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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2014

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 **(State of incorporation)**	**25-0317820** **(I.R.S. Employer Identification No.)**
390 Park Avenue, New York, New York **(Address of principal executive offices)**	**10022-4608** **(Zip code)**

Investor Relations 212-836-2674
Office of the Secretary 212-836-2732
(Registrant's telephone number including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

As of October 17, 2014, 1,178,822,574 shares of common stock, par value $1.00 per share, of the registrant were outstanding.

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

Alcoa and subsidiaries
Statement of Consolidated Operations (unaudited)
(in millions, except per-share amounts)

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Sales (J)	$ 6,239	$ 5,765	$17,529	$17,447
Cost of goods sold (exclusive of expenses below)	4,904	4,798	14,164	14,578
Selling, general administrative, and other expenses	243	248	724	753
Research and development expenses	57	44	158	135
Provision for depreciation, depletion, and amortization	347	348	1,036	1,071
Restructuring and other charges (D)	209	151	780	402
Interest expense	126	108	351	341
Other expenses (income), net (I)	23	(7)	53	(15)
Total costs and expenses	5,909	5,690	17,266	17,265
Income before income taxes	330	75	263	182
Provision for income taxes (M)	199	31	200	116
Net income	131	44	63	66
Less: Net (loss) income attributable to noncontrolling interests	(18)	20	(46)	12
NET INCOME ATTRIBUTABLE TO ALCOA	$ 149	$ 24	$ 109	$ 54
EARNINGS PER SHARE ATTRIBUTABLE TO ALCOA COMMON SHAREHOLDERS (L):				
Basic	$ 0.13	$ 0.02	$ 0.09	$ 0.05
Diluted	$ 0.12	$ 0.02	$ 0.09	$ 0.05
Dividends paid per common share	$ 0.03	$ 0.03	$ 0.09	$ 0.09

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

Alcoa and subsidiaries
Statement of Consolidated Comprehensive (Loss) Income (unaudited)
(in millions)

	Alcoa		Noncontrolling Interests		Total	
	Third quarter ended September 30,		Third quarter ended September 30,		Third quarter ended September 30,	
	2014	2013	2014	2013	2014	2013
Net income (loss)	$ 149	$ 24	$ (18)	$ 20	$ 131	$ 44
Other comprehensive (loss) income, net of tax (C):						
Change in unrecognized net actuarial loss and prior service cost/benefit related to pension and other postretirement benefits	126	122	(4)	2	122	124
Foreign currency translation adjustments	(774)	(4)	(226)	(32)	(1,000)	(36)
Net change in unrealized gains on available-for-sale securities	(1)	1	—	—	(1)	1
Net change in unrecognized losses on cash flow hedges	(19)	(50)	5	1	(14)	(49)
Total Other comprehensive (loss) income, net of tax	(668)	69	(225)	(29)	(893)	40
Comprehensive (loss) income	$ (519)	$ 93	$ (243)	$ (9)	$ (762)	$ 84

	Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013	2014	2013
Net income (loss)	$ 109	$ 54	$ (46)	$ 12	$ 63	$ 66
Other comprehensive loss, net of tax (C):						
Change in unrecognized net actuarial loss and prior service cost/benefit related to pension and other postretirement benefits	217	278	(3)	5	214	283
Foreign currency translation adjustments	(384)	(723)	(80)	(265)	(464)	(988)
Net change in unrealized gains on available-for-sale securities	—	(1)	—	—	—	(1)
Net change in unrecognized losses on cash flow hedges	(10)	134	(1)	1	(11)	135
Total Other comprehensive loss, net of tax	(177)	(312)	(84)	(259)	(261)	(571)
Comprehensive loss	$ (68)	$ (258)	$ (130)	$ (247)	$ (198)	$ (505)

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

Alcoa and subsidiaries
Consolidated Balance Sheet (unaudited)
(in millions)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,272	$ 1,437
Receivables from customers, less allowances of $20 in both 2014 and 2013 (N)	1,480	1,221
Other receivables (N)	925	597
Inventories (F)	3,138	2,705
Prepaid expenses and other current assets	874	1,009
Total current assets	9,689	6,969
Properties, plants, and equipment	36,747	36,866
Less: accumulated depreciation, depletion, and amortization	20,031	19,227
Properties, plants, and equipment, net	16,716	17,639
Goodwill	3,389	3,415
Investments	1,946	1,907
Deferred income taxes	2,981	3,184
Other noncurrent assets	2,401	2,628
Total assets	$ 37,122	$ 35,742
LIABILITIES		
Current liabilities:		
Short-term borrowings (G)	$ 57	$ 57
Commercial paper	99	—
Accounts payable, trade	2,979	2,960
Accrued compensation and retirement costs	951	1,013
Taxes, including income taxes	275	376
Other current liabilities	958	1,044
Long-term debt due within one year (G)	35	655
Total current liabilities	5,354	6,105
Long-term debt, less amount due within one year (G)	8,797	7,607
Accrued pension benefits	2,840	3,183
Accrued other postretirement benefits (O)	2,119	2,354
Other noncurrent liabilities and deferred credits	2,877	2,971
Total liabilities	21,987	22,220
CONTINGENCIES AND COMMITMENTS (H)		
EQUITY		
Alcoa shareholders' equity:		
Preferred stock	55	55
Mandatory convertible preferred stock (K)	3	—
Common stock (G)	1,267	1,178
Additional capital (G) & (K)	8,760	7,509
Retained earnings	9,276	9,272
Treasury stock, at cost	(3,129)	(3,762)
Accumulated other comprehensive loss (C)	(3,836)	(3,659)
Total Alcoa shareholders' equity	12,396	10,593
Noncontrolling interests	2,739	2,929
Total equity	15,135	13,522
Total liabilities and equity	$ 37,122	$ 35,742

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

Alcoa and subsidiaries
Statement of Consolidated Cash Flows (unaudited)
(in millions)

	Nine months ended September 30, 2014	2013
CASH FROM OPERATIONS		
Net income	$ 63	$ 66
Adjustments to reconcile net income to cash from operations:		
Depreciation, depletion, and amortization	1,036	1,072
Deferred income taxes	2	(102)
Equity income, net of dividends	88	40
Restructuring and other charges (C)	780	402
Net gain from investing activities – asset sales (I)	(44)	(7)
Stock-based compensation	71	59
Excess tax benefits from stock-based payment arrangements	(7)	—
Other	67	(10)
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency translation adjustments:		
(Increase) in receivables	(665)	(347)
(Increase) in inventories	(485)	(141)
(Increase) decrease in prepaid expenses and other current assets	(28)	16
Increase in accounts payable, trade	83	176
(Decrease) in accrued expenses	(456)	(395)
(Decrease) increase in taxes, including income taxes	(51)	40
Pension contributions	(446)	(354)
Decrease (increase) in noncurrent assets	23	(114)
Increase in noncurrent liabilities	185	257
CASH PROVIDED FROM OPERATIONS	216	658
FINANCING ACTIVITIES		
Net change in short-term borrowings (original maturities of three months or less)	—	7
Net change in commercial paper	99	—
Additions to debt (original maturities greater than three months) (G)	2,881	1,527
Debt issuance costs	(16)	(2)
Payments on debt (original maturities greater than three months) (G)	(1,717)	(1,980)
Proceeds from exercise of employee stock options	128	1
Excess tax benefits from stock-based payment arrangements	7	—
Issuance of mandatory convertible preferred stock (K)	1,213	—
Dividends paid to shareholders	(105)	(99)
Distributions to noncontrolling interests	(75)	(80)
Contributions from noncontrolling interests	44	12
Acquisitions of noncontrolling interests (E)	(28)	—
CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES	2,431	(614)
INVESTING ACTIVITIES		
Capital expenditures	(750)	(771)
Proceeds from the sale of assets and businesses	6	8
Additions to investments	(137)	(242)
Sales of investments	49	—
Net change in restricted cash	—	130
Other	25	10
CASH USED FOR INVESTING ACTIVITIES	(807)	(865)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(5)	(23)
Net change in cash and cash equivalents	1,835	(844)
Cash and cash equivalents at beginning of year	1,437	1,861
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,272	$ 1,017

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

Alcoa and subsidiaries
Statement of Changes in Consolidated Equity (unaudited)
(in millions, except per-share amounts)

	Alcoa Shareholders								
	Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Non-controlling interests	Total equity
Balance at June 30, 2013	$ 55	$ —	$ 1,178	$ 7,524	$11,653	$(3,812)	$ (3,783)	$ 3,043	$15,858
Net income	—	—	—	—	24	—	—	20	44
Other comprehensive income (loss)	—	—	—	—	—	—	69	(29)	40
Cash dividends declared:									
Preferred @ $1.875 per share	—	—	—	—	(1)	—	—	—	(1)
Common @ $0.06 per share	—	—	—	—	(65)	—	—	—	(65)
Stock-based compensation	—	—	—	13	—	—	—	—	13
Common stock issued: compensation plans	—	—	—	(1)	—	2	—	—	1
Distributions	—	—	—	—	—	—	—	(27)	(27)
Other	—	—	—	—	—	—	—	1	1
Balance at September 30, 2013	$ 55	$ —	$ 1,178	$ 7,536	$11,611	$(3,810)	$ (3,714)	$ 3,008	$15,864
Balance at June 30, 2014	$ 55	$ —	$ 1,267	$ 7,635	$ 9,163	$(3,275)	$ (3,168)	$ 3,029	$14,706
Net income (loss)	—	—	—	—	149	—	—	(18)	131
Other comprehensive loss	—	—	—	—	—	—	(668)	(225)	(893)
Cash dividends declared:									
Preferred @ $0.9375 per share	—	—	—	—	—	—	—	—	—
Common @ $0.03 per share	—	—	—	—	(36)	—	—	—	(36)
Stock-based compensation	—	—	—	22	—	—	—	—	22
Common stock issued: compensation plans	—	—	—	(110)	—	146	—	—	36
Issuance of mandatory convertible preferred stock (K)	—	3	—	1,210	—	—	—	—	1,213
Distributions	—	—	—	—	—	—	—	(20)	(20)
Purchase of equity from noncontrolling interest (E)	—	—	—	3	—	—	—	(31)	(28)
Other	—	—	—	—	—	—	—	4	4
Balance at September 30, 2014	$ 55	$ 3	$ 1,267	$ 8,760	$ 9,276	$(3,129)	$ (3,836)	$ 2,739	$15,135

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

Alcoa and subsidiaries
Statement of Changes in Consolidated Equity (unaudited), continued
(in millions, except per-share amounts)

	Alcoa Shareholders								
	Preferred stock	Mandatory convertible preferred stock	Common stock	Additional capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Non-controlling interests	Total equity
Balance at December 31, 2012	$ 55	$ —	$ 1,178	$ 7,560	$11,689	$(3,881)	$ (3,402)	$ 3,324	$16,523
Net income	—	—	—	—	54	—	—	12	66
Other comprehensive loss	—	—	—	—	—	—	(312)	(259)	(571)
Cash dividends declared:									
Preferred @ $3.75 per share	—	—	—	—	(2)	—	—	—	(2)
Common @ $0.12 per share	—	—	—	—	(130)	—	—	—	(130)
Stock-based compensation	—	—	—	59	—	—	—	—	59
Common stock issued: compensation plans	—	—	—	(83)	—	71	—	—	(12)
Distributions	—	—	—	—	—	—	—	(80)	(80)
Contributions	—	—	—	—	—	—	—	12	12
Other	—	—	—	—	—	—	—	(1)	(1)
Balance at September 30, 2013	$ 55	$ —	$ 1,178	$ 7,536	$11,611	$(3,810)	$ (3,714)	$ 3,008	$15,864
Balance at December 31, 2013	$ 55	$ —	$ 1,178	$ 7,509	$ 9,272	$(3,762)	$ (3,659)	$ 2,929	$13,522
Net income (loss)	—	—	—	—	109	—	—	(46)	63
Other comprehensive loss	—	—	—	—	—	—	(177)	(84)	(261)
Cash dividends declared:									
Preferred @ $2.8125 per share	—	—	—	—	(1)	—	—	—	(1)
Common @ $0.09 per share	—	—	—	—	(104)	—	—	—	(104)
Stock-based compensation	—	—	—	71	—	—	—	—	71
Common stock issued: compensation plans	—	—	—	(519)	—	633	—	—	114
Issuance of mandatory convertible preferred stock (K)	—	3	—	1,210	—	—	—	—	1,213
Issuance of common stock (G)	—	—	89	486	—	—	—	—	575
Distributions	—	—	—	—	—	—	—	(75)	(75)
Contributions	—	—	—	—	—	—	—	44	44
Purchase of equity from noncontrolling interest (E)	—	—	—	3	—	—	—	(31)	(28)
Other	—	—	—	—	—	—	—	2	2
Balance at September 30, 2014	$ 55	$ 3	$ 1,267	$ 8,760	$ 9,276	$(3,129)	$ (3,836)	$ 2,739	$15,135

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

A. Basis of Presentation – The interim Consolidated Financial Statements of Alcoa Inc. and its subsidiaries ("Alcoa" or the "Company") are unaudited. These Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments, considered necessary by management to fairly state the Company's results of operations, financial position, and cash flows. The results reported in these Consolidated Financial Statements are not necessarily indicative of the results that may be expected for the entire year. The 2013 year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). This Form 10-Q report should be read in conjunction with Alcoa's Annual Report on Form 10-K for the year ended December 31, 2013, which includes all disclosures required by GAAP.

B. Recently Adopted and Recently Issued Accounting Guidance

Adopted

On January 1, 2014, Alcoa adopted changes issued by the Financial Accounting Standards Board (FASB) to the accounting for obligations resulting from joint and several liability arrangements. These changes require an entity to measure such obligations for which the total amount of the obligation is fixed at the reporting date as the sum of (i) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors, and (ii) any additional amount the reporting entity expects to pay on behalf of its co-obligors. An entity will also be required to disclose the nature and amount of the obligation as well as other information about those obligations. Examples of obligations subject to these requirements are debt arrangements and settled litigation and judicial rulings. The adoption of these changes had no impact on the Consolidated Financial Statements, as Alcoa does not currently have any such arrangements.

On January 1, 2014, Alcoa adopted changes issued by the FASB to a parent entity's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. A parent entity is required to release any related cumulative foreign currency translation adjustment from accumulated other comprehensive income into net income in the following circumstances: (i) a parent entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided; (ii) a partial sale of an equity method investment that is a foreign entity; (iii) a partial sale of an equity method investment that is not a foreign entity whereby the partial sale represents a complete or substantially complete liquidation of the foreign entity that held the equity method investment; and (iv) the sale of an investment in a foreign entity. The adoption of these changes had no impact on the Consolidated Financial Statements. This guidance will need to be considered in the event Alcoa initiates any of the transactions described above.

On January 1, 2014, Alcoa adopted changes issued by the FASB to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. These changes require an entity to present an unrecognized tax benefit as a liability in the financial statements if (i) a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or (ii) the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset to settle any additional income taxes that would result from the disallowance of a tax position. Otherwise, an unrecognized tax benefit is required to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. Previously, there was diversity in practice as no explicit guidance existed. The adoption of these changes did not result in a significant impact on the Consolidated Financial Statements.

Issued

In April 2014, the FASB issued changes to reporting discontinued operations and disclosures of disposals of components of an entity. These changes require a disposal of a component to meet a higher threshold in order to be reported as a discontinued operation in an entity's financial statements. The threshold is defined as a strategic shift that has, or will have, a major effect on an entity's operations and financial results such as a disposal of a major geographical area or a major line of business. Additionally, the following two criteria have been removed from consideration of whether a component meets the requirements for discontinued operations presentation: (i) the operations and cash flows of a disposal component have been or will be eliminated from the ongoing operations of an entity as a result of the disposal transaction, and (ii) an entity will not have any significant continuing involvement in the operations of the disposal component after the disposal transaction. Furthermore, equity method investments now may qualify for discontinued operations presentation. These changes also require expanded disclosures for all disposals of components of an entity, whether or not the threshold for reporting as a discontinued operation is met, related to profit or loss information and/or asset and liability information of the component. These changes become effective for Alcoa on January 1, 2015. Management has determined that the adoption of these changes will not have an immediate impact on the Consolidated Financial Statements. This guidance will need to be considered in the event Alcoa initiates a disposal transaction.

In May 2014, the FASB issued changes to the recognition of revenue from contracts with customers. These changes created a comprehensive framework for all entities in all industries to apply in the determination of when to recognize revenue, and, therefore, supersede virtually all existing revenue recognition requirements and guidance. This framework is expected to result in less complex guidance in application while providing a consistent and comparable methodology for revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the entity satisfies a performance obligation. These changes become effective for Alcoa on January 1, 2017. Management is currently evaluating the potential impact of these changes on the Consolidated Financial Statements.

In August 2014, the FASB issued changes to the disclosure of uncertainties about an entity's ability to continue as a going concern. Under GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Even if an entity's liquidation is not imminent, there may be conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. Because there is no guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related note disclosures, there is diversity in practice whether, when, and how an entity discloses the relevant conditions and events in its financial statements. As a result, these changes require an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that financial statements are issued. Substantial doubt is defined as an indication that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that financial statements are issued. If management has concluded that substantial doubt exists, then the following disclosures should be made in the financial statements: (i) principal conditions or events that raised the substantial doubt, (ii) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, (iii) management's plans that alleviated the initial substantial doubt or, if substantial doubt was not alleviated, management's plans that are intended to at least mitigate the conditions or events that raise substantial doubt, and (iv) if the latter in (iii) is disclosed, an explicit statement that there is substantial doubt about the entity's ability to continue as a going concern. These changes become effective for Alcoa for the 2016 annual period. Management has determined that the adoption of these changes will not have an impact on the Consolidated Financial Statements. Subsequent to adoption, this guidance will need to be applied by management at the end of each annual period and interim period therein to determine what, if any, impact there will be on the Consolidated Financial Statements in a given reporting period.

C. Accumulated Other Comprehensive Loss

The following table details the activity of the four components that comprise Accumulated other comprehensive loss for both Alcoa's shareholders and noncontrolling interests:

	Alcoa Third quarter ended September 30,		Noncontrolling Interests Third quarter ended September 30,	
	2014	2013	2014	2013
Pension and other postretirement benefits				
Balance at beginning of period	$(3,441)	$(3,907)	$ (50)	$ (74)
Other comprehensive income (loss):				
Unrecognized net actuarial loss and prior service cost/benefit	96	46	(9)	—
Tax expense	(33)	(12)	3	—
Total Other comprehensive income before reclassifications, net of tax	63	34	(6)	—
Amortization of net actuarial loss and prior service cost/benefit(1)	97	135	3	2
Tax (expense) benefit(2)	(34)	(47)	(1)	—
Total amount reclassified from Accumulated other comprehensive loss, net of tax(7)	63	88	2	2
Total Other comprehensive income (loss)	126	122	(4)	2
Balance at end of period	$(3,315)	$(3,785)	$ (54)	$ (72)
Foreign currency translation				
Balance at beginning of period	$ 569	$ 428	$ 36	$ 24
Other comprehensive loss(3)	(774)	(4)	(226)	(32)
Balance at end of period	$ (205)	$ 424	$ (190)	$ (8)
Available-for-sale securities				
Balance at beginning of period	$ 3	$ 1	$ —	$ —
Other comprehensive (loss) income(4)	(1)	1	—	—
Balance at end of period	$ 2	$ 2	$ —	$ —
Cash flow hedges (P)				
Balance at beginning of period	$ (299)	$ (305)	$ (8)	$ (5)
Other comprehensive (loss) income:				
Net change from periodic revaluations	(35)	(70)	7	2
Tax benefit (expense)	11	14	(2)	(1)
Total Other comprehensive (loss) income before reclassifications, net of tax	(24)	(56)	5	1
Net amount reclassified to earnings:				
Aluminum contracts(5)	7	5	—	—
Foreign exchange contracts(5)	(1)	3	—	—
Interest rate contracts(6)	—	—	—	—
Sub-total	6	8	—	—
Tax expense(2)	(1)	(2)	—	—
Total amount reclassified from Accumulated other comprehensive loss, net of tax(7)	5	6	—	—
Total Other comprehensive (loss) income	(19)	(50)	5	1
Balance at end of period	$ (318)	$ (355)	$ (3)	$ (4)

	Alcoa Nine months ended September 30, 2014	Alcoa Nine months ended September 30, 2013	Noncontrolling Interests Nine months ended September 30, 2014	Noncontrolling Interests Nine months ended September 30, 2013
Pension and other postretirement benefits				
Balance at beginning of period	$(3,532)	$(4,063)	$ (51)	$ (77)
Other comprehensive income (loss):				
Unrecognized net actuarial loss and prior service cost/benefit	33	19	(9)	—
Tax (expense) benefit	(8)	2	3	—
Total Other comprehensive income before reclassifications, net of tax	25	21	(6)	—
Amortization of net actuarial loss and prior service cost/benefit(1)	296	395	5	7
Tax (expense) benefit(2)	(104)	(138)	(2)	(2)
Total amount reclassified from Accumulated other comprehensive loss, net of tax(7)	192	257	3	5
Total Other comprehensive income (loss)	217	278	(3)	5
Balance at end of period	$(3,315)	$(3,785)	$ (54)	$ (72)
Foreign currency translation				
Balance at beginning of period	$ 179	$ 1,147	$ (110)	$ 257
Other comprehensive loss(3)	(384)	(723)	(80)	(265)
Balance at end of period	$ (205)	$ 424	$ (190)	$ (8)
Available-for-sale securities				
Balance at beginning of period	$ 2	$ 3	$ —	$ —
Other comprehensive loss(4)	—	(1)	—	—
Balance at end of period	$ 2	$ 2	$ —	$ —
Cash flow hedges (P)				
Balance at beginning of period	$ (308)	$ (489)	$ (2)	$ (5)
Other comprehensive (loss) income:				
Net change from periodic revaluations	(31)	151	(2)	2
Tax benefit (expense)	7	(31)	1	(1)
Total Other comprehensive (loss) income before reclassifications, net of tax	(24)	120	(1)	1
Net amount reclassified to earnings:				
Aluminum contracts(5)	18	12	—	—
Foreign exchange contracts(5)	(2)	3	—	—
Interest rate contracts(6)	1	1	—	—
Sub-total	17	16	—	—
Tax expense(2)	(3)	(2)	—	—
Total amount reclassified from Accumulated other comprehensive loss, net of tax(7)	14	14	—	—
Total Other comprehensive (loss) income	(10)	134	(1)	1
Balance at end of period	$ (318)	$ (355)	$ (3)	$ (4)

(1) These amounts were included in the computation of net periodic benefit cost for pension and other postretirement benefits (see Note O).
(2) These amounts were included in Provision for income taxes on the accompanying Statement of Consolidated Operations.
(3) In all periods presented, there were no tax impacts related to rate changes and no amounts were reclassified to earnings.
(4) In all periods presented, unrealized and realized gains and losses related to these securities were immaterial. Realized gains and losses were included in Other expenses (income), net on the accompanying Statement of Consolidated Operations.
(5) These amounts were included in Sales on the accompanying Statement of Consolidated Operations.
(6) These amounts were included in Interest expense on the accompanying Statement of Consolidated Operations.
(7) A positive amount indicates a corresponding charge to earnings and a negative amount indicates a corresponding benefit to earnings. These amounts were reflected on the accompanying Statement of Consolidated Operations in the line items indicated in footnotes 1 through 6.

D. Restructuring and Other Charges – In the third quarter and nine-month period of 2014, Alcoa recorded Restructuring and other charges of $209 ($175 after-tax and noncontrolling interest) and $780 ($503 after-tax and noncontrolling interest), respectively.

Restructuring and other charges in the 2014 third quarter included $220 ($186 after-tax and noncontrolling interest) for exit costs related to decisions to permanently shut down and demolish two smelters and two rolling mills (see below); $5 ($4 after-tax) for a gain on the sale of assets related to a previously shutdown location; a charge of $4 ($2 after-tax and noncontrolling interest) for other miscellaneous items; and $10 ($9 after-tax and noncontrolling interest) for the reversal of a number of layoff reserves related to prior periods, including those associated with a smelter in Italy due to changes in facts and circumstances (see below).

In the 2014 nine-month period, Restructuring and other charges included $663 ($426 after-tax and noncontrolling interest) for exit costs related to decisions to permanently shut down and demolish three smelters and two rolling mills (see below); $67 ($44 after-tax and noncontrolling interest) for the temporary curtailment of two smelters and a related production slowdown at one refinery (see below); $33 ($26 after-tax) for asset impairments related to prior capitalized costs for a modernization project at a smelter in Canada that is no longer being pursued; $18 ($11 after-tax and noncontrolling interest) for layoff costs, including the separation of approximately 245 employees (115 in the Engineered Products and Solutions segment, 30 in the Global Rolled Products segment,10 in the Alumina and Primary Metals segments combined, and 90 in Corporate); a charge of $16 ($9 after-tax and noncontrolling interest) for other miscellaneous items; and $17 ($13 after-tax and noncontrolling interest) for the reversal of a number of layoff reserves related to prior periods, including those associated with a smelter in Italy due to changes in facts and circumstances (see below).

In the 2014 first quarter, management approved the permanent shutdown and demolition of the remaining capacity (84,000 metric-tons-per-year) at the Massena East smelter in New York and the full capacity (190,000 metric-tons-per-year) at the Point Henry smelter in Australia. The capacity at Massena East was fully shut down by the end of the first quarter of 2014 and the Point Henry smelter was fully shut down in August 2014. Demolition and remediation activities related to both the Massena East and Point Henry smelters will begin in the fourth quarter of 2014 and are expected to be completed by the end of 2020 and 2018, respectively.

The decisions on the Massena East and Point Henry smelters were part of a 15-month review of 460,000 metric tons of smelting capacity initiated by management in the 2013 second quarter for possible curtailment. Through this review, management determined that the remaining capacity of the Massena East smelter was no longer competitive and the Point Henry smelter had no prospect of becoming financially viable. Management also initiated the temporary curtailment of the remaining capacity (62,000 metric-tons-per-year) at the Poços de Caldas smelter and additional capacity (85,000 metric-tons-per-year) at the São Luís smelter, both in Brazil. These curtailments were completed by the end of May 2014. As a result of these curtailments, production at the Poços de Caldas refinery was reduced (200,000 metric-tons-per-year), which was completed by the end of the 2014 second quarter.

Also in the 2014 first quarter, management approved the permanent shutdown of Alcoa’s two rolling mills in Australia, Point Henry and Yennora. This decision was made due to the significant impact of excess can sheet capacity in both Australia and Asia. The two rolling mills have a combined can sheet capacity of 200,000 metric-tons-per-year and will be closed by the end of 2014. Demolition and remediation activities related to the two rolling mills will begin in 2015 and are expected to be completed by the end of 2018.

In the 2014 third quarter, management approved the permanent shutdown and demolition of the capacity (150,000 metric-tons-per-year) at the Portovesme smelter in Italy, which has been idle since November 2012. This decision was made because the fundamental reasons that made the Portovesme smelter uncompetitive remain unchanged, including the lack of a viable long-term power solution. Demolition and remediation activities related to the Portovesme smelter will begin in the fourth quarter of 2014 and are expected to be completed by the end of 2019.

In the third quarter and nine-month period of 2014, costs related to the shutdown and curtailment actions included $60 and $197, respectively, for the layoff of approximately 1,780 employees (1,200 in the Primary Metals segment, 470 in the Global Rolled Products segment, 80 in the Alumina segment, and 30 in Corporate), including $18 in pension costs (see Note O); accelerated depreciation of $40 and $190, respectively, related to the three facilities in Australia as they continue to operate during 2014 (the smelter operated for one month in the 2014 third quarter); asset impairments of $74 and $165, respectively, representing the write-off of the remaining book value of all related properties, plants, and equipment; and $45 and $178, respectively, in other exit costs (see below). Additionally in the third quarter and nine-month period of 2014, remaining inventories, mostly operating supplies and raw materials, were written down to their net realizable value, resulting in a charge of $33 ($27 after-tax and noncontrolling interest) and $67 ($47 after-tax and noncontrolling interest), respectively, which was recorded in Cost of goods sold on the accompanying Statement of Consolidated Operations. The other exit costs in the 2014 third quarter and nine-month period represent $40 and $95, respectively, in asset retirement obligations and $4 and $42, respectively, in environmental remediation, both of which were triggered by the decisions to permanently shut down and demolish the aforementioned structures in the U.S., Australia, and Italy, and $1 and $41, respectively, in other related costs, including supplier and customer contract-related costs. Additional charges of approximately $25 are expected to be recognized in the fourth quarter of 2014 related to these shutdown actions in Australia.

In the third quarter and nine-month period of 2013, Alcoa recorded Restructuring and other charges of $151 ($108 after-tax and noncontrolling interest) and $402 ($283 after-tax and noncontrolling interests), respectively.

Restructuring and other charges in the 2013 third quarter included $152 ($109 after-tax) for exit costs related to the permanent shutdown and demolition of certain structures at two smelter locations (see below); a charge of $1 ($1 after-tax) for other miscellaneous items; and $2 ($2 after-tax and noncontrolling interest) for the reversal of a number of small layoff reserves related to prior periods.

In the 2013 nine-month period, Restructuring and other charges included $238 ($179 after-tax) for exit costs related to the permanent shutdown and demolition of certain structures at three smelter locations (see below); $103 ($62 after noncontrolling interest) related to a legal matter; $29 ($19 after-tax) for asset impairments and related costs for retirements of previously idled structures; $27 ($20 after-tax and noncontrolling interests) for layoff costs, including the separation of approximately 510 employees (190 in the Global Rolled Products segment, 170 in the Engineered Products and Solutions segment, 120 in the Primary Metals segment, and 30 in Corporate) and a pension plan settlement charge related to previously separated employees; a charge of $9 ($6 after-tax) for other miscellaneous items; and $4 ($3 after-tax and noncontrolling interests) for the reversal of a number of small layoff reserves related to prior periods.

In the 2013 second quarter, management approved the permanent shutdown and demolition of (i) two potlines (capacity of 105,000 metric-tons-per-year) that utilize Soderberg technology at the smelter located in Baie Comeau, Québec, Canada (remaining capacity of 280,000 metric-tons-per-year composed of two prebake potlines) and (ii) the smelter located in Fusina, Italy (capacity of 44,000 metric-tons-per-year). Additionally, in the 2013 third quarter, management approved the permanent shutdown and demolition of one potline (capacity of 41,000 metric-tons-per-year) that utilizes Soderberg technology at the Massena East, N.Y. smelter (remaining capacity of 84,000 metric-tons-per-year composed of two Soderberg potlines). The aforementioned Soderberg lines at Baie Comeau and Massena East were fully shut down by the end of the third quarter of 2013 while the Fusina smelter was previously temporarily idled in 2010. Demolition and remediation activities related to all three facilities began in the fourth quarter of 2013 and are expected to be completed by the end of 2014 (Massena East), 2015 (Baie Comeau), and 2017 (Fusina).

