

(a) A reference to:

(i) legislation (including subordinate legislation) is to that legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;

(ii) a document or agreement, or a provision of a document or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;

(iii) a party to this document or to any other document or agreement includes a permitted substitute or a permitted assign of that party;

(iv) a person includes any type of entity or body of persons, whether or not it is incorporated or has a separate legal identity, and any executor, administrator or successor in law of the person; and

(v) anything (including a right, obligation or concept) includes each part of it.

(b) A singular word includes the plural, and vice versa.

(c) A word which suggests one gender includes the other genders.

(d) If a word is defined, another part of speech has a corresponding meaning.

(e) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.

(f) The word **agreement** includes an undertaking or other binding arrangement or understanding, whether or not in writing.

(g) A reference to **dollars** or **$** is to an amount in Australian currency.

(h) A reference to **US$** is to an amount in United States currency.

2. TERM OF AGREEMENT

The term of this document will commence on the Commencement Date and continue until this document is terminated by operation of law or in accordance with its terms.

3. AOFA DIVIDENDS

3.1 Distribution of Dividends

Subject to clause 3.2, the Shareholders will, in relation to each Financial Year, procure that AofA distributes by way of Dividends the aggregate of:

(a) the Minimum Dividend Amount payable during the Financial Year in accordance with clause 3.3; and

(b) the amount of each Quarterly Dividend payable during the Financial Year in accordance with clauses 3.3 and 3.4.

3.2 Limitations on Dividends

(a) Despite anything in this clause 3, the Shareholders do not intend to procure that AofA declares and pays (and must procure that AofA does not declare or pay) any Dividend to the extent (and only to the extent) that:

(i) the Dividend would be required to be paid other than out of the profits of AofA, within the meaning of section 254T of the Corporations Act; or

(ii) the declaration or payment of the Dividend would cause AofA to be unable to pay all its debts as and when they become due and payable, taking into account the requirements of this document and the Partnership Agreement in relation to the funding of AofA; or

(iii) if the Dividend is an Excess Dividend:

(a) the Dividend would not be able to be fully franked without AofA incurring franking deficit tax or over franking tax (as each of those terms is defined in the 1997 Act), taking into account franking credits that would reasonably be expected to be generated or received by AofA by the end of the franking year (as defined in the 1997 Act) in which the Dividend would be paid;

(b) payment of the Dividend would result in AofA having insufficient franking credits available to fully frank the next scheduled Dividend relating to a Minimum Dividend Amount, taking into account franking credits that would reasonably be expected to be generated or received by AofA by the end of the franking year (as defined in the 1997 Act) in which that next scheduled Dividend would be paid;

(c) payment of the Dividend would result in the aggregate amount of:

(A) all Dividends (including Excess Dividends and Minimum Dividend Amounts) paid by AofA after 1 January 2006 (including the Dividend of $246 million (equivalent to approximately US$177 million) paid in March 2006 with respect to the 2005 calendar year, out of a Total Dividend Amount of $364 million paid at that time); and

(B) if the Dividend is to be paid before the Minimum Dividend Amount payable during the Current Financial Year has been paid, the estimated amount of the Minimum Dividend Amount to be paid during the Current Financial Year based on the Interim Net Income of AofA for the Financial Year immediately preceding the Current Financial Year,

exceeding85% of the sum of:

(C) the cumulative 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; and

(D) the projected Interim Net Income of AofA for the Current Financial Year as reasonably and in good faith estimated by AofA; or

(d) payment of the Dividend would reasonably be expected to result in debts of AofA exceeding the level of its “maximum allowable debt” amount for the purposes of section 820-90 or section 820-190 of the 1997 Act (whichever is applicable to AofA for the tax year in which the Dividend would be paid).

(b) If, but for this clause 3.2(b), clause 3.2(a)(iii) would apply to preclude the payment of any Excess Dividend (whether wholly or in part), the parties will promptly negotiate in good faith and use reasonable endeavours to procure that clause 3.2(a)(iii) does not so apply, or applies only to the minimum extent possible, including in the case of clause 3.2(a)(iii)(d) by:

(i) using reasonable endeavours to investigate and undertake mitigating strategies to avoid debts of AofA exceeding the level of its “maximum allowable debt” amount; and

(ii) undertaking promptly at the request of Alumina (and at its sole cost) a valuation of the assets of the AofA Group in accordance with section 820-680 of the 1997 Act for the purposes of determining the level of AofA’s “maximum allowable debt” amount for the purposes of section 820-90 or section 820-190 (as applicable) of the 1997 Act, in which case, AofA, AAH and Alcoa may not unreasonably refuse or delay their assistance in such effort and will provide such information in their possession or control as may be reasonably requested for the valuation,

provided that, except as provided in subparagraph (ii) above, no party will be under any obligation to incur any cost or make any expenditure of funds in connection with the activities contemplated by this clause 3.2(b).

3.3 **Calculation and payment of Dividends**

The Shareholders will procure that AofA declares and pays the Dividends required by clause 3.1 in relation to a given Financial Year as follows:

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
Declaration: By the 20th day of the first month of each Quarter of the Financial Year	Amount of the Quarterly Dividend in relation to the relevant Quarter
Payment: On or before the last Business Day of the first month of each Quarter of the Financial Year	

3.4 **Quarterly Dividends**

(a) No later than 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 Quarter.

(b) Subject to clause 3.2, the Dividend that is the Quarterly Dividend for a Quarter will be equal to the lowest of the following amounts:

(i) (a) 55% of the sum of Interim Net Income for the most recently completed Quarter plus Interim Net Income of all prior Quarters (if any) beginning January 1, 2006, less

(b) the Total Dividend Amount of the Excess Dividends paid during the period beginning January 1, 2006 to the end of the most recently completed Quarter; and

(ii) the aggregate amount of all Valid Calls made which relate to the Funding Period commencing during that Quarter 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 during the term of this document; and

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

3.5 **Franking of Dividends**

The Shareholders must procure that AofA ensures that, for Australian income tax purposes:

(a) all Excess Dividends are fully franked; and

(b) all Dividends that relate to a Minimum Dividend Amount are franked to the maximum extent possible without incurring "franking deficits tax" (as defined in the 1997 Act), taking into account franking credits that would reasonably be expected to be generated or received by AofA by the end of the franking year (as defined in the 1997 Act) in which the Dividends would be paid.

3.6 **Restriction on capitalisation**

The Shareholders will procure that, except as required by generally accepted accounting principles, neither AofA nor the AofA Board capitalises, or resolves to capitalise, any of the profits of AofA (whether those profits relate to then current Financial Year or to any preceding Financial Year) without the prior written consent of all of the Shareholders.

3.7 **Provision of information**

AofA must provide (and the Shareholders will procure that AofA provides) to each Shareholder:

(a) within 60 days after the end of each Financial Year:

(i) a schedule detailing AofA's franking credit account as at the end of the Financial Year and all changes to it during that Financial Year; and

(ii) a calculation of AofA's "maximum allowable debt" amount for the purposes of section 820-90 or section 820-190 of the 1997 Act, whichever is applicable to AofA for the relevant tax year; and

(b) 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.

3.8 **Initial Dividends**

(a) Despite clauses 3.1(b), 3.3 and 3.4, the parties agree that:

(i) Quarterly Dividends will not be required to be declared or paid for the first three Quarters of 2006;

(ii) subject to clause 3.2, the Shareholders will procure that AofA declares and pays, on or before the last Business Day of the first month commencing after the date of this document, a Dividend for which the Total Dividend Amount is equal to the lowest of the following amounts:

(a) 55% of the sum of the Interim Net Income for each of the first two Quarters of the 2006 Financial Year, less the Total Dividend Amount of the Excess Dividends paid prior to the declaration by AofA of the Dividend; and

(b) the aggregate amount of all Valid Calls made under clause 4.11(a), less the Total Dividend Amount of the Excess Dividends paid prior to the declaration of the Dividend; and

(c) the amount of Available Cash on the date of declaration by AofA of the Dividend; and

(iii) subject to clause 3.2, the Shareholders will procure that AofA declares and pays, on 1 December 2006, a Dividend for which the Total Dividend Amount is equal to the lowest of the following amounts:

(a) 55% of the sum of the Interim Net Income for each of the first three Quarters of the 2006 Financial Year, less the Total Dividend Amount of the Excess Dividends paid (including any Dividend paid in accordance with clause 3.8(a)(ii)) prior to the declaration by AofA of the Dividend; and

(b) the aggregate amount of all Valid Calls made under clause 4.11(b); and

(c) the amount of Available Cash on the date of declaration by AofA of the Dividend; and

(iv) Dividends paid or required to be paid under this clause 3.8 will be deemed to be Quarterly Dividends for the purposes of the calculation of subsequent Quarterly Dividends under clause 3.4.

(b) AofA must provide (and the Shareholders will procure that AofA provides) to each Shareholder, on the Dividend Payment Date for each Dividend paid or required to be paid in accordance with clause 3.8(a), details of the calculation of the amount of the Dividend (including details of the calculation of the aggregate amount of Valid Calls, Available Cash and Interim Net Income).

4. FUNDING OF ENTERPRISE COMPANIES

4.1 Calls by an Enterprise Company

Subject to clauses 4.2, 4.6, 4.10(b) and 4.11, Alcoa will from time to time procure that an Enterprise Company, by notice in writing given by it or on its behalf to Alcoa and Alumina, requests each of Alcoa and Alumina to contribute its Share of the total amount specified in the Call for the purpose of funding the Enterprise Funding Requirements of that Enterprise Company.

4.2 Requirements for Valid Calls

To be valid, a Call made under clause 4.1 must:

(a) be delivered to Alcoa and Alumina not later than the first Business Day of the month before the commencement of the Funding Period to which it relates;

(b) specify the Funding Period and the details of the expenditure to which the Call relates;

(c) represent the Enterprise Funding Requirements of the relevant Enterprise Company for the Funding Period to which the Call relates; and

(d) be for at least US$1 million.

4.3 Time for payment of Valid Calls

Subject to clause 4.12, unless Alcoa and Alumina otherwise agree either generally or in relation to a particular Valid Call, the amount specified in a Valid Call will be due and payable in accordance with this clause 4 to the relevant Enterprise Company by:

(a) in the case of a Valid Call made under clause 4.11(a), the tenth day of the second month commencing after the date of this document;

(b) in the case of a Valid Call made under clause 4.11(b), 11 December 2006; and

(c) otherwise, the tenth day after the beginning of the Funding Period to which the Valid Call relates.

4.4 Funding Valid Calls

Upon receipt of a Valid Call:

(a) except as provided in clause 4.12, in the case of a Valid Call by any member of the AofA Group while the Tax Rulings are in effect and neither clause 4.7 nor clause 4.8 would prevent the making of an Enterprise Loan to AofA:

(i) the Valid Call will be funded by an Enterprise Loan to AofA in accordance with clause 4.5; and

(ii) in circumstances where the Valid Call was made by a member of the AofA Group other than AofA, AofA will provide the applicable amount by way of loan, equity contribution or other funding mechanism agreed between Alcoa and Alumina to the relevant Enterprise Company or, failing agreement prior to the making of the relevant Enterprise Loan to AofA under subparagraph (i) above, as determined by Alcoa; and

(b) otherwise, Alcoa and Alumina shall use reasonable endeavours to agree the extent to which the Valid Call will be funded by an Enterprise Loan in accordance with clause 4.5 or by another funding mechanism in accordance with clause 4.10(a). Failing agreement between Alcoa and Alumina by:

(1) in the case of a Valid Call made under clause 4.11(a), the first day of the second month commencing after the date of this document;

(2) in the case of a Valid Call made under clause 4.11(b), 1 December 2006; and

(3) otherwise, the first Business Day of the relevant Funding Period for the Valid Call,

the Valid Call (or part of the Valid Call for which agreement has not been reached) will be funded in the manner determined by Alcoa, including by way of an equity contribution to the relevant Enterprise Company, and each of Alcoa and Alumina will fund (or procure that its relevant respective Affiliates fund) its respective Share of the Valid Call (or part of the Valid Call for which agreement has not been reached) in accordance with clause 4.5 or clause 4.10(a) (as the case may be), subject to:

(i) in the case of equity contributions, the requirements of the provisions of the AWAC Documents referred to in clause 12.6(b)(ii) (including, in particular, the approval requirements for equity requests on behalf of AWAC or the relevant Enterprise Company totalling in any one year more than US$1 billion (as such amount may be modified as provided in clause 12.6(b)(iii)), which approval is not given under this document); and

(ii) in the case of loans between Enterprise Companies (other than loans permitted under clause 4.12), the requirements of the provisions of section 4(v) of the Charter and corresponding provisions of the other AWAC Documents (it being acknowledged that approval for the purposes of those provisions is not given under this document).

To the extent that the Valid Call is funded by loans between Enterprise Companies in accordance with this clause 4.4(b), payment of that Valid Call will be deemed for the purposes of this document to have been made by Alcoa and Alumina.

4.5 Enterprise Loans

(a) Subject to clauses 4.6, 4.7 and 4.8, if it is agreed or determined in accordance with clause 4.4 that a Valid Call (or part of a Valid Call) will be funded by an Enterprise Loan, then each of the Partners must (in accordance with the Partnership Agreement):

(i) make (and each of Alcoa and Alumina must procure that each of its Affiliates that is a Partner makes) a contribution of capital to the Enterprise Funding Partnership in an amount equal to:

(a) in the case of Partners that are Affiliates of Alcoa, collectively Alcoa's Share of the Contribution Amount; and

(b) in the case of Partners that are Affiliates of Alumina, collectively Alumina's Share of the Contribution Amount; and

(ii) procure (and each of Alcoa and Alumina must procure that each of its Affiliates that is a Partner procures) that the Enterprise Funding Partnership provides an Enterprise Loan to the Enterprise Company for an amount equal to the Valid Call (or part of the Valid Call) not later than the time specified in clause 4.3.

(b) Each of Alumina and Alcoa will promptly take (and will procure that each of its Affiliates who are Partners, and each relevant Enterprise Company, promptly takes) all steps within its power that are necessary to ensure that the terms of the Enterprise Loans are observed by the Enterprise Funding Partnership and each relevant Enterprise Company, strictly in accordance with those terms (including the terms relating to prepayment of the whole or any part of Enterprise Loans), and that the rights of the Enterprise Funding Partnership, and the obligations of the relevant Enterprise Companies under the Enterprise Loans, are enforced on a timely basis.

4.6 Tax Rulings

The parties agree:

(a) that, unless the Tax Rulings requested in the Tax Ruling Applications have been issued, no member of the AofA Group will make a Call under this document, but will (until the Tax Rulings requested in the Tax Ruling Applications have been issued or as otherwise provided in clause 4.11(d)) utilise the Cash Balances and Cash Equivalents (including Cash Flow from Operating Activities) of the AofA Group to fund its Enterprise Funding Requirements; and

(b) to use reasonable endeavours to procure that:

(i) the Tax Rulings requested in the Tax Ruling Applications are issued by the Commissioner of Taxation as soon as practicable after the date of this document; and

(ii) on or as soon as practicable after the expiration, termination or other cessation of effect of a Tax Ruling, a substitute or replacement Tax Ruling, having an effect which is not materially less favourable to the relevant recipient than the substituted or replaced Tax Ruling, is granted.

4.7 Tax Events and Dissolution of Enterprise Funding Partnership

If:

(a) clause 5.3 applies in respect of a Tax Event which affects the making of new Enterprise Loans to some or all Enterprise Companies or affects some or all outstanding Enterprise Loans; or

(b) the Enterprise Funding Partnership is dissolved in accordance with clause 15 of the Partnership Agreement,

then the Partners will procure (and Alumina and Alcoa will procure that their respective Affiliates who are Partners procure) that the Enterprise Funding Partnership will cease to provide any further funding to such Enterprise Companies by way of Enterprise Loan or will take appropriate action relating to any affected Enterprise Loan, but (except to the extent agreed in writing by Alumina and Alcoa) this document will otherwise continue to apply.

4.8 Limits on Enterprise Loans to AofA Group

(a) The parties agree that, except as otherwise agreed between Alcoa and Alumina:

(i) the aggregate of the amounts of principal outstanding under all Enterprise Loans made by the Enterprise Funding Partnership to members of the AofA Group must not at any time exceed US$1 billion; and

(ii) they will procure that Valid Calls made by members of the AofA Group are not funded by Enterprise Loans to the extent that the limit specified in clause 4.8(a)(i) would be exceeded as a result.

(b) The parties agree that, except as otherwise agreed between Alcoa and Alumina, they will procure that Valid Calls made by members of the AofA Group are not funded by Enterprise Loans to the extent that such funding would result in debts of AofA exceeding the level of its “maximum allowable debt” amount for the purposes of section 820-90 or section 820-190 of the 1997 Act (whichever is applicable to AofA for the tax year in which indebtedness is being determined). However, if, but for this sentence, this clause 4.8(b) would apply to preclude the making of Enterprise Loans (or the making of Enterprise Loans to a certain extent), the parties will promptly negotiate in good faith and use reasonable endeavours to procure that this clause 4.8(b) does not so apply, or applies only to restrict the making of Enterprise Loans to the minimum extent possible, including:

(i) by using reasonable endeavours to investigate and undertake mitigating strategies to avoid debts of AofA exceeding the level of its "maximum allowable debt" amount; and

(ii) by undertaking promptly at the request of Alumina (and at its sole cost) a valuation of the assets of the AofA Group in accordance with section 820-680 of the 1997 Act for the purposes of determining the level of AofA's "maximum allowable debt" amount for the purposes of section 820-90 or section 820-190 (as applicable) of the 1997 Act, in which case, AofA, AAH and Alcoa may not unreasonably refuse or delay their assistance in such effort and will provide such information in their possession or control as may be reasonably requested for the valuation,

provided that, except as provided in subparagraph (ii) above, no party will be under any obligation to incur any cost or make any expenditure of funds in connection with the activities contemplated by this clause 4.8(b).

4.9 Failure to pay

If either Alcoa or Alumina fails to pay (or procure payment by its Affiliates of) its Share of the funds requested in a Valid Call when due as required by this clause 4 (including by failing to make payment of a Contribution Amount to the Enterprise Funding Partnership), the parties agree that the consequences of such failure will be the same as those that apply to a failure to make an equity contribution required by the Charter, as set out in section 8 of the Charter (as such section 8 may be modified as provided in clause 12.6(b)(iii)).

4.10 Non-Enterprise Loan funding mechanisms

(a) If it is agreed or determined in accordance with clause 4.4(b) that a Valid Call (or part of a Valid Call) will be funded by a mechanism other than an Enterprise Loan, then (unless otherwise agreed between Alcoa and Alumina) each of Alcoa and Alumina must provide (or procure that one or more of its respective Affiliates provide) an amount equal to its Share of the Valid Call (or part of the Valid Call), not later than the time specified in clause 4.3, by way of the mechanism agreed or determined in accordance with clause 4.4(b).

(b) Alumina and Alcoa agree that an Enterprise Company may obtain funding in a manner consistent with the AWAC Documents, and not by way of Valid Calls made under this document:

(i) by external debt financing; or

(ii) in the case of an Enterprise Company other than a member of the AofA Group, from its Cash Balances and Cash Equivalents (including Cash Flow from Operating Activities); or

(iii) subject to paragraph (c), in the case of a member of the AofA Group, from the Cash Balances and Cash Equivalents (including Cash Flow from Operating Activities) of the AofA Group to the extent that the actual Enterprise Funding Requirements of the AofA Group member for any Funding Period exceed the amount provided to the AofA Group member by way of funding of Valid Calls relating to the Enterprise Funding Requirements of the AofA Group member for the relevant Funding Period.

(c) If a member of the AofA Group funds or reasonably anticipates that it will fund any of its Enterprise Funding Requirements for a Funding Period in accordance with subparagraph (b)(iii), the parties agree that the relevant AofA Group member will make a Call in accordance with clause 4.1 for an amount equal to the amount of such funding not later than the first Business Day of the month before the commencement of the next Funding Period. The Call must specify the details of the expenditure to which the Call relates. The parties agree that a Call made in accordance with this clause 4.10(c) will be a Valid Call for the purposes of this document and will be deemed to relate to the next Funding Period commencing after the Call is made.

4.11 **Initial Calls**

(a) At least 7 days prior to the end of the first month commencing after the date of this document, Alcoa, as industrial leader of AWAC, will procure that:

(i) Alcoa World Alumina LLC, an Enterprise Company located in the United States, by notice in writing given by it or on its behalf to Alcoa and Alumina, requests each of Alcoa and Alumina to contribute its Share of the total amount of all outstanding loans theretofore provided to it by Alcoa, as specified in the Call, to fund the prompt repayment of those loans; and

(ii) each relevant Enterprise Company (not being a member of the AofA Group), by notice in writing given by it or on its behalf to Alcoa and Alumina, requests each of Alcoa and Alumina to contribute its Share of the total amount specified in the Call for the purpose of funding the Enterprise Funding Requirements of that Enterprise Company for the Initial Non-AofA Funding Period, other than any Enterprise Funding Requirements in respect of which any loan referred to in clause 4.11(a)(i), or in paragraph (c) of the definition of Enterprise Funding Requirements, was provided.