The decisions on the Soderberg lines for Baie Comeau and Massena East were part of a 15-month review of 460,000 metric tons of smelting capacity initiated by management earlier in the 2013 second quarter for possible curtailment (announced on May 1, 2013), while the decision on the Fusina smelter was in addition to the capacity being reviewed. Factors leading to all three decisions were in general focused on achieving sustained competitiveness and included, among others: lack of an economically viable, long-term power solution (Italy); changed market fundamentals; other existing idle capacity; and restart costs.

In the third quarter and nine-month period of 2013, exit costs related to these actions included $107 for the layoff of approximately 520 employees (Primary Metals segment) in both periods, including $78 in pension costs (see Note O); accelerated depreciation of $35 and $58, respectively, (Baie Comeau) and asset impairments of $4 and $18, respectively, (Fusina and Massena East) representing the write off of the remaining book value of all related properties, plants, and equipment; and $6 and $55, respectively, in other exit costs. Additionally in the third quarter and nine-month period of 2013, remaining inventories, mostly operating supplies and raw materials, were written down to their net realizable value, resulting in a charge of $2 ($1 after-tax) and $9 ($6 after-tax), respectively, which was recorded in Cost of goods sold on the accompanying Statement of Consolidated Operations. The other exit costs of $55 represent $48 in asset retirement obligations and $5 in environmental remediation, both of which were triggered by the decisions to permanently shut down and demolish these structures, and $2 in other related costs.

Alcoa does not include Restructuring and other charges in the results of its reportable segments. The pretax impact of allocating such charges to segment results would have been as follows:

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Alumina	$ 1	$ —	$ 8	$ —
Primary Metals	193	150	608	244
Global Rolled Products	13	—	126	10
Engineered Products and Solutions	—	—	4	22
Segment total	207	150	746	276
Corporate	2	1	34	126
Total restructuring and other charges	$ 209	$ 151	$ 780	$ 402

As of September 30, 2014, approximately 1,300 of the 2,025 employees associated with 2014 restructuring programs and approximately 1,390 of the 1,620 employees associated with 2013 restructuring programs were separated. The remaining separations for the 2014 and 2013 restructuring programs are expected to be completed by the end of 2014.

In the 2014 third quarter and nine-month period, cash payments of $66 and $89, respectively, were made against the layoff reserves related to the 2014 restructuring programs and $4 and $36, respectively, were made against the layoff reserves related to the 2013 restructuring programs.

Activity and reserve balances for restructuring charges were as follows:

	Layoff costs	Other exit costs	Total
Reserve balances at December 31, 2012	$ 59	$ 52	$ 111
2013:			
Cash payments	(63)	(11)	(74)
Restructuring charges	201	85	286
Other*	(101)	(84)	(185)
Reserve balances at December 31, 2013	96	42	138
2014:			
Cash payments	(136)	(15)	(151)
Restructuring charges	215	186	401
Other*	(40)	(176)	(216)
Reserve balances at September 30, 2014	$ 135	$ 37	$ 172

* Other includes reversals of previously recorded restructuring charges and the effects of foreign currency translation. In the 2014 nine-month period, Other for layoff costs also included a reclassification of $18 in pension costs, as this obligation was included in Alcoa's separate liability for pension obligations. Additionally in the 2014 nine-month period, Other for other exit costs also included a reclassification of the following restructuring charges: $95 in asset retirement and $47 in environmental obligations, as these liabilities are included in Alcoa's separate reserves for asset retirement obligations and environmental remediation (see Note H), respectively. In 2013, Other for layoff costs also included a reclassification of $92 in pension costs, as this obligation was included in Alcoa's separate liability for pension obligations. Additionally in 2013, Other for other exit costs also included a reclassification of the following restructuring charges: $58 in asset retirement and $12 in environmental obligations, as these liabilities were included in Alcoa's separate reserves for asset retirement obligations and environmental remediation, respectively.

The remaining reserves are expected to be paid in cash during 2014, with the exception of approximately $75 to $80, which is expected to be paid over the next several years for special separation benefit payments, lease termination costs, and ongoing site remediation work.

E. Acquisitions and Divestitures – On June 25, 2014, Alcoa signed a definitive agreement to acquire Firth Rixson, a global leader in aerospace jet engine components, from Oak Hill Capital Partners for $2,850. The purchase price is composed of $2,350 in cash and $500 of Alcoa common stock with a potential earn-out of $150. The common stock component is equivalent to 36,523,010 shares at a per share price of $13.69, as stated in the agreement. Also on June 25, 2014, Alcoa entered into a commitment with a financial institution for a 364-day senior unsecured bridge term loan facility in the amount of $2,500 for the purpose of financing all or a portion of the cash consideration for this acquisition and to pay fees and expenses incurred in connection therewith. On September 22, 2014, Alcoa completed the issuance of $2,500 in debt (see Note G) and equity (see Note K) instruments and terminated the 364-day senior unsecured bridge term loan facility in its entirety. In the third quarter of 2014, Alcoa recorded $13 ($8 after-tax) in Interest expense on the accompanying Statement of Consolidated Operations for costs associated with the execution and termination of the 364-day senior unsecured bridge term loan facility. The purpose of this acquisition is to strengthen Alcoa's aerospace business and position the Company to capture additional aerospace growth with a broader range of high-growth, value-add jet engine components. The completion of the acquisition is subject to customary closing conditions and regulatory approvals (in the 2014 third quarter, Alcoa received such approval from the United States and from some, but not all, international markets) and is expected to close by the end of 2014. At that time, Firth Rixson will be included within Alcoa's Engineered Products and Solutions segment.

In August 2014, Alcoa completed the acquisition of the 30% outstanding noncontrolling interest in the aluminum brazing sheet venture in Kunshan City, China from Shanxi Yuncheng Engraving Group for $28. The $3 difference between the purchase price and the carrying value of the noncontrolling interest on Alcoa's Consolidated Balance Sheet was included in Additional capital.

F. Inventories

	September 30, 2014	December 31, 2013
Finished goods	$ 725	$ 578
Work-in-process	1,054	828
Bauxite and alumina	601	581
Purchased raw materials	541	474
Operating supplies	217	244
	$ 3,138	$ 2,705

At September 30, 2014 and December 31, 2013, the total amount of inventories valued on a last in, first out (LIFO) basis was $1,469 and $1,169, respectively. If valued on an average-cost basis, total inventories would have been $742 and $691 higher at September 30, 2014 and December 31, 2013, respectively.

G. Debt – In the first quarter of 2014, holders of $575 principal amount of Alcoa's 5.25% Convertible Notes due March 15, 2014 (the "Notes") exercised their option to convert the Notes into 89 million shares of Alcoa common stock. The conversion rate for the Notes was 155.4908 shares of Alcoa's common stock per $1,000 (in full dollars) principal amount of notes, equivalent to a conversion price of $6.43 per share. The difference between the $575 principal amount of the Notes and the $89 par value of the issued shares increased Additional capital on the accompanying Consolidated Balance Sheet. This transaction was not reflected in the accompanying Statement of Consolidated Cash Flows as it represents a noncash financing activity.

In September 2014, Alcoa completed a public debt offering under its shelf registration statement for $1,250 of 5.125% Notes due 2024 (the "2024 Notes"). Alcoa received $1,238 in net proceeds from the public debt offering reflecting an original issue discount. The net proceeds are intended to be used, together with the net proceeds of newly issued mandatory convertible preferred stock (see Note K), to finance the cash portion of a planned acquisition of an aerospace business (see Note E). The original issue discount was deferred and is being amortized to interest expense over the term of the 2024 Notes. Interest on the 2024 Notes will be paid semi-annually in April and October, commencing April 2015. If the acquisition is not consummated on or prior to 5:00 p.m. (New York City time) on April 1, 2015 or if prior to this stated date and time, the share purchase agreement related to the acquisition is terminated other than in connection with the consummation of the acquisition and is not otherwise amended or replaced, Alcoa is required to redeem the 2024 Notes, in whole but not in part, at a redemption price in cash equal to 101% of the aggregate principal amount of the 2024 Notes, plus any accrued and unpaid interest on the 2024 Notes. Separately, Alcoa has the option to redeem the 2024 Notes, as a whole or in part, at any time or from time to time, on at least 30 days, but not more than 60 days, prior notice to the holders of the 2024 Notes at a redemption price specified in the 2024 Notes. The 2024 Notes are subject to repurchase upon the occurrence of a change in control repurchase event (as defined in the 2024 Notes) at a repurchase price in cash equal to 101% of the aggregate principal amount of the 2024 Notes repurchased, plus any accrued and unpaid interest on the 2024 Notes repurchased. The 2024 Notes rank *pari passu* with Alcoa's other unsecured unsubordinated indebtedness.

On July 25, 2014, Alcoa entered into a Five-Year Revolving Credit Agreement (the "Credit Agreement") with a syndicate of lenders and issuers named therein. The Credit Agreement provides a $4,000 senior unsecured revolving credit facility (the "Credit Facility"), the proceeds of which are to be used to provide working capital or for other general corporate purposes of Alcoa. Subject to the terms and conditions of the Credit Agreement, Alcoa may from time to time request increases in lender commitments under the Credit Facility, not to exceed $500 in aggregate principal amount, and may also request the issuance of letters of credit, subject to a letter of credit sublimit of $1,000 under the Credit Facility.

The Credit Facility matures on July 25, 2019, unless extended or earlier terminated in accordance with the provisions of the Credit Agreement. Alcoa may make two one-year extension requests during the term of the Credit Facility, with any extension being subject to the lender consent requirements set forth in the Credit Agreement. Under the provisions of the Credit Agreement, Alcoa will pay a fee of 0.25% (based on Alcoa's long-term debt ratings as of September 30, 2014) of the total commitment per annum to maintain the Credit Facility.

The Credit Facility is unsecured and amounts payable under it will rank *pari passu* with all other unsecured, unsubordinated indebtedness of Alcoa. Borrowings under the Credit Facility may be denominated in U.S. dollars or euros. Loans will bear interest at a base rate or a rate equal to LIBOR, plus, in each case, an applicable margin based on the credit ratings of Alcoa's outstanding senior unsecured long-term debt. The applicable margin on base rate loans and LIBOR loans will be 0.50% and 1.50% per annum, respectively, based on Alcoa's long-term debt ratings as of September 30, 2014. Loans may be prepaid without premium or penalty, subject to customary breakage costs.

The Credit Facility replaces Alcoa's Five-Year Revolving Credit Agreement, dated as of July 25, 2011 (the "Former Credit Agreement"), which was scheduled to mature on July 25, 2017. The Former Credit Agreement, which had a total capacity of $3,750 and was undrawn, was terminated effective July 25, 2014.

The Credit Agreement includes covenants substantially similar to those in the Former Credit Agreement, including, among others, (a) a leverage ratio, (b) limitations on Alcoa's ability to incur liens securing indebtedness for borrowed money, (c) limitations on Alcoa's ability to consummate a merger, consolidation or sale of all or substantially all of its assets, and (d) limitations on Alcoa's ability to change the nature of its business. As of September 30, 2014, Alcoa was in compliance with all such covenants.

The obligation of Alcoa to pay amounts outstanding under the Credit Facility may be accelerated upon the occurrence of an "Event of Default" as defined in the Credit Agreement. Such Events of Default include, among others, (a) Alcoa's failure to pay the principal of, or interest on, borrowings under the Credit Facility, (b) any representation or warranty of Alcoa in the Credit Agreement proving to be materially false or misleading, (c) Alcoa's breach of any of its covenants contained in the Credit Agreement, and (d) the bankruptcy or insolvency of Alcoa.

There were no amounts outstanding under the Credit Facility at September 30, 2014 and no amounts were borrowed during the 2014 third quarter under the Credit Facility.

At the end of 2013, Alcoa had ten revolving credit facilities (excluding the Credit Facility above), each with a different financial institution, providing a combined capacity of $1,190 and expiration dates ranging from February 2014 through December 2015.

A credit facility ($150 capacity) that was due to expire in February 2014 was extended to March 2015 in the first quarter of 2014. Another credit facility ($150 capacity) expired in March 2014 (a new agreement with the same financial institution was entered into in April 2014 and the new facility expires in March 2016). Also in the first quarter of 2014, Alcoa entered into an eleventh revolving credit agreement, providing a $50 credit facility with an expiration date of February 2016.

In the third quarter of 2014, two credit facilities ($200 combined capacity) that were due to expire in September 2014 and October 2014 were extended to September 2016 and October 2015, respectively. Additionally in the third quarter of 2014, a $200 credit facility expired and was not extended or renewed.

In summary, at September 30, 2014, Alcoa has ten revolving credit facilities (excluding the Credit Facility), providing a combined capacity of $1,040, of which $340, $400, and $300 is due to expire in the remainder of 2014, 2015, and 2016, respectively.

The purpose of any borrowings under all of these credit arrangements is to provide for working capital requirements and for other general corporate purposes. The covenants contained in all these arrangements are the same as the Credit Agreement above.

During the first, second, and third quarters of 2014, Alcoa borrowed and repaid $620, $510, and $510, respectively, under these credit arrangements. The weighted-average interest rate and weighted-average days outstanding of the respective borrowings during the first, second, and third quarters of 2014 were 1.53%, 1.55%, and 1.55%, respectively, and 49 days, 84 days, and 73 days, respectively.

H. Contingencies and Commitments

Contingencies

Litigation

In November 2006, in Curtis v. Alcoa Inc., Civil Action No. 3:06cv448 (E.D. Tenn.), a class action was filed by plaintiffs representing approximately 13,000 retired former employees of Alcoa or Reynolds Metals Company and spouses and dependents of such retirees alleging violation of the Employee Retirement Income Security Act (ERISA) and the Labor-Management Relations Act by requiring plaintiffs, beginning January 1, 2007, to pay health insurance premiums and increased co-payments and co-insurance for certain medical procedures and prescription drugs. Plaintiffs alleged these changes to their retiree health care plans violated their rights to vested health care benefits. Plaintiffs additionally alleged that Alcoa had breached its fiduciary duty to plaintiffs under ERISA by misrepresenting to them that their health benefits would never change. Plaintiffs sought injunctive and declaratory relief, back payment of benefits, and attorneys' fees. Alcoa had consented to treatment of plaintiffs' claims as a class action. During the fourth quarter of 2007, following briefing and argument, the court ordered consolidation of the plaintiffs' motion for preliminary injunction with trial, certified a plaintiff class, and bifurcated and stayed the plaintiffs' breach of fiduciary duty claims. Trial in the matter was held over eight days commencing September 22, 2009 and ending on October 1, 2009 in federal court in Knoxville, TN before the Honorable Thomas Phillips, U.S. District Court Judge.

On March 9, 2011, the court issued a judgment order dismissing plaintiffs' lawsuit in its entirety with prejudice for the reasons stated in its Findings of Fact and Conclusions of Law. On March 23, 2011, plaintiffs filed a motion for clarification and/or amendment of the judgment order, which sought, among other things, a declaration that plaintiffs' retiree benefits are vested subject to an annual cap and an injunction preventing Alcoa, prior to 2017, from modifying the plan design to which plaintiffs are subject or changing the premiums and deductibles that plaintiffs must pay. Also on March 23, 2011, plaintiffs filed a motion for award of attorneys' fees and expenses. On June 11, 2012, the court issued its memorandum and order denying plaintiffs' motion for clarification and/or amendment to the original judgment order. On July 6, 2012, plaintiffs filed a notice of appeal of the court's March 9, 2011 judgment. On July 12, 2012, the trial court stayed Alcoa's motion for assessment of costs pending resolution of plaintiffs' appeal. The appeal was docketed in the United States Court of Appeals for the Sixth Circuit as case number 12-5801. On August 29, 2012, the trial court dismissed plaintiffs' motion for attorneys' fees without prejudice to refiling the motion following the resolution of the appeal at the Sixth Circuit Court of Appeals. On May 9, 2013, the Sixth Circuit Court of Appeals issued an opinion affirming the trial court's denial of plaintiffs' claims for lifetime, uncapped retiree healthcare benefits. Plaintiffs filed a petition for rehearing on May 22, 2013 to which Alcoa filed a response on June 7, 2013. On September 12, 2013, the Sixth Circuit Court of Appeals denied plaintiffs' petition for rehearing. The trial court is now considering Alcoa's request for an award of costs, which had been stayed pending resolution of the appeal, and the plaintiffs' request for attorneys' fees, which had been dismissed without prejudice to refiling following resolution of the appeal. On December 17, 2013 the United States Supreme Court docketed the plaintiffs' petition for writ of certiorari to the Sixth Circuit Court of Appeals as Charles Curtis, et al., Individually and on Behalf of All Others Similarly Situated, Petitioners v. Alcoa Inc., et al., Docket No.13-728. Alcoa's opposition to this petition was filed on January 16, 2014 and Petitioners filed their reply on January 29, 2014.

On February 24, 2014, the Supreme Court denied plaintiffs' petition. The Supreme Court's refusal to hear the matter ends the substantive litigation and affirms Alcoa's collectively bargained cap on the Company's contributions to union retiree medical costs. By order dated June 26, 2014, the trial court denied plaintiff's petition for award of attorneys' fees and expenses. Thereafter, the plaintiffs and Alcoa agreed to dismiss their respective petitions for fees and costs. The case has been fully resolved.

Before 2002, Alcoa purchased power in Italy in the regulated energy market and received a drawback of a portion of the price of power under a special tariff in an amount calculated in accordance with a published resolution of the Italian Energy Authority, Energy Authority Resolution n. 204/1999 ("204/1999"). In 2001, the Energy Authority published another resolution, which clarified that the drawback would be calculated in the same manner, and in the same amount, in either the regulated or unregulated market. At the beginning of 2002, Alcoa left the regulated energy market to purchase energy in the unregulated market. Subsequently, in 2004, the Energy Authority introduced regulation no. 148/2004 which set forth a different method for calculating the special tariff that would result in a different drawback for the regulated and unregulated markets. Alcoa challenged the new regulation in the Administrative Court of Milan and received a favorable judgment in 2006. Following this ruling, Alcoa continued to receive the power price drawback in accordance with the original calculation method, through 2009, when the European Commission declared all such special tariffs to be impermissible "state aid." In 2010, the Energy Authority appealed the 2006 ruling to the Consiglio di Stato (final court of appeal). On December 2, 2011, the Consiglio di Stato ruled in favor of the Energy Authority and against Alcoa, thus presenting the opportunity for the energy regulators to seek reimbursement from Alcoa of an amount equal to the difference between the actual drawback amounts received over the relevant time period, and the drawback as it would have been calculated in accordance with regulation 148/2004. On February 23, 2012, Alcoa filed its appeal of the decision of the Consiglio di Stato (this appeal was subsequently withdrawn in March 2013). On March 26, 2012, Alcoa received a letter from the agency (Cassa Conguaglio per il Settore Eletrico (CCSE)) responsible for making and collecting payments on behalf of the Energy Authority demanding payment in the amount of approximately $110 (€85), including interest. By letter dated April 5, 2012, Alcoa informed CCSE that it disputes the payment demand of CCSE since (i) CCSE was not authorized by the Consiglio di Stato decisions to seek payment of any amount, (ii) the decision of the Consiglio di Stato has been appealed (see above), and (iii) in any event, no interest should be payable. On April 29, 2012, Law No. 44 of 2012 (“44/2012”) came into effect, changing the method to calculate the drawback. On February 21, 2013, Alcoa received a revised request letter from CSSE demanding Alcoa’s subsidiary, Alcoa Trasformazioni S.r.l., make a payment in the amount of $97 (€76), including interest, which reflects a revised calculation methodology by CCSE and represents the high end of the range of reasonably possible loss associated with this matter of $0 to $97 (€76). Alcoa has rejected that demand and has formally challenged it through an appeal before the Administrative Court on April 5, 2013. The Administrative Court scheduled a hearing for December 19, 2013, which was subsequently postponed until April 17, 2014, and further postponed until June 19, 2014. On this date, the Administrative Court listened to Alcoa’s oral argument, and on September 2, 2014, rendered its decision. The Administrative Court declared the payment request of CCSE and the Energy Authority to Alcoa to be unsubstantiated based on the 148/2004 resolution with respect to the January 19, 2007 through November 19, 2009 timeframe. The September 2, 2014 decision issued by the Administrative Court may be appealed in part or in its entirety by December 2, 2014. At this time, the Company is unable to reasonably predict an outcome for this matter.

European Commission Matters

In July 2006, the European Commission (EC) announced that it had opened an investigation to establish whether an extension of the regulated electricity tariff granted by Italy to some energy-intensive industries complied with European Union (EU) state aid rules. The Italian power tariff extended the tariff that was in force until December 31, 2005 through November 19, 2009 (Alcoa had been incurring higher power costs at its smelters in Italy subsequent to the tariff end date through the end of 2012). The extension was originally through 2010, but the date was changed by legislation adopted by the Italian Parliament effective on August 15, 2009. Prior to expiration of the tariff in 2005, Alcoa had been operating in Italy for more than 10 years under a power supply structure approved by the EC in 1996. That measure provided a competitive power supply to the primary aluminum industry and was not considered state aid from the Italian Government. The EC’s announcement expressed concerns about whether Italy’s extension of the tariff beyond 2005 was compatible with EU legislation and potentially distorted competition in the European market of primary aluminum, where energy is an important part of the production costs.

On November 19, 2009, the EC announced a decision in this matter stating that the extension of the tariff by Italy constituted unlawful state aid, in part, and, therefore, the Italian Government is to recover a portion of the benefit Alcoa received since January 2006 (including interest). The amount of this recovery was to be based on a calculation prepared by the Italian Government (see below). In late 2009, after discussions with legal counsel and reviewing the bases on which the EC decided, including the different considerations cited in the EC decision regarding Alcoa’s two smelters in Italy, Alcoa recorded a charge of $250 (€173), which included $20 (€14) to write off a receivable from the Italian Government for amounts due under the now expired tariff structure and $230 (€159) to establish a reserve. On April 19, 2010, Alcoa filed an appeal of this decision with the General Court of the EU (see below). Prior to 2012, Alcoa was involved in other legal proceedings related to this matter that separately sought the annulment of the EC’s July 2006 decision to open an investigation alleging that such decision did not follow the applicable procedural rules and requested injunctive relief to suspend the effectiveness of the EC’s November 19, 2009 decision. However, the decisions by the General Court, and subsequent appeals to the European Court of Justice, resulted in the denial of these remedies.

In June 2012, Alcoa received formal notification from the Italian Government with a calculated recovery amount of $375 (€303); this amount was reduced by $65 (€53) for amounts owed by the Italian Government to Alcoa, resulting in a net payment request of $310 (€250). In a notice published in the Official Journal of the European Union on September 22, 2012, the EC announced that it had filed an action against the Italian Government on July 18, 2012 to compel it to collect the recovery amount (on October 17, 2013, the European Court of Justice ordered Italy to so collect). On September 27, 2012, Alcoa received a request for payment in full of the $310 (€250) by October 31, 2012. Following discussions with the Italian Government regarding the timing of such payment, Alcoa paid the requested amount in five quarterly installments of $69 (€50) beginning in October 2012 through December 2013. Notwithstanding the payments made, Alcoa’s estimate of the most probable loss of the ultimate outcome of this matter and the low end of the range of reasonably possible loss, which is $202

(€159) to $385 (€303), remains the $202 (€159) recorded in 2009 (the U.S. dollar amount reflects the effects of foreign currency movements since 2009). Alcoa no longer has a reserve for this matter; instead, Alcoa has a noncurrent asset reflecting the excess of the total of the five payments made to the Italian Government over the reserve recorded in 2009. At September 30, 2014, the noncurrent asset was $116 (€91) (this does not include the $67 (€53) for amounts owed by the Italian Government to Alcoa mentioned above).

On October 16, 2014, Alcoa received notice from the General Court of the EU that its April 19, 2010 appeal of the EC's November 19, 2009 decision was denied. Alcoa has 60 days from October 16, 2014 to further appeal this decision on issues of law only. Management and legal counsel are currently reviewing the detailed decision of the General Court of the EU in order to make such a determination.

As a result of the EC's November 19, 2009 decision, management had contemplated ceasing operations at its Italian smelters due to uneconomical power costs. In February 2010, management agreed to continue to operate its smelters in Italy for up to six months while a long-term solution to address increased power costs could be negotiated. Over a portion of this time, a long-term solution was not able to be reached related to the Fusina smelter, therefore, in May 2010, Alcoa and the Italian Government agreed to a temporary idling of the Fusina smelter. As of September 30, 2010, the Fusina smelter was fully curtailed (44,000 metric-tons-per-year). For the Portovesme smelter, Alcoa executed a new power agreement effective September 1, 2010 through December 31, 2012, replacing the short-term, market-based power contract that was in effect since early 2010. This new agreement along with interruptibility rights (i.e. compensation for power interruptions when grids are overloaded) granted to Alcoa for the Portovesme smelter provided additional time to negotiate a long-term solution (the EC had previously determined that the interruptibility rights were not considered state aid).

At the end of 2011, as part of a restructuring of Alcoa's global smelting system, management decided to curtail operations at the Portovesme smelter during 2012 due to the uncertain prospects for viable, long-term power, along with rising raw materials costs and falling global aluminum prices (mid-2011 to late 2011). As of December 31, 2012, the Portovesme smelter was fully curtailed (150,000 metric-tons-per-year).

In June 2013 and August 2014, Alcoa decided to permanently shut down and demolish the Fusina and Portovesme smelters, respectively, due to persistent uneconomical conditions (see Note D).

In January 2007, the EC announced that it had opened an investigation to establish whether the regulated electricity tariffs granted by Spain comply with EU state aid rules. At the time the EC opened its investigation, Alcoa had been operating in Spain for more than nine years under a power supply structure approved by the Spanish Government in 1986, an equivalent tariff having been granted in 1983. The investigation is limited to the year 2005 and is focused both on the energy-intensive consumers and the distribution companies. The investigation provided 30 days to any interested party to submit observations and comments to the EC. With respect to the energy-intensive consumers, the EC opened the investigation on the assumption that prices paid under the tariff in 2005 were lower than a pool price mechanism, therefore being, in principle, artificially below market conditions. Alcoa submitted comments in which the company provided evidence that prices paid by energy-intensive consumers were in line with the market, in addition to various legal arguments defending the legality of the Spanish tariff system. It is Alcoa's understanding that the Spanish tariff system for electricity is in conformity with all applicable laws and regulations, and therefore no state aid is present in the tariff system. While Alcoa does not believe that an unfavorable decision is probable, management has estimated that the total potential impact from an unfavorable decision could be approximately $90 (€70) pretax. Also, while Alcoa believes that any additional cost would only be assessed for the year 2005, it is possible that the EC could extend its investigation to later years. If the EC's investigation concludes that the regulated electricity tariffs for industries are unlawful, Alcoa will have an opportunity to challenge the decision in the EU courts.

On February 4, 2014, the EC announced a decision in this matter stating that the electricity tariffs granted by Spain for year 2005 do not constitute unlawful state aid.

Environmental Matters

Alcoa participates in environmental assessments and cleanups at more than 100 locations. These include owned or operating facilities and adjoining properties, previously owned or operating facilities and adjoining properties, and waste sites, including Superfund (Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)) sites. A liability is recorded for environmental remediation when a cleanup program becomes probable and the costs can be reasonably estimated.

As assessments and cleanups proceed, the liability is adjusted based on progress made in determining the extent of remedial actions and related costs. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements, and technological changes, among others.

Alcoa's remediation reserve balance was $563 and $509 at September 30, 2014 and December 31, 2013 (of which $66 and $48 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 the 2014 third quarter and nine-month period, the remediation reserve was increased by $11 and $63, respectively. The change in the third quarter of 2014 was due to a charge of $4 related to the planned demolition of the Portovesme smelter (separate from the matter discussed below – see Note D) and a net charge of $7 associated with a number of other sites. The change in the nine-month period of 2014 was due to a charge of $42 related to the planned demolition of certain structures at the Massena East, NY, Point Henry and Yennora, Australia, and Portovesme, Italy locations (see Note D), a charge of $3 related to the Portovesme location (see below), and a net charge of $18 associated with a number of other sites. Of the changes to the remediation reserve in the 2014 third quarter and nine-month period, $5 and $47, respectively, was recorded in Restructuring and other charges, including the aforementioned $42, while the remainder was recorded in Cost of goods sold on the accompanying Statement of Consolidated Operations.

Payments related to remediation expenses applied against the reserve were $13 and $33 in the 2014 third quarter and nine-month period, respectively. These amounts include expenditures currently mandated, as well as those not required by any regulatory authority or third party. The change in the reserve also reflects a decrease of $6 in the 2014 third quarter due to the effects of foreign currency translation and an increase of $24 in the 2014 nine-month period due to, among other items, the effects of foreign currency translation and a reclassification of amounts included in other reserves within Other noncurrent liabilities and deferred credits on Alcoa's Consolidated Balance Sheet as of December 31, 2013.

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.

The following discussion provides details regarding the current status of certain significant reserves related to current or former Alcoa sites.

Massena West, NY—Alcoa has an ongoing remediation project related to the Grasse River, which is adjacent to Alcoa's Massena plant site. Many years ago, it was determined that sediments and fish in the river contain varying levels of polychlorinated biphenyls (PCBs). The project, which was selected by the U.S. Environmental Protection Agency (EPA) in a Record of Decision (ROD) issued in April 2013, is aimed at capping PCB contaminated sediments with concentration in excess of one part per million in the main channel of the river and dredging PCB contaminated sediments in the near-shore areas where total PCBs exceed one part per million. At September 30, 2014, the reserve balance associated with this matter was $240. Alcoa is in the planning and design phase, which is expected to take approximately two to three years from mid-2013, followed by the actual remediation fieldwork that is expected to take approximately four years. The majority of the project funding is expected to be spent between 2016 and 2020.

Sherwin, TX—In connection with the sale of the Sherwin alumina refinery, which was required to be divested as part of the Reynolds merger in 2000, Alcoa 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 bauxite residue waste disposal areas (known as the Copano facility). Alcoa's share of the closure costs is proportional to the total period of operation of the active waste disposal areas. At September 30, 2014, the reserve balance associated with Sherwin was $33. Approximately half of the project funding is expected to be spent between 2014 and 2019. The remainder is not expected to be spent in the foreseeable future as it is dependent upon the operating life of the active waste disposal areas.

East St. Louis, IL—Alcoa has an ongoing remediation project related to an area used for the disposal of bauxite residue from former alumina refining operations. The project, which was selected by the EPA in a ROD issued in July 2012, is aimed at implementing a soil cover over the affected area. On November 1, 2013, the Department of Justice lodged a consent decree on behalf of the EPA for Alcoa to conduct the work outlined in the ROD. This consent decree was entered as final in February 2014 by the Department of Justice. As a result, Alcoa began construction in March 2014; this project is expected to be completed by mid-2015. At September 30, 2014, the reserve balance associated with this matter was $17. The majority of the project funding is expected to be spent between 2014 and 2015.

Fusina and Portovesme, Italy—In 1996, Alcoa acquired the Fusina smelter and rolling operations and the Portovesme smelter, both of which are owned by Alcoa's subsidiary Alcoa Trasformazioni S.r.l. ("Trasformazioni"), from Alumix, an entity owned by the Italian Government. At the time of the acquisition, Alumix indemnified Alcoa for pre-existing environmental contamination at the sites. In 2004, the Italian Ministry of Environment and Protection of Land and Sea (MOE) issued orders to Trasformazioni and Alumix for the development of a clean-up plan related to soil contamination in excess of allowable limits under legislative decree and to institute emergency actions and pay natural resource damages. Trasformazioni appealed the orders and filed suit against Alumix, among others, seeking indemnification for these liabilities under the provisions of the acquisition agreement. In 2009, Ligestra S.r.l. ("Ligestra"), Alumix's successor, and Trasformazioni agreed to a stay of the court proceedings while investigations were conducted and negotiations advanced towards a possible settlement.

In December 2009, Trasformazioni and Ligestra reached an initial agreement for settlement of the liabilities related to Fusina while negotiations continued related to Portovesme (see below). The agreement outlined an allocation of payments to the MOE for emergency action and natural resource damages and the scope and costs for a proposed soil remediation project, which was formally presented to the MOE in mid-2010. The agreement is contingent upon final acceptance of the remediation project by the MOE. As a result of entering into this agreement, Alcoa increased the reserve by $12 in 2009 for Fusina. Based on comments received from the MOE and local and regional environmental authorities, Trasformazioni submitted a revised remediation plan in the first half of 2012; however, such revisions did not require any change to the existing reserve. In October 2013, the MOE approved the project submitted by Alcoa, resulting in no adjustment to the reserve.

In January 2014, in anticipation of Alcoa reaching a final administrative agreement with the MOE, Alcoa and Ligestra entered into a final agreement related to Fusina for allocation of payments to the MOE for emergency action and natural resource damages and the costs for the approved soil remediation project. The agreement resulted in Ligestra assuming 50% to 80% of all payments and remediation costs. On February 27, 2014, Alcoa and the MOE reached a final administrative agreement for conduct of work. The agreement includes both a soil and groundwater remediation project estimated to cost $33 (€24) and requires payments of $25 (€18) to the MOE for emergency action and natural resource damages. The remediation projects are slated to begin in 2015. Based on the final agreement with Ligestra, Alcoa's share of all costs and payments is $17 (€12), of which $9 (€6) related to the damages will be paid annually over a 10-year period, which began in April 2014, and was previously fully reserved.

Separately, in 2009, due to additional information derived from the site investigations conducted at Portovesme, Alcoa increased the reserve by $3. In November 2011, Trasformazioni and Ligestra reached an agreement for settlement of the liabilities related to Portovesme, similar to the one for Fusina. A proposed soil remediation project for Portovesme was formally presented to the MOE in June 2012. Neither the agreement with Ligestra nor the proposal to the MOE resulted in a change to the reserve for Portovesme. In November 2013, the MOE rejected the proposed soil remediation project and requested a revised project be submitted. In May 2014, Trasformazioni and Ligestra submitted a revised soil remediation project that addressed certain stakeholders' concerns. Alcoa increased the reserve by $3 in the 2014 second quarter to reflect the estimated higher costs associated with the revised soil remediation project, as well as current operating and maintenance costs of the Portovesme site. The ultimate outcome of this matter may result in a change to the existing reserve for Portovesme.

Baie Comeau, Quebec, Canada—In August 2012, Alcoa presented an analysis of remediation alternatives to the Quebec Ministry of Sustainable Development, Environment, Wildlife and Parks (MDDEP), in response to a previous request, related to known PCBs and polycyclic aromatic hydrocarbons (PAHs) contained in sediments of the Anse du Moulin bay. As such, Alcoa increased the reserve for Baie Comeau by $25 in 2012 to reflect the estimated cost of Alcoa's recommended alternative, consisting of both dredging and capping of the contaminated sediments. In July 2013, Alcoa submitted the Environmental Impact Assessment for the project to the MDDEP and this document is currently in the regulatory review process. The ultimate selection of a remedy may result in additional liability at the time the MDDEP issues a final decision.

Mosjøen, Norway—In September 2012, Alcoa presented an analysis of remediation alternatives to the Norwegian Environmental Agency (NEA) (formerly the Norwegian Climate and Pollution Agency, or "Klif"), in response to a previous request, related to known PAHs in the sediments located in the harbor and extending out into the fjord. As such, Alcoa increased the reserve for Mosjøen by $20 in 2012 to reflect the estimated cost of the baseline alternative for dredging of the contaminated sediments. The ultimate selection of a remedy may result in additional liability at the time the NEA issues a final decision.

Other

In September 2010, following a corporate income tax audit covering the 2003 through 2005 tax years, an assessment was received as a result of Spain's tax authorities disallowing certain interest deductions claimed by a Spanish consolidated tax group owned by the Company. An appeal of this assessment in Spain's Central Tax Administrative Court by the Company was denied in October 2013. In December 2013, the Company filed an appeal of the assessment in Spain's National Court.

Additionally, following a corporate income tax audit of the same Spanish tax group for the 2006 through 2009 tax years, Spain's tax authorities issued an assessment in July 2013 similarly disallowing certain interest deductions. In August 2013, the Company filed an appeal of this second assessment in Spain's Central Tax Administrative Court.

The combined assessments total $307 (€242). The Company believes it has meritorious arguments to support its tax position and intends to vigorously litigate the assessments through Spain's court system. However, in the event the Company is unsuccessful, a portion of the assessments may be offset with existing net operating losses available to the Spanish consolidated tax group. Additionally, it is possible that the Company may receive similar assessments for tax years subsequent to 2009. At this time, the Company is unable to reasonably predict an outcome for this matter.

In March 2013, Alcoa's subsidiary, Alcoa World Alumina Brasil (AWAB), was notified by the Brazilian Federal Revenue Office (RFB) that approximately $110 (R$220) of value added tax credits previously claimed are being disallowed and a penalty of 50% assessed. Of this amount, AWAB received $41 (R$82) in cash in May 2012. The value added tax credits were claimed by AWAB for both fixed assets and export sales related to the Juruti bauxite mine and São Luís refinery expansion. The RFB has disallowed credits they allege belong to the consortium in which AWAB owns an interest and should not have been claimed by AWAB. Credits have also been disallowed as a result of challenges to apportionment methods used, questions about the use of the credits, and an alleged lack of documented proof. The assessment is currently in the administrative process, which could take approximately two years to complete. AWAB presented defense of its claim to the RFB on April 8, 2013. If AWAB is successful in the administrative process, the RFB would have no further recourse. If unsuccessful in this process, AWAB has the option to litigate at a judicial level. The estimated range of reasonably possible loss is $0 to $60 ($R155), whereby the maximum end of the range represents the sum of the portion of the disallowed credits applicable to the export sales and a 50% penalty of the gross amount disallowed. Additionally, the estimated range of disallowed credits related to AWAB's fixed assets is $0 to $70 (R$175), which would increase the net carrying value of AWAB's fixed assets if ultimately disallowed. It is management's opinion that the allegations have no basis; however, at this time, management is unable to reasonably predict an outcome for this matter.

Between 2000 and 2002, Alcoa Alumínio (Alumínio) sold approximately 2,000 metric tons of metal per month from its Poços de Caldas facility, located in the State of Minas Gerais (the "State"), to Alfio, a customer also located in the State. Sales in the State were exempted from value-added tax (VAT) requirements. Alfio subsequently sold metal to customers outside of the State, but did not pay the required VAT on those transactions. In July 2002, Alumínio received an assessment from State auditors on the theory that Alumínio should be jointly and severally liable with Alfio for the unpaid VAT. In June 2003, the administrative tribunal found Alumínio liable, and Alumínio filed a judicial case in the State in February 2004 contesting the finding. In May 2005, the Court of First Instance found Alumínio solely liable, and a panel of a State appeals court confirmed this finding in April 2006. Alumínio filed a special appeal to the Superior Tribunal of Justice (STJ) in Brasilia (the federal capital of Brazil) later in 2006. In 2011, the STJ (through one of its judges) reversed the judgment of the lower courts, finding that Alumínio should neither be solely nor jointly and severally liable with Alfio for the VAT, which ruling was then appealed by the State. In June 2012, the STJ agreed to have the case reheard before a five-judge panel. A decision from this panel is pending, but additional appeals are likely. At September 30, 2014, the assessment totaled $51 (R$125), including penalties and interest. While the Company believes it has meritorious defenses, the Company is unable to reasonably predict an outcome.

In addition to the matters discussed above, various other lawsuits, claims, and proceedings have been or may be instituted or asserted against Alcoa, including those pertaining to environmental, product liability, safety and health, and tax matters. While the amounts claimed in these other matters may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that the Company's liquidity or results of operations in a particular period could be materially affected by one or more of these other matters. However, based on facts currently available, management believes that the disposition of these other matters that are pending or asserted will not have a material adverse effect, individually or in the aggregate, on the financial position of the Company.

Commitments

Investments

Alcoa has an investment in a joint venture for the development, construction, ownership, and operation of an integrated aluminum complex (bauxite mine, alumina refinery, aluminum smelter, and rolling mill) in Saudi Arabia. The joint venture is owned 74.9% by the Saudi Arabian Mining Company (known as "Ma'aden") and 25.1% by Alcoa and consists of three separate companies as follows: one each for the mine and refinery, the smelter, and the rolling mill. Alcoa accounts for its investment in the joint venture under the equity method. Capital investment in the project is expected to total approximately $10,800 (SAR 40.5 billion). Alcoa's equity investment in the joint venture will be approximately $1,100, and Alcoa will be responsible for its pro rata share of the joint venture's project financing. Alcoa has contributed $919, including $4 and $87 in the 2014 third quarter and nine-month period, respectively, towards the $1,100 commitment. As of September 30, 2014 and December 31, 2013, the carrying value of Alcoa's investment in this project was $956 and $951, respectively.

The smelting and rolling mill companies have project financing totaling $4,515, of which $1,133 represents Alcoa's share (the equivalent of Alcoa's 25.1% interest in the smelting and rolling mill companies). In conjunction with the financings, Alcoa issued guarantees on behalf of the smelting and rolling mill companies to the lenders in the event that such companies default on their debt service requirements through 2017 and 2020 for the smelting company and 2018 and 2021 for the rolling mill company (Ma'aden issued similar guarantees for its 74.9% interest). Alcoa's guarantees for the smelting and rolling mill companies cover total debt service requirements of $193 in principal and up to a maximum of approximately $60 in interest per year (based on projected interest rates). At September 30, 2014 and December 31, 2013, the combined fair value of the guarantees was $8 and $10, respectively, and was included in Other noncurrent liabilities and deferred credits on the accompanying Consolidated Balance Sheet.

The mining and refining company has project financing totaling $1,992, of which $500 represents Alcoa World Alumina and Chemical's (AWAC) 25.1% interest in the mining and refining company. Also, in January 2014, the mining and refining company entered into additional project financing totaling $240, of which $60 represents AWAC's share. In conjunction with the financings, Alcoa, on behalf of AWAC, issued guarantees to the lenders in the event that the mining and refining company defaults on its debt service requirements through 2019 and 2024 (Ma'aden issued similar guarantees for its 74.9% interest). Alcoa's guarantees for the mining and refining company cover total debt service requirements of $120 in principal and up to a maximum of approximately $30 in interest per year (based on projected interest rates). At September 30, 2014 and December 31, 2013, the combined fair value of the guarantees was $3 and $4, respectively, and was included in Other noncurrent liabilities and deferred credits on the accompanying Consolidated Balance Sheet. In the event Alcoa would be required to make payments under the guarantees, 40% of such amount would be contributed to Alcoa by Alumina Limited, consistent with its ownership interest in AWAC.

Under the project financings for both the smelting and rolling mill companies and the mining and refining company, a downgrade of Alcoa's credit ratings below investment grade by at least two agencies would require Alcoa to provide a letter of credit or fund an escrow account for a portion or all of Alcoa's remaining equity commitment to the joint venture project in Saudi Arabia. This requirement would be effective only if at the time of a second downgrade in Alcoa's credit ratings below investment grade, Alcoa's equity investment was below 67% of its equity commitment in any of the three joint venture companies. A second downgrade in Alcoa's credit ratings occurred on April 11, 2014; however, Alcoa had already contributed more than 67% of its equity commitment in each of the three joint venture companies prior to this downgrade. As a result, this requirement is no longer applicable.

Alumínio, a wholly-owned subsidiary of Alcoa, is a participant in four consortia that each owns a hydroelectric power project in Brazil. One of these projects is known as Estreito, which reached full capacity in March 2013. Alumínio's investment in this project is 25.49%, which entitles Alumínio to approximately 150 megawatts of assured power. The Estreito consortium is an unincorporated joint venture, and, therefore, Alumínio's share of the assets and liabilities of the consortium are reflected in the respective lines on the accompanying Consolidated Balance Sheet. Total estimated project costs are approximately $2,110 (R$5,170) and Alumínio's share is approximately $540 (R$1,320). As of September 30, 2014, approximately $520 (R$1,270) of Alumínio's commitment was expended on the project.

In 2004, Alcoa acquired a 20% interest in a consortium, which subsequently purchased the Dampier to Bunbury Natural Gas Pipeline (DBNGP) in Western Australia, in exchange for an initial cash investment of $17 (A$24). The investment in the DBNGP, which is classified as an equity investment, was made in order to secure a competitively priced long-term supply of natural gas to Alcoa's refineries in Western Australia. Alcoa has made additional contributions of $141 (A$176) for its share of the pipeline capacity expansion and other operational purposes of the consortium through September 2011. No further expansion of the pipeline's capacity is planned at this time. In late 2011, the consortium initiated a three-year equity call plan to improve its capitalization structure. This plan requires Alcoa to contribute $40 (A$40), of which $37 (A$38) was made through September 30, 2014, including $5 (A$5) and $8 (A$9) in the 2014 third quarter and nine-month period, respectively. In addition to its equity ownership, Alcoa has an agreement to purchase gas transmission services from the DBNGP. At September 30, 2014, Alcoa has an asset of $312 (A$358) representing prepayments made under the agreement for future gas transmission services. Alcoa's maximum exposure to loss on the investment and the related contract is approximately $430 (A$500) as of September 30, 2014.

I. Other Expenses (Income), Net

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Equity loss	$ 16	$ 18	$ 84	$ 40
Interest income	(3)	(3)	(13)	(11)
Foreign currency gains, net	(5)	(4)	—	(15)
Net gain from asset sales	(15)	(1)	(44)	(7)
Net loss (gain) on mark-to-market derivative contracts (P)	20	(17)	17	(18)
Other, net	10	—	9	(4)
	$ 23	$ (7)	$ 53	$ (15)

J. Segment Information – The operating results of Alcoa's reportable segments were as follows (differences between segment totals and consolidated totals are in Corporate):

	Alumina	Primary Metals	Global Rolled Products	Engineered Products and Solutions	Total
Third quarter ended September 30, 2014					
Sales:					
Third-party sales	$ 886	$ 1,865	$ 1,926	$ 1,495	$6,172
Intersegment sales	482	730	52	—	1,264
Total sales	$ 1,368	$ 2,595	$ 1,978	$ 1,495	$7,436
Profit and loss:					
Equity loss	$ (7)	$ —	$ (8)	$ —	$ (15)
Depreciation, depletion, and amortization	100	124	62	40	326
Income taxes	26	95	42	100	263
After-tax operating income (ATOI)	62	245	103	209	619
Third quarter ended September 30, 2013					
Sales:					
Third-party sales	$ 846	$ 1,600	$ 1,805	$ 1,437	$5,688
Intersegment sales	513	691	47	—	1,251
Total sales	$ 1,359	$ 2,291	$ 1,852	$ 1,437	$6,939
Profit and loss:					
Equity loss	$ (2)	$ (13)	$ (3)	$ —	$ (18)
Depreciation, depletion, and amortization	100	131	56	40	327
Income taxes	17	(16)	32	91	124
ATOI	67	8	71	192	338

	Alumina	Primary Metals	Global Rolled Products	Engineered Products and Solutions	Total
Nine months ended September 30, 2014					
Sales:					
Third-party sales	$ 2,492	$ 4,948	$ 5,463	$ 4,440	$17,343
Intersegment sales	1,472	2,182	139	—	3,793
Total sales	$ 3,964	$ 7,130	$ 5,602	$ 4,440	$21,136
Profit and loss:					
Equity loss	$ (19)	$ (45)	$ (19)	$ —	$ (83)
Depreciation, depletion, and amortization	297	377	178	121	973
Income taxes	78	114	99	293	584
ATOI	192	327	241	602	1,362
Nine months ended September 30, 2013					
Sales:					
Third-party sales	$ 2,494	$ 4,978	$ 5,461	$ 4,328	$17,261
Intersegment sales	1,689	2,095	141	—	3,925
Total sales	$ 4,183	$ 7,073	$ 5,602	$ 4,328	$21,186
Profit and loss:					
Equity loss	$ (2)	$ (29)	$ (9)	$ —	$ (40)
Depreciation, depletion, and amortization	324	398	168	119	1,009
Income taxes	45	(40)	103	269	377
ATOI	189	15	231	558	993

The following table reconciles total segment ATOI to consolidated net income attributable to Alcoa:

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Total segment ATOI	$ 619	$ 338	$ 1,362	$ 993
Unallocated amounts (net of tax):				
Impact of LIFO	(18)	9	(33)	12
Interest expense	(81)	(70)	(228)	(221)
Noncontrolling interests	18	(20)	46	(12)
Corporate expense	(74)	(74)	(211)	(212)
Restructuring and other charges	(189)	(108)	(587)	(324)
Other	(126)	(51)	(240)	(182)
Consolidated net income attributable to Alcoa	$ 149	$ 24	$ 109	$ 54

Items required to reconcile total segment ATOI to consolidated net income attributable to Alcoa include: the impact of LIFO inventory accounting; interest expense; noncontrolling interests; corporate expense (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; discontinued operations; and other items, including intersegment profit eliminations, differences between tax rates applicable to the segments and the consolidated effective tax rate, the results of the soft alloy extrusions business in Brazil, and other nonoperating items such as foreign currency transaction gains/losses and interest income.

K. Preferred and Common Stock – In September 2014, Alcoa completed a public offering under its shelf registration statement for $1,250 of 25 million depositary shares, each of which represents a 1/10th interest in a share of Alcoa's 5.375% Class B Mandatory Convertible Preferred Stock, Series 1, par value $1 per share, liquidation preference $500 per share (the "Mandatory Convertible Preferred Stock"). The 25 million depositary shares are equivalent to 2.5 million shares of Mandatory Convertible Preferred Stock. Each depositary share entitles the holder, through the depositary, to a proportional fractional interest in the rights and preferences of a share of Mandatory Convertible Preferred Stock, including conversion, dividend, liquidation, and voting rights, subject to terms of the deposit agreement. Alcoa received $1,213 in net proceeds from the public offering reflecting an underwriting discount. The net proceeds are intended to be used, together with the net proceeds of newly issued debt (see Note G), to finance the cash portion of a planned acquisition of an aerospace business (see Note E). The underwriting discount was recorded as a decrease to Additional capital on the accompanying Consolidated Balance Sheet.

The Mandatory Convertible Preferred Stock is a series of Alcoa's Class B Serial Preferred Stock, of which Alcoa is authorized to issue up to 10 million shares; prior to this transaction no such shares were issued or outstanding. Class B Serial Preferred Stock ranks senior to Alcoa's common stock and junior to Alcoa's Class A Preferred Stock and existing and future indebtedness. Dividends on the Mandatory Convertible Preferred Stock are cumulative in nature and will be paid at the rate of $26.8750 per annum per share, commencing January 1, 2015. Holders of the Mandatory Convertible Preferred Stock generally have no voting rights.

If the acquisition is not consummated on or prior to 5:00 p.m. (New York City time) on April 1, 2015 or if prior to this stated date and time, the share purchase agreement related to the acquisition is terminated or Alcoa determines in its reasonable judgment that the acquisition will not occur, Alcoa may elect to redeem the Mandatory Convertible Preferred Stock, in whole but not in part, at a redemption price specified in the terms of the Mandatory Convertible Preferred Stock, plus any accumulated and unpaid dividends. Under no other circumstances does Alcoa have the right to redeem the Mandatory Convertible Preferred Stock.

On the mandatory conversion date, October 1, 2017, all outstanding shares of Mandatory Convertible Preferred Stock will automatically convert into shares of Alcoa's common stock. Based on the Applicable Market Value (as defined in the terms of the Mandatory Convertible Preferred Stock) of Alcoa's common stock on the mandatory conversion date, each share of Mandatory Convertible Preferred Stock will be convertible into not more than 30.9406 shares of common stock and not less than 25.7838 shares of common stock, subject to certain anti-dilution and other adjustments as described in the terms of the Mandatory Convertible Preferred Stock. At any time prior to October 1, 2017, a holder may elect to convert shares of Mandatory Convertible Preferred Stock, in whole or in part (but in no event less than one share of Mandatory Convertible Preferred Stock), at the minimum conversion rate of 25.7838 shares of common stock, subject to certain anti-dilution and other adjustments as described in the terms of the Mandatory Convertible Preferred Stock.

If Alcoa undergoes a fundamental change, as defined in the depositary shares, holders may elect to convert their Mandatory Convertible Preferred Stock, in whole or in part (but in no event less than one share of Mandatory Convertible Preferred Stock), into shares of Alcoa's common stock. The per share conversion rate under a fundamental change is not less than 25.2994 shares of common stock and not more than 30.9406 shares of common stock. Holders who elect to convert will also receive any accumulated and unpaid dividends and a Fundamental Change Dividend Make-whole Amount (as defined in the terms of the Mandatory Convertible Preferred Stock) equal to the present value of all remaining dividend payments on the Mandatory Convertible Preferred Stock.

The underwriters of this public offering were granted a 30-day option to purchase up to an additional 3,750,000 depositary shares (equivalent to 375,000 shares of Mandatory Convertible Preferred Stock) solely to cover overallotments, if any. As of September 30, 2014, the underwriters have not exercised this option in whole or in part (this option expired unexercised on October 16, 2014).

In the first quarter of 2014, Alcoa issued 89 million shares of common stock (par value $1 per share) under the terms of Alcoa's 5.25% Convertible Notes due March 15, 2014 (see Note G). Alcoa is authorized to issue up to 1.8 billion shares of common stock. As of September 30, 2014, there were 1,267,290,820 common shares issued and 1,177,672,033 common shares outstanding.

L. Earnings Per Share – Basic earnings per share (EPS) amounts are computed by dividing earnings, after the deduction of preferred stock dividends declared, 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 attributable to Alcoa common shareholders was as follows (shares in millions):

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income attributable to Alcoa common shareholders	$ 149	$ 24	$ 109	$ 54
Less: preferred stock dividends declared	—	1	1	2
Net income available to Alcoa common shareholders – basic	149	23	108	52
Add: preferred dividends related to mandatory convertible preferred stock	—	—	—	—
Add: interest expense related to convertible notes	—	—	—	—
Net income available to Alcoa common shareholders – diluted	$ 149	$ 23	$ 108	$ 52
Average shares outstanding – basic	1,177	1,070	1,150	1,069
Effect of dilutive securities:				
Stock options	8	—	6	1
Stock and performance awards	12	9	11	9
Mandatory convertible preferred stock	8	—	3	—
Convertible notes	—	—	—	—
Average shares outstanding – diluted	1,205	1,079	1,170	1,079

In the first quarter of 2014, holders of the convertible notes exercised their option to convert the notes into 89 million shares of Alcoa common stock (see Note G). As a result, for the 2014 third quarter, these 89 million shares were outstanding for the entire period and were included in both basic and diluted average shares outstanding. For the 2014 nine-month period, these 89 million shares were outstanding for a portion of the period equivalent to a weighted average of 67 million shares. The 67 million shares were included in both basic and diluted average shares outstanding for the 2014 nine-month period. For the portion of the 2014 nine-month period that the convertible notes were still outstanding debt, a weighted average of the 89 million share equivalents (22 million) would have been included only in the diluted average shares outstanding if their effect was dilutive.

In the 2014 nine-month period, 22 million share equivalents related to convertible notes (see above) were not included in the computation of diluted EPS because their effect was anti-dilutive.

In the 2013 third quarter and nine-month period, 89 million share equivalents related to convertible notes were not included in the respective computation of diluted EPS because their effect was anti-dilutive.

Options to purchase 3 million and 48 million shares of common stock at a weighted average exercise price of $16.24 and $10.78 per share were outstanding as of September 30, 2014 and 2013, respectively, but were not included in the computation of diluted EPS because they were anti-dilutive, as the exercise prices of the options were greater than the average market price of Alcoa's common stock.

In June 2014, Alcoa entered into an agreement to purchase an aerospace jet engine components company. A portion of the purchase price will be paid in Alcoa common stock equivalent to 36,523,010 shares at a per share price of $13.69 (see Note E).

M. Income Taxes – The effective tax rate for the third quarter of 2014 and 2013 was 60.3% and 41.3%, respectively.

The rate for the 2014 third quarter differs from the U.S. federal statutory rate of 35% primarily due to a $56 discrete income tax charge related to a tax rate change in Brazil (see below), restructuring charges related to operations in Italy for which no tax benefit was recognized (see Note D), and an $8 unfavorable impact related to the interim period treatment of operational losses in certain foreign jurisdictions for which no tax benefit was recognized (impact is expected to reverse by the end of 2014), slightly offset by a $9 discrete income tax benefit for the release of a valuation allowance related to operations in Germany due to the initiation of a tax planning strategy.

The rate for the 2013 third quarter differs from the U.S. federal statutory rate of 35% primarily due to a $6 unfavorable impact related to the interim period treatment of operational losses in certain foreign jurisdictions for which no tax benefit was recognized (impact reversed by the end of 2013), partially offset by foreign income taxed in lower rate jurisdictions.

The effective tax rate for the 2014 and 2013 nine-month periods was 76.0% and 63.7%, respectively.

The rate for the 2014 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to the previously mentioned $56 discrete income tax charge and a $44 unfavorable impact related to the interim period treatment of operational losses in certain foreign jurisdictions for which no tax benefit was recognized (impact is expected to reverse by the end of 2014).

The rate for the 2013 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to a $103 nondeductible charge for a legal matter, restructuring charges related to operations in Canada (benefit at a lower tax rate) and Italy (no tax benefit) (see Note D), and a $10 discrete income tax charge related to prior year taxes in Spain and Australia, somewhat offset by a $19 discrete income tax benefit related to new U.S. tax legislation (see below).

On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law and reinstated various expired or expiring temporary business tax provisions through 2013. Two specific temporary business tax provisions that expired in 2011 and impacted Alcoa are the look-through rule for payments between related controlled foreign corporations and the research and experimentation credit. The expiration of these two provisions resulted in Alcoa recognizing a higher income tax provision of $19 in 2012. As tax law changes are accounted for in the period of enactment, Alcoa recognized the previously mentioned discrete income tax benefit in the 2013 first quarter related to the 2012 tax year to reflect the extension of these provisions.

In December 2011, one of Alcoa's subsidiaries in Brazil applied for a tax holiday related to its expanded mining and refining operations. During 2013, the application was amended and re-filed. The deadline for the Brazilian government to deny the application was July 11, 2014. Since Alcoa did not receive notice that its application was denied, the tax holiday took effect automatically on July 12, 2014. As a result, the tax rate for this subsidiary will decrease significantly (from 34% to 15%), resulting in future cash tax savings over the 10-year holiday period (retroactively effective as of January 1, 2013). Additionally, a portion of the subsidiary's net deferred tax asset that reverses within the holiday period was remeasured at the new lower tax rate in the 2014 third quarter. This remeasurement resulted in a decrease to this subsidiary's net deferred tax asset and a noncash charge to earnings of $56 ($34 after noncontrolling interest).

N. Receivables – Alcoa has an arrangement with three financial institutions to sell certain customer receivables without recourse on a revolving basis. The sale of such receivables is completed through the use of a bankruptcy remote special purpose entity, which is a consolidated subsidiary of Alcoa. This arrangement provides for minimum funding of $200 up to a maximum of $500 for receivables sold. The initial sale of receivables in March 2012 resulted in the setup of a deferred purchase price of $254. Alcoa has received net cash funding of $210 ($848 in draws and $638 in repayments) since the program's inception, including $250 each in draws and repayments in the 2014 nine-month period. As of September 30, 2014, the deferred purchase price receivable was $462, which was included in Other receivables on the accompanying Consolidated Balance Sheet. The deferred purchase price receivable is reduced as collections of the underlying receivables occur; however, as this is a revolving program, the sale of new receivables will result in an increase in the deferred purchase price receivable. The net change in the deferred purchase price receivable was reflected in the (Increase) in receivables line item on the accompanying Statement of Consolidated Cash Flows. This activity is reflected as an operating cash flow because the related customer receivables are the result of an operating activity with an insignificant, short-term interest rate risk. The gross amount of receivables sold and total cash collected under this program since its inception was $15,878 and $15,206, respectively. Alcoa services the customer receivables for the financial institutions at market rates; therefore, no servicing asset or liability was recorded.

O. Pension and Other Postretirement Benefits – The components of net periodic benefit cost were as follows:

	Third quarter ended September 30,		Nine months ended September 30,	
Pension benefits	**2014**	**2013**	**2014**	**2013**
Service cost	$ 42	$ 49	$ 125	$ 148
Interest cost	157	150	476	453
Expected return on plan assets	(198)	(196)	(586)	(592)
Recognized net actuarial loss	97	122	292	369
Amortization of prior service cost	5	4	14	14
Settlement*	18	—	18	2
Curtailment*	—	6	—	6
Special termination benefits*	—	72	—	72
Net periodic benefit cost	$ 121	$ 207	$ 339	$ 472

* These amounts were recorded in Restructuring and other charges on the accompanying Statement of Consolidated Operations (see Note D).