(b) If the Tax Rulings requested in the Tax Ruling Applications have been issued by the Australian Commissioner of Taxation by 30 November 2006, Alcoa will procure that each relevant member of the AofA Group, by notice in writing given by it or on its behalf to Alcoa and Alumina on 30 November 2006, requests each of Alcoa and Alumina to contribute its Share of the total amount specified in the Call for the purpose of funding the Enterprise Funding Requirements of that Enterprise Company for the Initial AofA Funding Period. To be valid, the Call must specify the details of the expenditure to which the Call relates and, for expenditure not already incurred, include a payment schedule.

(c) A Call made in accordance with this clause 4.11 will be deemed to be a Valid Call for the purposes of this document. It will (to the extent it relates to a particular Enterprise Company) satisfy the requirement for that Enterprise Company to make a Call in accordance with clause 4.1 in respect of the relevant Enterprise Funding Requirements. The parties agree that Calls in respect of Enterprise Funding Requirements of each member of the AofA Group for the Initial AofA Funding Period will be made only in accordance with clause 4.11(b) and not in accordance with clause 4.1.

(d) If the Tax Rulings requested in the Tax Ruling Applications have not been issued by the Australian Commissioner of Taxation by 30 November 2006, Alcoa and Alumina must use all reasonable endeavours to agree as soon as practicable after that date the means by which the Enterprise Funding Requirements of members of the AofA Group will be funded for the Initial AofA Funding Period and subsequent Funding Periods. Failing such agreement by 31 January 2007, those Enterprise Funding Requirements of members of the AofA Group will be funded in accordance with the AWAC Documents. However, if at any time after 30 November 2006 the Tax Rulings requested in the Tax Ruling Applications are issued by the Australian Commissioner of Taxation, then the Enterprise Funding Requirements of members of the AofA Group for all subsequent Funding Periods will be funded in accordance with the other provisions of this clause 4.

4.12 **Exclusivity and Prioritization; Related Party Borrowings and Use of Cash Balances and Cash Equivalents**

(a) Except as otherwise provided in clauses 4.6 and 4.10(b) with respect to funding by external borrowings and Cash Balances and Cash Equivalents (including Cash Flow from Operating Activities), Alcoa will procure that all requests for funding in respect of Enterprise Funding Requirements are made by or on behalf of an Enterprise Company, and those Enterprise Funding Requirements are funded by the relevant Enterprise Company, in accordance with this clause 4.

(b) To the extent that the aggregate amount of all Valid Calls made in relation to a Funding Period exceeds the Total Dividend Amount of the Quarterly Dividend paid for the Quarter during which that Funding Period commences, (i) the relevant Valid Calls (if any) of the Enterprise Company in Jamaica followed by (ii) the relevant Valid Calls (if any) of the Enterprise Companies in Brazil then (iii) the relevant Valid Calls (if any) of all other non-AofA Group Enterprise Companies will be funded to the extent of the Total Dividend Amount of the relevant Quarterly Dividend before the relevant Valid Calls (if any) of members of the AofA Group are funded. Without limiting any other mechanism by which such Valid Calls may be funded in accordance with clause 4.4(b), the parties expressly agree that the remainder (if any) of any such Valid Calls:

(i) of an Enterprise Company other than a member of the AofA Group may be funded by loan from another Enterprise Company (other than a member of the AofA Group) for a term of not more than 3 years, or by demand loan from AofA, from its Cash Balances and Cash Equivalents (including Cash Flow from Operating Activities); and

(ii) of a member of the AofA Group may be funded from the Cash Balances and Cash Equivalents (including Cash Flow from Operating Activities) of the AofA Group,

in each case as determined by Alcoa in good faith after consultation with Alumina. To the extent that any such Valid Calls are funded in accordance with paragraph (i) or (ii) above, payment of those Valid Calls will be deemed for the purpose of this document to have been made by Alcoa and Alumina.

(c) To the extent that:

(i) the Total Dividend Amount of the Quarterly Dividend paid for a Quarter exceeds the aggregate amount of all Valid Calls made in relation to the Funding Period commencing during that Quarter; and

(ii) all (or part) of a previous Valid Call of an Enterprise Company has been funded in accordance with clause 4.12(b)(i) or (ii) and not been refinanced in accordance with this clause 4.12(c),

Alumina and Alcoa will procure that to the extent of the excess referred to in paragraph (i) above:

(iii) an equivalent amount will be provided to the relevant Enterprise Company or Enterprise Companies by way of an Enterprise Loan or other funding mechanism agreed or determined in accordance with clause 4.4 (on the basis that a reference in clause 4.4 to a “Valid Call” is to that equivalent amount), in the following order of priority (as relevant): first, according to age of the relevant loans; and second, to the Enterprise Company in Jamaica followed by the Enterprise Companies in Brazil followed by all other non-AofA Group Enterprise Companies followed by AofA; and

(iv) in so far as an amount is provided to an Enterprise Company under paragraph (iii) above, the relevant loans made to that Enterprise Company under clause 4.12(b)(i) are promptly repaid (in order of priority of age).

4.13 **Treatment of loans and Enterprise Loan proceeds**

The parties agree that:

(a) any repayment of principal or payment of interest in respect of an Enterprise Loan, or in respect of any loan by one Enterprise Company to another Enterprise Company, will not constitute or be treated as a dividend or equivalent distribution for any purpose under this document or the AWAC Documents; and

(b) no Enterprise Loan will be used to repay the principal or interest on any other Enterprise Loan.

5. OCCURRENCE OF A TAX EVENT

5.1 Notice of a Tax Event

(a) If, as a result of a Tax Event, there is any increase, or reasonably anticipated increase, in the Tax cost (including any reduction in a Tax deduction, or reduction in availability of a franking credit in the franking accounts of the relevant Shareholder on Excess Dividends, as relevant) to Alcoa or any of its Affiliates (including AAH), Alumina or any of its Affiliates, the Enterprise Funding Partnership, an Enterprise Company or any other relevant person (as the case may be), then:

(i) Alumina (in the case of a Tax Event affecting it or an Affiliate, the Enterprise Funding Partnership, or an Enterprise Company (or any other relevant person to the extent agreed by Alumina and Alcoa for the purposes of this clause 5.1(a)(i))); or

(ii) Alcoa (in the case of a Tax Event affecting it or an Affiliate (including AAH), the Enterprise Funding Partnership or an Enterprise Company (or any other relevant person to the extent agreed by Alumina and Alcoa for the purposes of this clause 5.1(a)(ii))),

may give notice (**initial notice**) to the other as soon as possible but in any event within 20 Business Days of the party becoming aware of the Tax Event. Notwithstanding the foregoing, an initial notice may only be given by Alcoa in the case of a Tax Event relating to a Tax Law Change Event referred to in paragraph (b)(iii) of the definition of Tax Event where the increase, or reasonably anticipated increase, in Tax cost relates to a period after the occurrence of the Tax Event.

(b) An initial notice must contain sufficient information to enable the receiving party to assess the nature and impact of the Tax Event on the entity affected by the Tax Event and, without limitation, must contain reasonable details of the Tax Event, the estimated quantum of the associated Tax cost, reasonable details of any proposal that the party providing the initial notice may have to avoid or minimise the impact of the Tax Event on the entity affected by the Tax Event and whether the notifying party, due to the occurrence of the Tax Event, elects to suspend the operation of any existing Enterprise Loan or other affected funding arrangement made under this document and/or the making of any new Enterprise Loan and/or the payment of any Excess Dividend in accordance with clause 5.3(a).

5.2 **Mitigating the effect of the Tax Event**

(a) Within 15 Business Days of the date of the initial notice, the party receiving the initial notice:

(i) must advise (in writing) the party giving the notice whether the receiving party agrees to any proposal provided in the initial notice and the terms and conditions of its agreement; and

(ii) may present (in writing) to the party giving the initial notice any alternative proposal that the receiving party may have to avoid or minimise the impact of the Tax Event on the entity affected by the Tax Event, which may include a proposal to compensate the entity affected by the Tax Event on a "make whole" basis (as assessed post tax).

(b) Within 10 Business Days of receipt of an alternative proposal under clause 5.2(a)(ii), the other party must advise (in writing) the party presenting the alternative proposal whether the other party agrees to the alternative proposal and the terms and conditions of its agreement. In circumstances where the alternative proposal is compensation of the entity affected by the Tax Event on a "make whole" basis (as assessed post tax), the other party may not unreasonably withhold its agreement to the alternative proposal.

5.3 **Consequences of a Tax Event**

(a) A notifying party may indicate in its initial notice that the Tax Event has an effect described in clause 5.3(b)(i), (ii) or (iii) below and, on providing written confirmation from its external taxation adviser that a Tax Event has occurred having the effect described in clause 5.3(b)(i), (ii) or (iii), may elect to suspend for a period of up to 20 Business Days actions required to be undertaken during such period in respect of one or more affected outstanding Enterprise Loans or other affected funding arrangements, the payment of Excess Dividends and/or the making of any new Enterprise Loan, as relevant to the nature and effect of the Tax Event. Immediately upon the receipt of such an initial notice, despite any other provision in this document, Alumina or Alcoa (as the case may be) will procure that their respective Affiliates who are Partners will procure that the Enterprise Funding Partnership will take appropriate action in relation to such affected outstanding Enterprise Loans and/or cease to provide any further funding to the relevant Enterprise Companies by way of Enterprise Loan and/or Alumina and Alcoa will take other appropriate action with respect to such other affected funding arrangements or Excess Dividends, as agreed by Alcoa and Alumina for the duration of the period of suspension.

(b) If within 25 Business Days of the date of the initial notice, Alumina and Alcoa have been unable to reach an agreement as contemplated by clause 5.2 or if no written response to the initial notice was given by the receiving party under clause 5.2, then:

(i) if the relevant Tax Event affects the making of new Enterprise Loans to some or all Enterprise Companies, the Partners will procure (and Alumina and Alcoa will procure that their respective Affiliates who are Partners will procure) that the Enterprise Funding Partnership will cease to provide any further funding to the relevant Enterprise Companies by way of Enterprise Loan but except as otherwise agreed in writing by Alumina and Alcoa, this document will otherwise continue to apply;

(ii) if the relevant Tax Event affects some or all outstanding Enterprise Loans, Alumina and Alcoa will co-operate with each other to procure the unwinding of, or other appropriate action in relation to, such affected outstanding Enterprise Loans made to the relevant Enterprise Company (as well as any loans to any other Enterprise Company out of the proceeds of Enterprise Loans, but (except to the extent agreed in writing by Alumina and Alcoa) this document will otherwise continue to apply; and

(iii) if the relevant Tax Event affects or relates to any other arrangements entered into for the purpose of funding a Valid Call in accordance with clause 4, or any other matter, Alumina and Alcoa will promptly negotiate in good faith and use reasonable endeavours to promptly investigate and undertake mitigating strategies to avoid or minimise the impact of the Tax Event on the entity affected by the Tax Event (including the unwinding of the arrangements affected), or to agree any amendments to this document that may be necessary or desirable as a consequence of the occurrence of the Tax Event.

5.4 **Parties to act diligently**

Each of Alumina and Alcoa:

(a) agrees that it will exercise reasonable diligence in relation to its own affairs, and will procure that its Affiliates who are Partners, Shareholders or other relevant persons, and the Enterprise Companies, exercise reasonable diligence in relation to their respective affairs, to identify the likely occurrence of an event or circumstance referred to in the definition of Tax Event at the earliest point in time; and

(b) acknowledges that it is not its intention to seek to terminate the Enterprise Loan or other funding arrangements or unwind any Enterprise Loans or other funding arrangements under this clause 5 on the basis of immaterial increases in Tax cost to it, any of its Affiliates, the Enterprise Funding Partnership or any Enterprise Company.

5.5 **Negotiation**

If there is a disagreement whether a Tax Event has occurred, within 5 Business Days of Alumina or Alcoa notifying the other in writing of the disagreement, a senior representative of each of Alumina and Alcoa must meet and use all reasonable endeavours acting in good faith to resolve the disagreement within 5 additional Business Days.

6. RESOLUTION OF DISPUTES

All disputes and differences between Alcoa or any of its Affiliates, on the one hand, and Alumina or any of its Affiliates, on the other hand, arising out of or in connection with this document will be resolved in accordance with the dispute resolution procedures set out in section 11 of the Charter and the corresponding provisions of the other AWAC Documents. Notwithstanding any other provision of this document, the courts sitting in the State of Delaware will have exclusive jurisdiction over the parties with respect to the resolution of any disputes involving judicial proceedings arising out of or in connection with this document.

7. TERMINATION

7.1 **Termination events**

Unless otherwise agreed in writing by Alcoa and Alumina, this document will terminate:

(a) on 31 December 2010; or

(b) if Alcoa, Alumina, AAH, the Enterprise Funding Partnership or AofA (a **Defaulting Party**) commits a material breach of this document and, if the breach is capable of remedy, fails to remedy the breach within 7 Business Days after being required in writing by any other of those parties to do so, upon:

(i) where the Defaulting Party is Alumina – Alcoa or AAH; and

(ii) where the Defaulting Party is Alcoa, AAH, AofA or the Enterprise Funding Partnership – Alumina,

giving 5 Business Days' notice to all of the other parties of termination of this document; or

(c) if an Insolvency Event occurs in relation to Alcoa or Alumina, AAH or AofA (**Insolvent Party**) and, if the Insolvency Event is capable of cure, it is not cured within 7 Business Days after that is required in writing by any other of those parties by notice to the Insolvent Party, upon:

(i) where the Insolvent Party is Alumina – Alcoa or AAH; and

(ii) where the Insolvent Party is Alcoa, AAH or AofA – Alumina,

giving 5 Business Days' notice to all of the other parties of termination of this document.

7.2 Consequences of termination

(a) Termination of this document does not affect any accrued rights or remedies of any party.

(b) On termination of this document any outstanding Enterprise Loans will not be terminated but will continue in accordance with their terms until repaid or otherwise terminated.

(c) Clauses 5 and 6 will survive termination of this document to the extent that the provisions of those clauses relate to any outstanding Enterprise Loans or other funding arrangements continuing beyond termination of this document.

7.3 Review after 12 months

Promptly after the expiry of 12 months after the date of this document, Alcoa and Alumina must meet to review the operation of this document and discuss whether any amendments should be made to this document to ensure that its provisions (including those relating to the payment of Dividends by AofA and the funding of Enterprise Companies) operate in a manner that reflects the intentions of the parties immediately prior to the date of this document. One of the subjects that the parties may choose to discuss during this review is whether to increase the limit on Enterprise Loans set forth in clause 4.8(a)(i).

7.4 Extension

It is the intent of the parties (in particular Alcoa and Alumina) that their agreement, as reflected in this document, to cause the payment by AofA of Excess Dividends will, to the extent possible, continue to operate for successive five year periods after 31 December 2010. However, this clause 7.4 is without prejudice to the parties' rights of termination under clause 7.1, and nothing in this document will prevent any party from withholding its consent to such operation or from indicating a contrary intent in the future.

8. REPRESENTATIONS AND WARRANTIES

8.1 Representations and warranties by each party

Each party represents and warrants to the others that at the date of this document:

(a) (**formation**) it is duly incorporated under the laws of the place of its incorporation or, in the case of the Enterprise Funding Partnership, it is duly constituted under the Partnership Agreement;

(b) (**power and authority**) it has the power and authority to sign this document and perform and observe all its terms;

(c) (**document enforceable**) this document has been duly executed and is a legal, valid and binding agreement enforceable against it in accordance with its terms;

(d) (**transactions permitted**) the execution and performance by it of this document and transaction contemplated under it did not and will not violate in any respect a provision of:

(i) a law or treaty or a judgment, ruling, order or decree of a government or a governmental, semi-governmental or judicial entity or authority that is binding on it;

(ii) its constitution or other constituent documents or, in the case of the Enterprise Funding Partnership, the Partnership Agreement; or

(iii) any other document or agreement which is binding on it or its assets; and

(e) (**insolvency**) none of the circumstances described in the definition of Insolvency Event applies to it or is threatened in relation to it.

8.2 Reliance on representations and warranties

Each party acknowledges that the other parties have entered into this document in reliance on the representations and warranties in this clause 8.

9. GST

9.1 GST to be added to amount payable

If GST is payable on a Taxable Supply made under, by reference to or in connection with this document, the party providing the Consideration for that Taxable Supply must also pay the GST Amount as additional Consideration. This clause 9 does not apply to the extent that the Consideration for the Taxable Supply is expressly agreed to be GST inclusive. No payment of the GST Amount is required until the supplier has provided a Tax Invoice or Adjustment Note (as the case may be) to the recipient.

9.2 Liability net of GST

Any reference in the calculation of Consideration or of any indemnity, reimbursement or similar amount to a cost, expense or other liability incurred by a party, must exclude the amount of any Input Tax Credit entitlement of that party in relation to the relevant cost, expense or other liability.

9.3 GST obligations to survive termination

This clause 9 will continue to apply after expiration or termination of this document.

9.4 Definitions

In this clause 9:

Adjustment Note, **Consideration**, **GST**, **Input Tax Credit**, **Tax Invoice** and **Taxable Supply** have the meanings given by the GST Law.

GST Amount means, in relation to a Taxable Supply, the amount of GST payable in respect of that Taxable Supply.

GST Law has the meaning given by the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) or, if that Act does not exist, any Act imposing or relating to the imposition or administration of a goods and services tax in Australia and any regulation made under that Act.

10. NOTICES

(a) A notice, consent or other communication under this document is only effective if it is in writing, signed and either left at the addressee's address or sent to the addressee by mail or fax. If it is sent by mail, it is taken to have been received 3 Business Days after it is posted (if posted to an address in the same country) or 7 Business Days after the date of posting by air mail (if posted to an address in another country). If it is sent by fax, it is taken to have been received on receipt by the sender of a transmission control report from the despatching machine showing the relevant number of pages and the correct destination fax machine number and indicating that the transmission has been made without error. However, if the result of the foregoing is that a notice, consent or other communication would be taken to be given or made on a day which is not a business day in the place to which it is sent or is later than 4.00 pm (local time) it will be taken to have been duly given or made at the commencement of business on the next business day in that place.

(b) A person's address and fax number are those set out below, or as the person notifies the sender in writing:

Alcoa

Address:	390 Park Avenue New York, New York 10022 United States of America
Fax number:	+ 1 212 836 2802
Attention:	Group CFO Global Primary Products

Alumina

Address:	Level 12, IBM Centre, 60 City Road Southbank, Victoria, 3006 Australia
Fax number:	+ 61 3 8699 2699
Attention:	General Counsel/Company Secretary

AAH, AofA and Enterprise Funding Partnership

Address:	Corner Davy and Marmion Streets Booragoon, Western Australia, 6953 Australia
Fax number:	+ 61 8 9316 5343
Attention:	Company Secretary

11. ASSIGNMENT AND ADDITION

11.1 No assignment

Subject to clauses 11.2 and 11.3, a party may only assign, dispose of, encumber, declare a trust over or otherwise create an interest in or deal with any of its rights or obligations under this document, or attempt or purport to do so, with the prior consent of each other party.

11.2 Addition of new Shareholder

If a Shareholder (in accordance with the Shareholders' Agreement) seeks to sell, assign or transfer some or all of its shares in AofA (or any interest in such shares) it must (without needing the consent of any other party) also, contemporaneously with that sale, assignment or transfer, procure that the transferee enters into a document in a form reasonably satisfactory to the other Shareholders under which the Shareholder assigns absolutely to the transferee its rights as a Shareholder under this document, and the transferee assumes absolutely the obligations of the Shareholder as a Shareholder under this document, to the same relative extent as the sale, assignment or transfer of the Shareholder's shares in AofA (or any interest in such shares), such that the transferee is deemed to be a party to this document in lieu of the Shareholder to that extent.

11.3 Addition of new Partner

If a Partner (in accordance with the Partnership Agreement) seeks to sell, assign or transfer some or all of its interest in the Partnership it must (without needing the consent of any other party) also, contemporaneously with that sale, assignment or transfer, procure that the transferee enters into a document in a form reasonably satisfactory to the other Partners under which the Partner assigns absolutely to the transferee its rights as a Partner under this document, and the transferee assumes absolutely the obligations of the Partner as a Partner under this document, to the same relative extent as the sale, assignment or transfer of the Partner's interest in the Partnership, such that the transferee is deemed to be a party to this document in lieu of the Partner to that extent.

11.4 Control of Partners and Shareholders

(a) Alcoa must procure that, at all times during the term of this document, AAH and its permitted successors and assigns as Shareholder or Partner:

- (i) have the same ultimate holding company (within the meaning of section 9 of the Corporations Act); or
- (ii) where either the relevant Shareholder or the relevant Partner (but not both) does not have an ultimate holding company, the ultimate holding company of the other is that person; or
- (iii) where both the relevant Shareholder and the relevant Partner do not have an ultimate holding company, the Shareholder and the Partner are the same person.

(b) Alumina must procure that, at all times during the term of this document, its permitted successors and assigns as Shareholder or Partner:

(i) have the same ultimate holding company (within the meaning of section 9 of the Corporations Act); or

(ii) where either the relevant Shareholder or the relevant Partner (but not both) does not have an ultimate holding company, the ultimate holding company of the other is that person; or

(iii) where both the relevant Shareholder and the relevant Partner do not have an ultimate holding company, the Shareholder and the Partner are the same person.