Other postretirement benefits	Third quarter ended September 30, 2014	Third quarter ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Service cost	$ 4	$ 4	$ 12	$ 13
Interest cost	28	28	86	85
Recognized net actuarial loss	4	9	10	26
Amortization of prior service benefit	(6)	(4)	(15)	(13)
Net periodic benefit cost	$ 30	$ 37	$ 93	$ 111

On June 6, 2014, the United Steelworkers ratified a new five-year labor agreement covering approximately 6,100 employees at 10 U.S. locations; the previous labor agreement expired on May 15, 2014. In the 2014 nine-month period, as a result of the preparation for and ratification of the new agreement, Alcoa recognized $18 ($12 after-tax) in Cost of goods sold on the accompanying Statement of Consolidated Operations for, among other items, business contingency costs and a one-time signing bonus for employees. Additionally, as a result of the provisions of the new labor agreement, a significant plan amendment was adopted by one of Alcoa's U.S. pension plans. Accordingly, this plan was required to be remeasured, and through this process, the discount rate was updated from 4.80% at December 31, 2013 to 4.25% at May 31, 2014. The plan remeasurement resulted in an increase to both Alcoa's pension liability of $100 and a combination of the plan's unrecognized net actuarial loss and prior service cost (included in Accumulated other comprehensive loss) of $65 (after-tax). The plan remeasurement also resulted in a $13 decrease to 2014 annual net periodic benefit cost, of which $6 and $8 was recognized in the 2014 third quarter and nine-month period, respectively. The remaining $5 decrease will be recognized in the fourth quarter of 2014.

Effective January 1, 2015, Alcoa will no longer offer postretirement health care benefits to Medicare-eligible, primarily non-bargaining, U.S. retirees through Company-sponsored plans. Qualifying retirees (hired prior to January 1, 2002), both current and future, may access these benefits in the marketplace by purchasing coverage directly from insurance carriers. This change resulted in the adoption of a significant plan amendment by certain Alcoa U.S. postretirement benefit plans. Accordingly, these plans were required to be remeasured, and through this process, the discount rate was updated from 4.80% at December 31, 2013 to 4.15% at August 31, 2014. The remeasurement of the plans resulted in a decrease to both Alcoa's other postretirement benefits liability of $90 and a combination of the plans' unrecognized net actuarial loss and prior service benefit (included in Accumulated other comprehensive loss) of $59 (after-tax). The remeasurement of the plans also resulted in a $7 decrease to 2014 annual net periodic benefit cost, of which $2 was recognized in the 2014 third quarter. The remaining $5 decrease will be recognized in the fourth quarter of 2014.

On August 8, 2014, the Highway and Transportation Funding Act (HATFA) was signed into law by the United States government. HATFA, in part, provides temporary relief for employers who sponsor defined benefit pension plans related to funding contributions under the Employee Retirement Income Security Act of 1974. Specifically, HATFA modifies the interest rates that had been set in 2012 by the Moving Ahead for Progress in the 21st Century Act. As a result, management expects Alcoa's estimated minimum required pension funding to decline by $100 in 2014 and by $125 in 2015.

P. Derivatives and Other Financial Instruments

Derivatives

Alcoa is exposed to certain risks relating to its ongoing business operations, including financial, market, political, and economic risks. The following discussion provides information regarding Alcoa's exposure to the risks of changing commodity prices, interest rates, and foreign currency exchange rates.

Alcoa's commodity and derivative activities are subject to the management, direction, and control of the Strategic Risk Management Committee (SRMC), which is composed of the chief executive officer, the chief financial officer, and other officers and employees that the chief executive officer selects. The SRMC meets on a periodic basis to review derivative positions and strategy and reports to Alcoa's Board of Directors on the scope of its activities.

The aluminum, energy, interest rate, and foreign exchange contracts are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility, and to cover underlying exposures. Alcoa is not involved in trading activities for energy, weather derivatives, or other nonexchange commodity trading activities.

The fair values and corresponding classifications under the appropriate level of the fair value hierarchy of outstanding derivative contracts recorded as assets in the accompanying Consolidated Balance Sheet were as follows:

Asset Derivatives	Level	September 30, 2014	December 31, 2013
Derivatives designated as hedging instruments:			
Prepaid expenses and other current assets:			
Aluminum contracts	1	$ 8	$ 4
Aluminum contracts	3	5	9
Foreign exchange contracts	1	—	2
Interest rate contracts	2	6	9
Other noncurrent assets:			
Aluminum contracts	3	8	16
Energy contracts	3	—	6
Interest rate contracts	2	21	23
Total derivatives designated as hedging instruments		$ 48	$ 69
Derivatives not designated as hedging instruments*:			
Prepaid expenses and other current assets:			
Aluminum contracts	3	$ 104	$ 149
Other noncurrent assets:			
Aluminum contracts	3	100	175
Total derivatives not designated as hedging instruments		$ 204	$ 324
Less margin held**:			
Prepaid expenses and other current assets:			
Aluminum contracts	1	$ 3	$ —
Interest rate contracts	2	—	3
Sub-total		$ 3	$ 3
Total Asset Derivatives		$ 249	$ 390

* See the "Other" section within Note P for additional information on Alcoa's purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategies.

** All margin held is in the form of cash and is valued under a Level 1 technique. The levels that correspond to the margin held in the table above reference the level of the corresponding asset for which it is held. Alcoa elected to net the margin held against the fair value amounts recognized for derivative instruments executed with the same counterparties under master netting arrangements.

The fair values and corresponding classifications under the appropriate level of the fair value hierarchy of outstanding derivative contracts recorded as liabilities in the accompanying Consolidated Balance Sheet were as follows:

Liability Derivatives	Level	September 30, 2014	December 31, 2013
Derivatives designated as hedging instruments:			
Other current liabilities:			
Aluminum contracts	1	$ 9	$ 45
Aluminum contracts	3	29	23
Energy contracts	1	1	—
Other noncurrent liabilities and deferred credits:			
Aluminum contracts	1	4	14
Aluminum contracts	3	378	387
Energy contracts	3	6	—
Total derivatives designated as hedging instruments		$ 427	$ 469
Derivatives not designated as hedging instruments*:			
Other current liabilities:			
Aluminum contracts	1	$ 1	$ 4
Embedded credit derivative	3	3	2
Foreign exchange contracts	1	—	3
Other noncurrent liabilities and deferred credits:			
Embedded credit derivative	3	21	19
Total derivatives not designated as hedging instruments		$ 25	$ 28
Less margin posted**:			
Other current liabilities:			
Aluminum contracts	1	$ 5	$ 18
Other noncurrent liabilities and deferred credits:			
Aluminum contracts	1	1	—
Sub-total		$ 6	$ 18
Total Liability Derivatives		$ 446	$ 479

* See the “Other” section within Note P for additional information on Alcoa’s purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategies.

** All margin posted is in the form of cash and is valued under a Level 1 technique. The levels that correspond to the margin posted in the table above reference the level of the corresponding liability for which it is posted. Alcoa elected to net the margin posted against the fair value amounts recognized for derivative instruments executed with the same counterparties under master netting arrangements.

The gross amounts of recognized derivative assets and liabilities and gross amounts offset in the accompanying Consolidated Balance Sheet were as follows:

	Assets		Liabilities	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Gross amounts recognized:				
Aluminum contracts	$ 47	$ 40	$ 49	$ 81
Interest rate contracts	27	32	—	3
	$ 74	$ 72	$ 49	$ 84
Gross amounts offset:				
Aluminum contracts*	$ (42)	$ (36)	$ (42)	$ (36)
Interest rate contracts**	—	(3)	—	(3)
	$ (42)	$ (39)	$ (42)	$ (39)
Net amounts presented in the Consolidated Balance Sheet:				
Aluminum contracts	$ 5	$ 4	$ 7	$ 45
Interest rate contracts	27	29	—	—
	$ 32	$ 33	$ 7	$ 45

* The amounts under Assets and Liabilities as of September 30, 2014 and December 31, 2013 include $6 and $18, respectively, of margin posted with counterparties.

** The amounts under Assets and Liabilities as of December 31, 2013 represent margin held from the counterparty.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

The following section describes the valuation methodologies used by Alcoa to measure derivative contracts at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models, and any significant assumptions. These valuation models are reviewed and tested at least on an annual basis.

Derivative contracts are valued using quoted market prices and significant other observable and unobservable inputs. Such financial instruments consist of aluminum, energy, interest rate, and foreign exchange contracts. The fair values for the majority of these derivative contracts are based upon current quoted market prices. These financial instruments are typically exchange-traded and are generally classified within Level 1 or Level 2 of the fair value hierarchy depending on whether the exchange is deemed to be an active market or not.

For certain derivative contracts whose fair values are based upon trades in liquid markets, such as interest rate swaps, valuation model inputs can generally be verified through over-the-counter markets and valuation techniques do not involve significant management judgment. The fair values of such financial instruments are generally classified within Level 2 of the fair value hierarchy.

Alcoa has other derivative contracts that do not have observable market quotes. For these financial instruments, management uses significant other observable inputs (e.g., information concerning time premiums and volatilities for certain option type embedded derivatives and regional premiums for aluminum contracts). For periods beyond the term of quoted market prices for aluminum, Alcoa uses a model that estimates the long-term price of aluminum by extrapolating the 10-year London Metal Exchange (LME) forward curve. For periods beyond the term of quoted market prices for energy, management has developed a forward curve based on independent consultant market research. Where appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads, and credit considerations. Such adjustments are generally based on available market evidence (Level 2). In the absence of such evidence, management's best estimate is used (Level 3). If a significant input that is unobservable in one period becomes observable in a subsequent period, the related asset or liability would be transferred to the appropriate level classification (1 or 2) in the period of such change.

The following table presents Alcoa's derivative contract assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy (there were no transfers in or out of Levels 1 and 2 during the periods presented):

	September 30, 2014	December 31, 2013
Assets:		
Level 1	$ 8	$ 6
Level 2	27	32
Level 3	217	355
Margin held	(3)	(3)
Total	$ 249	$ 390
Liabilities:		
Level 1	$ 15	$ 66
Level 2	—	—
Level 3	437	431
Margin posted	(6)	(18)
Total	$ 446	$ 479

Financial instruments classified as Level 3 in the fair value hierarchy represent derivative contracts in which management has used at least one significant unobservable input in the valuation model. The following tables present a reconciliation of activity for such derivative contracts:

	Assets		Liabilities		
Third quarter ended September 30, 2014	**Aluminum contracts**	**Energy contracts**	**Aluminum contracts**	**Embedded credit derivative**	**Energy contracts**
Opening balance – June 30, 2014	$ 281	$ 24	$ 422	$ 14	$ —
Total gains or losses (realized and unrealized) included in:					
Sales	—	—	(8)	—	—
Cost of goods sold	(36)	—	—	—	—
Other expenses, net	(12)	(5)	—	10	—
Other comprehensive loss	(11)	(18)	(7)	—	6
Purchases, sales, issuances, and settlements*	—	—	—	—	—
Transfers into and/or out of Level 3*	—	—	—	—	—
Foreign currency translation	(5)	(1)	—	—	—
Closing balance – September 30, 2014	$ 217	$ —	$ 407	$ 24	$ 6
Change in unrealized gains or losses included in earnings for derivative contracts held at September 30, 2014:					
Sales	$ —	$ —	$ —	$ —	$ —
Cost of goods sold	—	—	—	—	—
Other expenses, net	(12)	(5)	—	10	—

* There were no purchases, sales, issuances or settlements of Level 3 financial instruments. Additionally, there were no transfers of financial instruments into or out of Level 3.

	Assets		Liabilities		
Nine months ended September 30, 2014	**Aluminum contracts**	**Energy contracts**	**Aluminum contracts**	**Embedded credit derivative**	**Energy contracts**
Opening balance – January 1, 2014	$ 349	$ 6	$ 410	$ 21	$ —
Total gains or losses (realized and unrealized) included in:					
Sales	—	—	(19)	—	—
Cost of goods sold	(147)	—	—	—	—
Other expenses, net	(13)	—	—	3	—
Other comprehensive loss	(11)	(6)	16	—	6
Purchases, sales, issuances, and settlements*	—	—	—	—	—
Transfers into and/or out of Level 3*	—	—	—	—	—
Foreign currency translation	39	—	—	—	—
Closing balance – September 30, 2014	$ 217	$ —	$ 407	$ 24	$ 6
Change in unrealized gains or losses included in earnings for derivative contracts held at September 30, 2014:					
Sales	$ —	$ —	$ —	$ —	$ —
Cost of goods sold	—	—	—	—	—
Other expenses, net	(13)	—	—	3	—

* There were no purchases, sales, issuances or settlements of Level 3 financial instruments. Additionally, there were no transfers of financial instruments into or out of Level 3.

As reflected in the table above, the net unrealized loss on derivative contracts using Level 3 valuation techniques was $220 as of September 30, 2014. The unrealized loss related to aluminum contracts recognized as liabilities was mainly attributed to embedded derivatives in power contracts that index the price of power to the LME price of aluminum. These embedded derivatives are primarily valued using observable market prices; however, due to the length of the contracts, the valuation model also requires management to estimate the long-term price of aluminum based upon an extrapolation of the 10-year LME forward curve. Significant increases or decreases in the actual LME price beyond 10 years would result in a higher or lower fair value measurement. An increase of actual LME price over the inputs used in the valuation model will result in a higher cost of power and a corresponding increase to the liability. The embedded derivatives have been designated as hedges of forward sales of aluminum and related realized gains and losses were included in Sales on the accompanying Statement of Consolidated Operations.

In July 2012, as provided for in the arrangements, management elected to modify the pricing for two existing power contracts, which end in 2014 and 2016 (see directly below), for Alcoa's two smelters in Australia and the Point Henry rolling mill in Australia. These contracts contain an LME-linked embedded derivative, which previously was not recorded as an asset in Alcoa's Consolidated Balance Sheet. Beginning on January 1, 2001, all derivative contracts were required to be measured and recorded at fair value on an entity's balance sheet under GAAP; however, an exception existed for embedded derivatives upon meeting certain criteria. The LME-linked embedded derivative in these two contracts met such criteria at that time. Management's election to modify the pricing of these contracts qualifies as a significant change to the contracts thereby requiring that the contracts now be evaluated under derivative accounting as if they were new contracts. As a result, Alcoa recorded a derivative asset in the amount of $596 with an offsetting liability (deferred credit) recorded in Other current and noncurrent liabilities. Unrealized gains and losses from the embedded derivative were included in Other expenses (income), net on the accompanying Statement of Consolidated Operations, while realized gains and losses were included in Cost of goods sold on the accompanying Statement of Consolidated Operations as electricity purchases are made under the contracts. The deferred credit is recognized in Other expenses (income), net on the accompanying Statement of Consolidated Operations as power is received over the life of the contracts. The embedded derivative is valued using the probability and interrelationship of future LME prices, Australian dollar to U.S. dollar exchange rates, and the U.S. consumer price index. Significant increases or decreases in the LME price would result in a higher or lower fair value measurement. An increase in actual LME price over the inputs used in the valuation model will result in a higher cost of power and a decrease to the embedded derivative asset.

Also, included within Level 3 measurements is a derivative contract that will hedge the anticipated power requirements at Alcoa's Portland smelter in Australia once the existing contract expires in 2016. This derivative hedges forecasted power purchases through December 2036. Beyond the term where market information is available, management has developed a forward curve, for valuation purposes, based on independent consultant market research. The effective portion of gains and losses on this contract was recorded in Other comprehensive (loss) income on the accompanying Consolidated Balance Sheet until the designated hedge period begins in 2016. Once the hedge period begins, realized gains and losses will be recorded in Cost of goods sold. Significant increases or decreases in the power market may result in a higher or lower fair value measurement. Higher prices in the power market would cause the derivative asset to increase in value. Alcoa had a similar contract for its Point Henry smelter in Australia once the existing contract expired on July 31, 2014, but elected to terminate the new contract in early 2013. This election was available to Alcoa under the terms of the contract and was made due to a projection that suggested the contract would be uneconomical. Prior to termination, the new contract was accounted for in the same manner as the contract for the Portland smelter.

Additionally, Alcoa has a six-year natural gas supply contract, which has an LME-linked ceiling. This contract is valued using probabilities of future LME aluminum prices and the price of Brent crude oil (priced on Platts), including the interrelationships between the two commodities subject to the ceiling. Any change in the interrelationship would result in a higher or lower fair value measurement. An LME ceiling was embedded into the contract price to protect against an increase in the price of oil without a corresponding increase in the price of LME. An increase in oil prices with no similar increase in the LME price would limit the increase of the price paid for natural gas. Unrealized gains and losses from this contract were included in Other expenses (income), net on the accompanying Statement of Consolidated Operations, while realized gains and losses will be included in Cost of goods sold on the accompanying Statement of Consolidated Operations as gas purchases are made under the contract.

Furthermore, an embedded derivative in a power contract that indexes the difference between the long-term debt ratings of Alcoa and the counterparty from any of the three major credit rating agencies is included in Level 3. Management uses market prices, historical relationships, and forecast services to determine fair value. Significant increases or decreases in any of these inputs would result in a lower or higher fair value measurement. A wider credit spread between Alcoa and the counterparty would result in an increase of the future liability and a higher cost of power. Realized gains and losses for this embedded derivative were included in Cost of goods sold on the accompanying Statement of Consolidated Operations and unrealized gains and losses were included in Other expenses (income), net on the accompanying Statement of Consolidated Operations.

The following table presents quantitative information for Level 3 derivative contracts:

	Fair value at September 30, 2014	Valuation technique	Unobservable input	Range ($ in full amounts)
Assets:				
Aluminum contract	$ —	Discounted cash flow	Interrelationship of future aluminum and oil prices	Aluminum: $1,921 per metric ton in 2014 to $2,137 per metric ton in 2018 Oil: $97 per barrel in 2014 to $96 per barrel in 2018
Aluminum contract	204	Discounted cash flow	Interrelationship of future aluminum prices, foreign currency exchange rates, and the U.S. consumer price index (CPI)	Aluminum: $1,936 per metric ton in 2014 to $2,051 per metric ton in 2016 Foreign currency: A$1 = $0.87 in 2014 to $0.89 in 2016 CPI: 1982 base year of 100 and 236 in 2014 to 246 in 2016
Aluminum contract	13	Discounted cash flow	Interrelationship of LME price to overall energy price	Aluminum: $1,914 per metric ton in 2014 to $2,177 per metric ton in 2019
Liabilities:				
Aluminum contracts	407	Discounted cash flow	Price of aluminum beyond forward curve	$2,460 per metric ton in 2025 to $2,588 per metric ton in 2027
Embedded credit derivative	24	Discounted cash flow	Credit spread between Alcoa and counterparty	1.79% to 2.49% (2.14% median)
Energy contracts	6	Discounted cash flow	Price of electricity beyond forward curve	$51 per megawatt hour in 2014 to $100 per megawatt hour in 2036

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The gain or loss on the hedged items are included in the same line items as the loss or gain on the related derivative contracts as follows (there were no contracts that ceased to qualify as a fair value hedge in any of the periods presented):

Derivatives in Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives			
		Third quarter ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
Aluminum contracts*	Sales	$ 20	$ 20	$ 19	$ (110)
Interest rate contracts	Interest expense	3	3	8	8
Total		$ 23	$ 23	$ 27	$ (102)

* In the third quarter and nine months ended September 30, 2014, the loss recognized in earnings includes a gain of $1 and a loss of $12, respectively, related to the ineffective portion of the hedging relationships. In the third quarter and nine months ended September 30, 2013, the gain and loss, respectively, recognized in earnings includes a gain of $18 and $22, respectively, related to the ineffective portion of the hedging relationships.

Hedged Items in Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in Earnings on Hedged Items	Amount of Gain or (Loss) Recognized in Earnings on Hedged Items			
		Third quarter ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
Aluminum contracts	Sales	$ (19)	$ (2)	$ (31)	$ 132
Interest rate contracts	Interest expense	(3)	(3)	(8)	(8)
Total		$ (22)	$ (5)	$ (39)	$ 124

Aluminum. Alcoa is a leading global producer of primary aluminum and fabricated aluminum 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 fluctuating 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 contracts, the aluminum price risk associated with a portion of its firm commitments. These contracts cover known exposures, generally within three years. As of September 30, 2014, Alcoa had 264,000 metric tons of aluminum futures designated as fair value hedges. The effects of this hedging activity will be recognized over the designated hedge periods in 2014 to 2018.

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 September 30, 2014, 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 $200 of debt through 2018.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)					Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)*					Amount of Gain or (Loss) Recognized in Earnings on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)**			
	Third quarter ended September 30,		Nine months ended September 30,		Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Third quarter ended September 30,		Nine months ended September 30,		Location of Gain or (Loss) Recognized in Earnings on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Third quarter ended September 30,		Nine months ended September 30,	
Derivatives in Cash Flow Hedging Relationships	2014	2013	2014	2013		2014	2013	2014	2013		2014	2013	2014	2013
Aluminum contracts	$ (2)	$ (61)	$ (21)	$ 117	Sales	$ (6)	$ (4)	$ (15)	$ (11)	Other expenses (income), net	$ —	$ —	$ (1)	$ (2)
Energy contracts	(21)	1	(6)	—	Cost of goods sold	—	—	—	—	Other expenses (income), net	(5)	—	—	—
Foreign exchange contracts	(1)	3	1	1	Sales	—	(2)	1	(2)	Other expenses (income), net	—	—	—	—
Interest rate contracts	—	—	—	—	Interest expense	1	—	—	(1)	Other expenses (income), net	—	—	—	—
Interest rate contracts	—	1	2	2	Other expenses (income), net	—	—	—	—	Other expenses (income), net	—	—	—	—
Total	$ (24)	$ (56)	$ (24)	$ 120		$ (5)	$ (6)	$ (14)	$ (14)		$ (5)	$ —	$ (1)	$ (2)

* Assuming market rates remain constant with the rates at September 30, 2014, a loss of $22 is expected to be recognized in earnings over the next 12 months.

** For the third quarter ended September 30, 2014, the amount of gain or (loss) recognized in earnings represents $(5) related to the ineffective portion of the hedging relationships. There was no ineffectiveness related to the derivatives in cash flow hedging relationships for the nine months ended September 30, 2014. There was also less than $1 and $(1) recognized in earnings related to the amount excluded from the assessment of hedge effectiveness for the third quarter and nine months ended September 30, 2014, respectively. For both the third quarter and nine months ended September 30, 2013, there was no ineffectiveness related to the derivatives in cash flow hedging relationships. There was less than $1 and $(2) recognized in earnings related to the amount excluded from the assessment of hedge effectiveness for the third quarter and nine months ended September 30, 2013, respectively.

Aluminum and Energy. Alcoa anticipates the continued requirement to purchase aluminum and other commodities, such as electricity and natural gas, for its operations. Alcoa enters into forwards, futures, and options contracts to reduce volatility in the price of these commodities. Alcoa has also entered into 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 cash flow hedges of future sales of aluminum.

Also, Alcoa has a contract to hedge the anticipated power requirements at its Portland smelter in Australia. This derivative hedges forecasted power purchases through December 2036. Prior to 2013, Alcoa had a similar contract for its Point Henry smelter in Australia but elected to terminate it under the terms of the contract (see additional information in description of Level 3 derivative contracts above).

Interest Rates. Alcoa had no outstanding cash flow hedges of interest rate exposures as of September 30, 2014. An investment accounted for on the equity method by Alcoa has entered into interest rate contracts, which are designated as cash flow hedges. Alcoa's share of the activity of these cash flow hedges is reflected in the table above.

Foreign Exchange. Alcoa is subject to exposure from fluctuations in foreign currency exchange rates. Contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. These contracts cover periods consistent with known or expected exposures through 2015.

Alcoa had the following outstanding forward contracts that were entered into to hedge forecasted transactions:

	September 30, 2014	December 31, 2013
Aluminum contracts (000 metric tons)	707	841
Energy contracts:		
Electricity (megawatt hours)	59,409,328	59,409,328
Natural gas (million British thermal units)	20,570,000	19,980,000
Foreign exchange contracts	$ 632	$ 335

Other

Alcoa has certain derivative contracts that do not qualify for hedge accounting treatment and, therefore, the fair value gains and losses on these contracts are recorded in earnings as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives			
		Third quarter ended September 30,		Nine months ended September 30,	
		2014	2013	2014	2013
Aluminum contracts	Sales	$ —	$ 1	$ (4)	$ (6)
Aluminum contracts	Other expenses (income), net	(11)	4	(12)	19
Embedded credit derivative	Other expenses (income), net	(10)	11	(3)	2
Foreign exchange contracts	Other expenses (income), net	1	2	(2)	(3)
Total		$ (20)	$ 18	$ (21)	$ 12

The aluminum contracts relate to derivatives (recognized in Sales) and embedded derivatives (recognized in Other expenses (income), net) entered into to minimize Alcoa's price risk related to other customer sales and certain pricing arrangements.

The embedded credit derivative relates to a power contract that indexes the difference between the long-term debt ratings of Alcoa and the counterparty from any of the three major credit rating agencies. If the counterparty's lowest credit rating is greater than one rating category above Alcoa's credit ratings, an independent investment banker would be consulted to determine a hypothetical interest rate for both parties. The two interest rates would be netted and the resulting difference would be multiplied by Alcoa's equivalent percentage of the outstanding principal of the counterparty's debt obligation as of December 31 of the year preceding the calculation date. This differential would be added to the cost of power in the period following the calculation date.

Alcoa had a forward contract to purchase $53 (C$58) to mitigate the foreign currency risk related to a Canadian-denominated loan, which was repaid on August 31, 2014 upon maturity. The forward contract expired on August 5, 2014 and a gain of $1 was recognized in the 2014 third quarter. Also, in December 2013, Alcoa entered into a forward contract to purchase $231 (R$543) to mitigate the foreign currency risk associated with a potential future transaction denominated in Brazilian reais. This contract expired on March 31, 2014 and a loss of $4 was recognized in the 2014 nine-month period. All other foreign exchange contracts were entered into and settled within each of the periods presented.

Material Limitations

The disclosures with respect to commodity prices, interest rates, and foreign currency exchange risk do not take into account the underlying commitments or anticipated transactions. If the underlying items were included in the analysis, the gains or losses on the futures contracts may be offset. Actual results will be determined by a number of factors that are not under Alcoa's control and could vary significantly from those factors disclosed.

Alcoa is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, as well as credit or performance risk with respect to its hedged customers' commitments. Although nonperformance is possible, Alcoa does not anticipate nonperformance by any of these parties. Contracts are with creditworthy counterparties and are further supported by cash, treasury bills, or irrevocable letters of credit issued by carefully chosen banks. In addition, various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts.

Other Financial Instruments

The carrying values and fair values of Alcoa's other financial instruments were as follows:

	September 30, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 3,272	$3,272	$ 1,437	$1,437
Restricted cash	18	18	18	18
Noncurrent receivables	18	18	19	19
Available-for-sale securities	144	144	119	119
Short-term borrowings	57	57	57	57
Commercial paper	99	99	—	—
Long-term debt due within one year	35	35	655	1,040
Long-term debt, less amount due within one year	8,797	9,335	7,607	7,863

The following methods were used to estimate the fair values of other financial instruments:

Cash and cash equivalents, Restricted cash, Short-term borrowings, and Commercial paper. The carrying amounts approximate fair value because of the short maturity of the instruments. The fair value amounts for Cash and cash equivalents, Restricted cash, and Commercial paper were classified in Level 1, and Short-term borrowings were classified in Level 2.

Noncurrent receivables. The fair value of noncurrent receivables was based on anticipated cash flows, which approximates carrying value, and was classified in Level 2 of the fair value hierarchy.

Available-for-sale securities. The fair value of such securities was based on quoted market prices. These financial instruments consist of exchange-traded fixed income and equity securities, which are carried at fair value and were classified in Level 1 of the fair value hierarchy.

Long-term debt due within one year and Long-term debt, less amount due within one year. The fair value was based on quoted market prices for public debt and on interest rates that are currently available to Alcoa for issuance of debt with similar terms and maturities for non-public debt. The fair value amounts for all Long-term debt were classified in Level 2 of the fair value hierarchy.

Q. Subsequent Events – Management evaluated all activity of Alcoa and concluded that no subsequent events have occurred that would require recognition in the Consolidated Financial Statements or disclosure in the Notes to the Consolidated Financial Statements, except as described below.

On October 15, 2014, Alcoa signed a definitive agreement to sell 100% of Alcoa World Alumina and Chemicals' ownership stake in the Jamalco bauxite mining and alumina refining joint venture to Noble Group Ltd. The Jamalco joint venture is 55% owned by a subsidiary of Alcoa World Alumina and Chemicals, which is owned 60% by Alcoa. The sale is subject to customary regulatory approvals and is expected to close by the end of 2014. As a result of this transaction, Alcoa expects to record a non-cash loss of approximately $265 to $285 ($80 to $100 after-tax and noncontrolling interest, or $0.07 to $0.09 per diluted share) in the fourth quarter of 2014.

On October 16, 2014, Alcoa received a court decision related to a European Commission Matter in Italy (see European Commission Matters in Note H).

On October 23, 2014, Alcoa signed a definitive agreement to sell its 50.33% ownership stake in the Mt. Holly smelter to Century Aluminum Company. The sale is subject to customary regulatory approvals and is expected to close by the end of 2014. As a result of this transaction, Alcoa does not expect to record a material gain or loss in the fourth quarter of 2014.

Report of Independent Registered Public Accounting Firm*

To the Shareholders and Board of Directors of Alcoa Inc.

We have reviewed the accompanying consolidated balance sheet of Alcoa Inc. and its subsidiaries (Alcoa) as of September 30, 2014, and the related statements of consolidated operations, consolidated comprehensive (loss) income, and changes in consolidated equity for each of the three-month and nine-month periods ended September 30, 2014 and 2013, and the statement of consolidated cash flows for the nine-month periods ended September 30, 2014 and 2013. These consolidated interim financial statements are the responsibility of Alcoa's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2013, and the related statements of consolidated operations, consolidated comprehensive loss, changes in consolidated equity, and consolidated cash flows for the year then ended (not presented herein), and in our report dated February 13, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2013, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
October 23, 2014

* This report should not be considered a "report" within the meanings of Sections 7 and 11 of the Securities Act of 1933 and the independent registered public accounting firm's liability under Section 11 does not extend to it.

Item 2. 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])

Results of Operations

***Selected Financial Data*:**

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Sales	$6,239	$5,765	$17,529	$17,447
Net income attributable to Alcoa common shareholders	$ 149	$ 24	$ 109	$ 54
Diluted earnings per share attributable to Alcoa common shareholders	$ 0.12	$ 0.02	$ 0.09	$ 0.05
Shipments of alumina (kmt)	2,714	2,603	7,724	7,388
Shipments of aluminum products (kmt)	1,225	1,260	3,598	3,752
Alcoa's average realized price per metric ton of primary aluminum	$2,538	$2,180	$ 2,345	$ 2,273

Net income attributable to Alcoa was $149, or $0.12 per diluted share, in the 2014 third quarter compared with $24, or $0.02 per share, in the 2013 third quarter. The improvement in results of $125 was primarily the result of net productivity improvements, a higher realized price for aluminum, and higher energy sales. These positive impacts were partially offset by higher overall input costs, an unfavorable change in income taxes due to higher pretax income, and higher restructuring charges related to capacity reductions.

Net income attributable to Alcoa was $109, or $0.09 per share, in the 2014 nine-month period compared with $54, or $0.05 per share, in the 2013 nine-month period. The improvement in results of $55 was primarily the result of net productivity improvements, higher energy sales, the absence of a charge for a legal matter, a higher realized price for aluminum, and net favorable foreign currency movements. These positive impacts were mostly offset by higher restructuring charges related to capacity reductions, unfavorable product mix in the midstream and downstream businesses, higher overall input costs, and an unfavorable change in income taxes due to higher pretax income.

Sales improved $474, or 8%, in the 2014 third quarter and $82 in the 2014 nine-month period compared to the same periods in 2013.

In the 2014 third quarter, the improvement was largely attributable to a higher average realized price for aluminum in both the upstream and midstream businesses, higher volumes in the midstream and downstream businesses, increased buy/resell activity for primary aluminum, and higher energy sales resulting from excess power due to curtailed smelter capacity, somewhat offset by lower primary aluminum volumes due to curtailed and shutdown smelter capacity.

The increase in the 2014 nine-month period was principally due to higher volumes in the midstream and downstream businesses, higher energy sales resulting from excess power due to curtailed smelter capacity, increased buy/resell activity for primary aluminum, and a higher average realized price for primary aluminum, mostly offset by lower primary aluminum volumes due to curtailed and shutdown smelter capacity and unfavorable product mix in the midstream business.

Cost of goods sold (COGS) as a percentage of Sales was 78.6% in the 2014 third quarter and 80.8% in the 2014 nine-month period compared with 83.2% in the 2013 third quarter and 83.6% in the 2013 nine-month period.

In both periods, the percentage was positively impacted by net productivity improvements across all segments, both the previously mentioned higher average realized price for primary aluminum and higher energy sales, and lower costs for caustic. These items were partially offset by unfavorable product mix in the midstream and downstream businesses, higher costs for energy and labor, and write-offs of inventory related to the decisions to permanently shut down certain smelter and rolling mill capacity (difference of $31 (third quarter) and $58 (nine-month period) – see Restructuring and other charges below).

The percentage in the 2014 third quarter was also favorably impacted by an increase in the average realized price for aluminum in the midstream business. In the 2014 nine-month period, the percentage was also favorably impacted by lower costs for carbon and the absence of costs related to a planned maintenance outage in 2013 at a power plant in Australia, and was also unfavorably impacted by higher costs for bauxite and costs related to a new labor agreement that covers employees at 10 locations in the United States (see below).

On June 6, 2014, the United Steelworkers ratified a new five-year labor agreement covering approximately 6,100 employees at 10 U.S. locations; the previous labor agreement expired on May 15, 2014. In the 2014 nine-month period, as a result of the preparation for and ratification of the new agreement, Alcoa recognized $18 ($12 after-tax) in COGS for, among other items, business contingency costs and a one-time signing bonus for employees. Additionally, as a result of the provisions of the new labor agreement, a significant plan amendment was adopted by one of Alcoa's U.S. pension plans. Accordingly, this plan was required to be remeasured, which resulted in a $13 decrease to 2014 annual net periodic benefit cost, of which $6 and $8 was recognized in the 2014 third quarter and nine-month period, respectively. The remaining $5 decrease will be recognized in the fourth quarter of 2014.

Selling, general administrative, and other expenses (SG&A) decreased $5 and $29 in the 2014 third quarter and nine-month period, respectively, compared to the corresponding periods in 2013. The decline in both periods was primarily driven by decreases across various expenses, including professional fees (largely legal and consulting) and contract services, mostly offset (third quarter) and partially offset (nine-month period) by fees associated with a planned acquisition of an aerospace business ($6 (third quarter) and $19 (nine-month period)) (see Engineered Products and Solutions under Segment Information below) and higher stock-based compensation expense. In the 2014 nine-month period, higher labor costs also negatively impacted SG&A. SG&A as a percentage of Sales decreased from 4.3% in the 2013 third quarter to 3.9% in the 2014 third quarter, and from 4.3% in the 2013 nine-month period to 4.1% in the 2014 nine-month period.

Restructuring and other charges were $209 ($175 after-tax and noncontrolling interest) and $780 ($503 after-tax and noncontrolling interest) in the 2014 third quarter and nine-month period, respectively.

In the 2014 third quarter, Restructuring and other charges included $220 ($186 after-tax and noncontrolling interest) for exit costs related to decisions to permanently shut down and demolish two smelters and two rolling mills (see below); $5 ($4 after-tax) for a gain on the sale of assets related to a previously shutdown location; a charge of $4 ($2 after-tax and noncontrolling interest) for other miscellaneous items; and $10 ($9 after-tax and noncontrolling interest) for the reversal of a number of layoff reserves related to prior periods, including those associated with a smelter in Italy due to changes in facts and circumstances (see below).

In the 2014 nine-month period, Restructuring and other charges included $663 ($426 after-tax and noncontrolling interest) for exit costs related to decisions to permanently shut down and demolish three smelters and two rolling mills (see below); $67 ($44 after-tax and noncontrolling interest) for the temporary curtailment of two smelters and a related production slowdown at one refinery (see below); $33 ($26 after-tax) for asset impairments related to prior capitalized costs for a modernization project at a smelter in Canada that is no longer being pursued; $18 ($11 after-tax and noncontrolling interest) for layoff costs, including the separation of approximately 245 employees (115 in the Engineered Products and Solutions segment, 30 in the Global Rolled Products segment,10 in the Alumina and Primary Metals segments combined, and 90 in Corporate); a charge of $16 ($9 after-tax and noncontrolling interest) for other miscellaneous items; and $17 ($13 after-tax and noncontrolling interest) for the reversal of a number of layoff reserves related to prior periods, including those associated with a smelter in Italy due to changes in facts and circumstances (see below).

In the 2014 first quarter, management approved the permanent shutdown and demolition of the remaining capacity (84 kmt-per-year) at the Massena East smelter in New York and the full capacity (190 kmt-per-year) at the Point Henry smelter in Australia. The capacity at Massena East was fully shut down by the end of the first quarter of 2014 and the Point Henry smelter was fully shut down in August 2014. Demolition and remediation activities related to both the Massena East and Point Henry smelters will begin in the fourth quarter of 2014 and are expected to be completed by the end of 2020 and 2018, respectively.

The decisions on the Massena East and Point Henry smelters were part of a 15-month review of 460 kmt of smelting capacity initiated by management in the 2013 second quarter for possible curtailment. Through this review, management determined that the remaining capacity of the Massena East smelter was no longer competitive and the Point Henry smelter had no prospect of becoming financially viable. Management also initiated the temporary curtailment of the remaining capacity (62 kmt-per-year) at the Poços de Caldas smelter and additional capacity (85 kmt-per-year) at the São Luís smelter, both in Brazil. These curtailments were completed by the end of May 2014. As a result of these curtailments, production at the Poços de Caldas refinery was reduced (200 kmt-per-year), which was completed by the end of the 2014 second quarter.

Also in the 2014 first quarter, management approved the permanent shutdown of Alcoa's two rolling mills in Australia, Point Henry and Yennora. This decision was made due to the significant impact of excess can sheet capacity in both Australia and Asia. The two rolling mills have a combined can sheet capacity of 200 kmt-per-year and will be closed by the end of 2014. Demolition and remediation activities related to the two rolling mills will begin in 2015 and are expected to be completed by the end of 2018.

In the 2014 third quarter, management approved the permanent shutdown and demolition of the capacity (150 kmt-per-year) at the Portovesme smelter in Italy, which has been idle since November 2012. This decision was made because the fundamental reasons that made the Portovesme smelter uncompetitive remain unchanged, including the lack of a viable long-term power solution. Demolition and remediation activities related to the Portovesme smelter will begin in the fourth quarter of 2014 and are expected to be completed by the end of 2019.

In the 2014 third quarter and nine-month period, costs related to the shutdown and curtailment actions included $60 and $197, respectively, for the layoff of approximately 1,780 employees (1,200 in the Primary Metals segment, 470 in the Global Rolled Products segment, 80 in the Alumina segment, and 30 in Corporate), including $18 in pension costs; accelerated depreciation of $40 and $190, respectively, related to the three facilities in Australia as they continue to operate during 2014 (the smelter operated for one month in the 2014 third quarter); asset impairments of $74 and $165, respectively, representing the write-off of the remaining book value of all related properties, plants, and equipment; and $45 and $178, respectively, in other exit costs (see below). Additionally in the third quarter and nine-month period of 2014, remaining inventories, mostly operating supplies and raw materials, were written down to their net realizable value, resulting in a charge of $33 ($27 after-tax and noncontrolling interest) and $67 ($47 after-tax and noncontrolling interest), respectively, which was recorded in Cost of goods sold. The other exit costs in the 2014 third quarter and nine-month period represent $40 and $95, respectively, in asset retirement obligations and $4 and $42, respectively, in environmental remediation, both of which were triggered by the decisions to permanently shut down and demolish the aforementioned structures in the U.S., Australia, and Italy, and $1 and $41, respectively, in other related costs, including supplier and customer contract-related costs. Additional charges of approximately $25 are expected to be recognized in the fourth quarter of 2014 related to these shutdown actions in Australia.

Restructuring and other charges were $151 ($108 after-tax and noncontrolling interest) and $402 ($283 after-tax and noncontrolling interests) in the 2013 third quarter and nine-month period, respectively.

In the 2013 third quarter, Restructuring and other charges included $152 ($109 after-tax) for exit costs related to the permanent shutdown and demolition of certain structures at two smelter locations (see below); a charge of $1 ($1 after-tax) for other miscellaneous items; and $2 ($2 after-tax and noncontrolling interest) for the reversal of a number of small layoff reserves related to prior periods.

In the 2013 nine-month period, Restructuring and other charges included $238 ($179 after-tax) for exit costs related to the permanent shutdown and demolition of certain structures at three smelter locations (see below); $103 ($62 after noncontrolling interest) related to a legal matter; $29 ($19 after-tax) for asset impairments and related costs for retirements of previously idled structures; $27 ($20 after-tax and noncontrolling interests) for layoff costs, including the separation of approximately 510 employees (190 in the Global Rolled Products segment, 170 in the Engineered Products and Solutions segment, 120 in the Primary Metals segment, and 30 in Corporate) and a pension plan settlement charge related to previously separated employees; a charge of $9 ($6 after-tax) for other miscellaneous items; and $4 ($3 after-tax and noncontrolling interests) for the reversal of a number of small layoff reserves related to prior periods.

In the 2013 second quarter, management approved the permanent shutdown and demolition of (i) two potlines (capacity of 105 kmt-per-year) that utilize Soderberg technology at the smelter located in Baie Comeau, Québec, Canada (remaining capacity of 280 kmt-per-year composed of two prebake potlines) and (ii) the smelter located in Fusina, Italy (capacity of 44 kmt-per-year). Additionally, in the 2013 third quarter, management approved the permanent shutdown and demolition of one potline (capacity of 41 kmt-per-year) that utilizes Soderberg technology at the Massena East, N.Y. smelter (remaining capacity of 84 kmt-per-year composed of two Soderberg potlines). The aforementioned Soderberg lines at Baie Comeau and Massena East were fully shut down by the end of the third quarter of 2013 while the Fusina smelter was previously temporarily idled in 2010. Demolition and remediation activities related to all three facilities began in the fourth quarter of 2013 and are expected to be completed by the end of 2014 (Massena East), 2015 (Baie Comeau), and 2017 (Fusina).

The decisions on the Soderberg lines for Baie Comeau and Massena East were part of a 15-month review of 460 kmt of smelting capacity initiated by management earlier in the 2013 second quarter for possible curtailment (announced on May 1, 2013), while the decision on the Fusina smelter was in addition to the capacity being reviewed. Factors leading to all three decisions were in general focused on achieving sustained competitiveness and included, among others: lack of an economically viable, long-term power solution (Italy); changed market fundamentals; other existing idle capacity; and restart costs.

In the 2013 third quarter and nine-month period, exit costs related to these actions included $107 for the layoff of approximately 520 employees (Primary Metals segment) in both periods, including $78 in pension costs; accelerated depreciation of $35 and $58, respectively, (Baie Comeau) and asset impairments of $4 and $18, respectively, (Fusina and Massena East) representing the write off of the remaining book value of all related properties, plants, and equipment; and $6 and $55, respectively, in other exit costs. Additionally in the third quarter and nine-month period of 2013, remaining inventories, mostly operating supplies and raw materials, were written down to their net realizable value, resulting in a charge of $2 ($1 after-tax) and $9 ($6 after-tax), respectively, which was recorded in Cost of goods sold. The other exit costs of $55 represent $48 in asset retirement obligations and $5 in environmental remediation, both of which were triggered by the decisions to permanently shut down and demolish these structures, and $2 in other related costs.

Alcoa does not include Restructuring and other charges in the results of its reportable segments. The pretax impact of allocating such charges to segment results would have been as follows:

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Alumina	$ 1	$ —	$ 8	$ —
Primary Metals	193	150	608	244
Global Rolled Products	13	—	126	10
Engineered Products and Solutions	—	—	4	22
Segment total	207	150	746	276
Corporate	2	1	34	126
Total restructuring and other charges	$ 209	$ 151	$ 780	$ 402

As of September 30, 2014, approximately 1,300 of the 2,025 employees associated with 2014 restructuring programs and approximately 1,390 of the 1,620 employees associated with 2013 restructuring programs were separated. The remaining separations for the 2014 and 2013 restructuring programs are expected to be completed by the end of 2014.

In the 2014 third quarter and nine-month period, cash payments of $66 and $89, respectively, were made against the layoff reserves related to the 2014 restructuring programs and $4 and $36, respectively, were made against the layoff reserves related to the 2013 restructuring programs.

Interest expense increased $18, or 17%, in the 2014 third quarter and $10, or 3%, in the 2014 nine-month period compared to the corresponding periods in 2013. In both periods, the increase was principally the result of lower capitalized interest ($11 (third quarter) and $34 (nine-month period)) and fees paid associated with the execution and termination of a 364-day senior unsecured bridge term loan facility related to a planned acquisition of an aerospace business ($13 in both periods) (see Engineered Products and Solutions under Segment Information below). These negative impacts were slightly offset in the 2014 third quarter due to the absence of amortization of debt-related costs associated with the convertible notes mentioned below. In the 2014 nine-month period, the negative impacts were partially offset by a 6% lower average debt level, which was mostly attributable to lower outstanding long-term debt due to the June 2013 repayment of $422 in 6.00% Notes and the March 2014 extinguishment of $575 in 5.25% Convertible Notes, and lower amortization of debt-related costs due to the extinguishment of the aforementioned convertible notes.

Other expenses, net was $23 in the 2014 third quarter compared with Other income, net of $7 in the 2013 third quarter, and Other expenses, net was $53 in the 2014 nine-month period compared to Other income, net of $15 in the 2013 nine-month period.

The change in the 2014 third quarter was primarily due to a net unfavorable change in mark-to-market derivative contracts ($37), somewhat offset by a gain on the sale of an equity investment in a China rolling mill ($14).

In the 2014 nine-month period, the change was mainly the result of a higher equity loss related to Alcoa's share of the joint venture in Saudi Arabia due to start-up costs of the entire complex, including restart costs for one of the smelter potlines that was previously shut down due to a period of instability, a net unfavorable change in mark-to-market derivative contracts ($35), a decrease in the cash surrender value of company-owned life insurance, and net unfavorable foreign currency movements ($15). These negative impacts were somewhat offset by a gain on the sale of (i) a mining interest in Suriname ($28) and (ii) an equity investment in a China rolling mill ($14).

The effective tax rate for the third quarter of 2014 and 2013 was 60.3% and 41.3%, respectively.

The rate for the 2014 third quarter differs from the U.S. federal statutory rate of 35% primarily due to a $56 discrete income tax charge related to a tax rate change in Brazil (see below), restructuring charges related to operations in Italy for which no tax benefit was recognized (see Restructuring and other charges above), and an $8 unfavorable impact related to the interim period treatment of operational losses in certain foreign jurisdictions for which no tax benefit was recognized (impact is expected to reverse by the end of 2014), slightly offset by a $9 discrete income tax benefit for the release of a valuation allowance related to operations in Germany due to the initiation of a tax planning strategy.

The rate for the 2013 third quarter differs from the U.S. federal statutory rate of 35% primarily due to a $6 unfavorable impact related to the interim period treatment of operational losses in certain foreign jurisdictions for which no tax benefit was recognized (impact reversed by the end of 2013), partially offset by foreign income taxed in lower rate jurisdictions.

The effective tax rate for the 2014 and 2013 nine-month periods was 76.0% and 63.7%, respectively.

The rate for the 2014 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to the previously mentioned $56 discrete income tax charge and a $44 unfavorable impact related to the interim period treatment of operational losses in certain foreign jurisdictions for which no tax benefit was recognized (impact is expected to reverse by the end of 2014).

The rate for the 2013 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to a $103 nondeductible charge for a legal matter, restructuring charges related to operations in Canada (benefit at a lower tax rate) and Italy (no tax benefit) (see Restructuring and other charges above), and a $10 discrete income tax charge related to prior year taxes in Spain and Australia, somewhat offset by a $19 discrete income tax benefit related to new U.S. tax legislation (see below).

On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law and reinstated various expired or expiring temporary business tax provisions through 2013. Two specific temporary business tax provisions that expired in 2011 and impacted Alcoa are the look-through rule for payments between related controlled foreign corporations and the research and experimentation credit. The expiration of these two provisions resulted in Alcoa recognizing a higher income tax provision of $19 in 2012. As tax law changes are accounted for in the period of enactment, Alcoa recognized the previously mentioned discrete income tax benefit in the 2013 first quarter related to the 2012 tax year to reflect the extension of these provisions.

In December 2011, one of Alcoa's subsidiaries in Brazil applied for a tax holiday related to its expanded mining and refining operations. During 2013, the application was amended and re-filed. The deadline for the Brazilian government to deny the application was July 11, 2014. Since Alcoa did not receive notice that its application was denied, the tax holiday took effect automatically on July 12, 2014. As a result, the tax rate for this subsidiary will decrease significantly (from 34% to 15%), resulting in future cash tax savings over the 10-year holiday period (retroactively effective as of January 1, 2013). Additionally, a portion of the subsidiary's net deferred tax asset that reverses within the holiday period was remeasured at the new lower tax rate in the 2014 third quarter. This remeasurement resulted in a decrease to this subsidiary's net deferred tax asset and a noncash charge to earnings of $56 ($34 after noncontrolling interest).

Net loss attributable to noncontrolling interests was $18 in the 2014 third quarter and $46 in the 2014 nine-month period compared with Net income attributable to noncontrolling interests of $20 in the 2013 third quarter and $12 in the 2013 nine-month period. The change in both periods was mostly due to the results of Alcoa World Alumina and Chemicals (AWAC), which is owned 60% by Alcoa and 40% by Alumina Limited.

In the 2014 third quarter, AWAC generated a loss compared to income in the same period in 2013 mainly driven by a $56 discrete income tax charge related to a tax rate change in Brazil (see Income taxes above) and additional restructuring and other charges associated with management's decision in the 2014 first quarter to permanently shut down the Point Henry smelter in Australia (see Restructuring and other charges above and Primary Metals under Segment Information below).

AWAC generated a loss in the 2014 nine-month period compared with income in the corresponding period in 2013 largely attributable to restructuring and other charges associated with the decision to permanently shut down the Point Henry smelter and the previously mentioned discrete income tax charge, somewhat offset by the absence of a $103 charge for a legal matter.

In the 2013 nine-month period, Alumina Limited's share of the charge for a legal matter was included in Net income attributable to noncontrolling interests at 40% ($41). Subsequently, in the 2013 fourth quarter, Alumina Limited's share of this charge was reduced to 15% based on a cost allocation agreement between Alcoa and Alumina Limited reached in 2012 as a result of meeting certain criteria at the time the legal matter was resolved in January 2014. Consequently, a credit of $26 was reflected in Net income attributable to noncontrolling interests in the 2013 fourth quarter equivalent to the difference of Alumina Limited's ownership interest and the stated percentage in the cost allocation agreement.

Segment Information

Alumina

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Alumina production (kmt)	4,196	4,214	12,445	12,369
Third-party alumina shipments (kmt)	2,714	2,603	7,724	7,388
Alcoa's average realized price per metric ton of alumina	$ 320	$ 319	$ 317	$ 332
Alcoa's average cost per metric ton of alumina*	$ 289	$ 286	$ 286	$ 299
Third-party sales	$ 886	$ 846	$ 2,492	$ 2,494
Intersegment sales	482	513	1,472	1,689
Total sales	$ 1,368	$ 1,359	$ 3,964	$ 4,183
ATOI	$ 62	$ 67	$ 192	$ 189

* Includes all production-related costs, including raw materials consumed; conversion costs, such as labor, materials, and utilities; depreciation, depletion, and amortization; and plant administrative expenses.

Alumina production decreased slightly in the 2014 third quarter and increased 1% in the 2014 nine-month period compared with the corresponding periods in 2013. The decline in the 2014 third quarter was largely attributable to lower production at the Poços de Caldas (Brazil) and San Ciprian (Spain) refineries, mostly offset by higher production at the São Luís refinery (Brazil). In the 2014 nine-month period, the improvement was due to higher production at every refinery in the global system, except for Poços de Caldas and San Ciprian. The Poços de Caldas refinery started to reduce production near the end of the 2014 first quarter in response to the decision to fully curtail the Poços de Caldas smelter by the end of May 2014 (see Primary Metals below). As a result, management reduced the alumina production at the Poços de Caldas refinery by approximately 200 kmt-per-year by the end of the 2014 second quarter.

Third-party sales for the Alumina segment improved 5% and were flat in the 2014 third quarter and nine-month period, respectively, compared with the same periods in 2013. The increase in the 2014 third quarter was primarily due to a 4% improvement in volume and favorable foreign currency movements related to the revaluation of outstanding customer receivables in Australia. In the 2014 nine-month period, a 5% decline in average realized price and unfavorable foreign currency movements related to the revaluation of outstanding customer receivables in Australia were offset by a 5% improvement in volume. The change in average realized price was driven by a 5% lower average London Metal Exchange (LME) price for those customer shipments still linked to the LME (34%) and lower alumina index/spot pricing for all other customer shipments (66%).

Intersegment sales decreased 6% in the 2014 third quarter and 13% in the 2014 nine-month period compared to the corresponding periods in 2013 due to lower demand from the Primary Metals segment. A lower average realized price also contributed to the decline in the 2014 nine-month period.

ATOI for this segment declined $5 in the 2014 third quarter and increased $3 in the 2014 nine-month period compared to the same periods in 2013.

The decrease in the 2014 third quarter was principally driven by higher input costs, including natural gas (particularly higher prices in Australia partially due to the absence of carbon credits as a result of legislative change) and labor and maintenance, all of which were slightly offset by lower costs for caustic. This negative impact was mostly offset by net productivity improvements.

In the 2014 nine-month period, the improvement was primarily the result of net favorable foreign currency movements due to a stronger U.S. dollar, especially against the Australian dollar, net productivity improvements, and a gain on the sale of a mining interest in Suriname ($18). These positive impacts were mostly offset by higher input costs, including natural gas (particularly higher prices in Australia), bauxite (mainly due to a new mining site in Suriname), and labor and maintenance, all of which were somewhat offset by lower costs for caustic; the previously mentioned decline in average realized price; and a higher equity loss due to start-up costs of the bauxite mine and refinery in Saudi Arabia.

In the fourth quarter of 2014, alumina production at the Poços de Caldas refinery will be approximately 40 kmt lower due to the temporary curtailment (see above). Also, more than 65% of third-party shipments are expected to be based on alumina index/spot pricing. Additionally, net productivity improvements are anticipated while a higher equity loss due to start-up costs of the bauxite mine and refinery in Saudi Arabia is expected.

Primary Metals

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Aluminum production (kmt)	760	897	2,394	2,684
Third-party aluminum shipments (kmt)	642	686	1,897	2,084
Alcoa's average realized price per metric ton of aluminum*	$ 2,538	$ 2,180	$2,345	$2,273
Alcoa's average cost per metric ton of aluminum**	$ 2,298	$ 2,140	$2,229	$2,218
Third-party sales	$ 1,865	$ 1,600	$4,948	$4,978
Intersegment sales	730	691	2,182	2,095
Total sales	$ 2,595	$ 2,291	$7,130	$7,073
ATOI	$ 245	$ 8	$ 327	$ 15

* Average realized price per metric ton of aluminum includes three elements: a) the underlying base metal component, based on quoted prices from the LME; b) the regional premium, which represents the incremental price over the base LME component that is associated with the physical delivery of metal to a particular region (e.g., the Midwest premium for metal sold in the United States); and c) the product premium, which represents the incremental price for receiving physical metal in a particular shape (e.g., coil, billet, slab, rod, etc.) or alloy.

** Includes all production-related costs, including raw materials consumed; conversion costs, such as labor, materials, and utilities; depreciation and amortization; and plant administrative expenses.

At September 30, 2014, Alcoa had 665 kmt of idle capacity on a base capacity of 3,613 kmt. In the 2014 third quarter, idle capacity decreased by 138 kmt compared to June 30, 2014 due to the permanent closure of a 150 kmt smelter in Italy (see below), slightly offset by a 12 kmt pot adjustment elsewhere. Base capacity declined 322 kmt between September 30, 2014 and June 30, 2014 due to the permanent closure of the remaining pots at a smelter in Australia (see below) and the aforementioned smelter in Italy.

In May 2013, Alcoa announced that management would review 460 kmt of smelting capacity over a 15-month period for possible curtailment. This review was aimed at maintaining Alcoa's competitiveness despite falling aluminum prices and would focus on the highest-cost smelting capacity and those plants that have long-term risk due to factors such as energy costs or regulatory uncertainty.

As part of this review during the remainder of 2013, management initiated the permanent shutdown of 146 kmt of combined capacity at the Baie Comeau smelter in Quebec, Canada and the Massena East smelter in New York, as well as a temporary curtailment of 131 kmt of combined capacity at the São Luís and Poços de Caldas smelters, both in Brazil. All of these actions were completed in 2013.

During the first quarter of 2014, management initiated three additional actions resulting in the permanent shutdown of an additional 274 kmt of capacity and the temporary curtailment of an additional 147 kmt of capacity.

The permanent shutdowns were comprised of the remaining capacity (84 kmt-per-year) at the Massena East smelter and the full capacity (190 kmt-per-year) at the Point Henry smelter in Australia. The remaining capacity of the Massena East smelter represented two Soderberg potlines that were no longer competitive. This shutdown was completed by the end of the 2014 first quarter. For Point Henry, management determined that the smelter had no prospect of becoming financially viable. The shutdown of the Point Henry smelter was completed in August 2014 (18 kmt of capacity was shutdown in the 2014 second quarter).

The temporary curtailments are comprised of the remaining capacity (62 kmt-per-year) at the Poços de Caldas smelter and additional capacity (85 kmt-per-year) at the São Luís smelter. The process of curtailing this additional capacity began in March 2014 and was completed by the end of May 2014.

In the 2014 third quarter, management approved the permanent shutdown of the capacity (150 kmt-per-year) at the Portovesme smelter in Italy, which has been idle since November 2012. This decision was made because the fundamental reasons that made the Portovesme smelter uncompetitive remain unchanged, including the lack of a viable long-term power solution.

See Restructuring and other charges under Results of Operations above for a description of the associated charges related to all of the above actions.

Aluminum production decreased 15% and 11% in the 2014 third quarter and nine-month period, respectively, compared with the corresponding periods in 2013. In both periods, the decline was the result of lower production at the five smelters impacted by the 2013 and 2014 capacity reductions described above.

Third-party sales for the Primary Metals segment increased 17% in the 2014 third quarter and decreased 1% in the 2014 nine-month period compared with the same periods in 2013.

The improvement in the 2014 third quarter was mainly attributable to a 16% increase in average realized aluminum price, higher buy/resell activity, and higher energy sales resulting from excess power due to curtailed smelter capacity, mostly in Brazil, somewhat offset by lower volumes due to the five smelters impacted by the 2013 and 2014 capacity reductions. The change in average realized price was driven by an 11% higher average LME price (on 15-day lag) and higher regional premiums, which increased by an average of 87% in the U.S. and 76% in Europe.

In the 2014 nine-month period, the decline was largely the result of lower volumes, including from the five smelters impacted by the 2013 and 2014 capacity reductions, mostly offset by higher energy sales resulting from excess power due to curtailed smelter capacity, mostly in Brazil, higher buy/resell activity, and a 3% increase in average realized aluminum price. The change in average realized price was driven by higher regional premiums, which increased by an average of 73% in the U.S. and 44% in Europe, partially offset by a 3% lower average LME price (on 15-day lag).

Intersegment sales increased 6% and 4% in the 2014 third quarter and nine-month period, respectively, compared to the corresponding periods in 2013 due to an increase in realized price. The positive impact in the 2014 third quarter was partially offset by lower demand from the midstream business.

ATOI for this segment improved $237 in the 2014 third quarter and $312 in the 2014 nine-month period compared to the same periods in 2013.

The increase in the 2014 third quarter was principally due to both the previously mentioned higher average realized aluminum price and energy sales in Brazil and net productivity improvements, slightly offset by a write-off of inventory related to the decisions to permanently shut down the Portovesme and Point Henry smelters ($30).

In the 2014 nine-month period, the improvement was primarily driven by the previously mentioned energy sales in Brazil; net productivity improvements; lower costs for alumina and carbon; a higher average realized aluminum price; net favorable foreign currency movements due to a stronger U.S. dollar against the Canadian dollar, Brazilian real, and Australian dollar; and the absence of costs related to a planned maintenance outage in 2013 at a power plant in Australia. These positive impacts were slightly offset by a write-off of inventory related to the decisions to permanently shut down the Portovesme, Point Henry, and Massena East smelters ($44) and a higher equity loss related to the joint venture in Saudi Arabia due to restart costs for one of the potlines (full restart was achieved in the 2014 second quarter) that was previously shut down due to a period of instability, as well as normal smelter start-up costs.

In the fourth quarter of 2014, aluminum production will be approximately 100 kmt lower due to the shutdown and curtailment actions described above. Also, the average realized price will follow a 15-day lag to LME prices and is expected to benefit from higher regional and product premiums. Additionally, higher energy sales resulting from excess power due to curtailed smelter capacity in Brazil and net productivity improvements are anticipated, while higher energy costs in Spain due to the expiration of the interruptibility regime, which will occur in October 2014, are expected.

Global Rolled Products

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Third-party aluminum shipments (kmt)	506	499	1,477	1,451
Alcoa’s average realized price per metric ton of aluminum	$ 3,804	$ 3,615	$3,697	$3,764
Third-party sales	$ 1,926	$ 1,805	$5,463	$5,461
Intersegment sales	52	47	139	141
Total sales	$ 1,978	$ 1,852	$5,602	$5,602
ATOI	$ 103	$ 71	$ 241	$ 231

In February 2014, management approved the permanent shutdown of Alcoa's two rolling mills in Australia, Point Henry and Yennora. This decision was made due to the significant impact of excess can sheet capacity in both Australia and Asia. The two rolling mills have a combined can sheet capacity of 200 kmt-per-year and will be closed by the end of 2014. See Restructuring and other charges under Results of Operations above for a description of the associated charges.