12. GENERAL

12.1 Governing law

Except to the extent that the law in force in the State of Delaware (USA) will govern the interpretation and operation of the dispute resolution procedures referred to in clause 6 (but not the substantive issues the subject of the relevant dispute or difference), this document is governed by the law in force in Victoria, Australia.

12.2 Amendment

This document can only be amended, supplemented, replaced or novated by another document signed by the parties.

12.3 Liability for expenses

Each party must pay its own expenses incurred in negotiating, executing, stamping and registering this document.

12.4 Giving effect to this document

Each party must do anything (including execute any document), and must ensure that its employees and agents do anything (including execute any document), that the other party may reasonably require to give full effect to this document.

12.5 Waiver of rights

A right may only be waived in writing, signed by the party giving the waiver, and:

(a) no other conduct of a party (including a failure to exercise, or delay in exercising, the right) operates as a waiver of the right or otherwise prevents the exercise of the right;

(b) a waiver of a right on one or more occasions does not operate as a waiver of that right if it arises again; and

(c) the exercise of a right does not prevent any further exercise of that right or of any other right.

12.6 **Operation of this document**

(a) This document, the AWAC Documents, the Partnership Agreement and the AWAC cash management proposal agreed between Alumina and Alcoa on or about September 2002 contain the entire agreement between the parties about the subject matter of this document. Any previous understanding, agreement, representation or warranty relating to that subject matter (other than the AWAC Documents, the Partnership Agreement and the AWAC cash management proposal) is replaced by this document and has no further effect.

(b) Alcoa, Alumina and AAH acknowledge and agree (and will procure to the extent necessary that their respective Affiliates acknowledge and agree) that, except to the extent expressly provided in this document, this document is without prejudice to, and does not exclude or limit or constitute a waiver or modification of, any right, power, obligation or remedy provided by any AWAC Document. Without limitation, Alcoa, Alumina and AAH acknowledge and agree the following:

(i) This document is without prejudice to, and does not exclude or limit or constitute a waiver or modification of, section 10 of the Charter, or any of the corresponding provisions of the other AWAC Documents, including in particular the obligation to endeavour to distribute dividends above 30% of the net income of AWAC or the relevant Enterprise Company (as applicable).

(ii) Subject to sub-paragraph (iii), this document is without prejudice to, and does not exclude or limit or constitute a waiver or modification of, section 4 or 8 of the Charter, or any of the corresponding provisions of the other AWAC Documents, including in particular the approval requirements for equity requests on behalf of AWAC or the relevant Enterprise Company totalling in any one year more than US$1 billion, and the funding obligations of Alcoa in respect of certain equity requests made to Alumina or any of its Affiliates, as set forth in section 8(a)(ii) of the Charter.

(iii) Section 8 of the Charter and any of the corresponding provisions of the other AWAC Documents are modified during the term of this document as follows:

(a) the requirement to give 60 days' notice of equity calls under section 8(a) of the Charter will not apply in relation to the funding of Valid Calls; and

(b) the US dollar amounts "$500 million" referred to in section 8(a)(i) and (ii) of the Charter and "$1 billion" in section 8(a)(ii) and (iii) of the Charter will each be increased by the amount of Quarterly Dividends paid in the relevant Financial Year with respect to Valid Calls that are funded by equity contributions (or if funded only in part by equity contributions, to the extent of such equity funding) in accordance with clause 4.4(b).

(iv) The provision of Enterprise Loans by the Enterprise Funding Partnership to Enterprise Companies and loans between Enterprise Companies as contemplated in clause 4.12(b) have been expressly agreed to by Alcoa and Alumina for the purposes of section 4(v) of the Charter, and any of the corresponding provisions of the other AWAC Documents.

(v) Enterprise Loans, and loans by one Enterprise Company to another Enterprise Company, will not be taken into account for the purpose of determining compliance with the 30% leverage requirements of section 9 of the Charter, and any of the corresponding provisions of the other AWAC Documents.

(c) Subject to clause 12.6(b), if there is any inconsistency between the provisions of this document and a provision of any of the AWAC Documents, the provisions of this document during its term will prevail to the extent of the inconsistency and the provisions of the relevant AWAC Document will be construed accordingly.

(d) Any right that a person may have under this document is in addition to, and does not replace or limit, any other right that the person may have.

(e) Any provision of this document which is unenforceable or partly unenforceable is, where possible, to be severed to the extent necessary to make this document enforceable, unless this would materially change the intended effect of this document.

12.7 Costs and stamp duty

Each party must bear its own costs arising out of the negotiation, preparation and execution of this document. All stamp duty (including fines, penalties and interest) payable on or in connection with this document and any instrument executed under or any transaction evidenced by this document must be borne by Alumina and Alcoa in proportion to their respective Shares.

12.8 Counterparts

This document may be executed in counterparts.

12.9 Attorneys

Each person who executes this document on behalf of a party under a power of attorney declares that he or she is not aware of any fact or circumstance that might affect his or her authority to do so under that power of attorney.

SCHEDULE 1

TERMS OF ENTERPRISE LOANS

Borrower:	Relevant Enterprise Company.
Lender:	Enterprise Funding Partnership.
Type of Loan:	Unsecured revolving multicurrency facility. Drawings are available in dollars or US dollars.
Enterprise Loan Limit:	One billion US dollars (US$1,000,000,000) (or its equivalent in dollars).
Financial Close:	The date on which all the conditions precedent to first drawdown under the Enterprise Loan Agreement are satisfied.
Availability Period:	The Loan will be available for drawdown during the period commencing on Financial Close and ending on: (a) 30 June 2011 (or, if that day is not a Business Day, on the Business Day immediately preceding that day); or (b) such later date as the parties may agree.
Repayment Term:	The period commencing on Financial Close and ending 15 June 2016 (or, if that day is not a Business Day, on the Business Day immediately preceding that day).
Purpose of Enterprise Loan:	To fund the Enterprise Funding Requirements of the Borrower or another Enterprise Company in accordance with this document (being the Enterprise Funding Agreement).
Interest Rate:	BBSY ($ drawings) or LIBOR (US$ drawings), plus the Margin calculated on the daily drawn amount on the basis of a 360 day year and actual number of days elapsed. Interest will be calculated daily and will be payable semi-annually on 30 June and 31 December of each year, to the extent of available cash of the Borrower on the date of payment, and otherwise will be capitalised.
Margin:	0.4% per annum (where the Borrower is AofA) and otherwise an arm's length rate per annum determined reasonably by the Lender by reference to the credit risk of the Borrower (including country risk having regard to sovereign debt margins). The Lender may increase the Margin if a Credit Review Event occurs.
Default Rate:	2.00% per annum plus the applicable Interest Rate.

Drawdown Amounts: The Loan may be drawn in amounts of not less than US$1 million or its equivalent in dollars (as applicable) and in integral multiples of US$1 million or its equivalent in dollars (as applicable).

Establishment Fee: US$50,000. This fee is payable on first drawdown of the Loan by the Borrower.

Repayment:

(a) Each drawing will be repayable over the remaining Repayment Term. Subject to paragraph (b), a pro rata payment in respect of each such drawing (each a **Scheduled Payment**) will be due on 31 January of each year and on the Final Repayment Date (each a **Repayment Date**).

(b) If on any Repayment Date (other than the Final Repayment Date) the total amount of Scheduled Payments for that Repayment Date exceeds 100% of the Borrower's available cash on that Repayment Date, the Borrower will only be required to pay the Scheduled Payments to the extent of its available cash on that Repayment Date.

(c) Scheduled Payments will be adjusted from time to time to reflect capitalised interest and the unpaid amount of any previous Scheduled Payment.

(d) Any amount outstanding on the Final Repayment Date must be repaid on that date.

Voluntary Prepayment: On any Repayment Date, with not less than 10 days' prior written notice to the Lender, the Borrower may prepay:

(a) an amount equal to the principal of the Scheduled Payment due on the last Repayment Date for the Enterprise Loan; plus

(b) 25% of the outstanding balance of the Enterprise Loan as at the end of the Financial Year immediately preceding the Repayment Date, provided that, where the Borrower is AofA only, it has distributed (or will have distributed by the Repayment Date) as Dividends in accordance with this document (being the Enterprise Funding Agreement) the Minimum Dividend Amount payable during each Financial Year ending before the Repayment Date, plus Excess Dividends in aggregate equal to the lesser of:

(i) 55% of the cumulative Interim Net Income of AofA for the period from the Commencement Date to the end of the Financial Year immediately preceding the Repayment Date; and

	(ii) the aggregate amount of all Valid Calls made in accordance with this document (being the Enterprise Funding Agreement) since the Commencement Date. The Enterprise Loan may not otherwise be prepaid in whole or in part at any time, except with the prior written consent of the Lender.
Currency Fluctuation:	If, at any time, the US$ equivalent (as determined in good faith by the Lender by reference to prevailing exchange rates) of all outstanding drawings exceeds the Enterprise Loan Limit by more than 5%, the Borrower shall reduce the drawings immediately so that the US$ equivalent does not exceed the Enterprise Loan Limit.
Redraw:	Amounts repaid or prepaid can be redrawn.
Cancellations:	If the Borrower wishes to cancel any undrawn commitment it shall be for a minimum of US$1 million and whole multiples of US$1 million. Any cancelled amounts may not be redrawn.
Credit Review Event:	If a Credit Review Event occurs, the Lender may increase the Margin.
Conditions Precedent to First Drawdown:	Standard conditions precedent, including the following. (a) Counterparts of the Enterprise Loan Agreement, duly executed by the parties. (b) A certified copy of: (i) the board resolutions of the Borrower authorising execution and performance of the Enterprise Loan Agreement and the appointment of authorised officers; (ii) an executed power of attorney, duly stamped and registered (if required); and (iii) specimen signatures of all authorised officers. (c) The representations and warranties are true.
Conditions Precedent to All Drawdowns:	Receipt by the Lender of a valid drawdown notice.
Representations and Warranties:	Standard representations and warranties, including the following. (a) (**Status**) The Borrower is validly existing under the laws of its place of formation.

	(b) **(Corporate power and authorisation)** The Borrower has the power to enter into and perform the Enterprise Loan Agreement and has taken all necessary corporate and other action with respect to the Enterprise Loan Agreement. (c) (**Document binding**) The Enterprise Loan Agreement is the Borrower's valid, binding and enforceable obligation. (d) (**Authorisations**) All governmental authorisations have been obtained and are in full force and effect.
Undertakings:	Standard general undertakings, including the following. (a) (**Negative pledge**) Borrower not to create or allow to exist a security interest over its assets except: (i) a lien arising by operation of law in the ordinary course of day to day trading and not securing financial indebtedness where the Borrower duly pays the indebtedness secured by that lien other than indebtedness contested in good faith; and (ii) as agreed with the Lender. (b) (**Corporate existence**) Borrower to maintain its corporate existence in good standing.
Events of Default:	Enterprise Loan Agreement to contain usual events of default, including the following. (a) (**Obligations under Enterprise Loan Agreement**) The Borrower fails: (i) to pay an amount payable by it under the Enterprise Loan Agreement when due (subject to a five Business Day grace period); or (ii) to comply with any of its other obligations under the Enterprise Loan Agreement and if, in the reasonable opinion of the Lender, that failure is capable of remedy within 28 days of receipt of a notice from the Lender, the Borrower does not remedy the failure within that period. (b) (**Misrepresentation**) Any representation or warranty in the Enterprise Loan Agreement is incorrect or misleading in any material respect.

	(c) (**Winding up, arrangements, insolvency etc**) The Borrower is wound up, has an administrator appointed to it, or some other form of insolvency proceeding occurs or is applied for with respect to it. (d) (**Vitiation of Enterprise Loan Agreement**) (i) All or any material part of the Enterprise Loan Agreement is terminated or is or becomes void, illegal, invalid, unenforceable or of limited force and effect; or (ii) a party becomes entitled to terminate, rescind or avoid all or part of the Enterprise Loan Agreement.
Tax Event:	If, as a consequence of a Tax Event, clause 5.3 of this document (being the Enterprise Funding Agreement) applies to the Enterprise Loan: (a) Scheduled Payments may be adjusted unilaterally by the Lender; and/or (b) the Lender may terminate, or take other unilateral action in relation to, the Enterprise Loan Agreement.
Taxes:	If a law requires the Borrower to withhold or deduct any taxes from payment so the Lender would not actually receive the full amount provided for under the Enterprise Loan Agreement, the Borrower and the Lender will negotiate in good faith as to whether the amount payable by the Borrower to the Lender should be increased on account of those deductions.
Goods and Services Tax:	The Borrower will reimburse the Lender for any goods and services tax payable by the Lender in relation to taxable supplies made by the Lender to the Borrower.
Legal and Other Costs and Expenses:	The Borrower will pay and/or reimburse the Lender on demand for all charges and expenses which the Lender may incur or become liable to pay in connection with the preparation, execution, implementation or enforcement of the Enterprise Loan Agreement, including any stamp duty, debits tax, any other tax, duty or legal fees (on a full indemnity basis) and out-of-pocket expenses.
Assignment:	Neither party may assign or transfer any of its rights or obligations under the Enterprise Loan Agreement.
Governing Law:	Victoria, with submission to the non-exclusive jurisdiction of the Courts of Victoria.

Definitions

In this Schedule 1, unless the context otherwise requires:

(a) terms which are defined in clause 1.1 of this document (being the Enterprise Funding Agreement) apply; and

(b) the following definitions apply:

BBSY, for a period, means the arithmetic mean of the bid rates shown on the Reuters screen BBSY paid for $ bank accepted bills of exchange for a term equivalent to six months.

Credit Review Event means a material adverse change to the ability of the Borrower to service its debts.

Final Repayment Date means the last day of the Repayment Term.

Financial Year means the period from the date of first drawdown to 31 December 2006 and then each succeeding period from 1 January to the next 31 December.

LIBOR, for a period, means the arithmetic mean of the rates shown on the Reuters screen LIBO paid for US dollars for a term equivalent to six months.

EXECUTED in counterpart as of the date first above written.

EXECUTED by **Alcoa Inc:**

/s/ Bernt Reitan	/s/ Colette Martin
Signature of authorized representative	Witness
Bernt Reitan	Colette Martin
Name	Name

EXECUTED by **Alumina Limited:**

/s/ John Marlay	/s/ Stephen Foster
Signature of director	Signature of secretary
John Marlay	Stephen Foster
Name	Name

EXECUTED by **Alcoa Australian Holdings Pty Ltd:**

/s/ Wayne Geoffrey Osborn	/s/ Anthony T. Adams
Signature of director	Signature of director
Wayne Geoffrey Osborn	Anthony T. Adams
Name	Name

EXECUTED by **Alcoa of Australia Limited:**

/s/ Wayne Geoffrey Osborn	/s/ Anthony T. Adams
Signature of director	Signature of director
Wayne Geoffrey Osborn	Anthony T. Adams
Name	Name

EXECUTED by the **Enterprise Funding Partnership** by its partners:

Alcoa Australian Holdings Pty Ltd:

/s/ Wayne Geoffrey Osborn	/s/ Anthony T. Adams
Signature of director	Signature of director
Wayne Geoffrey Osborn	Anthony T. Adams
Name	Name

Alumina Limited:

/s/ John Marlay	/s/ Stephen Foster
Signature of director	Signature of secretary
John Marlay	Stephen Foster
Name	Name

Exhibit 10(vv)

Terms of Localization for Helmut Wieser

Purpose for Change:

- An agreement has been reached with Mr. Wieser to localize him to the U.S. effective January 1, 2007. When he transferred to the U.S. in January 2005, it was anticipated that his assignment would be two or three years. During this period, it was agreed that the Expatriate Plan would cover him, but the company reserved the right at any point to have him become a permanent transfer to the U.S. Given his current assignment and level in the company, it is unlikely that he will be Europe based in the future and therefore U.S. localization now is appropriate.

Terms of the Agreement:

- Elimination of all expatriate benefits effective January 1, 2007.
- Participation in the Alcoa Retirement Plan I Rule I-M with all Alcoa service recognized back to date of hire (October 1, 2000) with an offset for the value of APK Pensionkasse ("Retirement Plan") for calculation purposes. This arrangement replaces his previous contractual pension agreement.
- Participation in the regular company U.S. health care scheme. In the event he retires outside the U.S., per current practice, he will be eligible for the Cigna Global Retiree Medical Plan for any post-retiree medical benefits.
- Eligibility to participate in the U.S. savings plan, deferred compensation plan, life insurance plan, and disability plan.
- By March 1, 2007 a lump sum payment of USD $500,000 less any applicable taxes will be made to facilitate transition from expatriate status to localized status.

Additional Benefits Eligibility:

- To assist in transition to the New York Office, he will receive a special supplemental payment equal to six times his monthly base pay, which is not grossed up for taxes, and is customary under the New York office relocation plan. This payment will be made in a lump sum on March 1, 2007 and will be calculated based upon his March 2007 salary.
- Under the U.S. Domestic Relocation Policy he will be eligible for home purchase assistance and a mortgage subsidy less any applicable taxes should he purchase a home in the New York area before January 1, 2008.

Exhibit 10.(ww)

Summary of Relocation Benefits for Paul D. Thomas

- An agreement has been reached with Mr. Thomas to relocate him from the Chicago office to the New York office.

Terms of Agreement:

- For a transition period beginning January 1, 2005 and ending December 31, 2006, Mr. Thomas will be provided use of a furnished apartment in New York with cleaning service, at a cost to Alcoa Inc. not to exceed $105,000 per year.
- Mr. Thomas will be reimbursed for income taxes resulting from this benefit.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
FOR THE YEAR ENDED DECEMBER 31,
(in millions, except ratios)

	2006	2005	2004	2003	2002
Earnings:					
Income from continuing operations before taxes on income	$3,432	$1,970	$2,153	$1,645	$ 948
Minority interests' share of earnings of majority-owned subsidiaries without fixed charges	—	—	—	—	—
Less equity earnings	(72)	(26)	(145)	(138)	(72)
Fixed charges added to earnings	440	387	313	346	380
Distributed income of less than 50% owned persons	37	40	59	35	21
Amortization of capitalized interest:					
Consolidated	21	25	25	21	14
Proportionate share of 50% owned persons	—	—	—	—	—
Total earnings	$3,858	$2,396	$2,405	$1,909	$1,291
Fixed Charges:					
Interest expense:					
Consolidated	$ 384	$ 339	$ 271	$ 314	$ 350
Proportionate share of 50% owned persons	5	3	3	4	4
	389	342	274	318	354
Amount representative of the interest factor in rents:					
Consolidated	49	43	37	27	25
Proportionate share of 50% owned persons	2	2	2	1	1
	51	45	39	28	26
Fixed charges added to earnings	440	387	313	346	380
Interest capitalized:					
Consolidated	128	58	27	21	22
Proportionate share of 50% owned persons	2	—	—	—	—
	130	58	27	21	22
Total fixed charges	$ 570	$ 445	$ 340	$ 367	$ 402
Ratio of earnings to fixed charges	6.8	5.4	7.1	5.2	3.2

The financial information of all prior periods has been reclassified to reflect discontinued operations.

Selected Financial Data

(in millions, except per-share amounts and ingot prices)

For the year ended December 31,	2006	2005	2004	2003	2002
Sales	$30,379	$25,568	$22,609	$20,282	$19,164
Income from continuing operations	2,161	1,257	1,369	1,012	478
Income (loss) from discontinued operations	87	(22)	(59)	(27)	(92)
Cumulative effect of accounting changes	—	(2)	—	(47)	34
Net income	2,248	1,233	1,310	938	420
Earnings (loss) per share:					
Basic:					
Income from continuing operations	2.49	1.44	1.57	1.18	.56
Income (loss) from discontinued operations	.10	(.03)	(.07)	(.03)	(.11)
Cumulative effect of accounting changes	—	—	—	(.06)	.04
Net income	2.59	1.41	1.50	1.09	.49
Diluted:					
Income from continuing operations	2.47	1.43	1.56	1.18	.56
Income (loss) from discontinued operations	.10	(.03)	(.07)	(.04)	(.11)
Cumulative effect of accounting changes	—	—	—	(.06)	.04
Net income	2.57	1.40	1.49	1.08	.49
Alcoa’s average realized price per metric ton of aluminum ingot	2,665	2,044	1,867	1,543	1,455
LME average 3-month price per metric ton of aluminum ingot	2,594	1,900	1,721	1,428	1,365
Cash dividends paid per common share	.60	.60	.60	.60	.60
Total assets	37,183	33,696	32,609	31,711	29,810
Short-term borrowings	475	296	261	66	48
Commercial paper	1,472	912	630	—	663
Long-term debt, including amounts due within one year	5,288	5,334	5,399	7,213	7,762

The financial information for all prior periods presented has been reclassified to reflect assets held for sale and discontinued operations. See Note B to the Consolidated Financial Statements for further 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:

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

2002: Restructuring and other charges, the adoption of new accounting standards, goodwill impairment, and discontinued operations

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 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 Notes N and Y to the Consolidated Financial Statements and the disclosures included under Segment Information and Market Risks and Derivative Activities. For additional information on forward-looking statements and risk factors, see Alcoa's Form 10-K, Part I, Item 1A. 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's leading producer of primary aluminum, fabricated aluminum, and alumina, and is active 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. North America is the largest market with 59% of Alcoa's revenues. Europe is also a significant market with 24% of the company's revenues. In addition, Alcoa has investments and activities in Australia, Brazil, China, Iceland, Jamaica, and Russia, 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 2006 and Outlook for the Future

Alcoa aspires to be the best company in the world. As part of that mission, Alcoa strives to attain certain financial goals to improve both short-term and long-term profitability, while positioning the company to be successful in the future.