Third-party sales for the Global Rolled Products segment increased 7% and were flat in the 2014 third quarter and nine-month period, respectively, compared with the corresponding periods in 2013.

The improvement in the 2014 third quarter was mainly caused by increased demand and favorable pricing due to an increase in metal prices, slightly offset by unfavorable price/product mix related to the packaging end market. Volume improvements were mostly driven by the automotive and commercial transportation end markets, somewhat offset by lower demand in the building and construction end market (primarily Europe).

In the 2014 nine-month period, increased demand was offset by unfavorable price/product mix related to the packaging, aerospace, and industrial products end markets. Volume improvements were mostly driven by the commercial transportation and automotive end markets, partially offset by lower demand in the industrial products end market.

ATOI for this segment improved $32 in the 2014 third quarter and $10 in the 2014 nine-month period compared to the same periods in 2013.

In the 2014 third quarter, the increase was principally the result of net productivity improvements across most businesses and favorable pricing due to an increase in metal prices, somewhat offset by unfavorable price/product mix related to the packaging end market.

The increase in the 2014 nine-month period was primarily driven by net productivity improvements across most businesses and an increase in metal prices. These items were mostly offset by unfavorable price/product mix related to the packaging, aerospace, and industrial products end markets; higher input costs, including energy, labor, maintenance, and transportation; a write-off of inventory related to the decision to permanently shut down the Point Henry and Yennora rolling mills ($9); a larger equity loss due to start-up costs related to the rolling mill at the joint venture in Saudi Arabia; and costs (business continuity and contract specific) related to a new labor agreement that covers employees at three rolling mills in the United States ($4) (see Cost of goods sold under Results of Operations above).

In the fourth quarter of 2014, demand in the automotive end market is expected to remain strong and the automotive expansion at the Davenport, IA facility will continue to ramp-up. Also, net productivity improvements are anticipated while pricing pressure due to oversupply in the North American packaging end market is expected.

Engineered Products and Solutions

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Third-party aluminum shipments (kmt)	64	60	184	173
Third-party sales	$ 1,495	$ 1,437	$4,440	$4,328
ATOI	$ 209	$ 192	$ 602	$ 558

On June 25, 2014, Alcoa signed a definitive agreement to acquire Firth Rixson, a global leader in aerospace jet engine components, from Oak Hill Capital Partners for $2,850. The purpose of this acquisition is to strengthen Alcoa's aerospace business and position the Company to capture additional aerospace growth with a broader range of high-growth, value-add jet engine components. Alcoa expects to realize annual cost savings of more than $100 by 2019 due to synergies derived from purchasing and productivity improvements, optimizing internal metal supply, and leveraging Alcoa's global shared services. This transaction is expected to be neutral to earnings in 2015 and accretive thereafter. Firth Rixson generated $1,000 in sales in 2013 and will be included within Alcoa's Engineered Products and Solutions segment. The completion of the acquisition is subject to customary closing conditions and regulatory approvals (in the 2014 third quarter, Alcoa received such approval from the United States and from some, but not all, international markets) and is expected to close by the end of 2014.

Third-party sales for the Engineered Products and Solutions segment increased 4% and 3% in the 2014 third quarter and nine-month period, respectively, compared with the corresponding periods in 2013. The improvement in both periods was mostly due to higher volumes related to the aerospace (commercial) and commercial transportation end markets, somewhat offset by lower volumes in the industrial gas turbine and defense (aerospace-related) end markets. In the 2014 third quarter, the oil and gas end market also contributed positively to the higher volumes.

ATOI for this segment improved $17 in the 2014 third quarter and $44 in the 2014 nine-month period compared to the same periods in 2013, mainly the result of net productivity improvements across all businesses and higher volumes, partially offset by higher costs, primarily labor, and unfavorable product mix.

In the fourth quarter of 2014, the commercial aerospace end market is expected to remain strong. Also, continued net productivity improvements and share gains through innovation are anticipated.

Reconciliation of ATOI to Consolidated Net Income Attributable to Alcoa

Items required to reconcile total segment ATOI to consolidated net income attributable to Alcoa include: the impact of LIFO inventory accounting; interest expense; noncontrolling interests; corporate expense (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; discontinued operations; and other items, including intersegment profit eliminations, differences between tax rates applicable to the segments and the consolidated effective tax rate, the results of the soft alloy extrusions business in Brazil, and other nonoperating items such as foreign currency transaction gains/losses and interest income.

The following table reconciles total segment ATOI to consolidated net income attributable to Alcoa:

	Third quarter ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Total segment ATOI	$ 619	$ 338	$1,362	$ 993
Unallocated amounts (net of tax):				
Impact of LIFO	(18)	9	(33)	12
Interest expense	(81)	(70)	(228)	(221)
Noncontrolling interests	18	(20)	46	(12)
Corporate expense	(74)	(74)	(211)	(212)
Restructuring and other charges	(189)	(108)	(587)	(324)
Other	(126)	(51)	(240)	(182)
Consolidated net income attributable to Alcoa	$ 149	$ 24	$ 109	$ 54

The significant changes in the reconciling items between total segment ATOI and consolidated net income attributable to Alcoa for the 2014 third quarter and nine-month period compared with the corresponding periods in 2013 (unless otherwise noted) consisted of:

- a change in the Impact of LIFO, mostly due to higher prices for aluminum, driven by both higher LME levels and regional premiums (increase in price at September 30, 2014 indexed to December 31, 2013 compared to a decrease in price at September 30, 2013 indexed to December 31, 2012);
- an increase in Interest expense, principally caused by lower capitalized interest ($7 (third quarter) and $22 (nine-month period)) and fees paid associated with the execution and termination of a 364-day senior unsecured bridge term loan facility related to a planned acquisition of an aerospace business ($8 in both periods), slightly offset in the 2014 third quarter due to the absence of amortization of debt-related costs associated with the convertible notes mentioned below, and partially offset in the 2014 nine-month period by a 6% lower average debt level, which was mostly attributable to lower outstanding long-term debt due to the June 2013 repayment of $422 in 6.00% Notes and the March 2014 extinguishment of $575 in 5.25% Convertible Notes, and lower amortization of debt-related costs due to the extinguishment of the aforementioned convertible notes;
- a change in Noncontrolling interests, due to the change in results at AWAC, principally driven by, in the 2014 third quarter, a discrete income tax charge related to a tax rate change in Brazil and additional restructuring and other charges associated with management’s decision in the 2014 first quarter to permanently shut down the Point Henry smelter in Australia; and in the 2014 nine-month period, restructuring and other charges associated with the decision to permanently shut down the Point Henry

smelter and the previously mentioned discrete income tax charge, somewhat offset by the absence of a charge for a legal matter;

- an increase in Restructuring and other charges, mostly caused by higher costs related to decisions to permanently shut down and/or temporarily curtail refinery, smelter and/or rolling mill capacity, slightly offset in the 2014 nine-month period by the absence of a charge for a legal matter; and
- a change in Other, mostly driven by a discrete income tax charge related to a tax rate change in Brazil ($56) and a net unfavorable change in mark-to-market derivative contracts ($25), and also in the 2014 nine-month period, an unfavorable tax impact related to the interim period treatment of operational losses in certain foreign jurisdictions for which no tax benefit was recognized ($41).

Environmental Matters

See the Environmental Matters section of Note H to the Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

Liquidity and Capital Resources

Cash From Operations

Cash provided from operations was $216 in the 2014 nine-month period compared with $658 in the same period of 2013. The decline in cash from operations of $442 was principally due to a negative change associated with working capital of $951, higher pension contributions of $92, and a negative change in noncurrent liabilities of $72, partially offset by higher operating results (net income plus net add-back for noncash transactions in earnings) and a positive change in noncurrent assets of $137.

The components of the negative change in working capital were as follows:

- an unfavorable change of $318 in receivables, primarily related to higher customer sales and lower net cash funding of $105 from a customer receivables sale program;
- a negative change of $344 in inventories, largely attributable to inventory build for the ramp-up of automotive production at the Davenport, IA plant and customer requirements related to smelters that have been curtailed or shut down in 2014;
- an unfavorable change of $44 in prepaid expenses and other current assets, mostly due to a prepayment for metal purchases;
- a negative change of $93 in accounts payable, trade, principally the result of timing of payments;
- an unfavorable change of $61 in accrued expenses, mainly caused by $108 in higher payments for layoff and other exit costs associated with restructuring actions and an $88 payment to the United States government due to the resolution of a legal matter, offset by the absence of $135 (€109) in payments to the Italian government related to a November 2009 European Commission decision on electricity pricing for certain energy-intensive industries; and
- a negative change of $91 in taxes, including income taxes, mostly driven by higher pretax income.

The higher pension contributions were principally driven by special termination benefits of $86 for employees affected by the 2013 shutdown of capacity at a smelter in Canada.

On August 8, 2014, the Highway and Transportation Funding Act (HATFA) was signed into law by the United States government. HATFA, in part, provides temporary relief for employers who sponsor defined benefit pension plans related to funding contributions under the Employee Retirement Income Security Act of 1974. Specifically, HATFA modifies the interest rates that had been set in 2012 by the Moving Ahead for Progress in the 21st Century Act. As a result, management expects Alcoa's estimated minimum required pension funding to decline by $100 in 2014 and by $125 in 2015.

Financing Activities

Cash provided from financing activities was $2,431 in the 2014 nine-month period, an increase of $3,045 compared with cash used for financing activities of $614 in the corresponding period of 2013.

The source of cash in the 2014 nine-month period was primarily due to $2,881 in additions to debt, virtually all of which was the result of $1,238 in net proceeds from the issuance of new senior debt securities to be used for the planned acquisition of an aerospace business (see below) and $1,640 in borrowings under certain revolving credit facilities (see below), net proceeds of $1,213 from the issuance of mandatory convertible preferred stock related to the aforementioned acquisition, and $128 in proceeds from employee exercises of 14.8 million stock options at a weighted average exercise price of $8.69 (not in millions). These items were somewhat offset by $1,717 in payments on debt, mostly related to $1,640 for the repayment of borrowings under certain revolving credit facilities (see below), and $105 in dividends paid to shareholders.

In the 2013 nine-month period, the use of cash was primarily due to $1,980 in payments on debt, mainly related to $1,525 for the repayment of borrowings under certain credit facilities, a $422 early repayment of 6.00% Notes due July 2013, and $20 for previous borrowings on the loans supporting the Estreito hydroelectric power project in Brazil; $99 in dividends paid to shareholders; and net cash paid to noncontrolling interests of $68, most of which relates to Alumina Limited’s share of AWAC. These items were partially offset by $1,527 in additions to debt, virtually all of which was the result of borrowings under certain credit facilities.

On July 25, 2014, Alcoa entered into a Five-Year Revolving Credit Agreement (the “Credit Agreement”) with a syndicate of lenders and issuers named therein. The Credit Agreement provides a $4,000 senior unsecured revolving credit facility (the “Credit Facility”), the proceeds of which are to be used to provide working capital or for other general corporate purposes of Alcoa. Subject to the terms and conditions of the Credit Agreement, Alcoa may from time to time request increases in lender commitments under the Credit Facility, not to exceed $500 in aggregate principal amount, and may also request the issuance of letters of credit, subject to a letter of credit sublimit of $1,000 under the Credit Facility.

The Credit Facility matures on July 25, 2019, unless extended or earlier terminated in accordance with the provisions of the Credit Agreement. Alcoa may make two one-year extension requests during the term of the Credit Facility, with any extension being subject to the lender consent requirements set forth in the Credit Agreement. Under the provisions of the Credit Agreement, Alcoa will pay a fee of 0.25% (based on Alcoa’s long-term debt ratings as of September 30, 2014) of the total commitment per annum to maintain the Credit Facility.

The Credit Facility is unsecured and amounts payable under it will rank *pari passu* with all other unsecured, unsubordinated indebtedness of Alcoa. Borrowings under the Credit Facility may be denominated in U.S. dollars or euros. Loans will bear interest at a base rate or a rate equal to LIBOR, plus, in each case, an applicable margin based on the credit ratings of Alcoa’s outstanding senior unsecured long-term debt. The applicable margin on base rate loans and LIBOR loans will be 0.50% and 1.50% per annum, respectively, based on Alcoa’s long-term debt ratings as of September 30, 2014. Loans may be prepaid without premium or penalty, subject to customary breakage costs.

The Credit Facility replaces Alcoa’s Five-Year Revolving Credit Agreement, dated as of July 25, 2011 (the “Former Credit Agreement”), which was scheduled to mature on July 25, 2017. The Former Credit Agreement, which had a total capacity of $3,750 and was undrawn, was terminated effective July 25, 2014.

The Credit Agreement includes covenants substantially similar to those in the Former Credit Agreement, including, among others, (a) a leverage ratio, (b) limitations on Alcoa’s ability to incur liens securing indebtedness for borrowed money, (c) limitations on Alcoa’s ability to consummate a merger, consolidation or sale of all or substantially all of its assets, and (d) limitations on Alcoa’s ability to change the nature of its business. As of September 30, 2014, Alcoa was in compliance with all such covenants.

The obligation of Alcoa to pay amounts outstanding under the Credit Facility may be accelerated upon the occurrence of an “Event of Default” as defined in the Credit Agreement. Such Events of Default include, among others, (a) Alcoa’s failure to pay the principal of, or interest on, borrowings under the Credit Facility, (b) any representation or warranty of Alcoa in the Credit Agreement proving to be materially false or misleading, (c) Alcoa’s breach of any of its covenants contained in the Credit Agreement, and (d) the bankruptcy or insolvency of Alcoa.

There were no amounts outstanding under the Credit Facility at September 30, 2014 and no amounts were borrowed during the 2014 third quarter under the Credit Facility.

At the end of 2013, Alcoa had ten revolving credit facilities (excluding the Credit Facility above), each with a different financial institution, providing a combined capacity of $1,190 and expiration dates ranging from February 2014 through December 2015.

A credit facility ($150 capacity) that was due to expire in February 2014 was extended to March 2015 in the first quarter of 2014. Another credit facility ($150 capacity) expired in March 2014 (a new agreement with the same financial institution was entered into in April 2014 and the new facility expires in March 2016). Also in the first quarter of 2014, Alcoa entered into an eleventh revolving credit agreement, providing a $50 credit facility with an expiration date of February 2016.

In the third quarter of 2014, two credit facilities ($200 combined capacity) that were due to expire in September 2014 and October 2014 were extended to September 2016 and October 2015, respectively. Additionally in the third quarter of 2014, a $200 credit facility expired and was not extended or renewed.

In summary, at September 30, 2014, Alcoa has ten revolving credit facilities (excluding the Credit Facility), providing a combined capacity of $1,040, of which $340, $400, and $300 is due to expire in the remainder of 2014, 2015, and 2016, respectively.

The purpose of any borrowings under all of these credit arrangements is to provide for working capital requirements and for other general corporate purposes. The covenants contained in all these arrangements are the same as the Credit Agreement above.

During the first, second, and third quarters of 2014, Alcoa borrowed and repaid $620, $510, and $510, respectively, under these credit arrangements. The weighted-average interest rate and weighted-average days outstanding of the respective borrowings during the first, second, and third quarters of 2014 were 1.53%, 1.55%, and 1.55%, respectively, and 49 days, 84 days, and 73 days, respectively.

In the first quarter of 2014, holders of $575 principal amount of Alcoa's 5.25% Convertible Notes due March 15, 2014 (the "Notes") exercised their option to convert the Notes into 89 million shares of Alcoa common stock. The conversion rate for the Notes was 155.4908 shares of Alcoa's common stock per $1,000 (in full dollars) principal amount of notes, equivalent to a conversion price of $6.43 per share. The difference between the $575 principal amount of the Notes and the $89 par value of the issued shares increased Additional capital on Alcoa's Consolidated Balance Sheet. This transaction was not reflected in Alcoa's Statement of Consolidated Cash Flows as it represents a noncash financing activity.

In February 2014, Alcoa's automatic shelf registration statement filed with the Securities and Exchange Commission expired. On July 11, 2014, Alcoa filed a new shelf registration statement, which was amended on July 25, 2014 and became effective on July 30, 2014, for up to $5,000 of securities on an unallocated basis for future issuance. As of September 30, 2014, $2,500 in securities were issued under the new shelf registration statement.

In September 2014, Alcoa completed two public securities offerings under its shelf registration statement for (i) $1,250 of 25 million depositary shares, each representing a 1/10th interest in a share of Alcoa's 5.375% Class B Mandatory Convertible Preferred Stock, Series 1, par value $1 per share, liquidation preference $500 per share (the "Mandatory Convertible Preferred Stock"), and (ii) $1,250 of 5.125% Notes due 2024 (the "2024 Notes"). The net proceeds of the offerings are intended to be used to finance the cash portion of the proposed acquisition of Firth Rixson (see Engineered Products and Solutions under Segment Information above). If the acquisition is not consummated on or prior to 5:00 p.m. (New York City time) on April 1, 2015 or if prior to this stated date and time, the share purchase agreement related to the acquisition is terminated or Alcoa determines in its reasonable judgment that the acquisition will not occur, Alcoa may elect to redeem the Mandatory Convertible Preferred Stock, in whole but not in part, at a redemption price specified in the terms of the Mandatory Convertible Preferred Stock, plus any accumulated and unpaid dividends. Under no other circumstances does Alcoa have the right to redeem the Mandatory Convertible Preferred Stock. If the acquisition is not consummated on or prior to 5:00 p.m. (New York City time) on April 1, 2015 or if prior to this stated date and time, the share purchase agreement related to the acquisition is terminated other than in connection with the consummation of the acquisition and is not otherwise amended or replaced, Alcoa is required to redeem the 2024 Notes, in whole but not in part, at a redemption price in cash equal to 101% of the aggregate principal amount of the 2024 Notes, plus any accrued and unpaid interest on the 2024 Notes.

Alcoa's cost of borrowing and ability to access the capital markets are affected not only by market conditions but also by the short- and long-term debt ratings assigned to Alcoa's debt by the major credit rating agencies.

On May 29, 2013, Moody's Investors Service (Moody's) downgraded the following ratings for Alcoa: long-term debt from Baa3 to Ba1 and short-term debt from Prime-3 to Speculative Grade Liquidity Rating-1. Additionally, Moody's changed the current outlook from rating under review to stable.

The following is a summary of Alcoa's liquidity position as it relates to the ratings downgrade by Moody's.

Cash and letters of credit. As a result of the ratings downgrade by Moody's, certain power companies and counterparties to derivative contracts required Alcoa to post letters of credit and cash collateral, respectively, in the amount of $167 and $18, respectively, in June 2013. Since that time, the amount of letters of credit posted decreased by $5 and the amount of cash collateral posted declined by $12. Other vendors and third-parties may require Alcoa to post additional letters of credit and/or cash collateral in future periods.

Outstanding debt. Alcoa's outstanding debt as of September 30, 2014 totaled $8,889 (excludes commercial paper – see below). There were no ramifications to Alcoa as a result of the ratings downgrade and interest payments and fees related to the outstanding debt remain unchanged.

Revolving credit facilities. Alcoa has a $4,000 revolving credit facility that expires in July 2019 (see above) and ten other revolving credit facilities totaling $1,040 (see above). This $5,040 of borrowing capacity was also unaffected by the ratings downgrade, including the margins that would be applicable to any borrowings, and remains available for use by Alcoa at its discretion.

Commercial paper. During the period since the downgrade, Alcoa was able to issue the desired level of commercial paper to support operations without difficulty. At the time of the downgrade, the spreads on commercial paper increased slightly, however, by one to three basis points, which did not result in a significant change to Alcoa's total interest costs. While Alcoa expects it can continue to issue commercial paper, there is no assurance about the amount or cost at which it could issue commercial paper.

On April 11, 2014, Fitch Ratings (Fitch) downgraded the following ratings for Alcoa: long-term debt from BBB- to BB+ and short-term debt from F3 to B. Additionally, Fitch changed the current outlook from negative to stable. As of September 30, 2014, this downgrade did not have a significant impact on Alcoa's financing activities, including its ability to access the capital markets. The descriptions for outstanding debt and revolving credit facilities above remain unchanged as a result of the Fitch downgrade. Also, Alcoa is in full compliance with the project financing requirements for the Ma'aden-Alcoa joint venture project in Saudi Arabia, and does not need to post collateral as a result of the ratings downgrade.

On April 23, 2014, Standard and Poor's Ratings Services (S&P) affirmed the following ratings for Alcoa: long-term debt at BBB- and short-term debt at A-3. Additionally, S&P maintained the current outlook as negative.

On June 26, 2014, Moody's, Fitch, and S&P each issued statements that the respective ratings and outlook for Alcoa are not affected by Alcoa's planned acquisition of an aerospace business, Firth Rixson, for $2,850 in cash and stock.

On September 16, 2014, Fitch and S&P issued a rating of B+ and BB, respectively, to Alcoa's Mandatory Convertible Preferred Stock. Additionally, on September 17, 2014, Moody's, Fitch, and S&P each issued statements that the respective existing debt ratings and outlook for Alcoa were assigned to the 2024 Notes.

Investing Activities

Cash used for investing activities was $807 in the 2014 nine-month period compared with $865 in the 2013 nine-month period, resulting in a decrease in cash used of $58.

In the 2014 nine-month period, the use of cash was mainly due to $750 in capital expenditures, 43% of which related to growth projects, including the automotive expansions at the Alcoa, TN and Davenport, IA fabrication plants, the aluminum-lithium capacity expansion at the Lafayette, IN plant, and the aerospace expansion at the La Porte, IN plant; and $137 in additions to investments, including equity contributions of $87 related to the aluminum complex joint venture in Saudi Arabia and the purchase of $29 in equities and fixed income securities held by Alcoa's captive insurance company; slightly offset by $49 in sales of investments, mostly related to $42 in combined proceeds from the sale of a mining interest in Suriname and an equity investment in a China rolling mill.

The use of cash in the 2013 nine-month period was mainly due to $771 in capital expenditures, 37% of which related to growth projects, including the automotive expansion at the Davenport, IA fabrication plant, the aluminum-lithium capacity expansion at the Lafayette, IN plant, the automotive sheet expansion at the Alcoa, TN plant, and the Estreito hydroelectric power project; and $242 in additions to investments, including equity contributions of $159 related to the aluminum complex joint venture in Saudi Arabia and the purchase of $30 in equities and fixed income securities held by Alcoa's captive insurance company; slightly offset by a net change in restricted cash of $130, mostly related to the release of funds to be used for capital expenditures of the automotive expansion at the Davenport, IA fabrication plant.

Recently Adopted and Recently Issued Accounting Guidance

See Note B to the Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

Forward-Looking Statements

This report contains statements that relate to future events and expectations and, as such, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those containing such words as “anticipates,” “believes,” “estimates,” “expects,” “forecasts,” “intends,” “outlook,” “plans,” “projects,” “should,” “targets,” “will,” or other words of similar meaning. All statements that reflect Alcoa’s expectations, assumptions, or projections about the future other than statements of historical fact are forward-looking statements, including, without limitation, forecasts concerning aluminum industry growth or other trend projections, anticipated financial results or operating performance, targeted or planned schedules for completion and start-up of growth projects, statements regarding the proposed acquisition of the Firth Rixson business, including the expected benefits of the transaction, expected synergies, and expected timing of the closing of the transaction, and statements about Alcoa’s strategies, objectives, goals, targets, outlook, and business and financial prospects. Forward-looking statements are subject to a number of known and unknown risks, uncertainties, and other factors and are not guarantees of future performance. Actual results, performance, or outcomes may differ materially from those expressed in or implied by those forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include: (a) material adverse changes in aluminum industry conditions, including global supply and demand conditions and fluctuations in London Metal Exchange-based prices, and premiums, as applicable, for primary aluminum, alumina, and other products, and fluctuations in index-based and spot prices for alumina; (b) global economic and financial market conditions generally, including the risk of another global economic downturn and uncertainties regarding the effects of sovereign debt issues or government intervention into the markets to address economic conditions; (c) unfavorable changes in the markets served by Alcoa, including automotive and commercial transportation, aerospace, building and construction, packaging, oil and gas, defense, and industrial gas turbine; (d) the impact of changes in foreign currency exchange rates on costs and results, particularly the Australian dollar, Brazilian real, Canadian dollar, euro, and Norwegian kroner; (e) increases in energy costs, including electricity, natural gas, and fuel oil, or the unavailability or interruption of energy supplies; (f) increases in the costs of other raw materials, including caustic soda or carbon products; (g) Alcoa’s inability to achieve the level of revenue growth, cash generation, cost savings, improvement in profitability and margins, fiscal discipline, or strengthening of competitiveness and operations (including moving its alumina refining and aluminum smelting businesses down on the industry cost curves and increasing revenues and improving margins in its Global Rolled Products and Engineered Products and Solutions segments) anticipated from its restructuring programs, cash sustainability, productivity improvement, and other initiatives; (h) Alcoa’s inability to realize expected benefits, in each case as planned and by targeted completion dates, from sales of non-core assets, or from newly constructed, expanded, or acquired facilities, including facilities supplying auto sheet capacity or aluminum-lithium capacity, or from international joint ventures, including the joint venture in Saudi Arabia; (i) Alcoa’s failure to successfully implement, or to realize expected benefits from, new technologies, processes, equipment or innovative products, whether due to competitive developments, changes in the regulatory environment, trends and developments in the aerospace, metals engineering and manufacturing sectors, or other factors; (j) political, economic, and regulatory risks in the countries in which Alcoa operates or sells products, including unfavorable changes in laws and governmental policies, civil unrest, imposition of sanctions, expropriation of assets, and other events beyond Alcoa’s control; (k) the outcome of contingencies, including legal proceedings, government investigations, and environmental remediation; (l) the outcome of negotiations with, the potential loss of, and the business or financial condition of, key customers, suppliers, and business partners; (m) adverse changes in tax rates or benefits; (n) adverse changes in discount rates or investment returns on pension assets; (o) the impact of cyber attacks and potential information technology or data security breaches; (p) unexpected events, unplanned outages, supply disruptions, or failure of equipment or processes to meet specifications; (q) risks associated with large infrastructure construction projects; (r) the risk that the Firth Rixson business will not be integrated successfully or that such integration may be more difficult, time-consuming or costly than expected, which could result in additional demands on Alcoa’s resources, systems, procedures and controls, disruption of its ongoing business and diversion of management’s attention from other business concerns; (s) failure to receive, delays in the receipt of, or unacceptable or burdensome conditions imposed in connection with, all required regulatory approvals and the satisfaction of the closing conditions to the proposed acquisition of the Firth Rixson business; (t) the potential failure to retain key employees of Alcoa or Firth Rixson as a result of the proposed transaction or during integration of the businesses; and (u) the other risk factors summarized in Alcoa’s Form 10-K, including under Part I, Item 1A, for the year ended December 31, 2013, as updated in Part II, Item 1A of this report, and the following sections of this report: Note H and the Derivatives section of Note P to the Consolidated Financial Statements; the discussion included above under Segment Information; and the summary included above regarding Alcoa’s liquidity position under Liquidity and Capital Resources – Financing Activities. Alcoa disclaims any intention or obligation to update publicly any forward-looking statements, whether in response to new information, future events, or otherwise, except as required by applicable law.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

See the Derivatives section of Note P to the Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the third quarter of 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

<u>Alba and Related Matters</u>

Derivative Actions

As previously reported, on July 21, 2008, the Teamsters Local #500 Severance Fund and the Southeastern Pennsylvania Transportation Authority filed a shareholder derivative suit in the civil division of the Court of Common Pleas of Allegheny County, Pennsylvania against certain officers and directors of Alcoa claiming breach of fiduciary duty, gross mismanagement, and other violations. This derivative action stems from the civil litigation brought by Aluminium Bahrain B.S.C. (“Alba”) against Alcoa, Alcoa World Alumina LLC (“AWA”), Victor Phillip Dahdaleh, and others, and the subsequent investigation of Alcoa by the U.S. Department of Justice (“DOJ”) and the Securities and Exchange Commission (“SEC”) with respect to Alba’s claims. This derivative action claims that the defendants caused or failed to prevent the matters alleged in the Alba lawsuit. The director defendants filed a motion to dismiss on November 21, 2008. On September 3, 2009, a hearing was held on Alcoa’s motion and, on October 12, 2009, the court issued its order denying Alcoa’s motion to dismiss but finding that a derivative action during the conduct of the DOJ investigation and pendency of the underlying complaint by Alba would be contrary to the interest of shareholders and, therefore, stayed the case until further order of the court.

As previously reported, on March 6, 2009, the Philadelphia Gas Works Retirement Fund filed a shareholder derivative suit in the civil division of the Court of Common Pleas of Philadelphia County, Pennsylvania. This action was brought against certain officers and directors of Alcoa claiming breach of fiduciary duty and other violations and is based on the allegations made in the previously disclosed civil litigation brought by Alba against Alcoa, AWA, Victor Phillip Dahdaleh, and others, and the subsequent investigation of Alcoa by the DOJ and the SEC with respect to Alba’s claims. This derivative action claims that the defendants caused or failed to prevent the conduct alleged in the Alba lawsuit. On August 7, 2009, the director and officer defendants filed an unopposed motion to coordinate the case with the Teamsters Local #500 suit, described immediately above, in the Allegheny County Common Pleas Court. The Allegheny County court issued its order consolidating the case on September 18, 2009. Thereafter, on October 31, 2009, the court assigned this action to the Commerce and Complex Litigation division of the Allegheny County Court of Common Pleas and on November 20, 2009, the court granted defendants’ motion to stay all proceedings in the Philadelphia Gas action until the earlier of the court lifting the stay in the Teamsters derivative action or further order of the court in this action.

As previously reported, on June 19, 2012, Catherine Rubery (plaintiff) filed a shareholder derivative suit in the United States District Court for the Western District of Pennsylvania against William Rice, Victor Dahdaleh and current and former members of the Alcoa Board of Directors (collectively, defendants) claiming breach of fiduciary duty and corporate waste. This derivative action stems from the previously disclosed civil litigation brought by Alba against Alcoa, and the subsequent investigation of Alcoa by the DOJ and the SEC described above. This derivative action claims that defendants caused or failed to prevent illegal bribes of foreign officials, failed to implement an internal controls system to prevent bribes from occurring and wasted corporate assets by paying improper bribes and incurring substantial legal liability. Furthermore, plaintiff seeks an order of contribution and indemnification from defendants.