In 2006, Alcoa continued its focus on long-term value creation through living our values, executing our growth strategy, controlling costs and capital, and strategically managing our portfolio of businesses. These actions contributed to the following financial achievements:

- Highest annual sales in company history of $30,379, reflecting revenue growth of $4,811, or 19%, over 2005, with most markets showing double-digit growth;
- Income from continuing operations of $2,161, or $2.47 per diluted share, despite the continued challenge of significantly higher expenses for raw materials, energy, and other cost inflation;
- Second highest cash from operations in company history of $2,567, including $236 of discretionary pension contributions;
- Continued execution of our growth strategy, with significant investments in refinery expansions, smelter modernizations, new smelter construction in Iceland, and flat-rolled products expansion projects in China and Russia; and
- Debt-to-capital ratio of 30.6%, at the lower end of our target range, the lowest in the last five years.

In 2006, the company's results were positively impacted by the following: higher realized prices for alumina and aluminum; strong demand in downstream markets, particularly in aerospace, building and construction, commercial transportation and distribution; lower income tax expense resulting from various discrete items; a favorable legal settlement related to a former Reynolds distribution business; and higher interest and dividend income. In 2006, Alcoa's revenues rose to the highest level in company history as the company continued to significantly expand and plan future growth. During 2006, the company was also faced with a number of challenges, including higher costs for energy and raw materials; restructuring costs associated with the re-positioning of its downstream operations and the formation of a joint venture related to its soft alloy extrusions business; higher stock-based compensation expense; and labor contract and strike-related costs.

As we look to 2007 and beyond, we will work toward the following goals:

- Continuing to globalize our footprint by entering new markets, while continuing to grow our existing market share by delivering new products and applications;
- Managing our debt maturity profile and strengthening our capital structure, including extending maturities, in order to maintain a balance between flexibility, cost and maximizing shareholder value;
- Sustaining our current level of capital expenditures related to our growth projects to enable us to continue to improve our competitiveness and better serve our customers. Some of the actions being taken in order to achieve such goals are as follows: the construction of a smelter in Iceland; alumina refinery expansions in Brazil and Jamaica; the development of a bauxite mine in Juruti, Brazil; the construction of an anode facility in Norway; and expansion of our global rolled products businesses in Russia and China. These projects are outlined in more detail under the Segment Information, Liquidity and Capital Resources, and Contractual Obligations and Off-Balance Sheet Arrangements sections that follow;
- Maximizing and capitalizing on our strong markets so that our return on capital continues to exceed the cost of capital; we anticipate our cash from operations to not only fully fund our capital expenditures, but to also generate

excess cash from operations for other uses; managing our debt portfolio in order to maintain our debt-to-capital ratio within the target range of 30% to 35%; and taking the necessary actions to strengthen our volume, mix and productivity in order to offset cost inflation.

- Managing our investment decisions and portfolio actions on the basis of profitable growth.

Results of Operations

Earnings Summary

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 extrusions 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.

Alcoa's income from continuing operations for 2005 was $1,257, or $1.43 per diluted share, compared with $1,369, or $1.56 per share in 2004. The highlights for 2005 include: higher realized prices for alumina and aluminum as LME prices increased by 10% over 2004 levels; increased sales across all segments; higher demand in upstream businesses and in downstream businesses serving the aerospace, commercial transportation, industrial products, distribution, packaging, and building and construction markets; a $180 net gain related to the sale of Alcoa's stake in Elkem; a $120 tax benefit related to the finalization of certain tax reviews and audits during the second quarter of 2005; and a $37 gain on the sale of railroad assets.

These positive contributions were more than offset in 2005 by the following: significant cost increases for energy and raw materials; the impact of a weakened U.S. dollar against other currencies, primarily the Canadian dollar and the Euro; restructuring charges of $190 associated with the global realignment of Alcoa's organization structure designed to streamline operations; operating losses of $69 related to the acquired facilities in Russia; a $58 charge for the closure of the Hamburger Aluminium-Werk facility in Germany; an increase in environmental reserves, principally related to the closed East St. Louis, IL facility; an increase in legal reserves, primarily due to litigation involving a closed Howmet facility; and higher costs associated with hurricanes and business interruptions.

Net income for 2005 was $1,233, or $1.40 per diluted share, compared with $1,310, or $1.49 per share, in 2004. Net income of $1,233 in 2005 included losses from discontinued operations of $22, comprised of $43 related to net losses on businesses impaired or sold, partially offset by $21 in net operating income.

Sales—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.

Sales for 2005 were $25,568 compared with sales of $22,609 in 2004, an increase of $2,959, or 13%. The 9% increase in the realized price of aluminum and the 14% increase in the realized price of alumina contributed to the increase in sales over the prior year, as approximately one-half of the increase in sales was due to higher realized prices. Demand increased in upstream businesses and in downstream businesses serving the aerospace, commercial transportation, industrial products, distribution, packaging, and building and construction markets. The acquisition of two Russian fabricating facilities provided $449 in additional revenue in 2005. In addition, higher sales related to metal purchased and subsequently resold and favorable foreign currency exchange movements positively impacted 2005. These positive contributions more than offset the sales decreases from the divestitures in 2004 of Alcoa's specialty chemicals business, the Russellville, AR and St. Louis, MO foil facilities, and the European and Brazilian extrusion facilities.

Cost of Goods Sold—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 last-in, first-out (LIFO) inventory reserves. A $36 favorable legal settlement related to a former Reynolds distribution business also contributed to the percentage improvement.

COGS as a percentage of sales was 81.0% in 2005 compared with 79.3% in 2004. Increased realized prices for alumina and aluminum and higher volumes were more than offset by increased costs for raw materials and energy, Russian operating costs, unfavorable foreign currency exchange movements, costs associated with hurricanes and business interruptions, and an increase in environmental and legal reserves.

Selling, General Administrative, and Other Expenses—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, labor contract and strike-related costs, and marketing costs associated with consumer products.

SG&A expenses were $1,295, or 5.1% of sales, in 2005 compared with $1,194, or 5.3% of sales, in 2004. Expenses increased by $101 primarily due to the acquisition of two Russian facilities.

Research and Development Expenses—R&D expenses were $213 in 2006 compared with $192 in 2005 and $178 in 2004. The increases in 2006 and 2005 were 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 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, Australia refinery expansion.

The provision for depreciation, depletion, and amortization was $1,256 in 2005 compared with $1,177 in 2004. The increase of $79, or 7%, was primarily caused by a higher asset base due to the acquisition of two Russian fabricating facilities and unfavorable foreign currency exchange movements.

Restructuring and Other Charges—Restructuring and other charges for each of the three years in the period ended December 31, 2006, were comprised of the following:

	2006	2005	2004
Asset impairments	$442	$ 86	$ 6
Layoff costs	107	238	40
Other exit costs	37	16	—
Gain on sale of specialty chemicals business	—	—	(53)
Reversals of previously recorded layoff and other exit costs*	(43)	(48)	(15)
Restructuring and other charges	$543	$292	$(22)

*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.

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 during the next year. 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 extrusions 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. Alcoa estimates that it will record additional charges of approximately $40 related to this restructuring program in 2007, consisting primarily of accelerated depreciation. 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.

The significant components of the 2006 restructuring program were as follows:

– The hard and soft alloy extrusions 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. The new venture will be majority-owned by Orkla and operated by Sapa. It is anticipated that the joint venture will be formed early in

2007, subject to customary government approvals. Alcoa recorded an impairment charge of $301 (associated with the expected contribution of assets to the soft alloy joint venture and other assets to be disposed of) to reduce the carrying value of the soft alloy extrusions business' assets to their estimated fair value.

- 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 United Kingdom 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 (approximately $20 primarily for accelerated depreciation will be recognized in 2007).
- Conversion of the temporarily-idled San Antonio, Texas 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 (approximately $9 primarily for accelerated depreciation will be recognized in 2007).

– 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 (approximately $11 primarily for accelerated depreciation will be recognized in 2007).

– 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.

These terminations are expected to be completed in the next twelve months. As of December 31, 2006, 200 of the approximately 6,700 employees had been terminated. Approximately $2 of cash payments were made against the 2006 program reserves in 2006.

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. Alcoa expects to eliminate approximately $180 (pre-tax) on an annual basis from its cost base once the program has been completed.

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, 2006, 5,380 of the approximately 8,450 employees had been terminated. In addition, it has been determined that approximately 1,500 of the approximately 8,450 employees will not be terminated due to natural attrition and other changes in facts and circumstances. Approximately $45 and $69 of cash payments were made against the 2005 program reserves in 2006 and 2005, respectively.

2004 Restructuring Program—During 2004, Alcoa recorded income of $22 ($41 after-tax and minority interests) for restructuring and other items. The income recognized was comprised of the following components: a gain of $53 ($61 after-tax and minority interests) on the sale of Alcoa's specialty chemicals business and $15 resulting from adjustments to prior year reserves; offset by charges of $40 related to additional layoff reserves associated with approximately 4,100 hourly and salaried employees (located primarily in Mexico and the U.S.), as the company continued to focus on reducing costs; and $6 of asset impairments. The 2004 restructuring program is essentially complete.

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:

	2006	2005	2004
Alumina	$ 4	$ 6	$(48)
Primary Metals	26	36	(1)
Flat-Rolled Products	134	15	1
Extruded and End Products	318	70	9
Engineered Solutions	37	109	8
Packaging and Consumer	15	39	10
Segment total	534	275	(21)
Corporate	9	17	(1)
Total restructuring and other charges	$543	$292	$(22)

Interest Expense—Interest expense was $384 in 2006 compared with $339 in 2005, resulting in an increase of $45, or 13%. Interest expense was $339 in 2005 compared with $271 in 2004, resulting in an increase of $68, or 25%. The increase for both periods 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 $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 the Aluminum Corporation of China Limited (Chalco), and higher interest income primarily due to $15 of interest earned related to a Brazilian court settlement.

Other income, net, was $480 in 2005 compared with $270 in 2004. The increase of $210, or 78%, was primarily due to the gain of $345 on the sale of Alcoa's stake in Elkem and the $67 gain on the sale of railroad assets, partially offset by the $90 charge for impairment, layoff, and other costs related to the closure of the Hamburger Aluminium-Werk facility in Germany and the absence of the $58 gain on the early retirement of debt that occurred in 2004.

Income Taxes—Alcoa's effective tax rate was 24.3% in 2006 compared with the statutory rate of 35% and Alcoa's effective tax rates of 23.0% in 2005 and 25.0% in 2004. The effective tax rate in 2006 reflects the following significant discrete tax items:

- A $60 benefit from the finalization of certain tax reviews and audits.
- A $23 benefit attributable to the reversal of valuation allowances related to international net operating losses.

Management anticipates that the tax rate in 2007 will be similar to the tax rates for 2006 and 2005 excluding the impact of discrete tax items.

Minority Interests—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 Alcoa World Alumina and Chemicals (AWAC), attributed primarily to higher realized prices and increased volumes.

Minority interests' share of income from operations was $259 in 2005 compared with $245 in 2004. The $14 increase was primarily due to higher earnings at AWAC, attributed primarily to higher realized prices.

Income (Loss) From Discontinued Operations—Income from discontinued operations was $87 in 2006 compared with losses of $22 in 2005 and $59 in 2004. 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. The loss of $59 in 2004 was comprised of $89 in impairment charges to reflect the estimated fair values of the protective packaging business, the telecommunications business, and a small casting business, somewhat offset by $25 in net operating income and a net gain of $5 on divested businesses. 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, KY 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.

In 2004, Alcoa also identified businesses to be divested so as to better focus on its core capabilities. The divestitures of the telecommunications business and the protective packaging business were completed in 2005. See Note F to the Consolidated Financial Statements for additional information.

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 expenses and depreciation and amortization on corporate assets, are not included in segment ATOI. Segment assets exclude cash, cash equivalents, short-term investments, and all 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 $3,551 in 2006, $2,139 in 2005, and $2,105 in 2004. 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, 2006. The financial information and data on shipments for all prior periods have been reclassified for discontinued operations.

In January 2005, Alcoa realigned its organization structure, creating global groups to better serve customers and increase the ability to capture efficiencies. As a result, certain reportable segments were reorganized to reflect the new organization. The businesses within the former Engineered Products segment and the Other "group" were realigned to form the Extruded and End Products segment and the Engineered Solutions segment. Amounts for 2004 were reclassified to reflect these changes. Additionally, the Alumina and Chemicals segment was renamed the Alumina segment, to reflect the sale of the specialty chemicals business.

Alumina

	2006	2005	2004
Alumina production (kmt)	15,128	14,598	14,343
Third-party alumina shipments (kmt)	8,420	7,857	8,062
Third-party sales	$ 2,785	$ 2,130	$ 1,975
Intersegment sales	2,144	1,707	1,418
Total sales	$ 4,929	$ 3,837	$ 3,393
ATOI	$ 1,050	$ 682	$ 632

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 2006, alumina production increased by 530 kmt. Eight of Alcoa's nine refineries achieved production records in 2006 with the largest percentage increases coming from the Paranam refinery in Suriname (11% increase in production) and the efficiency upgrade expansion at the Pinjarra refinery in Australia (8% increase in production). In 2005, alumina production increased by 255 kmt, resulting primarily from increased production in the Pocos de Caldas refinery in Brazil (13% increase in production), the Kwinana, Australia refinery (10% increase in production) and the capacity expansion in Jamaica (5% increase in production).

Third-party sales for the Alumina 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. In 2005, third-party sales rose 8%, primarily due to a 14% increase in realized price influenced by higher LME prices, which was somewhat offset by lower third-party volumes.

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. ATOI for this segment rose 8% in 2005 compared with 2004, primarily due to higher realized prices and increased total volumes. These positive contributions were somewhat offset by higher raw materials, energy, and maintenance costs; unfavorable foreign currency exchange movements; the absence of a $37 gain on the sale of a portion of Alcoa's interest in a Brazil bauxite project that occurred in 2004; and the absence of a $15 gain on the termination of an alumina tolling arrangement that occurred in 2004.

In 2007, Alcoa will focus on the expansions of the Sao Luis refinery in Brazil (total additional alumina production of 2,100 kmt; Alcoa's share is 1,134 kmt) targeted for 2008 and beyond, the Juruti bauxite mine in Brazil (addition of 2,600 kmt of bauxite) targeted for 2008, and ramp up of the Early Works Program in the Clarendon refinery in Jamaica (addition of 146 kmt Alcoa's share) targeted for 2007. Higher LME-linked bauxite costs as well as an increase in ocean freight rates to transport bauxite are anticipated in 2007. Energy costs are also expected to increase in 2007.

Primary Metals

	2006	2005	2004
Aluminum production (kmt)	3,552	3,554	3,376
Third-party aluminum shipments (kmt)	2,087	2,154	1,882
Alcoa's average realized price per metric ton of aluminum	$ 2,665	$2,044	$1,867
Third-party sales	$ 6,171	$4,698	$3,806
Intersegment sales	6,208	4,808	4,335
Total sales	$12,379	$9,506	$8,141
ATOI	$ 1,760	$ 822	$ 808

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. Aluminum produced by Alcoa and used internally is transferred to other segments at prevailing market prices. The sale of primary aluminum represents approximately 90% of this segment's third-party sales.

In 2006, aluminum production decreased by 2 kmt due to the decline in production associated with the temporary curtailment of the Eastalco, MD smelter, partially offset by the first quarter 2006 completion of the Alumar, Brazil smelter expansion and the second quarter 2006 acquisition of the minority interests in the Intalco, WA smelter. In 2005, aluminum production increased by 178 kmt, principally due to the restart of capacity at the Massena, NY and Bécancour, Canada smelters, as well as the partial restart of the Wenatchee, WA smelter.

Third-party sales for the Primary Metals segment increased 31% in 2006 compared with 2005, primarily due to an increase in realized prices of 30%. Third-party sales for the Primary Metals segment increased 23% in 2005 compared with 2004, primarily due to an increase in realized prices of 9% and increased third-party shipments. Intersegment sales increased 29% in 2006 and 11% in 2005 compared with previous periods due to higher realized prices and higher internal demand.

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 Fjardaal, Iceland smelter start-up costs. ATOI for this segment increased 2% in 2005 compared with 2004 as higher realized prices and increased volumes were mostly offset by increased raw materials and energy costs, unfavorable foreign currency exchange movements, and outages and restart costs.

Alcoa currently has 545,000 metric tons per year (mtpy) of idle capacity on a base capacity of 4,209,000 mtpy. Base capacity increased by 62,000 mtpy in the first quarter of 2006 due to the completion of the Alumar, Brazil smelter expansion and by 185,000 mtpy in the second quarter of 2006 with the acquisition of the minority interests in its Intalco, WA and Eastalco, MD smelters. Idle capacity includes the temporary curtailment of the Eastalco smelter in December 2005.

The Iceland smelter, which will add 344,000 mtpy of capacity, is expected to be completed in 2007 and yield approximately 100 kmt for the year. In 2006, the company continued construction on a new anode plant in Norway expected to be completed in 2007 and continued the modernization of two Spanish smelters and the Poços de Caldas smelter in Brazil.

The increase in ownership of the Intalco smelter and the subsequent restart of a second potline will add an additional 95 kmt of production in 2007 compared to 2006. The full year impact of the Alumar smelter expansion will increase production an additional 5 kmt in 2007 compared to 2006.

Flat-Rolled Products

	2006	2005	2004
Third-party aluminum shipments (kmt)	2,273	2,156	2,046
Third-party sales	$8,297	$6,836	$5,962
Intersegment sales	246	128	89
Total sales	$8,543	$6,964	$6,051
ATOI	$ 255	$ 288	$ 246

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), of which approximately two-thirds is sold directly to customers, while the remainder is sold 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 increased 21% in 2006 compared with 2005. The increase was primarily due to passing through material price increases, more favorable product mix associated with aerospace, and higher volumes in the aerospace, commercial transportation, packaging, and distribution markets. Third-party sales for the Flat-Rolled Products segment increased 15% in 2005 compared with 2004. The increase was primarily due to higher prices, higher volumes resulting from the acquisition of two Russian facilities, favorable mix for sheet and plate in the aerospace market, and increased volumes for RCS, as well as favorable foreign currency exchange movements.

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. ATOI for this segment increased 17% in 2005 compared with 2004, principally due to higher volumes, favorable mix for sheet and plate, higher prices, and increased productivity. These positive contributions were somewhat offset by increased raw material, energy, and transportation costs, as well as operating losses of $52 at the Russian facilities.

In 2007, aerospace demand is expected to remain strong and productivity is anticipated to offset cost inflation.

Extruded and End Products

	2006	2005	2004
Third-party aluminum shipments (kmt)	877	853	843
Third-party sales	$4,419	$3,729	$3,387
Intersegment sales	99	64	54
Total sales	$4,518	$3,793	$3,441
ATOI	$ 60	$ 39	$ 62

This segment consists of extruded products, some of which are further fabricated into a variety of end products, and includes hard- and soft-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.

Third-party sales for the Extruded and End Products 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. Third-party sales increased 10% in 2005 compared with 2004, principally due to higher prices, an increase in volumes from the Russian facilities and the strength of the businesses serving the commercial building and construction market, somewhat offset by lower volumes and prices in Europe.

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. ATOI for this segment decreased 37% in 2005 compared with 2004, as higher prices and increased volumes in the businesses serving the commercial building and construction market were more than offset by higher raw materials and energy costs and lower volumes in Europe. In addition, this segment was negatively impacted by operating losses of $7 associated with integration costs for Russian extruded products.

The soft alloy extrusion joint venture with Sapa is expected to close early in 2007.

Engineered Solutions

	2006	2005	2004
Third-party aluminum shipments (kmt)	139	145	126
Third-party sales	$5,456	$5,032	$4,563
ATOI	$ 331	$ 203	$ 216

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 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. Third-party sales increased 10% in 2005 compared with 2004, primarily due to increased volumes in the businesses serving the commercial transportation, aerospace, and industrial gas turbine markets. These positive contributions were somewhat offset by pricing pressures.

ATOI for this segment increased 63% in 2006 compared with 2005, 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. ATOI decreased 6% in 2005 compared with 2004, primarily due to increased volumes and favorable mix of products in the aerospace market that were more than offset by increased raw materials costs, Russian losses of $3 and other items.

In 2007, the aerospace market is expected to remain strong. The North American commercial transportation market is anticipated to decline substantially driven by new engine emission regulations, and the outlook for the North American automotive market remains weak due to continued production cuts. Market share gains are expected to mitigate the market decline impacts.

Packaging and Consumer

	2006	2005	2004
Third-party aluminum shipments (kmt)	169	151	164
Third-party sales	$3,235	$3,139	$2,923
ATOI	$ 95	$ 105	$ 141

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® wax paper. 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.

Third-party sales for the Packaging and Consumer 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. Third-party sales increased 7% in 2005 compared with 2004, principally due to higher prices, as Alcoa was able to pass through a significant amount of the increased resin cost. Increased volumes in the closures and consumer products businesses also positively impacted 2005 and were somewhat offset by a decrease in volumes in the plastic sheet and film business.

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. ATOI for this segment decreased 26% in 2005 compared with 2004, as the increases in prices and volumes were more than offset by higher raw materials costs and unfavorable mix in the consumer products and flexible packaging businesses.

Reconciliation of ATOI to Consolidated Net Income—The following table reconciles segment ATOI to consolidated net income:

	2006	2005	2004
ATOI	$3,551	$2,139	$2,105
Unallocated amounts (net of tax):			
Impact of LIFO	(170)	(99)	(73)
Interest income	58	42	26
Interest expense	(250)	(220)	(176)
Minority interests	(436)	(259)	(245)
Corporate expense	(317)	(312)	(283)
Restructuring and other charges	(379)	(197)	23
Discontinued operations	87	(22)	(59)
Accounting change	—	(2)	—
Other	104	163	(8)
Consolidated net income	$2,248	$1,233	$1,310

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 2006 compared with 2005 consisted of:

- A $71 increase related to the impacts 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; a $17 increase in dividend income related to Alcoa’s stake in Chalco; and $11 of interest earned related to a Brazilian court settlement.

The significant changes in the reconciling items between ATOI and consolidated net income for 2005 compared with 2004 consisted of:

- An increase in interest expense, primarily due to higher average effective interest rates and increased borrowings, somewhat offset by an increase in interest capitalized;
- A $220 increase in restructuring and other charges due to the company’s 2005 global restructuring plan;
- A change in discontinued operations due to significant impairment losses recognized in 2004 on the protective packaging and telecommunications businesses; and
- An increase in Other, primarily due to the $180 net gain on the sale of Alcoa’s stake in Elkem and a $120 tax benefit related to the finalization of certain tax reviews and audits during the second quarter of 2005, slightly offset by the $58 charge related to the closure of the Hamburger Aluminium-Werk facility in Germany.

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, foreign exchange rates, and interest 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 and options contracts, totaling approximately 595 kmt at December 31, 2006, 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, generally within three years.

Alcoa has also entered into futures and options contracts, totaling approximately 767 kmt at December 31, 2006, to hedge a portion of future production. The effect of this hedging activity will be recognized in earnings over the designated hedge periods in 2007 to 2011.

Alcoa has also entered into futures 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 206 kmt at December 31, 2006. 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 earnings impact from aluminum derivative and hedging activities was a gain of $9 in 2006.

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, generally within five years.

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, generally not exceeding three years.

Fair Values and Sensitivity Analysis—The following table shows the fair values of outstanding derivative contracts at December 31, 2006 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, 2006:

	Fair value gain/(loss)	Index change of + / - 10%
Aluminum	$ (453)	$ 146
Interest rates	(111)	57
Other commodities, principally energy related	(134)	62
Currencies	91	4

Aluminum consists of hedge contracts with gains of $105. This is mostly offset by losses on embedded derivatives in power contracts in Iceland and Brazil and our 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 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 approximately 34 owned or operating facilities and adjoining properties, approximately 35 previously owned or operating facilities and adjoining properties and approximately 65 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, NY 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 is to cover 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 are 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 2008 or later.

Sherwin, TX—In connection with the sale of the Sherwin alumina refinery in Texas, 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, IL 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. The EPA has not completed a final review of the feasibility study and the EPA's 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.

Based on the foregoing, it is possible that Alcoa's 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 or liquidity of the company.

Alcoa's remediation reserve balance was $334 and $389 at December 31, 2006 and December 31, 2005 (of which $49 and $39 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 2006, the remediation reserve was decreased by approximately $14 due to an adjustment for the ongoing monitoring program at the Massena, NY facility and an adjustment for the liabilities at the Russian fabricating facilities acquired in January 2005. The adjustment to the reserve for the Russian fabricating facilities was made after further investigations were completed whereby Alcoa was able to obtain additional information about the environmental condition and the associated liabilities with these facilities. The adjustment for the acquired facilities was recorded as an opening balance sheet adjustment and had no impact on net income. Remediation expenses charged against the reserve were approximately $41 in 2006, $53 in 2005, and $46 in 2004. 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 takes a disciplined approach to cash management and strengthening its balance sheet, as it undertook aggressive capital controls, management of working capital, continued monitoring of growth projects, and continued focus on divestitures in 2006. Capital spending increased 50%, as Alcoa made continued progress on brownfield expansions in refining and smelting and continued construction on the greenfield smelter project in Iceland.

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 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.

Cash from operations in 2005 was $1,676 compared with $2,199 in 2004, resulting in a decrease of $523, or 24%. Cash outflows were principally due to increases in receivables and inventories of $936 due to increased sales and higher prices; $383 in pension contributions; a reduction in tax liabilities of $96; and the payment of $93 associated with the long-term aluminum supply contract entered into as part of the acquisition of two Russian fabricating facilities. These items were partially offset by an increase in accounts payable and accrued expenses of $659 due to increased raw materials costs and increased payment terms.

Financing Activities

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.

Cash used for financing activities was $324 in 2005 compared with $1,525 in 2004. The change of $1,201 was primarily due to net debt repayments of $898 in 2004 compared with net borrowings of $311 in 2005.

Alcoa maintains $3,000 of revolving-credit agreements with varying expiration dates as backup to its commercial paper program. In April 2005, Alcoa refinanced its $1,000 revolving-credit agreement that was to expire in April 2005 into a new $1,000 revolving-credit agreement that will expire in April 2010. Alcoa also has a $1,000 revolving-credit agreement that will expire in April 2008 and a $1,000 revolving-credit agreement that will expire in April 2009. Under these agreements, a certain ratio of indebtedness to consolidated net worth must be maintained. There were no amounts outstanding under the revolving-credit agreements at December 31, 2006 and 2005. The interest rate on the agreements expiring in 2008 and 2009, if drawn upon, is Libor plus 17 basis points, which is subject to adjustment if Alcoa's credit rating changes, to a maximum interest rate of Libor plus 83.5 basis points. The interest rate on the agreement expiring in 2010 is Libor plus 18 basis points, which is subject to adjustment if Alcoa's credit rating changes, to a maximum interest rate of Libor plus 60 basis points. Alcoa had $3,000 of available borrowings at December 31, 2006. Debt of $843 will mature in 2007.

Standard and Poor's Rating Services' (S&P) long-term debt rating of Alcoa is BBB+ and its short-term rating is A-2. The current outlook, which was revised in January 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 aluminum markets. Moody's Investors Service's (Moody's) long-term debt rating of Alcoa is A-2, and its short-term debt rating of Alcoa is Prime-1. The current outlook, which was revised in December 2006, is negative, as Moody's cited an increase in debt, continued restructuring of the downstream operations and continued increase in capital spending as the primary reasons.

Investing Activities

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.

Cash used for investing activities was $1,035 in 2005 compared with $802 in 2004, resulting in a change of $233. The increase was primarily caused by an increase in capital expenditures of $995 as Alcoa continued to invest in growth projects, including alumina and smelting expansions and the greenfield smelter construction in Iceland. Cash paid for acquisitions of $262 related to the acquisition of two Russian facilities, and cash paid of $199 for the acquisition of minority interests was primarily related to AFL. These increases were largely offset by proceeds from the sale of investments of $1,081, including $869 from the sale of Alcoa's stake in Elkem and $205 from the sale of Alcoa's interest in Integris Metals in 2005, and a $113 increase in the proceeds from the sale of assets and businesses, principally due to the $408 cash proceeds from the sale of the SGS business in 2005.

Capital expenditures were $3,205 in 2006 compared with $2,138 and $1,143 in 2005 and 2004, respectively. Of the total capital expenditures in 2006, approximately 61% related to growth projects, including the construction of the Iceland smelter, the investment in the Mosjøen anode facility, the alumina refinery expansions in Jamaica and Brazil, and the development of the Juruti bauxite mine. Also included are costs related to environmental control in new and expanded facilities totaling $182 in 2006, $95 in 2005, and $70 in 2004. Total capital expenditures are anticipated to be in the range of $3,000 to $3,200 in 2007.

Alcoa added $58, $30, and $69 to its investments in 2006, 2005, and 2004, respectively. In 2006 and 2005, Alcoa invested an additional $26 and $19, respectively, in the Dampier to Bunbury Natural Gas Pipeline in Western Australia. In 2004, Alcoa paid $32 to acquire approximately 44 million additional shares of Chalco to maintain its 8% ownership interest.

For a discussion of long-term liquidity, see the disclosure 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 footnotes 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.

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 and aluminum smelters have not been recorded in the consolidated financial statements because the fair value of such potential retirement obligations cannot be reasonably estimated. 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. The perpetual nature of the refineries and smelters, maintenance and upgrade programs, and other factors prevent a reasonable estimation to be made due to uncertainties surrounding the ultimate settlement date. At the date a reasonable estimate 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.

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 to which the assets (asset group) related 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 $410 and either a charge or credit of $19 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 $14 for 2007. The 10-year moving average of actual performance has consistently exceeded 9% over the past 20 years.

In 2006, a net charge of $1,065 ($693 after-tax) was recorded in shareholders' equity comprised of a charge of $1,353 ($877 after-tax) related to the adoption of 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), 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. In 2005, a net charge of $228 ($148 after-tax) was recorded in shareholders' equity as asset returns of 8% were more than offset by higher accumulated benefit obligations caused by a 30 basis point decline 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 early 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 2006 was $72 ($48 after-tax). Of this amount, $20 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 2006 by $21. In 2007, it is estimated that the accelerated vesting will reduce after-tax stock option compensation expense by $7.

An additional change has been 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 comparison to 2005.

Taxes. As a global company, Alcoa records an estimated liability for income and other taxes based on what it determines will likely be paid in the various tax jurisdictions in which it operates.

Management uses its best judgment in the determination of these amounts. However, the liabilities ultimately incurred and paid are dependent on various matters, including the resolution of tax audits in the various affected tax jurisdictions, and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the amount recorded. Alcoa has unamortized tax-deductible goodwill of $409 resulting from intercompany stock sales and reorganizations (generally at a 34% rate). Alcoa recognizes the tax benefits associated with this tax-deductible goodwill as it is being amortized for local income tax purposes from 2004 through 2009, rather than in the period in which the transaction was 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

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 provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented are not restated. 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 are 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 (APB 25). 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 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 becomes effective for Alcoa on January 1, 2008. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. The adoption of SFAS 157 is not expected to have a material impact on Alcoa's consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation 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. On January 17, 2007, the FASB affirmed its previous decision to make FIN 48 effective for fiscal years beginning after December 15, 2006. Accordingly, FIN 48 is effective for Alcoa on January 1, 2007. Management has determined that the adoption of FIN 48 will not have a material impact on Alcoa's consolidated financial statements.

Contractual Obligations and Off-Balance Sheet Arrangements

The company is obligated to make future payments under various contracts such as long-term purchase obligations, debt agreements, and lease agreements, and has certain commitments such as guarantees. The company has grouped these contractual obligations and off-balance sheet arrangements into operating activities, financing activities, and investing activities 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 arrangements and to provide a basis for comparison to historical information. The table below provides a summary of contractual obligations and off-balance sheet arrangements as of December 31, 2006:

	Total	2007	2008-2009	2010-2011	Thereafter
Operating activities:					
Energy-related purchase obligations	$13,535	$1,277	$2,253	$1,732	$ 8,273
Raw material and other purchase obligations	6,186	3,421	1,910	630	225
Operating leases (1)	1,347	245	369	337	396
Estimated minimum required pension funding	(2)	219	680	450	(2)
Postretirement benefit payments	(2)	354	700	685	(2)
Layoff and other restructuring payments (3)	208	163	45	—	—
Deferred revenue arrangements	350	81	129	16	124
Financing activities:					
Total debt (4)	7,235	1,325	299	2,003	3,608
Dividends to shareholders (5)					
Investing activities:					
Capital projects (6)	3,535	2,342	1,145	48	—
Payments related to acquisitions (7)	13	13	—	—	—
Other:					
Standby letters of credit (8)	444	—	—	—	—
Guarantees (9)	498	—	—	—	—
Totals		9,440	7,530	5,901	

(1) See Note U to the Consolidated Financial Statements for further details on operating leases.
(2) Annual payments and funding are expected to continue into the foreseeable future at the amounts or ranges noted in the Obligations for Operating Activities section that follows.
(3) See Note D to the Consolidated Financial Statements for further details on layoff and other restructuring payments.
(4) See Note K to the Consolidated Financial Statements for further details on debt and associated interest. The amounts in the table above do not include the related interest.
(5) See the Obligations for Financing Activities section that follows.
(6) See the Obligations for Investing Activities section that follows.
(7) See Note F to the Consolidated Financial Statements for further details on required payments related to acquisitions. Additional contingent payments not included in the above table may be required if certain financial and operational thresholds are met.
(8) This amount represents the total amount committed under standby letters of credit, which expire at various dates in 2007 through 2014. As the amounts under these standby letters of credit are contingent on nonpayment to third parties, it is not practical to present annual payment information.
(9) This amount represents the total maximum potential future payments for guarantees issued on behalf of third parties. These guarantees expire at various dates in 2007 through 2018 and relate primarily to project financing for hydroelectric power projects in Brazil. As the amounts under these guarantees are contingent on nonperformance of third parties, it is not practical to present annual payment information.

Obligations for Operating Activities

The table provides a summary of the type or nature of the company's obligations associated with operating activities that exceed $5 annually or $10 in total over the life of the contract. Energy-related purchase obligations consist primarily of electricity and natural gas contracts with expiration dates ranging from less than one year to 40 years. The majority of raw material and other purchase obligations have expiration dates of 24 months or less. Operating leases represent multi-year obligations for certain equipment, ocean vessels and warehousing and office space.

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 $219 for 2007 and $330 for 2008. The increase in the projected funding is the result of the reduction of available pension funding credits from 2007 to 2008. The funding estimate is $350 for 2009, $310 for 2010 and $140 for 2011. 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. Contributions are expected to decline beginning in 2011 if all actuarial assumptions are realized and remain the same in the future. Postretirement benefit payments are expected to approximate $350 annually. Annual payments will vary based on actuarial estimates. See Note W to the Consolidated Financial Statements for additional information.

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.

Obligations for Financing Activities

Cash outlays for financing activities consist primarily of debt and dividend payments to shareholders. The company has historically paid quarterly dividends to shareholders. Shareholder dividends are subject to quarterly approval by the company's Board of Directors and were at a rate of $524 annually for the three-year period ended December 31, 2006. In January 2007, Alcoa announced an increase in its annual common stock dividend from $0.60 per share to $0.68 per share. It is expected that the increase in the annual common stock dividend will be offset over time due to the repurchase of common stock. Alcoa has an existing share repurchase program that authorizes the repurchase of up to 50 million shares of common stock from time to time and has no expiration date. As of December 31, 2006, approximately 33 million shares have been repurchased under this program. In January 2007, Alcoa announced a new share repurchase program that authorizes the repurchase of up to 10% of the company's outstanding common stock at December 31, 2006 over the next three years.

Obligations for Investing Activities

Alcoa has made announcements indicating its participation in several significant expansion projects. These projects include the construction of a smelter in Iceland; the construction of an anode facility in Mosjøen, Norway; the expansion of an alumina refinery in São Luis, Brazil; the development of a bauxite mine in Juruti, Brazil; global rolled products expansion projects in Russia and China; and the continued investment in several hydroelectric power construction 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 which have been approved by management for these projects as of December 31, 2006. Funding levels 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.

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, 2006, based on criteria in *Internal Control—Integrated Framework* issued by the COSO. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, 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 2006, 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.

/s/ Alain J. P. Belda

Alain J. P. Belda
Chairman and
Chief Executive Officer

/s/ Charles D. McLane, Jr.

Charles D. McLane, Jr.
Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Alcoa Inc.:

We have completed integrated audits of Alcoa Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Alcoa Inc. and its subsidiaries (Alcoa) at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Alcoa's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes 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. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A to the consolidated financial statements, Alcoa changed the manner in which they account for their 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.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Alcoa maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, Alcoa maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. Alcoa's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of Alcoa's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
February 15, 2007

Statement of Consolidated Income

(in millions, except per-share amounts)

For the year ended December 31,	2006	2005	2004
Sales (Q)	$30,379	$25,568	$22,609
Cost of goods sold (exclusive of expenses below)	23,318	20,704	17,928
Selling, general administrative, and other expenses	1,402	1,295	1,194
Research and development expenses	213	192	178
Provision for depreciation, depletion, and amortization	1,280	1,256	1,177
Restructuring and other charges (D)	543	292	(22)
Interest expense (V)	384	339	271
Other income, net (O)	(193)	(480)	(270)
Total costs and expenses	26,947	23,598	20,456
Income from continuing operations before taxes on income	3,432	1,970	2,153
Provision for taxes on income (T)	835	454	539
Income from continuing operations before minority interests' share	2,597	1,516	1,614
Less: Minority interests' share	436	259	245
Income from continuing operations	2,161	1,257	1,369
Income (loss) from discontinued operations (B)	87	(22)	(59)
Cumulative effect of accounting change (C)	—	(2)	—
Net Income	$ 2,248	$ 1,233	$ 1,310
Earnings (loss) per Common Share (S)			
Basic:			
Income from continuing operations	$ 2.49	$ 1.44	$ 1.57
Income (loss) from discontinued operations	.10	(.03)	(.07)
Cumulative effect of accounting change	—	—	—
Net income	$ 2.59	$ 1.41	$ 1.50
Diluted:			
Income from continuing operations	$ 2.47	$ 1.43	$ 1.56
Income (loss) from discontinued operations	.10	(.03)	(.07)
Cumulative effect of accounting change	—	—	—
Net income	$ 2.57	$ 1.40	$ 1.49

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

(in millions)

December 31,	2006	2005
Assets		
Current assets:		
Cash and cash equivalents (X)	$ 506	$ 762
Receivables from customers, less allowances: 2006—$75; 2005—$62	3,127	2,616
Other receivables	308	420
Inventories (G)	3,805	3,191
Fair value of derivative contracts	295	520
Prepaid expenses and other current assets	1,116	704
Total current assets	9,157	8,213
Properties, plants, and equipment, net (H)	14,813	12,571
Goodwill (E and F)	6,166	6,108
Investments (I)	1,722	1,370
Other assets (J)	4,346	4,057
Assets held for sale (B)	979	1,377
Total Assets	$37,183	$33,696
Liabilities		
Current liabilities:		
Short-term borrowings (K and X)	$ 475	$ 296
Commercial paper (K and X)	340	912
Accounts payable, trade	2,680	2,420
Accrued compensation and retirement costs	995	1,069
Taxes, including taxes on income	875	874
Other current liabilities	1,406	1,433
Long-term debt due within one year (K and X)	510	58
Total current liabilities	7,281	7,062
Commercial paper (K and X)	1,132	—
Long-term debt, less amount due within one year (K and X)	4,778	5,276
Accrued pension benefits (W)	1,567	1,500
Accrued postretirement benefits (W)	2,956	2,103
Other noncurrent liabilities and deferred credits (L)	2,023	1,820
Deferred income taxes (T)	762	865
Liabilities of operations held for sale (B)	253	332
Total liabilities	20,752	18,958
Minority interests (M)	1,800	1,365
Commitments and contingencies (N)		
Shareholders' Equity		
Preferred stock (R)	55	55
Common stock (R)	925	925
Additional capital	5,817	5,720
Retained earnings	11,066	9,345
Treasury stock, at cost	(1,999)	(1,899)
Accumulated other comprehensive loss	(1,233)	(773)
Total shareholders' equity	14,631	13,373
Total Liabilities and Equity	$37,183	$33,696