On October 1, 2014, the Alcoa Board of Directors approved a settlement-in-principle of the three pending derivative actions described above stemming from the previously disclosed civil litigation brought by Alba against Alcoa, AWA, Victor Dahdaleh, and others, and the subsequent investigation of Alcoa by the DOJ and SEC with respect to Alba’s claims. The settlement of the derivative actions, which is still subject to Court approval, provides that Alcoa will make certain enhancements to Alcoa’s Ethics and Compliance Program and a payment of attorney fees. The settlement, if approved, would resolve all derivative claims against the current and former officers and members of the Alcoa Board of Directors named as defendants as well as William Rice stemming from the Alba allegations.

Italian Energy Matter

As previously reported, before 2002, Alcoa purchased power in Italy in the regulated energy market and received a drawback of a portion of the price of power under a special tariff in an amount calculated in accordance with a published resolution of the Italian Energy Authority, Energy Authority Resolution n. 204/1999 (“204/1999”). In 2001, the Energy Authority published another resolution, which clarified that the drawback would be calculated in the same manner, and in the same amount, in either the regulated or unregulated market. At the beginning of 2002, Alcoa left the regulated energy market to purchase energy in the unregulated market. Subsequently, in 2004, the Energy Authority introduced regulation no. 148/2004 which set forth a different method for calculating the special tariff that would result in a different drawback for the regulated and unregulated markets. Alcoa challenged the new regulation in the Administrative Court of Milan and received a favorable judgment in 2006. Following this ruling, Alcoa continued to receive the power price drawback in accordance with the original calculation method, through 2009, when the European Commission declared all such special tariffs to be impermissible “state aid.” In 2010, the Energy Authority appealed the 2006 ruling to the Consiglio di Stato (final court of appeal). On December 2, 2011, the Consiglio di Stato ruled in favor of the Energy Authority and against Alcoa, thus presenting the opportunity for the energy regulators to seek reimbursement from Alcoa of an amount equal to the difference between the actual drawback amounts received over the relevant time period, and the drawback as it would have been calculated in accordance with regulation 148/2004. On February 23, 2012, Alcoa filed its appeal of the decision of the Consiglio di Stato (this appeal was subsequently withdrawn in March 2013). On March 26, 2012, Alcoa received a letter from the agency (Cassa Conguaglio per il Settore Eletrico (CCSE)) responsible for making and collecting payments on behalf of the Energy Authority demanding payment in the amount of approximately $110 million (€85 million), including interest. By letter dated April 5, 2012, Alcoa informed CCSE that it disputes the payment demand of CCSE since (i) CCSE was not authorized by the Consiglio di Stato decisions to seek payment of any amount, (ii) the decision of the Consiglio di Stato has been appealed (see above), and (iii) in any event, no interest should be payable. On April 29, 2012, Law No. 44 of 2012 (“44/2012”) came into effect, changing the method to calculate the drawback. On February 21, 2013, Alcoa received a revised request letter from CSSE demanding Alcoa’s subsidiary, Alcoa Trasformazioni S.r.l., make a payment in the amount of $97 million (€76 million), including interest, which reflects a revised calculation methodology by CCSE and represents the high end of the range of reasonably possible loss associated with this matter of $0 to $97 million (€76 million). Alcoa has rejected that demand and has formally challenged it through an appeal before the Administrative Court on April 5, 2013. The Administrative Court scheduled a hearing for December 19, 2013, which was subsequently postponed until April 17, 2014, and further postponed until June 19, 2014. On this date, the Administrative Court listened to Alcoa’s oral argument, and on September 2, 2014, rendered its decision. The Administrative Court declared the payment request of CCSE and the Energy Authority to Alcoa to be unsubstantiated based on the 148/2004 resolution with respect to the January 19, 2007 through November 19, 2009 timeframe. The September 2, 2014 decision issued by the Administrative Court may be appealed in part or in its entirety by December 2, 2014. At this time, the Company is unable to reasonably predict an outcome for this matter.

European Commission Matters

As previously reported, in July 2006, the European Commission (EC) announced that it had opened an investigation to establish whether an extension of the regulated electricity tariff granted by Italy to some energy-intensive industries complied with European Union (EU) state aid rules. The Italian power tariff extended the tariff that was in force until December 31, 2005 through November 19, 2009 (Alcoa had been incurring higher power costs at its smelters in Italy subsequent to the tariff end date through the end of 2012). The extension was originally through 2010, but the date was changed by legislation adopted by the Italian Parliament effective on August 15, 2009. Prior to expiration of the tariff in 2005, Alcoa had been operating in Italy for more than 10 years under a power supply structure approved by the EC in 1996. That measure provided a competitive power supply to the primary aluminum industry and was not considered state aid from the Italian Government. The EC’s announcement expressed concerns about whether Italy’s extension of the tariff beyond 2005 was compatible with EU legislation and potentially distorted competition in the European market of primary aluminum, where energy is an important part of the production costs.

On November 19, 2009, the EC announced a decision in this matter stating that the extension of the tariff by Italy constituted unlawful state aid, in part, and, therefore, the Italian Government is to recover a portion of the benefit Alcoa received since January 2006 (including interest). The amount of this recovery was to be based on a calculation prepared by the Italian Government (see below). In late 2009, after discussions with legal counsel and reviewing the bases on which the EC decided, including the different considerations cited in the EC decision regarding Alcoa's two smelters in Italy, Alcoa recorded a charge of $250 million (€173 million), which included $20 million (€14 million) to write off a receivable from the Italian Government for amounts due under the now expired tariff structure and $230 million (€159 million) to establish a reserve. On April 19, 2010, Alcoa filed an appeal of this decision with the General Court of the EU (see below). Prior to 2012, Alcoa was involved in other legal proceedings related to this matter that separately sought the annulment of the EC's July 2006 decision to open an investigation alleging that such decision did not follow the applicable procedural rules and requested injunctive relief to suspend the effectiveness of the EC's November 19, 2009 decision. However, the decisions by the General Court, and subsequent appeals to the European Court of Justice, resulted in the denial of these remedies.

In June 2012, Alcoa received formal notification from the Italian Government with a calculated recovery amount of $375 million (€303 million); this amount was reduced by $65 million (€53 million) for amounts owed by the Italian Government to Alcoa, resulting in a net payment request of $310 million (€250 million). In a notice published in the Official Journal of the European Union on September 22, 2012, the EC announced that it had filed an action against the Italian Government on July 18, 2012 to compel it to collect the recovery amount (on October 17, 2013, the European Court of Justice ordered Italy to so collect). On September 27, 2012, Alcoa received a request for payment in full of the $310 million (€250 million) by October 31, 2012. Following discussions with the Italian Government regarding the timing of such payment, Alcoa paid the requested amount in five quarterly installments of $69 million (€50 million) beginning in October 2012 through December 2013. Notwithstanding the payments made, Alcoa's estimate of the most probable loss of the ultimate outcome of this matter and the low end of the range of reasonably possible loss, which is $202 million (€159 million) to $385 million (€303 million), remains the $202 million (€159 million) recorded in 2009 (the U.S. dollar amount reflects the effects of foreign currency movements since 2009). Alcoa no longer has a reserve for this matter; instead, Alcoa has a noncurrent asset reflecting the excess of the total of the five payments made to the Italian Government over the reserve recorded in 2009. At September 30, 2014, the noncurrent asset was $116 million (€91 million) (this does not include the $67 (€53) for amounts owed by the Italian Government to Alcoa mentioned above).

On October 16, 2014, Alcoa received notice from the General Court of the EU that its April 19, 2010 appeal of the EC's November 19, 2009 decision was denied. Alcoa has 60 days from October 16, 2014 to further appeal this decision on issues of law only. Management and legal counsel are currently reviewing the detailed decision of the General Court of the EU in order to make such a determination.

Other Matters

As previously reported, on August 2, 2013, the State of North Carolina, by and through its agency, the North Carolina Department of Administration, filed a lawsuit against Alcoa Power Generating, Inc. in Superior Court, Wake County, North Carolina (Docket No. 13-CVS-10477). The lawsuit asserts ownership of certain submerged lands and hydropower generating structures situated at Alcoa's Yadkin Hydroelectric Project (the "Yadkin Project"), including the submerged riverbed of the Yadkin River throughout the Yadkin Project and a portion of the hydroelectric dams that Alcoa owns and operates pursuant to a license from the Federal Energy Regulatory Commission. The suit seeks declaratory relief regarding North Carolina's alleged ownership interests in the riverbed and the dams and further declaration that Alcoa has no right, license or permission from North Carolina to operate the Yadkin Project. By notice filed on September 3, 2013, Alcoa removed the matter to the U.S. District Court for the Eastern District of North Carolina (Docket No. Civil Action No. 5:13-cv-633). By motion filed September 3, 2013, the Yadkin Riverkeeper sought permission to intervene in the case. On September 25, 2013, Alcoa filed its answer in the case and also filed its opposition to the motion to intervene by the Yadkin Riverkeeper. The Court denied the State's Motion to Remand and initially permitted the Riverkeeper to intervene although the Riverkeeper has now voluntarily withdrawn as an intervening party and will participate as amicus. The parties filed a Joint Rule 26(f) Report and Discovery Plan which was modified by the Court on January 8, 2014. The order provides that the case will be ready for trial on October 31, 2014 and provides a schedule for discovery and other pretrial activity. On July 21, 2014, the parties each filed a motion for summary judgment. The Court has not issued a ruling on those motions. No actual trial date has been set. At this time, the Company is unable to reasonably predict an outcome for this matter.

Item 1A. Risk Factors.

Alcoa’s business, financial condition, or results of operations may be impacted by a number of factors. In addition to the factors discussed separately in this report, in Part I, Item 1A to Alcoa’s Annual Report on Form 10-K for the year ended December 31, 2013, and other reports filed by Alcoa with the Securities and Exchange Commission, the following risks, updated from and in addition to the Form 10-K, could affect Alcoa’s business, financial condition, or results of operations. Additional risks and uncertainties not currently known to Alcoa or that Alcoa currently deems to be immaterial also may materially adversely affect Alcoa’s business, financial condition, or results of operations.

Alcoa could be materially adversely affected by declines in aluminum prices, including global, regional and product-specific prices.

The overall price of primary aluminum consists of several components: 1) the underlying base metal component, which is typically based on quoted prices from the London Metal Exchange (LME); 2) the regional premium, which comprises the incremental price over the base LME component that is associated with the physical delivery of metal to a particular region (e.g., the Midwest premium for metal sold in the United States); and 3) the product premium, which represents the incremental price for receiving physical metal in a particular shape (e.g., coil, billet, slab, rod, etc.) or alloy. Each of the above three components has its own drivers of variability. The LME price is typically driven by macroeconomic factors, global supply and demand of aluminum (including expectations for growth and contraction and the level of global inventories), and financial investors. Regional premiums tend to vary based on the supply of and demand for metal in a particular region and associated transportation costs. Product premiums generally are a function of supply and demand for a given primary aluminum shape and alloy combination in a particular region. Speculative trading in aluminum and the influence of hedge funds and other financial institutions participating in commodity markets have also increased in recent years, contributing to higher levels of price volatility. In 2013, the LME price of aluminum reached a high of $2,123 per metric ton and a low of $1,695 per metric ton. Continued high LME inventories, or the release of substantial inventories into the market, could lead to a reduction in the price of aluminum. Declines in the LME price have had a negative impact on Alcoa’s results of operations. Additionally, Alcoa’s results could be adversely affected by decreases in regional premiums that participants in the physical metal market pay for immediate delivery of aluminum, which are part of the overall aluminum price. Although regional premiums have reached levels substantially higher than historical averages during 2013 and 2014, new LME warehousing rules (see risk factor entitled *“New LME warehousing rules could cause aluminum prices to decrease.”*) or other factors may cause these premiums to decrease, which would have a negative impact on our results of operations. A sustained weak LME aluminum pricing environment, deterioration in LME aluminum prices, or a decrease in regional premiums or product premiums could have a material, adverse effect on Alcoa’s business, financial condition, and results of operations or cash flow.

New LME warehousing rules could cause aluminum prices to decrease.

In 2013, the LME announced new rules scheduled to take effect on April 1, 2014 that would require LME warehouses, under certain conditions, to deliver out more aluminum than they take in. Although in March 2014 a court in the United Kingdom ruled that the LME’s consultation process in developing the new rules had been unfair and unlawful, in October 2014, a court of appeal in the United Kingdom upheld the LME’s consultation process as being fair. At such time as the new warehousing rules take effect, such rules could cause an increase in the supply of aluminum to enter the physical market and may cause regional delivery premiums, product premiums and LME aluminum prices to fall. Decreases in regional delivery and product premiums, decreases in LME aluminum prices and increases in the supply of aluminum could have a material adverse effect on Alcoa’s business, financial condition, and results of operations or cash flow.

A downgrade of Alcoa’s credit ratings could limit Alcoa’s ability to obtain future financing, increase its borrowing costs, increase the pricing of its credit facilities, adversely affect the market price of its securities, trigger letter of credit or other collateral postings, or otherwise impair its business, financial condition, and results of operations.

Standard and Poor’s Ratings Services currently rates Alcoa’s long-term debt BBB-, the lowest level of investment grade rating, with a negative ratings outlook (ratings and outlook were affirmed on April 23, 2014). In May 2013, Moody’s Investors Service downgraded Alcoa’s long-term debt rating from Baa3 to Ba1, which is below investment grade, and changed the outlook from rating under review to stable. In April 2014, Fitch Ratings downgraded Alcoa’s rating from BBB- to BB+, a below investment grade rating, and changed the outlook from negative to stable. There can be no assurance that one or more of these or other rating agencies will not take further negative actions with respect to Alcoa’s ratings. Increased debt levels, adverse aluminum market or macroeconomic conditions, a deterioration in the Company’s debt protection metrics, a contraction in the Company’s liquidity, or other factors could potentially trigger such actions. A rating agency may lower, suspend or withdraw entirely a rating or place it on negative outlook or watch if, in that rating agency’s judgment, circumstances so warrant.

As a result of the Moody’s downgrade, certain counterparties have required Alcoa to post letters of credit or cash collateral, and the cost of issuance of commercial paper has increased. For more information regarding the effects of the Moody’s downgrade on the Company’s liquidity, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Financing Activities” in this report. We do not believe that the Fitch downgrade will have a significant impact on Alcoa’s financing activities. However, any further downgrade of Alcoa’s credit ratings by one or more rating agencies could adversely impact the market price of Alcoa’s securities, adversely affect existing financing (for example, a downgrade by Standard and Poor’s or a further downgrade by Moody’s would subject Alcoa to higher costs under Alcoa’s Five-Year Revolving Credit Agreement and certain of its other revolving credit facilities), limit access to the capital (including commercial paper) or credit markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all, result in more restrictive covenants in agreements governing the terms of any future indebtedness that the Company incurs, increase the cost of borrowing or fees on undrawn credit facilities, result in vendors or counterparties seeking collateral or letters of credit from Alcoa, or otherwise impair Alcoa’s business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(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	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31, 2014	3,754	$ 11.36	—	—
February 1 - February 28, 2014	—	—	—	—
March 1 – March 31, 2014	—	—	—	—
Total for quarter ended March 31, 2014	3,754	$ 11.36	—	—
April 1 - April 30, 2014	—	—	—	—
May 1 - May 31, 2014	—	—	—	—
June 1 – June 30, 2014	—	—	—	—
Total for quarter ended June 30, 2014	—	—	—	—
July 1 - July 31, 2014	—	—	—	—
August 1 - August 31, 2014	—	—	—	—
September 1 – September 30, 2014	—	—	—	—
Total for quarter ended September 30, 2014	—	—	—	—

(a) This column includes the deemed surrender of existing shares of Alcoa common stock to the Company by stock-based compensation plan participants to satisfy the exercise price of employee stock options at the time of exercise. These surrendered shares are not part of any publicly announced share repurchase program.

Item 4. Mine Safety Disclosures.

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Securities and Exchange Commission Regulation S-K (17 CFR 229.104) is included in Exhibit 95 of this report, which is incorporated herein by reference.

Item 6. Exhibits.

3(a).	Alcoa Inc. Articles of Incorporation, as amended September 22, 2014
3(b).	Statement with Respect to Shares of the 5.375% Mandatory Convertible Preferred Stock, Series 1, of Alcoa Inc., dated September 22, 2014 (including Form of Preferred Stock Certificate), incorporated by reference to Exhibit 3.1 to the Company's first Current Report on Form 8-K dated September 22, 2014
4(a).	Deposit Agreement, dated September 22, 2014, among Alcoa Inc., Computershare Trust Company, N.A., Computershare Inc., and the holders from time to time of the depositary receipts evidencing the Depositary Shares (including Form of Depositary Receipt), incorporated by reference to Exhibit 4.1 to the Company's first Current Report on Form 8-K dated September 22, 2014
4(b).	Form of Certificate for the 5.375% Mandatory Convertible Preferred Stock, Series 1, incorporated by reference to Exhibit 4.2 to the Company's first Current Report on Form 8-K dated September 22, 2014
4(c).	Form of Depositary Receipt for the Depositary Shares, incorporated by reference to Exhibit 4.3 to the Company's first Current Report on Form 8-K dated September 22, 2014
4(d).	Form of 5.125% Notes due 2024, incorporated by reference to Exhibit 4.5 to the Company's second Current Report on Form 8-K dated September 22, 2014
10(a).	364-Day Bridge Term Loan Agreement, dated as of July 25, 2014, among Alcoa Inc., the Lenders party thereto, and Morgan Stanley Senior Funding, Inc., as Administrative Agent for the Lenders, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 31, 2014
10(b).	Five-Year Revolving Credit Agreement, dated as of July 25, 2014, among Alcoa Inc., the Lenders and Issuers named therein, Citibank, N.A., as Administrative Agent for the Lenders and Issuers, and JPMorgan Chase Bank, N.A., as Syndication Agent, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated July 31, 2014
10(c).	Amendment to Alcoa Inc. Employees' Excess Benefits Plan C, effective September 1, 2014
10(d).	Amendment to Alcoa Supplemental Pension Plan for Senior Executives, effective September 1, 2014
10(e).	Amendment to Reynolds Metals Company Benefit Restoration Plan for New Retirement Program, effective September 1, 2014
12.	Computation of Ratio of Earnings to Fixed Charges
15.	Letter regarding unaudited interim financial information
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
95.	Mine Safety
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements 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.
October 23, 2014	By /s/ WILLIAM F. OPLINGER
Date	William F. Oplinger Executive Vice President and Chief Financial Officer (Principal Financial Officer)
October 23, 2014	By /s/ ROBERT S. COLLINS
Date	Robert S. Collins Vice President and Controller (Principal Accounting Officer)

EXHIBIT INDEX

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ALCOA INC.
ARTICLES OF INCORPORATION

FIRST. The name of the corporation is Alcoa Inc.

SECOND. The location and post office address of the corporation's current registered office is c/o CT Corporation System, Dauphin County, Pennsylvania.

THIRD. The purpose or purposes of the corporation are: to acquire and dispose of deposits of and rights to bauxite, clay, ores and minerals of any sort or description, and to acquire, extract, treat and dispose of any materials recovered or recoverable therefrom; to reduce ores of aluminum and any and all other ores to their basic metals; to manufacture, alloy and fabricate any and all metals into articles of commerce; to acquire, produce, transport, trade in and dispose of goods, wares and merchandise of every class and description; to purchase, lease, or otherwise acquire improved or unimproved real property, leaseholds, easements and franchises, to manage, use, deal with and improve the same or any part thereof, and to sell, exchange, lease, sublease, or otherwise dispose of any of said property or the improvements thereon or any part thereof; to acquire, use and dispose of all land, minerals, materials, apparatus, machinery and other agencies, means and facilities, to perform all operations, and to do all things, necessary, convenient or incident to the foregoing; and to carry on any business directly or indirectly related thereto; and the corporation shall have unlimited power to engage in and to do any lawful act concerning any or all lawful business for which corporations may be incorporated under the Pennsylvania Business Corporation Law.

FOURTH. The term for which the corporation is to exist is perpetual.

FIFTH. The authorized capital stock of the corporation shall be 660,000 shares of Serial Preferred Stock of the par value of $100 per share, 10,000,000 shares of Class B Serial Preferred Stock of the par value of $1.00 per share and 1,800,000,000 shares of Common Stock of the par value of $1.00 per share.

Hereinafter in this Article Fifth, the term "Preferred Stock" shall mean each of the Serial Preferred Stock and the Class B Serial Preferred Stock.

A description of each class of shares which the corporation shall have authority to issue and a statement of the rights, voting powers, preferences, qualifications, limitations, restrictions and the special or relative rights granted to or imposed upon the shares of each class and of the authority vested in the Board of Directors of the corporation to establish series of the Preferred Stock and to fix and determine the variations in the relative rights and preferences as between the series thereof are as follows:

1. <u>Establishment of Series of Preferred Stock</u>. Preferred Stock shall be issued in one or more series. Each series shall be designated by the Board of Directors so as to distinguish the shares thereof from the shares of all other series and classes. The Board of Directors may, by resolution, from time to time divide shares of Preferred Stock into series and fix and determine the number of shares and, subject to the provisions of this Article Fifth, the relative rights and preferences of any series so established, provided that all shares of Preferred Stock shall be identical except as to the following relative rights and preferences, in respect of any or all of which there may be variations between different series, namely: the rate of dividend (including the date from which dividends shall be cumulative and, with respect to Class B Serial Preferred Stock, whether such dividend rate shall be fixed or variable and the methods, procedures and formulas for the recalculation or periodic resetting of any variable dividend rate); the price at, and the terms and conditions on, which shares may be redeemed; the amounts payable on shares in the event of voluntary or involuntary liquidation; sinking fund provisions for the redemption or purchase of shares in

the event shares of any series are issued with sinking fund provisions; and the terms and conditions on which the shares of any series may be converted in the event the shares of any series are issued with the privilege of conversion. Each share of any series of Preferred Stock shall be identical with all other shares of such series, except as to date from which dividends shall be cumulative.

2. Dividends.

(a) The holders of Serial Preferred Stock of any series shall be entitled to receive, when and as declared by the Board of Directors, out of surplus or net profits legally available therefor, cumulative dividends at the rate of dividend fixed by the Board of Directors for such series as hereinbefore provided, and no more, payable quarter yearly on the first days of January, April, July and October in each year. The dividends on any shares of Serial Preferred Stock shall be cumulative from such date as shall be fixed for that purpose by the Board of Directors prior to the issue of such shares or, if no such date shall be so fixed by the Board of Directors, from the quarter yearly dividend payment date next preceding the date of issue of such shares.

(b) The holders of Class B Serial Preferred Stock of any series shall be entitled to receive, when and as declared by the Board of Directors or any authorized committee thereof, out of funds legally available therefor, cumulative dividends at the rate of dividend fixed by the Board of Directors for such series including any such rate which may be reset or recalculated from time to time pursuant to procedures or formulas established therefor by the Board of Directors, and no more; provided, however, that no dividend shall be declared or paid on the Class B Serial Preferred Stock so long as any of the Serial Preferred Stock remains outstanding, unless all quarter yearly dividends accrued on the Serial Preferred Stock and the dividend thereon for the current quarter yearly dividend period shall have been paid or declared and a sum sufficient for the payment thereof set apart. The dividends on any shares of Class B Serial Preferred Stock shall be cumulative from such date as shall be fixed for that purpose by the Board of Directors prior to the issue of such shares or, if no such date shall be so fixed by the Board of Directors, from the dividend payment date for such series next preceding the date of issue of such shares. If full cumulative dividends on shares of a series of Class B Serial Preferred Stock have not been paid or declared and a sum sufficient for the payment thereof set apart, dividends thereon shall be declared and paid pro rata to the holders of such series entitled thereto. Accrued dividends shall not bear interest.

(c) The holders of Common Stock shall be entitled to receive dividends, when and as declared by the Board of Directors, out of surplus or net profits legally available therefor, provided, however, that no dividend shall be declared or paid on the Common Stock so long as any of the Preferred Stock remains outstanding, unless all dividends accrued on all classes of Preferred Stock and the dividend on Serial Preferred Stock for the current quarter yearly dividend period shall have been paid or declared and a sum sufficient for the payment thereof set apart.

3. Liquidation. In the event of any liquidation, dissolution or winding up of the corporation, whether voluntary or involuntary, then before any payment or distribution shall be made to the holders of Common Stock or Class B Serial Preferred Stock the holders of Serial Preferred Stock shall be entitled to be paid such amount as shall have been fixed by the Board of Directors as hereinbefore provided, plus all dividends which have accrued on the Serial Preferred Stock and have not been paid or declared and a sum sufficient for the payment thereof set apart. Thereafter, the holders of Class B Serial Preferred Stock of each series shall be entitled to be paid such amount as shall have been fixed by the Board of Directors as hereinbefore provided, plus all dividends which have accrued on the Class B Serial Preferred Stock and have not been paid or declared and a sum sufficient for the payment thereof set apart. Thereafter, the remaining assets shall belong to and be divided among the holders of the Common Stock. The

consolidation or merger of the corporation with or into any other corporation or corporations or share exchange or division involving the corporation in pursuance of applicable statutes providing for the consolidation, merger, share exchange or division shall not be deemed a liquidation, dissolution or winding up of the corporation within the meaning of any of the provisions of this subdivision.

4. Voting Rights. The holders of Preferred Stock shall have no voting rights except as otherwise required by law or hereinafter provided:

(a) If at any time the amount of any dividends on Preferred Stock which have accrued and which have not been paid or declared and a sum sufficient for the payment thereof set apart shall be at least equal to the amount of four quarter yearly dividends, the holders of Preferred Stock shall have one vote per share, provided, however, that such voting rights of the holders of Preferred Stock shall continue only until all quarter yearly dividends accrued on the Preferred Stock have been paid or declared and a sum sufficient for the payment thereof set apart.

(b) Without the consent of the holders of at least a majority of the shares of Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by vote at a meeting called for that purpose at which the holders of Preferred Stock shall vote as a class,

(i) no additional class of stock ranking on a parity with the Preferred Stock as to dividends or assets shall be authorized;

(ii) the authorized number of shares of Preferred Stock or of any class of stock ranking on a parity with the Preferred Stock as to dividends or assets shall not be increased; and

(iii) the corporation shall not merge or consolidate with or into any other corporation if the corporation surviving or resulting from such merger or consolidation would have after such merger or consolidation any authorized class of stock ranking senior to or on a parity with the Preferred Stock except the same number of shares of stock with the same rights and preferences as the authorized stock of the corporation immediately preceding such merger or consolidation.

(c) Except in pursuance of the provisions of subdivision 4(b) (iii) of this Article Fifth, without the consent of the holders of at least sixty-six and two-thirds (66-2/3) per cent. of the number of shares of Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by a vote at a meeting called for that purpose at which the holders of Preferred Stock shall vote as a class,

(i) no change shall be made in the rights and preferences of the Preferred Stock as set forth in the Articles of Incorporation or as fixed by the Board of Directors so as to affect such stock adversely; provided, however, that if any such change would affect any series of Preferred Stock adversely as compared with the effect thereof upon any other series of Preferred Stock, no such change shall be made without the additional consent given as aforesaid of the holders of at least sixty-six and two-thirds (66-2/3) per cent. of the number of shares at the time outstanding of the Preferred Stock of the series which would be so adversely affected;

(ii) no additional class of stock ranking senior to the Preferred Stock as to dividends or assets shall be authorized;

(iii) the authorized number of shares of any class of stock ranking senior to the Preferred Stock as to dividends or assets shall not be increased; and

(iv) the corporation shall not (a) sell, lease, convey or part with control of all or substantially all of its property or business; or (b) voluntarily liquidate, dissolve or wind up its affairs.

Notwithstanding the foregoing:

(i) except as otherwise required by law, the voting rights of any series of Class B Serial Preferred Stock may be limited or eliminated by the Board of Directors prior to the issuance thereof; and

(ii) provided no shares of Serial Preferred Stock are then outstanding, any series of Class B Serial Preferred Stock may be issued with such additional voting rights in the event of dividend arrearages as the Board of Directors may determine to be required to qualify such series for listing on one or more securities exchanges of recognized standing.

The holders of Common Stock of the corporation shall have one vote per share.

5. Redemption.

(a) The corporation, at the option of the Board of Directors, may redeem the whole or any part of the Serial Preferred Stock, or the whole or any part of any series thereof, at any time or from time to time, at such redemption price therefor as shall have been fixed by the Board of Directors as hereinbefore provided, plus all dividends which on the redemption date have accrued on the shares to be redeemed and have not been paid or declared and a sum sufficient for the payment thereof set apart. Notice of every such redemption shall be published not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption in a daily newspaper printed in the English language and published and of general circulation in the Borough of Manhattan, City and State of New York, and in a daily newspaper printed in the English language and published and of general circulation in the City of Pittsburgh, Pennsylvania. Notice of every such redemption shall also be mailed not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to the holders of record of the shares of Serial Preferred Stock to be redeemed at their respective addresses as the same appear upon the books of the corporation; but no failure to mail such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Serial Preferred Stock. In case of a redemption of a part only of any series of the Serial Preferred Stock at the time outstanding, the corporation shall select shares so to be redeemed in such manner, whether pro rata or by lot, as the Board of Directors may determine. Subject to the provisions herein contained, the Board of Directors shall have full power and authority to prescribe the manner in which and the terms and conditions on which the Serial Preferred Stock shall be redeemed from time to time. If notice of redemption shall have been published as hereinbefore provided and if before the redemption date specified in such notice all funds necessary for such redemption shall have been set apart so as to be available therefor, then on and after the date fixed for redemption the shares of Serial Preferred Stock so called for redemption, notwithstanding that any certificate therefor shall not have been surrendered for cancellation, shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith cease and terminate except only the right of the holders thereof to receive upon surrender of certificates therefor the amount payable upon redemption thereof, but without interest; provided, however, that if the corporation shall, after the publication of notice of any such redemption and prior to the redemption date, deposit in trust for the account of the holders of the Serial Preferred Stock to be redeemed with a bank or trust company in good standing, designated in such notice, organized under the laws of the United States of America or of the State of New York or of the Commonwealth of Pennsylvania, doing business in the Borough of Manhattan, The City of New York, or in the City of Pittsburgh, Pennsylvania, and having a capital, undivided profits and surplus aggregating at least five million dollars ($5,000,000), all funds necessary for such redemption, then from and after the time of such deposit the shares of Serial Preferred Stock so called for redemption, notwithstanding that any certificate therefor shall not have been surrendered for cancellation, shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith cease and terminate except only the right of the holders of such shares to receive from such bank or trust company upon surrender of certificates therefor the amount payable upon redemption thereof, but without interest.

All shares of Serial Preferred Stock so redeemed shall be cancelled and shall not be reissued.

(b) The terms and conditions under which the whole or any part of any series of the Class B Serial Preferred Stock may be redeemed shall be established by the Board of Directors prior to the issuance thereof. Unless otherwise determined by the Board of Directors, all shares of Class B Serial Preferred Stock so redeemed or otherwise acquired by the corporation shall be returned to the status of authorized but unissued shares.