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,	2006	2005	2004
Cash from Operations			
Net income	$ 2,248	$ 1,233	$ 1,310
Adjustments to reconcile net income to cash from operations:			
Depreciation, depletion, and amortization	1,280	1,258	1,185
Deferred income taxes	(69)	(16)	(95)
Equity (income) loss, net of dividends	(89)	35	(54)
Restructuring and other charges (D)	543	292	(22)
Net gain on early retirement of debt and interest rate swap settlements (K and O)	—	—	(58)
Gains from investing activities—sale of assets and businesses (O)	(25)	(406)	(44)
Provision for doubtful accounts	22	19	24
(Income) loss from discontinued operations (B)	(87)	22	59
Minority interests	436	259	245
Cumulative effect of accounting change (C)	—	2	—
Stock-based compensation	72	25	14
Excess tax benefits from stock-based payment arrangements	(17)	—	—
Other	(169)	5	80
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:			
Increase in receivables	(97)	(475)	(99)
Increase in inventories	(496)	(461)	(387)
Increase in prepaid expenses and other current assets	(167)	(16)	(87)
(Decrease) increase in accounts payable and accrued expenses	(294)	659	78
(Decrease) increase in taxes, including taxes on income	(35)	(96)	119
Cash paid on early retirement of debt and interest rate swap settlements (K)	—	—	(52)
Cash paid on long-term aluminum supply contract	—	(93)	—
Pension contributions	(397)	(383)	(101)
Net change in other noncurrent assets and liabilities	(23)	(201)	(128)
(Increase) decrease in net assets held for sale	(73)	(18)	145
Cash provided from continuing operations	2,563	1,644	2,132
Cash provided from discontinued operations	4	32	67
Cash provided from operations	2,567	1,676	2,199
Financing Activities			
Net changes to short-term borrowings	126	5	213
Common stock issued for stock compensation plans	156	72	83
Repurchase of common stock	(290)	(108)	(67)
Dividends paid to shareholders	(524)	(524)	(524)
Dividends paid to minority interests	(400)	(75)	(119)
Contributions from minority interests	342	—	—
Net change in commercial paper	560	282	630
Additions to long-term debt	29	278	180
Payments on long-term debt	(36)	(254)	(1,921)
Excess tax benefits from stock-based payment arrangements	17	—	—
Cash used for financing activities	(20)	(324)	(1,525)
Investing Activities			
Capital expenditures	(3,201)	(2,116)	(1,137)
Capital expenditures of discontinued operations	(4)	(22)	(6)
Acquisitions of minority interests (F and P)	(1)	(199)	—
Acquisitions, net of cash acquired (F and P)	8	(262)	(2)
Proceeds from the sale of assets and businesses	372	505	392
Additions to investments	(58)	(30)	(69)
Sale of investments (F)	35	1,081	—
Net change in short-term investments and restricted cash	(4)	(8)	30
Other	12	16	(10)
Cash used for investing activities	(2,841)	(1,035)	(802)
Effect of exchange rate changes on cash and cash equivalents	38	(12)	9
Net change in cash and cash equivalents	(256)	305	(119)
Cash and cash equivalents at beginning of year	762	457	576
Cash and cash equivalents at end of year	$ 506	$ 762	$ 457

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 2003		$ 55	$ 925	$ 5,831	$ 7,850	$ (2,017)	$ (569)	$ 12,075
Comprehensive income:								
Net income	$ 1,310				1,310			1,310
Other comprehensive (loss) income:								
Change in minimum pension liability, net of tax and minority interests of $11	(21)							
Currency translation adjustments	535							
Unrealized losses on available-for-sale securities, net of $51 tax benefit (X)	(94)							
Unrecognized gains/(losses) on derivatives, net of tax and minority interests of $34 (X):								
Net change from periodic revaluations	120							
Net amount reclassified to income	(136)							
Net unrecognized losses on derivatives	(16)							
Comprehensive income	$ 1,714						404	404
Cash dividends: Preferred @ $3.75 per share					(2)			(2)
Common @ $.60 per share					(522)			(522)
Common stock issued: compensation plans				(56)		158		102
Repurchase of common stock						(67)		(67)
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 and minority interests of $80	(148)							
Currency translation adjustments	(542)							
Unrealized gains on available-for-sale securities, net of $52 tax expense (X)	96							
Unrecognized gains/(losses) on derivatives, net of tax 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 (loss) income:								
Change in minimum pension liability, net of tax and minority interests of $104	184							
Currency translation adjustments	659							
Unrealized gains on available-for-sale securities, net of $53 tax expense	98							
Unrecognized losses on derivatives, net of tax and minority interests of $152:								
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					(3)			(3)
Other				38				38
Balance at end of 2006		$ 55	$ 925	$ 5,817	$ 11,066	$ (1,999)	$ (1,233)*	$ 14,631

* Comprised of unrealized translation adjustments of $652, unrecognized losses and prior service cost, net, related to pension and other postretirement benefits of $(1,813), unrealized gains on available-for-sale securities of $415, and unrecognized net losses on derivatives of $(487), net of tax.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

(dollars in millions, except per-share amounts)

A. Summary of Significant Accounting Policies

Basis of Presentation. The Consolidated Financial Statements 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. 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 to which the assets (asset group) related 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 intangibles 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 the reporting units 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. 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 appro - -

priate. Expenditures relating to existing conditions caused by past operations, and which do not contribute to future revenues, are expensed. Liabilities are recorded when remedial 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 Y 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 and aluminum smelters have not been recorded in the consolidated financial statements because the fair value of such potential retirement obligations cannot be reasonably estimated. 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. The perpetual nature of the refineries and smelters, maintenance and upgrade programs, and other factors prevent a reasonable estimation to be made due to uncertainties surrounding the ultimate settlement date. At the date a reasonable estimate 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, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. 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 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 changes are 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. Alcoa also has unamortized tax-deductible goodwill resulting from intercompany stock sales and reorganizations. 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 early 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 2006 was $72 ($48 after-tax). Of this amount, $20 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 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 2006 by $21. In 2007, it is estimated that the accelerated vesting will reduce after-tax stock option compensation expense by $7.

An additional change has been 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 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 for - -

mally 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 $10 was recorded in 2006 (gain of $11 in 2005 and a loss of $18 in 2004) 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. Two interest rate swaps ceased to qualify as hedges in 2004, due to the restructuring of debt, and were terminated. See Notes K and X for additional information. No other hedging transactions ceased to qualify as hedges in 2006, 2005 or 2004.

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 accumulated other comprehensive loss (a loss of $487 and a gain of $37 at December 31, 2006 and 2005, 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, 2006, a loss of $113 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, 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.

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 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 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 operating results include the 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. 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 are 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 (APB 25). 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 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 becomes effective for Alcoa on January 1, 2008. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. The adoption of SFAS 157 is not expected to have a material impact on Alcoa's consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation 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. On January 17, 2007, the FASB affirmed its previous decision to make FIN 48 effective for fiscal years beginning after December 15, 2006. Accordingly, FIN 48 is effective for Alcoa on January 1, 2007. Management has determined that the adoption of FIN 48 will not have a material impact on Alcoa's consolidated financial statements.

Reclassification. Certain amounts in previously issued financial statements were reclassified to conform to 2006 presentations. See Note B for further information.

B. Discontinued Operations and Assets Held for Sale

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 details). In the first quarter of 2006, Alcoa reclassified the Hawesville, KY 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. The consolidated financial statements for all prior periods presented have been 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 details.

In 2006, businesses classified as discontinued operations included the home exteriors business, the Hawesville, KY automotive casting facility, the wireless component of the telecommunications business and a small automotive casting business in the U.K.

The following table details selected financial information for the businesses included within discontinued operations in the Statement of Consolidated Income:

	2006	2005	2004
Sales	$517	$1,033	$1,352
(Loss) income from operations	$ (26)	$ 38	$ 37
Gain on sale of businesses	176	50	8
Loss from impairment	(1)	(55)	(153)
Pretax income (loss)	149	33	(108)
(Provision)/benefit for taxes	(62)	(57)	6
Minority interests	—	2	43
Income (loss) from discontinued operations	$ 87	$ (22)	$ (59)

The income of $87 in discontinued operations in 2006 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. The loss of $22 in discontinued operations 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 Hawesville, KY automotive casting facility, partially offset by $21 in net operating income. The loss of $59 in discontinued operations in 2004 was comprised of impairment losses of $89 to reflect the estimated fair values of the protective packaging and telecommunications businesses, as well as the U.K. automotive casting business, somewhat offset by $25 of net operating income of these businesses and a net gain of $5 on businesses sold in 2004.

In addition to the businesses discussed above, 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 Note D for additional information). This joint venture will be accounted for on the equity method. The consolidated financial statements for all prior periods presented have been reclassified to reflect these businesses as held for sale.

The major classes of assets and liabilities of operations held for sale in the Consolidated Balance Sheet are as follows:

December 31,	2006	2005
Assets:		
Receivables, less allowances	$342	$ 329
Inventories	226	263
Properties, plants, and equipment, net	382	600
Goodwill	—	140
Other assets	29	45
Total assets held for sale	$979	$1,377
Liabilities:		
Accounts payable, accrued expenses	$238	$ 319
Other liabilities	15	13
Total liabilities of operations held for sale	$253	$ 332

For all of the businesses to be divested, the fair values were estimated utilizing the best information available and accepted valuation techniques. 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.

C. Asset Retirement Obligations

Alcoa adopted FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," (FIN 47), effective December 31, 2005. 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, 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.

The following table details the changes in the carrying amount of AROs and CAROs:

December 31,	2006	2005
Balance at beginning of year	$258	$233
Accretion expense	13	14
Payments	(42)	(31)
Liabilities incurred	51	46
Translation and other	11	(4)
Balance at end of year	$291	$258

D. Restructuring and Other Charges

Restructuring and other charges for each of the three years in the period ended December 31, 2006, were comprised of the following:

	2006	2005	2004
Asset impairments	$442	$ 86	$ 6
Layoff costs	107	238	40
Other costs	37	16	—
Gain on sale of specialty chemicals business	—	—	(53)
Reversals of previously recorded layoff and other exit costs*	(43)	(48)	(15)
Restructuring and other charges	$543	$292	$(22)

* 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.

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 during the next year. 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 extrusions 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. Alcoa estimates that it will record additional charges of approximately $40 related to this restructuring program in 2007, consisting primarily of accelerated depreciation.

The significant components of the 2006 restructuring program were as follows:

– The hard and soft alloy extrusions 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. The new venture will be majority-owned by Orkla and operated by Sapa. It is anticipated that the joint venture will be formed early in 2007, subject to customary government approvals. Alcoa recorded an impairment charge of $301 (associated with the expected contribution of assets to the soft alloy joint venture and other assets to be disposed of) to reduce the carrying value of the soft alloy extrusions business' assets to their estimated fair value.
- 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 United Kingdom 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 (approximately $20 primarily for accelerated depreciation will be recognized in 2007).
- Conversion of the temporarily-idled San Antonio, Texas 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 (approximately $9 primarily for accelerated depreciation will be recognized in 2007).

– 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 (approximately $11 primarily for accelerated depreciation will be recognized in 2007).

– 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.

These terminations are expected to be completed in the next twelve months. As of December 31, 2006, 200 of the approximately 6,700 employees had been terminated. Approximately $2 of cash payments were made against the 2006 program reserves in 2006.

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, 2006, 5,380 of the approximately 8,450 employees had been terminated. In addition, it has been determined that approximately 1,500 of the approximately 8,450 employees will not be terminated due to natural attrition and other changes in facts and circumstances. Approximately $45 and $69 of cash payments were made against the 2005 program reserves in 2006 and 2005, respectively.

2004 Restructuring Program. During 2004, Alcoa recorded income of $22 ($41 after-tax and minority interests) for restructuring and other items. The income recognized was comprised of the following components: a gain of $53 ($61 after-tax and minority interests) on the sale of Alcoa's specialty chemicals business and $15 resulting from adjustments to prior year reserves, offset by charges of $40 related to additional layoff reserves associated with approximately 4,100 hourly and salaried employees (located primarily in Mexico and the U.S.), as the company continued to focus on reducing costs, and $6 of asset impairments. The 2004 restructuring program is essentially complete.

While restructuring charges are not reflected in the segment results, the following table details what the impact of allocating these items to segment results would have been as follows:

	2006	2005	2004
Alumina	$ 4	$ 6	$ (48)
Primary Metals	26	36	(1)
Flat-Rolled Products	134	15	1
Extruded and End Products	318	70	9
Engineered Solutions	37	109	8
Packaging and Consumer	15	39	10
Segment total	534	275	(21)
Corporate	9	17	(1)
Total restructuring and other charges	$543	$292	$ (22)

Activity and reserve balances for restructuring charges are as follows:

	Employee termination and severance costs	Other exit costs	Total
Reserve balances at December 31, 2003	$ 47	$ 48	$ 95
2004:			
Cash payments	(52)	(5)	(57)
2004 restructuring charges	40	—	40
Reversals of previously recorded restructuring charges	(11)	(4)	(15)
Reserve balances at December 31, 2004	24	39	63
2005:			
Cash payments	(78)	(7)	(85)
2005 restructuring charges	238	6	244
Reversals of previously recorded restructuring charges	(48)	—	(48)
Reserve balances at December 31, 2005	136	38	174
2006:			
Cash payments	(44)	(3)	(47)
2006 restructuring charges	107	17	124
Reversals of previously recorded restructuring charges	(31)	(12)	(43)
Reserve balances at December 31, 2006	$ 168	$ 40	$208

E. Goodwill and Other Intangible Assets

The following table details the changes in the carrying amount of goodwill:

December 31,	2006	2005
Balance at beginning of year	$6,108	$6,266
Acquisition of businesses	17	(27)
Divestiture of businesses	—	(16)
Translation and other adjustments	41	(115)
Balance at end of year	$6,166	$6,108

The divestiture of businesses is primarily related to the sale of railroad assets within the Primary Metals segment.

The following tables detail other intangible assets:

December 31, 2006	Gross carrying amount	Accumulated amortization
Computer software	$ 849	$ (317)
Patents and licenses	153	(81)
Other intangibles	377	(132)
Total amortizable intangible assets	1,379	(530)
Indefinite-lived trade names and trademarks	158	—
Total other intangible assets	$1,537	$ (530)

December 31, 2005	Gross carrying amount	Accumulated amortization
Computer software	$ 741	$ (249)
Patents and licenses	153	(71)
Other intangibles	364	(116)
Total amortizable intangible assets	1,258	(436)
Indefinite-lived trade names and trademarks	165	—
Total other intangible assets	$1,423	$ (436)

Computer software costs consisted primarily of software costs associated with an enterprise business solution (EBS) within Alcoa to drive common systems among all businesses. Other intangibles, recorded within other assets in the Consolidated Balance Sheet, consisted primarily of acquired customer relationship intangibles.

Amortization expense related to the intangible assets in the tables above for the years ended December 31, 2006, 2005, and 2004 was $93, $80, and $70, respectively. Amortization expense is expected to be in the range of approximately $95 to $105 annually from 2007 to 2011.

F. Acquisitions and Divestitures

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). 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. Alcoa contributed an additional $118 in 2006 and is required to contribute an additional $27 in 2007 to the new entity. The transaction resulted in $2 of goodwill.

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. This contingent payment, if paid, will be recorded as an adjustment to the transaction value. AFL automotive business results are recorded in the Engineered Solutions segment.

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. In connection with this transaction, Alcoa also made a $93 payment related to a long-term aluminum supply contract, which is recorded in other noncurrent assets in the consolidated financial statements. In January 2007, this $93 was repaid to Alcoa as allowed under the contract. The long-term aluminum supply contract remains in place. 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. The purchase agreement also provides for contingent payments over the next five years 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 2005 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.

2004 Acquisitions. During 2004, Alcoa completed two acquisitions at a cash cost of $2. None of these transactions had a material impact on Alcoa's consolidated financial statements.

2004 Divestitures. In 2004, Alcoa substantially completed its 2002 plan to divest certain noncore businesses, as outlined below:

During the fourth quarter of 2004, Alcoa sold an extrusion facility in Brazil, and no material gain or loss was recorded on the transaction. Alcoa also sold 40% of its interest in the Juruti bauxite project in Brazil to Alumina Limited, its partner in Alcoa World Alumina and Chemicals (AWAC). Alcoa holds 60% of AWAC, and Alumina Limited holds the remaining 40%. In exchange for 40% of Alcoa's interest in the Juruti project, Alumina Limited contributed $40 to AWAC, and Alcoa realized a gain of $37 ($37 after-tax) on the transaction.

During the second quarter of 2004, Alcoa sold its Russellville, AR and St. Louis, MO foil facilities and an extrusion facility in Europe for $37 in cash. Alcoa also sold its flexible packaging business in South America, which had been included in discontinued operations. There was no material gain or loss recognized on these transactions.

In the first quarter of 2004, Alcoa completed the sale of its specialty chemicals business to two private equity firms led by Rhone Capital LLC for an enterprise value of $342, which included the assumption of debt and other obligations. Alcoa received cash of $248 and recognized a gain of approximately $53 ($61 after-tax and minority interests) in restructuring and other charges in the Statement of Consolidated Income.

Additionally, in the first quarter of 2004, Alcoa sold two businesses that were included in discontinued operations: the packaging equipment business was sold for $44 in cash and resulted in the recognition of a gain of $15 ($10 after- tax), and the automotive fasteners business was sold for $17 in cash and notes receivable and resulted in an additional loss of $7 ($5 after-tax).

In connection with acquisitions made prior to 2004, Alcoa could be required to make additional contingent payments of approximately $248 from 2007 through 2008 based upon the achievement of various financial and operating targets. During 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.

Pro forma results of the company, assuming all acquisitions had been made at the beginning of each period presented, would not have been materially different from the results reported.

G. Inventories

December 31,	2006	2005
Finished goods	$1,137	$ 918
Work in process	1,157	907
Bauxite and alumina	535	486
Purchased raw materials	729	667
Operating supplies	247	213
	$3,805	$3,191

Approximately 44% and 43% of total inventories at December 31, 2006 and 2005, respectively, were valued on a LIFO basis. If valued on an average-cost basis, total inventories would have been $1,077 and $836 higher at the end of 2006 and 2005, respectively.

H. Properties, Plants, and Equipment, at Cost

December 31,	2006	2005
Land and land rights, including mines	$ 472	$ 425
Structures	6,481	6,080
Machinery and equipment	18,762	17,208
	25,715	23,713
Less: accumulated depreciation and depletion	14,535	13,168
	11,180	10,545
Construction work in progress	3,633	2,026
	$14,813	$12,571

I. Investments

December 31,	2006	2005
Equity investments	$ 826	$ 631
Other investments	896	739
	$1,722	$1,370

Equity investments are primarily comprised of a 50% investment in Elkem Aluminium ANS, 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). In 2005, Alcoa sold its 46.5% investment in Elkem and its 50% interest in Integris Metals Inc. (See Note F for additional information). During 2005, Alcoa recorded an impairment charge of $90 related to the closure of the Hamburger Aluminium-Werk facility, which was recorded in equity income.

Other investments are primarily comprised of Alcoa's 8% interest in the Aluminum Corporation of China Limited (Chalco). The investment in Chalco is classified as an available-for-sale security and is carried at fair value, with unrealized gains/losses recorded in other comprehensive income. Cumulative unrealized gains, net of taxes, were $414 in 2006 and $318 in 2005.

J. Other Assets

December 31,	2006	2005
Intangibles, net (E)	$1,007	$ 987
Deferred income taxes	1,859	1,592
Prepaid pension benefit (W)	90	144
Deferred charges and other	1,390	1,334
	$4,346	$4,057

K. Debt

Long-Term Debt.

December 31,	2006	2005
4.25% Notes, due 2007	$ 792	$ 792
6.625% Notes, due 2008	150	150
7.375% Notes, due 2010	1,000	1,000
6.5% Notes, due 2011	1,000	1,000
6% Notes, due 2012	1,000	1,000
5.375% Notes, due 2013	600	600
6.5% Bonds, due 2018	250	250
6.75% Bonds, due 2028	300	300
Medium-term notes, due 2007–2013 (7.2% and 8.1% average rates)	73	110
Alcoa Alumínio		
7.5% Export notes, due 2007–2008	40	58
Fair value adjustments	(57)	(37)
Other	140	111
	5,288	5,334
Less: amount due within one year	510	58
	$4,778	$5,276

The amount of long-term debt maturing in each of the next five years, including the effects of fair value adjustments, is $510 in 2007, $277 in 2008, $22 in 2009, $1,002 in 2010, and $1,001 in 2011. Of the outstanding $792 of 4.25% Notes due 2007, $333 was reflected as long-term on the December 31, 2006 Consolidated Balance Sheet due to the fact that this amount was refinanced with the new long-term debt instruments in January 2007. See Note Z for additional information and other events that occurred subsequent to December 31, 2006.

Alcoa 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 $(57) in 2006, $(111) related to outstanding hedges and $54 related to hedges that were settled early. Of the $(37) in 2005, $(100) related to outstanding hedges and $63 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.

In 2004, Alcoa retired early $1,200 of debt securities, consisting of the following: $200 of 6.125% Bonds due in 2005, $500 of 7.25% Notes due in 2005, and $500 of 5.875% Notes due in 2006. These debt securities were retired primarily with proceeds from commercial paper borrowings and cash provided from operations. Alcoa recognized a net gain of $58 in other income on the early retirement of long-term debt and the associated settlement of interest rate swaps. The net gain of $58 is comprised of the following:

- a premium paid for early retirement of debt and related expenses of $67;
- a gain of $48 from previously settled interest rate swaps that hedged the retired debt and was reflected as an increase in its carrying value; and
- a gain of $77 from the settlement of interest rate swaps that hedged anticipated borrowings between June 2005 and June 2006. See Note X for additional information.

Commercial Paper. Commercial paper was $1,472 at December 31, 2006 and $912 at December 31, 2005. 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 Z for additional information). Commercial paper matures at various times within one year and had an annual weighted average interest rate of 5.1% and 4.3% during 2006 and 2005, respectively. Alcoa maintains $3,000 of revolving-credit agreements with varying expiration dates as backup to its commercial paper program. In April 2005, Alcoa refinanced its $1,000 revolving-credit agreement that was to expire in April 2005 into a new $1,000 revolving-credit agreement that will expire in April 2010. Alcoa also has a $1,000 revolving-credit agreement that will expire in April 2008 and a $1,000 revolving-credit agreement that will expire in April 2009. Under these agreements, a certain ratio of indebtedness to consolidated net worth must be maintained. There were no amounts outstanding under the revolving-credit agreements at December 31, 2006 and 2005. The interest rate on the agreements expiring in 2008 and 2009, if drawn upon, is Libor plus 17 basis points, which is subject to adjustment if Alcoa's credit rating changes, to a maximum interest rate of Libor plus 83.5 basis points. The interest rate on the agreement expiring in 2010, if drawn upon, is Libor plus 18 basis points, which is subject to adjustment if Alcoa's credit rating changes, to a maximum interest rate of Libor plus 60 basis points.

Short-Term Borrowings. Short-term borrowings were $475 and $296 at December 31, 2006 and 2005, respectively. These amounts included $300 and $233 at December 31, 2006 and 2005, respectively, related to accounts payable settlement arrangements with certain vendors and third-party intermediaries.

L. Other Noncurrent Liabilities and Deferred Credits

December 31,	2006	2005
Deferred alumina sales revenue	$ 156	$ 164
Deferred aluminum sales revenue	113	186
Environmental remediation (Y)	285	350
Deferred credits	78	88
Asset retirement obligations	258	234
Other noncurrent liabilities	1,133	798
	$2,023	$1,820

M. Minority Interests

The following table summarizes the minority shareholders' interests in the equity of consolidated subsidiaries:

December 31,	2006	2005
Alcoa of Australia	$1,031	$ 888
Alcoa World Alumina LLC	341	236
Other	428	241
	$1,800	$1,365

During 2006, Alcoa received $342 in contributions from minority shareholders' related to Alcoa World Alumina LLC and other interests in Brazil, Norway, Russia and China.

N. Commitments and Contingencies

Various 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 results of operations or liquidity 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 materially adverse effect on the financial position or liquidity of the company.

Alcoa Aluminio S.A. (Aluminio), a wholly-owned subsidiary of Alcoa, 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. The Machadinho and Barra Grande projects have been completed. Aluminio's investment participation in these projects is 27.23% for Machadinho and 42.18% for Barra Grande.

Aluminio committed to taking a share of the output of the Machadinho project, completed in 2002, for 30 years at cost (including cost of financing the project). In the event that other participants in this project fail to fulfill their financial responsibilities, Aluminio may be required to fund a portion of the deficiency. In accordance with the agreement, if Aluminio funds any such deficiency, its participation and share of the output from the project will increase proportionately.

Barra Grande operations started up in November 2005 and full capacity was reached in February 2006. With Machadinho and Barra Grande, Aluminio's current power self-sufficiency is approximately 38%, to meet a total energy demand of approximately 690 megawatts from Brazilian primary plants. Aluminio accounts for the Machadinho and Barra Grande hydroelectric projects on the equity method. Its total investment in these projects was $175 and $152 at December 31, 2006 and December 31, 2005, respectively. Alcoa's maximum exposure to loss on these completed projects is $491, which represents Alcoa's investment and guarantees of debt.

In the first quarter of 2006, Aluminio 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 Aluminio to 38 megawatts of assured energy. The project will have total installed capacity of 1,087 megawatts and assured power of 589 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 is expected to begin in the first quarter of 2007.

In October of 2004, Alcoa agreed to acquire a 20% interest in a consortium formed to acquire the Dampier to Bunbury Natural Gas Pipeline (DBNGP) in Western Australia in exchange for an initial cash investment of $17, which was classified as an equity investment. Alcoa has made additional contributions of $26 and $19 in 2006 and 2005, respectively, and committed to invest an additional $63 to be paid as the pipeline expands through 2009. 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 $340.

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 $17 (pre-tax) per month in higher power costs at its Italian smelters. 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 mid to late 2007.

Alcoa is party to unconditional purchase obligations for energy that expire between 2007 and 2017. Commitments related to these contracts total $88 in 2007, $67 in 2008, $65 in 2009, $56 in 2010, $56 in 2011, and $151 thereafter. Expenditures under these contracts totaled $86 in 2006, $26 in 2005, and $23 in 2004. Additionally, Alcoa has entered into other purchase commitments for energy and raw materials which total $4,610 in 2007, $2,295 in 2008, $1,736 in 2009, $1,147 in 2010, $1,103 in 2011, and $8,347 thereafter.

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 2007 through 2014, was $444 at December 31, 2006.

Alcoa has issued guarantees, primarily related to project financing for the Machadinho and Barra Grande hydroelectric power projects in Brazil. The total amount committed under these guarantees, which expire at various dates in 2007 through 2018, was $498 at December 31, 2006.

O. Other Income, Net

	2006	2005	2004
Equity income	$ 72	$ 26	$145
Interest income	89	65	41
Foreign currency losses	(48)	(27)	(30)
Net gains on sales of assets	25	406	44
Net gain on early retirement of debt and interest rate swap settlements (K)	—	—	58
Other income	55	10	12
	$193	$480	$270

Interest income in 2006 included $15 of interest earned related to a Brazilian court settlement. Other income in 2006 included $45 in dividend income related to Alcoa's stake in Chalco.

Equity income in 2005 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. Net gains on sales of assets in 2005 included the $345 gain on the sale of Alcoa's stake in Elkem and the $67 gain on the sale of railroad assets.

Net gains on sales of assets in 2004 included the sale of Alcoa's 40% interest in the Juruti bauxite project in Brazil, which resulted in a $37 gain. In 2004, Alcoa recognized a gain of $58 on the early retirement of long-term debt and the associated settlement of interest rate swaps.

P. Cash Flow Information

Cash payments for interest and income taxes are as follows:

	2006	2005	2004
Interest, net of amount capitalized	$550	$386	$318
Income taxes, net of amount refunded	695	413	294

The details related to acquisitions are as follows:

	2006	2005	2004
Fair value of assets acquired	$ 84	$ 373	$ 7
Liabilities assumed	(91)	(102)	(5)
Minority interests	—	190	—
Cash (received) paid	(7)	461	2
Less: cash acquired	—	—	—
Net cash (received) paid	$ (7)	$ 461	$ 2

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 expenses and depreciation and amortization on corporate assets, are not included in segment ATOI. Segment assets exclude cash, cash equivalents, short-term investments, and all 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 (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 primarily due to corporate allocations.

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 $2,588 in 2006, $2,021 in 2005, and $1,825 in 2004.

In January 2005, Alcoa realigned its organization structure, creating global groups to better serve customers and increase the ability to capture efficiencies. As a result, certain reportable segments have been reorganized to reflect the new organization. The businesses within the former Engineered Products segment and the Other "group" have been realigned to form the new Extruded and End Products segment and the new Engineered Solutions segment. Amounts for 2004 have been reclassified to reflect these changes. Additionally, the Alumina and Chemicals segment has been renamed the Alumina segment, to reflect the sale of the specialty chemicals business.

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 approximately 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), of which approximately two-thirds is sold directly to customers, while the remainder is sold 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- and soft-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.

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® wax paper. 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.

Alcoa's reportable segments, as reclassified for discontinued operations and assets held for sale, are as follows:

Segment information	Alumina	Primary Metals	Flat-Rolled Products	Extruded and End Products	Engineered Solutions	Packaging and Consumer	Total
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	$ 139	$ 90	$ 3,040
Equity investments	238	568	—	—	8	3	817
Goodwill	16	930	178	88	2,553	818	4,583
Total assets	5,250	10,530	5,192	1,178	5,972	2,757	30,879
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	$ 131	$ 100	$ 2,007
Equity investments	215	384	4	—	8	3	614
Goodwill	15	923	158	98	2,503	814	4,511
Total assets	4,268	8,566	3,963	884	5,733	2,787	26,201
2004							
Sales:							
Third-party sales	$ 1,975	$ 3,806	$ 5,962	$ 3,387	$ 4,563	$ 2,923	$22,616
Intersegment sales	1,418	4,335	89	54	—	—	5,896
Total sales	$ 3,393	$ 8,141	$ 6,051	$ 3,441	$ 4,563	$ 2,923	$28,512
Profit and loss:							
Equity income (loss)	$ 1	$ 58	$ (1)	$ —	$ —	$ 1	$ 59
Depreciation, depletion, and amortization	153	326	198	113	188	126	1,104
Income taxes	240	314	75	22	96	72	819
ATOI	632	808	246	62	216	141	2,105
Assets:							
Capital expenditures	$ 339	$ 281	$ 153	$ 99	$ 103	$ 73	$ 1,048
Equity investments	187	563	6	—	6	2	764
Goodwill	15	931	168	102	2,603	834	4,653
Total assets	3,605	8,121	3,672	752	5,701	2,805	24,656

The following tables reconcile segment information to consolidated totals:

	2006	2005	2004
Sales:			
Total sales	$39,060	$32,271	$28,512
Elimination of intersegment sales	(8,697)	(6,707)	(5,896)
Corporate	16	4	(7)
Consolidated sales	$30,379	$25,568	$22,609
Net income:			
ATOI	$ 3,551	$ 2,139	$ 2,105
Unallocated amounts (net of tax):			
Impact of LIFO	(170)	(99)	(73)
Interest income	58	42	26
Interest expense	(250)	(220)	(176)
Minority interests	(436)	(259)	(245)
Corporate expense	(317)	(312)	(283)
Restructuring and other charges	(379)	(197)	23
Discontinued operations	87	(22)	(59)
Accounting change	—	(2)	—
Other	104	163	(8)
Consolidated net income	$ 2,248	$ 1,233	$ 1,310
Assets:			
Total segment assets	$30,879	$26,201	$24,656
Elimination of intersegment receivables	(727)	(193)	(438)
Unallocated amounts:			
Cash, cash equivalents, and short-term investments	512	769	463
Deferred tax assets	2,241	1,783	1,871
Corporate goodwill	1,583	1,597	1,613
Corporate fixed assets	791	753	595
LIFO reserve	(1,077)	(836)	(670)
Assets held for sale	979	1,377	1,953
Other	2,002	2,245	2,566
Consolidated assets	$37,183	$33,696	$32,609

Geographic information for revenues and long-lived assets is as follows:

	2006	2005	2004
Revenues:			
U.S.	$ 17,141	$ 14,923	$ 13,660
Australia	3,160	2,464	1,971
Spain	1,813	1,451	1,307
Hungary	1,148	855	604
Brazil	1,093	787	603
United Kingdom	956	887	830
Germany	768	779	770
Other	4,284	3,418	2,871
	$ 30,363	$ 25,564	$ 22,616
Long-lived assets:*			
U.S.	$ 10,892	$ 10,907	$ 11,271
Australia	3,029	2,703	2,262
Canada	2,437	2,508	2,537
Brazil	1,525	1,116	797
Iceland	1,274	505	108
United Kingdom	754	686	796
Other	3,374	2,462	2,305
	$ 23,285	$ 20,887	$ 20,076

*Long-lived assets include intangible 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, 2006, 126 million shares of common stock were reserved for issuance under Alcoa's stock-based compensation plans. Alcoa issues treasury shares for the exercise of employee stock options. Alcoa has a policy of repurchasing shares to cover the dilution associated with option exercises and expects to repurchase shares in an amount that approximates options exercised each year.

In addition to this policy, Alcoa has an existing share repurchase program that authorizes the repurchase of up to 50 million shares of common stock from time to time and has no expiration date. As of December 31, 2006, approximately 33 million shares have been repurchased under this program. In January 2007, Alcoa announced a new share repurchase program that authorizes the repurchase of up to 10% of the company's outstanding common stock at December 31, 2006 over the next three years.

Share Activity (number of shares)

	Common stock	
	Treasury	Net outstanding
Balance at end of 2003	(56,083,852)	868,490,686
Treasury shares purchased	(1,777,354)	(1,777,354)
Stock issued:		
Compensation plans	4,266,751	4,266,751
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

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.

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 comparison to 2005.

The following table summarizes the total compensation expense recognized for all stock options and stock awards:

	2006	2005	2004
Compensation expense reported in income:			
Stock option grants	$11	$—	$—
Stock award grants	61	25	14
Total compensation expense before income taxes	72	25	14
Income tax benefit	24	9	5
Total compensation expense, net of income tax benefit	$48	$16	$ 9

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 2006, 2005 or 2004. Alcoa's net income and earnings per share for 2005 and 2004 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	2004
Net income, as reported	$1,233	$1,310
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	35
Pro forma net income	$1,170	$1,275
Basic earnings per share:		
As reported	$ 1.41	$ 1.50
Pro forma	1.34	1.46
Diluted earnings per share:		
As reported	1.40	1.49
Pro forma	1.33	1.45

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 option is estimated on the date of grant or subsequent reload using the lattice pricing model with the following assumptions:

	2006	2005	2004
Weighted average fair value per option	$5.98	$6.18	$7.72
Average risk-free interest rate	4.42-4.43%	2.65-4.2%	2.1%
Expected dividend yield	2.0%	1.8%	1.6%
Expected volatility	27-32%	27-35%	32%
Expected annual forfeiture rate	3%	—	—
Expected exercise behavior	23%	32%	—
Expected life (years):			
New option grants	3.6	3.8	3.0
Reload option grants	—	—	3.0

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 2006 expected exercise behavior assumption is based on exercise patterns for grants issued from 2000 forward.

The activity for stock options is as follows (shares and aggregate intrinsic value in millions):

	2006	2005	2004
Outstanding, beginning of year:			
Number of options	88.6	89.6	87.8
Weighted average exercise price	$33.50	$33.34	$32.50
Granted:			
Number of options	3.2	7.0	8.8
Weighted average exercise price	$29.15	$29.48	$35.63
Exercised:			
Number of options	(6.8)	(3.7)	(5.6)
Weighted average exercise price	$23.82	$20.14	$23.34
Expired or forfeited:			
Number of options	(5.0)	(4.3)	(1.4)
Weighted average exercise price	$35.99	$35.34	$37.87
Outstanding, end of year:			
Number of options	80.0	88.6	89.6
Weighted average exercise price	$33.97	$33.50	$33.34
Exercisable, end of year:			
Number of options	77.0	84.4	73.5
Weighted average exercise price	$34.17	$34.03	$34.39

The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was $61, $31 and $68 respectively. The cash received from exercises for the year ended December 31, 2006 was $156, and the tax benefit realized was $17.

The following tables summarize certain stock option information at December 31, 2006 (shares and intrinsic value in millions):

Options Fully Vested and/or Expected to Vest*

Range of exercise price	Number	Weighted average contractual life	Weighted average exercise price	Intrinsic Value
$ 4.38 - $12.15	0.1	0.89	$ 11.67	$ 2
$12.16 - $19.93	0.9	1.01	17.03	12
$19.94 - $27.71	9.4	4.82	22.29	73
$27.72 - $35.49	23.2	3.34	30.83	8
$35.50 - $45.59	46.4	3.06	38.29	—
Total	80.0	3.35	33.97	$ 95

* 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 contractual life	Weighted average exercise price	Intrinsic Value
$ 4.38 - $12.15	0.1	0.89	$ 11.67	$ 2
$12.16 - $19.93	0.9	1.01	17.03	12
$19.94 - $27.71	9.3	4.82	22.26	72
$27.72 - $35.49	20.3	3.10	31.08	5
$35.50 - $45.59	46.4	3.06	38.29	—
Total	77.0	3.28	34.17	$ 91

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 (shares in millions):

	Stock Awards	Performance Share Awards	Total	Weighted average FMV per award
Outstanding, January 1, 2006	2.1	0.5	2.6	$ 31.66
Granted	2.3	0.3	2.6	29.06
Forfeited	(0.3)	—	(0.3)	30.68
Performance share adjustment	—	(0.2)	(0.2)	29.54
Outstanding, December 31, 2006	4.1	0.6	4.7	30.38

At December 31, 2006, there was $10 (pre-tax) of unrecognized compensation expense related to stock option grants, and $49 (pre-tax) of unrecognized compensation expense related to stock award grants. These expenses are expected to be recognized over a weighted average period of 1.8 years. As of December 31, 2006, the following table summarizes the unrecognized compensation expense expected to be recognized in future periods.

	Stock-based compensation expense (pre-tax)
2007	$ 34
2008	24
2009	1
Totals	$ 59

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):

	2006	2005	2004
Income from continuing operations	$2,161	$1,257	$1,369
Less: preferred stock dividends	2	2	2
Income from continuing operations available to common shareholders	$2,159	$1,255	$1,367
Average shares outstanding—basic	869	872	870
Effect of dilutive securities:			
Shares issuable upon exercise of dilutive stock options	6	5	7
Average shares outstanding—diluted	875	877	877

Options to purchase 59 million, 73 million, and 56 million shares of common stock at an average exercise price of $37.03, $36.02, and $38.05 per share were outstanding as of December 31, 2006, 2005, and 2004, respectively, were not included in the computation of diluted EPS because the option exercise price was greater than the average market price of the common shares.

T. Income Taxes

The components of income from continuing operations before taxes on income were as follows:

	2006	2005	2004
U.S.	$ 374	$ 220	$ 257
Foreign	3,058	1,750	1,896
	$3,432	$1,970	$2,153

The provision (benefit) for taxes on income from continuing operations consisted of the following:

	2006	2005	2004
Current:			
U.S. federal*	$ 30	$ (50)	$ 174
Foreign	918	482	445
State and local	(44)	38	15
	904	470	634
Deferred:			
U.S. federal*	(120)	25	(161)
Foreign	(26)	(28)	54
State and local	77	(13)	12
	(69)	(16)	(95)
Total	$ 835	$454	$ 539

* Includes U.S. taxes related to foreign income

Included in discontinued operations is a tax cost of $62 in 2006 and $57 in 2005, and a tax benefit of $6 in 2004.

The exercise of employee stock options generated a tax benefit of $17 in 2006, $9 in 2005, and $21 in 2004. 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:

	2006	2005	2004
U.S. federal statutory rate	35.0%	35.0%	35.0%
Taxes on foreign income	(7.3)	(7.5)	(9.6)
Permanent differences on asset disposals	0.6	2.4	(1.1)
Audit and other adjustments to prior years' accruals*	(3.4)	(7.0)	0.7
Other	(0.6)	0.1	—
Effective tax rate	24.3%	23.0%	25.0%

* 2006 and 2005 include the finalization of certain tax reviews and audits, decreasing the effective tax rate by approximately 1.7% and 6.2%, respectively.

The components of net deferred tax assets and liabilities are as follows:

	2006		2005	
December 31,	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Depreciation	$ —	$ 1,390	$ —	$ 1,422
Employee benefits	1,794	—	1,452	—
Loss provisions	417	—	388	—
Deferred income/expense	51	99	26	97
Tax loss carryforwards	717	—	755*	—
Tax credit carryforwards	321	—	229*	—
Unrealized gains on available-for-sale securities	—	222	—	171
Derivatives and hedging activities	185	—	—	53
Other	196	69	286*	147
	3,681	1,780	3,135	1,890
Valuation allowance	(536)	—	(467)*	—
	$3,145	$ 1,780	$2,668	$ 1,890

* These amounts have been revised from the prior year presentation to include amounts previously excluded to reflect them on a "gross" basis. Such amounts were not included in the valuation allowance balances nor in the related gross deferred tax asset balances in the prior year financial statements, but were instead reflected as a reduction of the deferred tax assets, effectively presenting them on a "net" basis. The change to "gross" rather than "net" presentation of these amounts had no impact on reported income tax expense for any period.

Of the total deferred tax assets associated with the tax loss carryforwards, $175 expires over the next ten years, $322 over the next 20 years, and $220 is unlimited. Of the tax credit carryforwards, $85 is unlimited, 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 $23 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 $8,470 at December 31, 2006. 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.

U. Lease Expense

Certain equipment, ocean vessels, and warehousing and office space are under operating lease agreements. Total expense from continuing operations for all leases was $286 in 2006, $261 in 2005 and $245 in 2004. Under long-term operating leases, minimum annual rentals are $245 in 2007, $199 in 2008, $170 in 2009, $155 in 2010, $182 in 2011, and a total of $396 for 2012 and thereafter.

V. Interest Cost Components

	2006	2005	2004
Amount charged to expense	$384	$339	$271
Amount capitalized	128	58	27
	$512	$397	$298

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 the current defined benefit plan.

Alcoa maintains health care and life insurance benefit plans covering most 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. 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 provisions of SFAS 158 are to be applied on a prospective basis; therefore, prior periods presented are not restated. 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 2006	Pension benefits 2005	Postretirement benefits 2006	Postretirement benefits 2005
Change in projected benefit obligation				
Benefit obligation at beginning of year	$11,332	$10,751	$ 3,654	$ 3,827
Service cost	209	209	32	33
Interest cost	628	619	208	216
Amendments	32	—	(89)	(26)
Actuarial (gains) losses	(3)	487	56	(47)
Acquisitions	—	20	—	—
Divestitures	—	(5)	1	(1)
Benefits paid, net of participants' contributions	(717)	(685)	(354)	(349)
Other transfers, net	—	—	—	—
Exchange rate	133	(64)	1	1
Projected benefit obligation at end of year	$11,614	$11,332	$ 3,509	$ 3,654
Change in plan assets				
Fair value of plan assets at beginning of year	$ 9,323	$ 8,800	$ 170	$ 157
Actual return on plan assets	1,001	866	19	13
Acquisitions	—	16	—	—
Employer contributions	369	383	—	—
Participants' contributions	30	26	—	—
Benefits paid	(719)	(690)	—	—
Administrative expenses	(20)	(24)	—	—
Other transfers, net	—	—	—	—
Exchange rate	113	(54)	—	—
Fair value of plan assets at end of year	$10,097	$ 9,323	$ 189	$ 170
Funded status	$ (1,517)	$ (2,009)	$(3,320)	$ (3,484)
Amounts attributed to joint venture partners	12	12	10	36
Net funded status	(1,505)	(1,997)	(3,310)	(3,448)
Unrecognized net actuarial loss	1,856	2,187	999	1,028
Unrecognized net prior service cost (benefit)	66	51	(123)	(37)
Less: Amounts attributed to joint venture partners	11	2	4	(2)
Net amount recognized	$ 406	$ 239	$(2,438)	$ (2,455)
Amounts recognized in the Consolidated Balance Sheet consist of:				
Before the adoption of SFAS 158				
Prepaid benefit	$ 157	$ 144	$ —	$ —
Accrued benefit liability	(1,233)	(1,654)	(2,438)	(2,455)
Intangible asset	52	31	—	—
Accumulated other comprehensive loss	1,430	1,718	—	—
Net amount recognized	$ 406	$ 239	$(2,438)	$ (2,455)
After the adoption of SFAS 158				
Noncurrent assets	$ 90	$ —	$ —	$ —
Current liabilities	(28)	—	(354)	—
Noncurrent liabilities	(1,567)	—	(2,956)	—
Net amount recognized	$ (1,505)	$ —	$(3,310)	$ —
Amounts recognized in Accumulated Other Comprehensive Income consist of:				
Net actuarial loss	$ 1,856	$ —	$ 999	$ —
Prior service cost (benefit)	66	—	(123)	—
Total, before tax effect	1,922	—	876	—
Less: Amounts attributed to joint venture partners	11	—	4	—
Net amount recognized, before tax effect	$ 1,911	$ —	$ 872	$ —

The December 31, 2006 and 2005 postretirement benefit obligations and the net amount recognized have each decreased by $2 due to the reclassification of assets held for sale.

	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		
	2006	2005	2004	2006	2005	2004
Service cost	$ 209	$ 209	$ 204	$ 32	$ 33	$ 31
Interest cost	628	619	617	208	216	221
Expected return on plan assets	(740)	(719)	(719)	(15)	(14)	(13)
Amortization of prior service cost (benefit)	14	22	39	10	4	(6)
Recognized actuarial loss	118	95	61	63	59	46
Net periodic benefit costs	$ 229	$ 226	$ 202	$298	$298	$279

Amounts Expected to be Recognized in Net Periodic Benefit Costs

	Pension benefits	Postretirement benefits
	2007	2007
Prior service cost (benefit) recognition	$ 11	$ (6)
Actuarial loss recognition	121	49

For pension benefits, a decrease in the minimum pension liability resulted in a credit to shareholders’ equity of $184 in 2006, $97 of which is due to the remeasurement at December 31, 2006. The adoption of SFAS 158 resulted in a charge to shareholders’ equity of $310. The charge to shareholders’ equity at December 31, 2006 as a result of the decrease in the minimum pension liability and the adoption of SFAS 158 is $213. The net charge to shareholders’ equity in 2006 is $126. An increase in the liability in 2005 resulted in $148 charge in 2005. For postretirement benefits, the adoption of SFAS 158 resulted in a charge to shareholders’ equity of $567 in 2006.

The projected benefit obligation for all defined benefit pension plans was $11,614 and $11,332 at December 31, 2006 and 2005, respectively. The accumulated benefit obligation for all defined benefit pension plans was $11,187 and $10,876 at December 31, 2006 and 2005, 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 $11,365 and $9,817, respectively, as of December 31, 2006, and $11,071 and $8,982, respectively, as of December 31, 2005. The aggregate accumulated benefit obligation and fair value of plan assets with accumulated benefit obligations in excess of plan assets were $10,413 and $9,244, respectively, as of December 31, 2006, and $10,163 and $8,504, respectively, as of December 31, 2005.

The unrecognized net actuarial loss for pension benefit plans at December 31, 2006 of $1,851 has primarily resulted from the overall decline in interest rates over the past five 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." Generally, these amounts are amortized over the estimated future service of plan participants, which is 12 years.

The benefit obligation for postretirement benefit plans and net amount recognized were $3,509 and $3,310, respectively, as of December 31, 2006, and $3,654 and $2,455, respectively, as of December 31, 2005. Of the net amount recognized, the noncurrent and current amounts were $2,956 and $354, respectively, as of December 31, 2006, and $2,103 and $352, respectively, as of December 31, 2005.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a prescription drug benefit under Medicare (Medicare Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.

Currently, Alcoa pays a portion of the prescription drug cost for certain retirees. The benefits were determined to be actuarially equivalent based on an analysis of Alcoa's existing prescription drug plan provisions and claims experience as compared to the Medicare Part D prescription drug benefit that was effective in 2006.

Alcoa recognized the effects of the Act in the measure of its Accumulated Postretirement Benefit Obligation (APBO) for certain retiree groups in accordance with FASB Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." At December 31, 2003, recognition of the subsidy for certain retiree groups as an offset to plan costs resulted in a $190 reduction in the APBO. The reduction in the APBO is included with other deferred actuarial gains and losses. For other retiree groups not previously recognized at December 31, 2003, the impact of the potential subsidy benefit was recognized at December 31, 2005 and resulted in a $220 reduction to the APBO. Alcoa has not reflected any changes in participation in the company plan as a result of the Act. The reduction in APBO represents the value of the subsidy and does not reflect any other changes. The subsidy is estimated to reduce the prescription drug portion of the per capita cost by 24% for Medicare-eligible retirees.

The net periodic benefit cost for postretirement benefits for the years ended December 31, 2006 and 2005 reflected a reduction of $53 and $24, respectively, related to the recognition of the federal subsidy under Medicare Part D. Subsequent net periodic postretirement benefit costs will be adjusted to reflect the lower interest cost due to the lower APBO. 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."

The unrecognized net actuarial loss for postretirement benefit plans at December 31, 2006 of $999 primarily resulted from the overall decline in interest rates over the past five years. To the extent those losses exceed certain thresholds, the excess will continue to be recognized. Generally, these amounts are amortized over the estimated future service of plan participants, which is 12 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 No. 87 and SFAS No. 106. Generally, these amounts are amortized over the estimated future service of plan participants. The net periodic benefit cost increases were approximately $4 for pension and $23 for postretirement plans, $15 of which was included in the second quarter of 2006. 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,	2006	2005
Discount rate	5.95%	5.70%
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:

	2006	2005	2004
Discount rate	5.70%	6.00%	6.25%
Expected long-term return on plan assets	9.00	9.00	9.00
Rate of compensation increase	4.00	4.50	5.00

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 exceeded 9% over the past 20 years.

Assumed health care cost trend rates are as follows:

	2006	2005	2004
Health care cost trend rate assumed for next year	7.0%	8.0%	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	2011	2010	2009

The health care cost trend rate in the calculation of the 2005 benefit obligation was 8.0% from 2005 to 2006 and 7.0% from 2006 to 2007. Actual annual company health care trend experience over the past three years has ranged from 0% to 5.3%. The 7% trend rate will be maintained for 2007.

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	$ (3)
Effect on postretirement benefit obligations	46	(42)

Plan Assets

Alcoa's pension and postretirement plans' investment policy, weighted average asset allocations at December 31, 2006 and 2005, and target allocations for 2007, by asset category, are as follows:

Asset category	Policy range	Plan assets at December 31, 2006	2005	Target % 2007
Equity securities	35– 60%	57%	57%	48%
Debt securities	30– 55%	34	34	40
Real estate	5– 15%	5	5	6
Other	0– 15%	4	4	6
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 2006, contributions to Alcoa's pension plans were $397, of which $236 was voluntary. The minimum required cash contribution to the pension plans in 2007 is estimated to be $219.

Benefit payments 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
2007	$ 740	$ 354	$ 25
2008	750	350	25
2009	770	350	25
2010	790	345	30
2011	810	340	30
2012 through 2016	4,270	1,650	180
	$8,130	$ 3,389	$ 315

Other Plans

Alcoa also sponsors a number of defined contribution pension plans. Expenses were $134 in 2006, $127 in 2005, and $118 in 2004.

X. Derivatives and Other Financial Instruments

Derivatives. Alcoa uses derivative financial instruments for purposes other than trading. Fair value gains (losses) of material hedging contracts were as follows:

	2006	2005
Aluminum	$(453)	$ 4
Interest rates	(111)	(100)
Other commodities, principally energy related	(134)	201
Currencies	91	83

Aluminum consists of hedge contracts with gains of $105. This is offset by losses on embedded derivatives in power contracts in Iceland and Brazil and our 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, 2006, 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 $2,500 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 reais debt at local interest rates.

There were no transactions that ceased to qualify as a fair value hedge in 2006 and 2005.

Cash Flow Hedges

Interest Rates. There were no cash flow hedges of interest rate exposures outstanding as of December 31, 2006 and 2005. Alcoa previously used interest rate swaps to establish fixed interest rates on anticipated borrowings between June 2005 and June 2006. Due to a change in forecasted borrowing requirements, resulting from the early retirement of debt in June 2004 and a forecasted increase in future operating cash flows resulting from improved market conditions, it was judged no longer probable that the anticipated borrowings would occur in 2005 and 2006. Therefore, Alcoa recognized $33 of gains that had been deferred on previously settled swaps and $44 of additional gains to terminate the remaining interest rate swaps. These gains were recorded in other income in the second quarter of 2004.

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 commensurate with known or expected exposures, generally within three years. The U.S. dollar notional amount of all foreign currency contracts was approximately $154 and $240 as of December 31, 2006 and 2005, respectively. The majority of 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 gain of $37 in 2006 and $29 in 2004. 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 $38 in 2006, $21 in 2005 and $24 in 2004.

The disclosures with respect to commodity prices, interest rates, and foreign 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 further 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:

	2006		2005	
December 31,	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 506	$ 506	$ 762	$ 762
Short-term investments	6	6	7	7
Noncurrent receivables	139	139	138	138
Available-for-sale investments	891	891	733	733
Short-term debt	510	510	58	58
Short-term borrowings	475	475	296	296
Commercial paper	1,472	1,472	912	912
Long-term debt	4,778	4,992	5,276	5,576

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 Z 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. Environmental Matters

Alcoa continues to participate in environmental assessments and cleanups at a number of locations. These include approximately 34 owned or operating facilities and adjoining properties, approximately 35 previously owned or operating facilities and adjoining properties and approximately 65 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 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, NY 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 is to cover 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 are 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 2008 or later.

Sherwin, TX—In connection with the sale of the Sherwin alumina refinery in Texas, 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, IL 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. The EPA has not completed a final review of the feasibility study and the EPA's 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.

Based on the foregoing, it is possible that Alcoa's 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 or liquidity of the company.

Alcoa's remediation reserve balance was $334 and $389 at December 31, 2006 and December 31, 2005 (of which $49 and $39 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 2006, the remediation reserve was decreased by approximately $14 due to an adjustment for the ongoing monitoring program at the Massena, NY facility and an adjustment for the liabilities at the Russian fabricating facilities acquired in January 2005. The adjustment to the reserve for the Russian fabricating facilities was made after further investigations were completed whereby Alcoa was able to obtain additional information about the environmental condition and the associated liabilities with these facilities. The adjustment for the acquired facilities was recorded as an opening balance sheet adjustment and had no impact on net income. Remediation expenses charged against the reserve were approximately $41 in 2006, $53 in 2005, and $46 in 2004.

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.

Z. Subsequent Events

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”). 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. Additionally, Alcoa used a portion of the net proceeds to pay $338 related to its recently announced tender offer (see below). 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. 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. The financing costs paid associated with the issuance of the Senior Notes will be deferred and amortized to interest expense using the effective interest method over the terms of the Senior Notes, along with the original issue discounts.

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”). The Offer expired at the close of business on January 30, 2007, and $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 to the holders of the tendered notes which includes accrued and unpaid interest through February 1, 2007. An immaterial gain was recognized for the early retirement of the $333 principal amount.

Lastly, in January 2007, Alcoa announced that it has commenced offers to exchange up to $500 of each of its outstanding 7.375% Notes due 2010, 6.5% Notes due 2011 and 6% Notes due 2012 (collectively, the “old notes”) for up to $1,500 of new Notes due 2019 and 2022 (collectively, the “new notes”). At December 31, 2006, each of the old notes had an outstanding balance of $1,000. Consummation of the exchange offers is subject to a number of conditions, including the absence of certain adverse legal and market developments and the issuance of at least $500 principal amount of each series of new notes. For each $1,000 (in whole dollars) principal amount of old notes validly tendered and accepted, Alcoa will exchange $1,000 (in whole dollars) principal amount of new notes of a series plus a cash amount equal to the total exchange price, which will be based on a fixed-spread pricing formula that will be calculated on February 15, 2007. The exchange offers included an early participation payment provision, which expired on February 5, 2007, and $483 of 7.375% Notes due 2010, $417 of 6.5% Notes due 2011 and $479 of 6% Notes due 2012 were validly tendered and accepted under this provision and may no longer be withdrawn. The exchange offers will expire at midnight, Eastern Standard Time, on February 20, 2007, unless extended or earlier terminated. The new notes will bear interest at a fixed annual rate determined two business days prior to the expiration of the exchange offers. The new notes will not be registered under the Securities Act of 1933. Alcoa will enter into a registration rights agreement pursuant to which Alcoa will agree to file a registration statement with the Securities and Exchange Commission with respect to the new notes.

Supplemental Financial Information (unaudited)

The supplemental financial information for all periods presented has been reclassified to reflect assets held for sale and discontinued operations. See Note B to the Consolidated Financial Statements for further information.

Quarterly Data
(dollars in millions, except per-share amounts)

	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

	First	Second	Third	Fourth	Year
2005					
Sales	$6,099	$ 6,532	$6,401	$6,536	$25,568
Income from continuing operations	269	490	285	213	1,257
(Loss) income from discontinued operations (B)	(9)	(30)	4	13	(22)
Cumulative effect of accounting change (C)	—	—	—	(2)	(2)
Net income	260	460	289	224	1,233
Earnings (loss) per share:					
Basic:					
Income from continuing operations	.31	.56	.33	.24	1.44
(Loss) income from discontinued operations	(.01)	(.03)	—	.02	(.03)
Cumulative effect of accounting change	—	—	—	—	—
Net income	.30	.53	.33	.26	1.41
Diluted:					
Income from continuing operations	.31	.56	.32	.24	1.43
(Loss) income from discontinued operations	(.01)	(.04)	.01	.02	(.03)
Cumulative effect of accounting change	—	—	—	—	—
Net income	.30	.52	.33	.26	1.40

Number of Employees

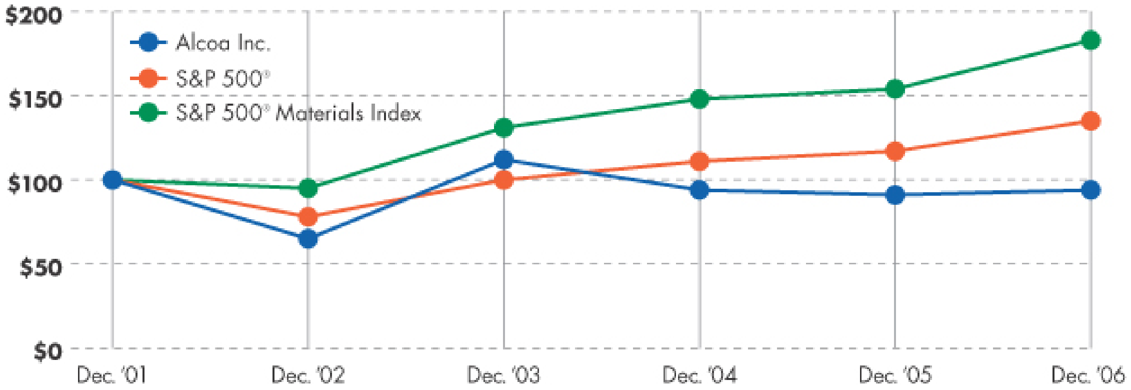
	2006	2005	2004
U.S.	43,400	45,300	47,800
Other Americas	33,400	35,800	35,200
Europe	37,100	39,300	28,500
Pacific	9,100	8,600	7,500
	123,000	129,000	119,000

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

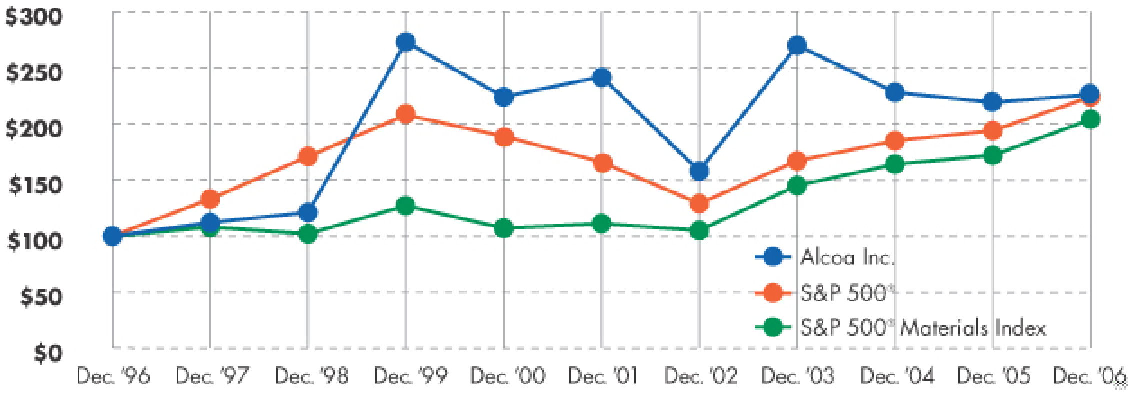
Based upon an initial investment of $100 on December 31, 2001 with dividends reinvested.



As of December 31,	2001	2002	2003	2004	2005	2006
Alcoa Inc.	$100	$65	$112	$ 94	$ 91	$ 94
S&P 500®	100	78	100	111	117	135
S&P 500® Materials Index	100	95	131	148	154	183

10-Year Cumulative Total Return

Based upon an initial investment of $100 on December 31, 1996 with dividends reinvested.



As of December 31,	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Alcoa Inc.	$100	$112	$121	$273	$224	$242	$158	$270	$228	$219	$226
S&P 500®	100	133	171	208	189	166	129	167	185	194	224
S&P 500® Materials Index	100	108	102	127	107	111	105	145	164	172	204

Source: Georgeson Shareholder Communications, Inc.

Shareowner Information

Annual Meeting

The annual meeting of shareowners will be at 9:30 a.m. Friday, April 20, 2007, at the Westin Convention Center Hotel Pittsburgh.

Company News

Visit www.alcoa.com for Securities and Exchange Commission (SEC) 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 2006 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 1 800 317 4445 (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 email corporate.secretary@alcoa.com.

Stock Listing

Common: New York Stock Exchange Preferred: American Stock Exchange Ticker symbol: AA

Quarterly Common Stock Information

	2006			2005		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$32.20	$28.39	$ .15	$32.29	$28.01	$ .15
Second	36.96	28.55	.15	31.80	25.91	.15
Third	34.00	26.60	.15	29.98	23.81	.15
Fourth	31.33	26.39	.15	29.84	22.28	.15
Year	$36.96	$26.39	$ .60	$32.29	$22.28	$ .60

Common Share Data

	Estimated number of shareowners*	Average shares outstanding (000)
2006	248,000	868,820
2005	271,000	871,721
2004	295,000	869,907
2003	278,400	853,352
2002	273,000	845,439

* 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 St.
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, 2006) (under review)
(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
Alcoa Fujikura Ltd.	Delaware
Alcoa Fujikura Holding, L.L.C.	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 Espana 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 Aluminio S.A.	Brazil
Alcoa A Islandi 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[1]	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-Aluminerie de Deschambault G.P.	Quebec
Alcoa-Lauralco Holdings Company	Nova Scotia

Name	State or Country of Organization
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 Participacaoes 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 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) 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 and 333-128445) of Alcoa Inc. and its subsidiaries of our report dated February 15, 2007 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting 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, 2007 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
February 15, 2007

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., JOSEPH R. LUCOT, CYNTHIA E. HOLLOWAY 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 which 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, 2006 (the "2006 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 2006 Annual Report to be filed with the Commission and to any instruments or documents filed as part of or in connection with the 2006 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 2007 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 2007 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 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 19th day of January, 2007.

/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/ Franklin A. Thomas
Franklin A. Thomas

/s/ Ernesto Zedillo
Ernesto Zedillo

Exhibit 31

Certifications

I, Alain J.P. Belda, Chairman of the Board and Chief Executive Officer of Alcoa Inc., 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, 2007

/s/ Alain J.P. Belda

Title: Chairman of the Board and Chief Executive Officer

Exhibit 31

Certifications

I, Charles D. McLane, Jr., Vice President and Chief Financial Officer of Alcoa Inc., 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, 2007

/s/ Charles D. McLane, Jr.
Title: Vice President and Chief Financial Officer

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, 2006 (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, 2007

/s/ Alain J.P. Belda
Name: Alain J.P. Belda
Title: Chairman of the Board and Chief Executive Officer

Dated: February 15, 2007

/s/ Charles D. McLane, Jr.
Name: Charles D. McLane, Jr.
Title: 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.