6. Preemptive Rights. Neither the holders of the Preferred Stock nor the holders of the Common Stock shall be entitled to participate in any right of subscription to any increased or additional capital stock of the corporation of any kind whatsoever.

SIXTH. In each election of directors every shareholder entitled to vote shall have the right to cast one vote for each share of stock standing in his name on the books of the Company for each of such number of candidates as there are directors to be elected, but no shareholder shall have any right to cumulate his votes and cast them for one candidate or distribute them among two or more candidates.

SEVENTH. A. In addition to any affirmative vote required by law, the Articles or the By-Laws of the corporation (the "Company"), and except as otherwise expressly provided in Section B of this Article Seventh, the Company shall not knowingly engage, directly or indirectly, in any Stock Repurchase (as hereinafter defined) from an Interested Shareholder (as hereinafter defined) without the affirmative vote of not less than a majority of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock (as hereinafter defined) which are beneficially owned by persons other than such Interested Shareholder, voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage or separate class vote may be specified, by law or in any agreement with any national securities exchange or otherwise.

B. The provisions of Section A of this Article Seventh shall not be applicable to any particular Stock Repurchase from an Interested Shareholder, and such Stock Repurchase shall require only such affirmative vote, if any, as is required by law or by any other provision of the Articles or the By-Laws of the Company, or any agreement with any national securities exchange or otherwise, if the conditions specified in either of the following Paragraphs (1) or (2) are met:

(1) The Stock Repurchase is made pursuant to a tender offer or exchange offer for a class of Capital Stock (as hereinafter defined) made available on the same basis to all holders of such class of Capital Stock.

(2) The Stock Repurchase is made pursuant to an open market purchase program approved by a majority of the Continuing Directors (as hereinafter defined), provided that such repurchase is effected on the open market and is not the result of a privately negotiated transaction.

C. For the purposes of this Article Seventh:

(1) The term "Stock Repurchase" shall mean any repurchase, directly or indirectly, by the Company or any Subsidiary of any shares of Capital Stock at a price greater than the then Fair Market Value of such shares.

(2) The term "Capital Stock" shall mean all capital stock of the Company authorized to be issued from time to time under Article FIFTH of the Articles of the Company, and the term "Voting Stock" shall mean all Capital Stock which by its terms may be voted on all matters submitted to shareholders of the Company generally.

(3) The term "person" shall mean any individual, firm, company or other entity and shall include any group comprised of any person and any other person with whom such person or any Affiliate or Associate of such person has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of Capital Stock.

(4) The term "Interested Shareholder" shall mean any person (other than the Company or any Subsidiary and other than any savings, profit-sharing, employee stock ownership or other employee benefit plan of the Company or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who is on the date in question, or who was at any time within the two year period immediately prior to the date in question, the beneficial owner of Voting Stock representing five percent (5%) or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock.

(5) A person shall be a "beneficial owner" of any Capital Stock (a) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly; (b) which such person or any of its Affiliates or Associates has, directly or indirectly, (i) the right to acquire (whether such right is exercisable immediately or subject only to the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (ii) the right to vote pursuant to any agreement, arrangement or understanding; or (c) which is beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Capital Stock. For the purposes of determining whether a person is an Interested Shareholder pursuant to Paragraph 4 of this Section C, the number of shares of Capital Stock deemed to be outstanding shall include shares deemed beneficially owned by such person through application of Paragraph 5 of this Section C, but shall not include any other shares of Capital Stock that may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(6) The terms "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Securities Exchange Act of 1934 as in effect on March 8, 1985 (the term "registrant" in said Rule 12b-2 meaning in this case the Company).

(7) The term "Subsidiary" shall mean any corporation of which a majority of any class of equity security is beneficially owned by the Company; provided, however, that for the purposes of the definition of Interested Shareholder set forth in Paragraph 4 of this Section C, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is beneficially owned by the Company.

(8) The term "Continuing Director" shall mean any member of the Board of Directors of the Company (the "Board"), while such person is a member of the Board, who is not an Affiliate or Associate or representative of the Interested Shareholder and was a member of the Board prior to the time that the Interested Shareholder became an Interested Shareholder, and any successor of a Continuing Director, while such successor is a member of the Board, who is not an Affiliate or Associate or representative of the

Interested Shareholder and is recommended or elected to succeed the Continuing Director by a majority of Continuing Directors.

(9) The term "Fair Market Value" shall mean (a) in the case of cash, the amount of such cash; (b) in the case of stock, the closing sale price on the trading day immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Act on which such stock is listed, or, if such stock is not listed on any such exchange, the closing bid quotation with respect to a share of such stock on the trading day immediately preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any similar system then in use, or if no such quotation is available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors in good faith; and (c) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the Continuing Directors.

D. The Board of Directors shall have the power and duty to determine for the purposes of this Article Seventh, on the basis of information known to them after reasonable inquiry, (a) whether a person is an Interested Shareholder, (b) the number of shares of Capital Stock or other securities beneficially owned by any person, (c) whether a person is an Affiliate or Associate of another and (d) whether the consideration to be paid in any Stock Repurchase has an aggregate Fair Market Value in excess of the then Fair Market Value of the shares of Capital Stock being repurchased. Any such determination made in good faith shall be binding and conclusive on all parties.

E. Nothing contained in this Article Seventh shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

F. Notwithstanding any other provisions of the Articles or the By-Laws of the Company (and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law, these Articles or the By-Laws of the Company), the affirmative vote of the holders of not less than eighty percent (80%) of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article Seventh.

EIGHTH. A. The business and affairs of the corporation (the "Company") shall be managed by a Board of Directors comprised as follows:

(1) The Board of Directors shall consist of the number of persons fixed from time to time by the Board of Directors pursuant to a resolution adopted by a majority vote of the directors then in office.

(2) Beginning with the Board of Directors to be elected at the annual meeting of shareholders held in 1985, directors shall be classified with respect to the time for which they shall severally hold office by dividing them into three classes, as nearly equal in number as possible. At such meeting, each class of directors shall be elected in a separate election. Directors of the first class shall be elected for a term of office to expire at the 1986 annual meeting of shareholders, those of the second class shall be elected for a term of office to expire at the 1987 annual meeting of shareholders, and those of the third class shall be elected for a term of office to expire at the 1988 annual meeting of shareholders. At each annual election held after the 1985 annual meeting of shareholders the class of directors then being elected shall be elected to hold office for a term of office to expire at the third succeeding annual meeting of shareholders after their election. Each director shall hold office for the term for which elected and until his or her successor shall have been elected and qualified, except in the case of earlier death, resignation or removal.

(3) Nominations for the election of directors at an annual meeting of the shareholders may be made by the Board of Directors or a committee appointed by the Board of Directors or by any shareholder entitled to vote in the election of directors at the meeting. Shareholders entitled to vote in such election may nominate one or more persons for election as directors only if written notice of such shareholder's intent to make such nomination or nominations has been given either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Company not later than ninety days prior to the anniversary date of the immediately preceding annual meeting. Such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the persons or person to be nominated; (b) a representation that the shareholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission as then in effect; and (e) the consent of each nominee to serve as a director of the Company if so elected. The presiding officer of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

(4) Any director, any class of directors, or the entire Board of Directors may be removed from office by shareholder vote at any time, with or without assigning any cause, but only if shareholders entitled to cast at least 80% of the votes which all shareholders would be entitled to cast at an annual election of directors or of such class of directors shall vote in favor of such removal.

(5) Vacancies in the Board of Directors, including vacancies resulting from an increase in the number of directors, shall be filled only by a majority vote of the remaining directors then in office, though less than a quorum, except that vacancies resulting from removal from office by a vote of the shareholders may be filled by the shareholders at the same meeting at which such removal occurs. All directors elected to fill vacancies shall hold office for a term expiring at the annual meeting of shareholders at which the term of the class to which they have been elected expires. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

B. Notwithstanding any other provisions of the Articles or the By-Laws of the Company (and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law, these Articles or the By-laws of the Company), the affirmative vote of not less than eighty percent (80%) of the votes which all shareholders of the then outstanding shares of capital stock of the Company would be entitled to cast in an annual election of directors, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article Eighth.

NINTH. To the fullest extent that the laws of the Commonwealth of Pennsylvania, as in effect on May 15, 1987 or as thereafter amended, permit elimination or limitation of the liability of directors, no director of the corporation shall be personally liable for monetary damages for any action taken, or any failure to take any action. This Article Ninth shall not apply to any action filed prior to May 15, 1987, nor to any breach of performance of duty or any failure of performance of duty occurring prior to May 15, 1987. The provisions of this Article shall be deemed to be a contract with each director of the corporation who serves as such at any time while such provisions are in effect, and each such director shall be deemed to be serving as such in reliance on the provisions of this Article. Any amendment or repeal of this Article or adoption of any other provision of the Articles or By-laws of the corporation which has the effect of increasing director liability shall operate prospectively only and shall not affect any action taken, or any failure to act, prior to such amendment, repeal or adoption.

TENTH. Except as prohibited by law, the corporation may indemnify any person who is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (including, without limitation, any employee benefit plan) and may take such steps as may be deemed appropriate by the Board of Directors, including purchasing and maintaining insurance, entering into contracts (including, without limitation, contracts of indemnification between the corporation and its directors and officers), creating a trust fund, granting security interests or using other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect such indemnification. This Article shall be effective May 15, 1987.

ELEVENTH. A nominee for director shall be elected to the Board of Directors at a meeting of shareholders if the votes cast for such nominee by holders of shares entitled to vote in the election, exceed the votes cast against such nominee's election (excluding abstentions), except in a contested election (as such term shall be defined in the By-Laws of the company). Any nominee for director in a non-contested election who is not an incumbent director and is not so elected shall not take office. Any incumbent director nominated for re-election in a non-contested election but not so elected shall, in the event the director's successor shall not be duly elected and qualified, take such actions (which may include the tender of the director's resignation for consideration by the Board of Directors) as shall be consistent with applicable law and the company's By-Laws. The Board of Directors shall have the authority to adopt and amend appropriate By-Laws to implement this Article Eleventh.

TWELFTH. Subject to any requirements set forth in the By-Laws of the corporation, an action may be authorized by the shareholders without a meeting by less than unanimous written consent, provided that (a) the shareholder(s) of record seeking to have shareholders of the corporation authorize or take the action by written consent complies with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder, as amended, applicable to solicitations, including the requirement to file with the U.S. Securities and Exchange Commission a consent solicitation statement containing the information specified in Schedule 14A and to file and distribute such consent solicitation statement, and (b) no action by written consent shall be effective until the later of (1) such date as independent inspectors appointed by the corporation certify to the corporation that the consents delivered to the corporation in accordance with the By-Laws of the corporation represent at least the minimum number of votes that would be necessary to take the corporate action and (2) the date that is at least ten (10) days after notice of the action has been given to each shareholder entitled to vote thereon who has not consented thereto.

THIRTEENTH. Subject to any requirements and limitations set forth in the By-Laws of the company, special meetings of the shareholders may be called only by (1) the chairman of the board, (2) the board of directors pursuant to a resolution adopted by the board, (3) the Secretary of the company at the request in proper form of an interested shareholder (as defined in section 2553 of the Pennsylvania Business Corporation Law ("PBCL")) for the purpose of approving a business combination under section 2555(3) or 2555(4) of the PBCL or (4) the Secretary of the company at the request in proper form of shareholders who have continuously held as shareholders of record "Net Long Shares" (as determined in accordance with the By-Laws of the company) representing in the aggregate at least twenty-five (25) percent of the outstanding shares of common stock of the company for at least one year prior to the date such request is delivered to the Secretary. Special meetings of shareholders shall be held at such place, on such date, and at such time as the board of directors shall fix pursuant to a resolution adopted by the board. Following receipt by the Secretary of the company of a request of shareholders that complies with the requirements set forth in the By-Laws of the company, the Secretary of the company shall call a special meeting of the shareholders, except as otherwise provided in the company's By-Laws. References to sections of the PBCL in this Article Thirteenth shall be deemed to be a reference to any successor provision of similar import.

STATEMENT WITH RESPECT TO
$3.75 CUMULATIVE PREFERRED STOCK,
BEING A SERIES OF THE SERIAL PREFERRED STOCK

RESOLVED that pursuant to authority conferred upon the Board of Directors by Article Fifth of the Articles of Incorporation of the corporation, as amended, there is hereby established a series of the Serial Preferred Stock of the corporation consisting initially of 660,000 shares as follows:

1. The shares of such series shall be designated as $3.75 Cumulative Preferred Stock.

2. The rate of dividend payable upon the shares of $3.75 Cumulative Preferred Stock shall be $3.75 per share per annum and the dividends upon shares thereof issued prior to April 1, 1947, shall be cumulative from January 1, 1947.

3. The redemption prices applicable to the shares of $3.75 Cumulative Preferred Stock shall be as follows: If redeemed on or before December 31, 1950, $105 per share; if redeemed after December 31, 1950, and on or before December 31, 1951, $104.50 per share; if redeemed after December 31, 1951, and on or before December 31, 1952, $104 per share; ; if redeemed after December 31, 1952, and on or before December 31, 1953, $103.50 per share; if redeemed after December 31, 1953, and on or before December 31, 1954, $103 per share; if redeemed after December 31, 1954, and on or before December 31, 1955, $102 per share; if redeemed after December 31, 1955, and on or before December 31, 1956, $101 per share; and if redeemed after December 31, 1956, $100 per share, plus in each case dividends which have accrued and have not been paid or declared and a sum sufficient for the payment thereof set apart.

4. The amounts payable to the holders of $3.75 Cumulative Preferred Stock in the event of any voluntary liquidation, dissolution or winding-up of the corporation, as provided in Article Fifth of the Articles of Incorporation, before any distribution shall be made to the holders of Common Stock, shall be as follows: If such liquidation, dissolution or winding-up shall occur on or before December 31, 1950, $105 per share; if such liquidation, dissolution or winding-up shall occur after December 31, 1950, and on or before December 31, 1951, $104.50 per share; if such liquidation, dissolution or winding-up shall occur after December 31, 1951, and on or before December 31, 1952, $104 per share; if such liquidation, dissolution or winding-up shall occur after December 31, 1952, and on or before December 31, 1953, $103.50 per share; if such liquidation, dissolution or winding-up shall occur after December 31, 1953, and on or before December 31, 1954, $103 per share; if such liquidation, dissolution or winding-up shall occur after December 31, 1954, and on or before December 31, 1955, $102 per share; if such liquidation, dissolution or winding-up shall occur after December 31, 1955, and on or before December 31, 1956, $101 per share; and if such liquidation, dissolution or winding-up shall occur after December 31, 1956, $100 per share, plus in each case dividends which have accrued and have not been paid or declared and a sum sufficient for the payment thereof set apart. In the event of any involuntary liquidation, dissolution or winding-up of the corporation, as provided in said Article Fifth, the amount payable to the holders of $3.75 Cumulative Preferred Stock, before any payment or distribution shall be made to the holders of Common Stock, shall be $100 per share, plus dividends which have accrued and have not been paid or declared and a sum sufficient for the payment thereof set apart.

STATEMENT WITH RESPECT TO SHARES
AMENDING THE
ARTICLES OF INCORPORATION OF
ALCOA INC.
5.375% MANDATORY CONVERTIBLE PREFERRED STOCK, SERIES 1

RESOLVED, that pursuant to Section 1522(b) of the Pennsylvania Business Corporation Law of 1988, as amended ("PBCL"), and Section 1 of Article FIFTH of the Company's Articles of Incorporation ("Articles"), there is hereby designated and established a series of Class B Serial Preferred Stock of the Company, denominated as the "5.375 % Mandatory Convertible Preferred Stock, Series 1" (the "Mandatory Convertible Preferred Stock"), and the Pricing Committee hereby fixes and determines the number of such shares and, subject to the provisions of such Article FIFTH, the relative rights and preferences of such shares as set forth in **Exhibit A** hereto (the "Mandatory Convertible Preferred Stock Terms")

Exhibit A

TERMS OF 5.375% MANDATORY CONVERTIBLE PREFERRED STOCK, SERIES 1

SECTION 1. *Designation; Number of Shares; Ranking.* The series of Class B Series Preferred Stock shall be designated as the Corporation's 5.375% Mandatory Convertible Preferred Stock, Series 1, par value $1.00 per share (the "**Mandatory Convertible Preferred Stock**").

The number of shares of Mandatory Convertible Preferred Stock authorized to be issued shall be 2,500,000 (as increased from time to time, up to an aggregate of 2,875,000 shares of Mandatory Convertible Preferred Stock, by an amount equal to the number of any additional shares of Mandatory Convertible Preferred Stock underlying the Corporation's depositary shares purchased by the underwriters named in the Underwriting Agreement pursuant to the exercise of their overallotment option as set forth therein), which number the Board of Directors may decrease (but not below the number of shares of the series then outstanding).

Each share of Mandatory Convertible Preferred Stock shall be identical in all respects to every other share of Mandatory Convertible Preferred Stock. The Mandatory Convertible Preferred Stock, with respect to dividend rights and rights upon the liquidation, winding up or dissolution of the Corporation, ranks:

(a) senior to (i) Common Stock and (ii) each class or series of shares established after the Initial Issue Date the terms of which do not expressly provide that such class or series ranks senior to or on a parity with the Mandatory Convertible Preferred Stock as to dividend rights and distribution rights upon any liquidation, dissolution or winding up of the Corporation (collectively, "**Junior Stock**");

(b) on parity with (i) any other series of Class B Serial Preferred Stock and (ii) each class or series of shares established after the Initial Issue Date the terms of which expressly provide that such class or series will rank on parity with the Mandatory Convertible Preferred Stock as to dividend rights and distribution rights upon any liquidation, dissolution or winding up of the Corporation (collectively, "**Parity Stock**");

(c) junior to (i) the Serial Preferred Stock and (ii) each class or series of shares established after the Initial Issue Date the terms of which expressly provide that such class or series will rank senior to the Mandatory Convertible Preferred Stock as to dividend rights and distribution rights upon the liquidation, dissolution or winding up of the Corporation (collectively, "**Senior Stock**"); and

(d) junior to the Corporation's existing and future indebtedness.

For so long as any shares of Mandatory Convertible Preferred Stock are outstanding, the Corporation shall not authorize or create any shares of its capital stock that are not Junior Stock, Parity Stock, or Senior Stock.

SECTION 2. *Standard Definitions.* As used herein with respect to the Mandatory Convertible Preferred Stock:

"**Accumulated Dividend Amount**" shall mean, with respect to any Fundamental Change, the aggregate amount of undeclared, accumulated and unpaid dividends, if any, on the Mandatory Convertible Preferred Stock for all Dividend Periods prior to the Fundamental Change Effective Date of the relevant Fundamental Change, including for the partial Dividend Period, if any, from, and including, the Dividend Payment Date immediately preceding such Fundamental Change Effective Date to, but excluding, such Fundamental Change Effective Date.

"**Acquisition**" means the Corporation's acquisition of the Firth Rixson business.

"**Acquisition Termination Conversion Rate**" shall have the meaning set forth in Section 5.

"**Acquisition Termination Dividend Amount**" shall have the meaning set forth in Section 5.

"**Acquisition Termination Event**" shall have the meaning set forth in Section 5.

"**Acquisition Termination Make-whole Amount**" shall have the meaning set forth in Section 5.

“**Acquisition Termination Market Value**” shall have the meaning set forth in Section 5.

“**Acquisition Termination Redemption**” means a redemption of the Mandatory Convertible Preferred Stock in accordance with the provisions of Section 5.

“**Acquisition Termination Redemption Date**” shall have the meaning set forth in Section 5.

“**Acquisition Termination Share Price**” shall have the meaning set forth in Section 5.

“**ADRs**” shall have the meaning set forth in Section 13(e).

“**Agent Members**” shall have the meaning set forth in Section 21.

“**Applicable Market Value**” means the Average VWAP per Common Share over the 20 consecutive Trading Day period commencing on and including, the 22nd Scheduled Trading Day prior to the Mandatory Conversion Date.

“**Articles of Incorporation**” shall mean the Corporation’s Articles of Incorporation, as amended from time to time.

“**Average Price**” shall have the meaning set forth in Section 3(c)(iii).

“**Average VWAP**” means the average of the VWAP per share for each Trading Day in the relevant period.

“**Beneficial Owner**” means “beneficial owner” as defined in Rule 13d-3 under the Exchange Act.

“**Board of Directors**” means the Board of Directors of the Corporation and shall include any authorized committee of such Board of Directors.

“**Business Day**” means any day other than a Saturday or Sunday or any other day on which commercial banks in New York City are authorized or required by law or executive order to close.

“**By-laws**” means the By-laws of the Corporation, as they may be amended or restated from time to time.

“**Clause I Distribution**” shall have the meaning set forth in Section 13(a)(iv).

“**Clause II Distribution**” shall have the meaning set forth in Section 13(a)(iv).

“**Clause IV Distribution**” shall have the meaning set forth in Section 13(a)(iv).

“**Common Share**” means a share of the Common Stock.

“**Common Stock**” means the Common Stock, par value $1.00 per share, of the Corporation.

“**Conversion, Dividend Disbursing and Redemption Agent**” shall initially mean Computershare Inc., the Corporation’s duly appointed conversion, dividend disbursing and redemption agent for the Mandatory Convertible Preferred Stock, and any successor appointed under Section 14.

“**Conversion Date**” shall have the meaning set forth in Section 3(a).

“**Corporation**” shall mean Alcoa Inc.

“**Current Market Price**” per Common Share (or, in the case of Section 13(a)(iv), per Common Share, or per unit of capital stock or equity interest, as applicable) on any date means for the purposes of determining an adjustment to the Fixed Conversion Rates:

(i) for purposes of any adjustment pursuant to Section 13(a)(ii), Section 13(a)(iv) (in the event of an adjustment not relating to a Spin-Off), or Section 13(a)(v), the Average VWAP per Common Share over the five consecutive Trading Day period ending on the Trading Day immediately preceding the Ex-Date with respect to the issuance or distribution requiring such computation;

(ii) for purposes of any adjustment pursuant to Section 13(a)(iv) relating to a Spin-Off, the Average VWAP per Common Share, capital stock or equity interests of the subsidiary or other business unit being distributed, as applicable, over the first ten consecutive Trading Days commencing on and including the fifth Trading Day immediately following the effective date of such distribution; and

(iii) for purposes of any adjustment pursuant to Section 13(a)(vi), the Average VWAP per Common Share over the ten consecutive Trading Day period commencing on and including the Trading Day next succeeding the Expiration Date of the relevant tender offer or exchange offer.

“**Depositary**” means DTC or its nominee or any successor.

“Direct Treasury Shares” shall mean shares heretofore or hereafter acquired by the Corporation and deemed to be issued but not outstanding under section 1552(a) of the Pennsylvania Business Corporation Law of 1988, as amended, or any successor provision.

“**Dividend Payment Date**” means January 1, April 1, July 1 and October 1 of each year commencing on January 1, 2015, to and including the Mandatory Conversion Date.

“**Dividend Period**” means the period from, and including, a Dividend Payment Date to, but excluding, the next Dividend Payment Date, except that the initial Dividend Period shall commence on, and include, the Initial Issue Date and shall end on, and exclude, the Dividend Payment Date occurring on January 1, 2015.

“**Dividend Rate**” shall have the meaning set forth in Section 3(a).

“**DTC**” means The Depository Trust Corporation.

“**Early Conversion**” shall have the meaning set forth in Section 8(a).

“**Early Conversion Additional Conversion Amount**” shall have the meaning set forth in Section 8(b).

“**Early Conversion Average Price**” shall have the meaning set forth in Section 8(b).

“**Early Conversion Date**” shall have the meaning set forth in Section 10(b).

“**Early Conversion Settlement Period**” shall have the meaning set forth in Section 8(b).

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

“**Exchange Property**” shall have the meaning set forth in Section 13(e).

“**Ex-Date,**” when used with respect to any issuance or distribution, means the first date on which Common Shares trade without the right to receive such issuance or distribution.

“**Expiration Date**” shall have the meaning set forth in Section 13(a)(vi).

“**Fair Market Value**” means the fair market value as determined in good faith by the Board of Directors, whose determination shall be final and set forth in a resolution of the Board of Directors.

“**Fixed Conversion Rates**” means the Maximum Conversion Rate and the Minimum Conversion Rate.

“**Floor Price**” shall have the meaning set forth in Section 3(e).

A “**Fundamental Change**” shall be deemed to have occurred, at any time after the Initial Issue Date, upon: (i) the consummation of any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, recapitalization or otherwise) in connection with which 90% or more of the outstanding Common Stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration 10% or more of which is not common stock that is listed on, or immediately after the transaction or event will be listed on, any of the New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market; (ii) any “person” or “group” (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act, whether or not applicable), other than the Corporation, any of the Corporation’s majority-owned subsidiaries or any of the Corporation’s or the Corporation’s majority-owned subsidiaries’ employee benefit plans, becoming the Beneficial Owner, directly or indirectly, of more than 50% of the total voting power in the aggregate of all classes of capital stock then outstanding entitled to vote generally in elections of the Corporation’s directors; or (iii) the Common Stock (or, following a Reorganization Event, any common stock, depositary receipts or other securities representing common equity interests into which the Mandatory Convertible Preferred Stock becomes convertible in connection with such Reorganization Event) ceases to be listed for trading on the New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or any of their respective successors) or another United States national securities exchange.

“**Fundamental Change Conversion**” shall have the meaning set forth in Section 9(a).

“**Fundamental Change Conversion Date**” shall have the meaning set forth in Section 10(c).

“**Fundamental Change Conversion Period**” shall have the meaning set forth in Section 9(a).

“**Fundamental Change Conversion Rate**” means, for any Fundamental Change Conversion, the conversion rate set forth in the table below for the Fundamental Change Effective Date and the Fundamental Change Share Price applicable to such Fundamental Change:

Fundamental Change Effective Date	**Fundamental Change Share Price on Fundamental Change Effective Date**													
	$5.00	$10.00	$15.00	$16.16	$17.00	$18.00	$19.39	$25.00	$30.00	$40.00	$50.00	$65.00	$80.00	$100.00
September 22, 2014	28.8937	28.2303	26.5805	26.3172	26.1174	25.9372	25.7370	25.3532	25.2994	25.3692	25.4361	25.4875	25.5124	25.5313
October 1, 2015	29.5177	29.1726	27.2811	27.7978	26.6539	26.4025	26.1199	25.5708	25.4790	25.5142	25.5531	25.5819	25.5973	25.6016
October 1, 2016	30.1631	30.2222	28.3056	29.3228	27.3764	26.9829	26.5375	25.7377	25.6353	25.6486	25.6643	25.6780	25.6865	25.6951
October 1, 2017	30.9406	30.9406	30.9406	30.9406	29.4118	27.7778	25.7838	25.7838	25.7838	25.7838	25.7838	25.7838	25.7838	25.7838

If the Fundamental Change Share Price falls between two Fundamental Change Share Prices set forth in the table above, or if the Fundamental Change Effective Date falls between two Fundamental Change Effective Dates set forth in the table above, the Fundamental Change Conversion Rate shall be determined by straight-line interpolation between the Fundamental Change Conversion Rates set forth for the higher and lower Fundamental Change Share Prices and the earlier and later Fundamental Change Effective Dates based on a 365-day year, as applicable.

If the Fundamental Change Share Price is in excess of $100.00 per share (subject to adjustment in the same manner as adjustments are made to the Fundamental Change Share Price in accordance with the provisions of Section 13(c)(iv)), then the Fundamental Change Conversion Rate shall be the Minimum Conversion Rate.

If the Fundamental Change Share Price is less than $5.00 per share (subject to adjustment in the same manner as adjustments are made to the Fundamental Change Share Price in accordance with the provisions of Section 13(c)(iv)), then the Fundamental Change Conversion Rate shall be the Maximum Conversion Rate.

The Fundamental Change Share Prices in the column headings in the table above are subject to adjustment in accordance with the provisions of Section 13(c)(iv). The Fundamental Change Conversion Rates set forth in the table above are each subject to adjustment in the same manner as each Fixed Conversion Rate as set forth in Section 13.

“**Fundamental Change Dividend Make-whole Amount**” shall have the meaning set forth in Section 9(d)(i)(A).

“**Fundamental Change Effective Date**” shall have the meaning set forth in Section 9(a).

“**Fundamental Change Notice**” shall have the meaning set forth in Section 9(b).

“Fundamental Change Share Price” means, for any Fundamental Change, (i) if the holders of Common Shares receive only cash in such Fundamental Change, the amount of cash paid in such Fundamental Change per Common Share, and (ii) if the holders of Common Shares receive any property other than cash in such Fundamental Change, the Average VWAP per Common Share over the 10 consecutive Trading Day period ending on, and including, the Trading Day preceding the Fundamental Change Effective Date; *provided*, *however*, that if the Corporation elects to pay any portion of a Fundamental Change Dividend Make-whole Amount or of the Accumulated Dividend Amount in Common Shares, then, solely for purposes of calculating the number of Common Shares payable in respect of the Fundamental Change Dividend Make-whole Amount or the Accumulated Dividend Amount, the Fundamental Change Share Price shall be the average VWAP per Common Share over the 10 consecutive Trading Day period beginning on the Trading Day next succeeding the Fundamental Change Effective Date.

“**Global Preferred Shares**” shall have the meaning set forth in Section 21.

“**Holder**” means each person in whose name shares of the Mandatory Convertible Preferred Stock are registered, who shall be treated by the Corporation and the Registrar as the absolute owner of those shares of Mandatory Convertible Preferred Stock for the purpose of making payment and settling conversions and for all other purposes.

“**Initial Dividend Threshold**” shall have the meaning set forth in Section 13(a)(v).

“**Initial Issue Date**” means September 22, 2014, the first original issue date of shares of the Mandatory Convertible Preferred Stock.

“**Initial Price**” shall have the meaning set forth in Section 7(b)(ii).

“**Junior Stock**” shall have the meaning set forth in Section 1.

“**Liquidation Dividend Amount**” shall have the meaning set forth in Section 4(a).

“**Liquidation Preference**” means, as to the Mandatory Convertible Preferred Stock, $500 per share.

“**Mandatory Conversion**” shall have the meaning set forth in Section 7(a).

“**Mandatory Conversion Additional Conversion Amount**” shall have the meaning set forth in Section 7(c).

“**Mandatory Conversion Date**” means October 1, 2017.

“**Mandatory Conversion Rate**” shall have the meaning set forth in Section 7(b).

“**Mandatory Convertible Preferred Stock**” shall have the meaning set forth in Section 1.

“**Maximum Conversion Rate**” shall have the meaning set forth in Section 7(b)(iii).

“**Minimum Conversion Rate**” shall have the meaning set forth in Section 7(b)(i).

“**Officer**” means the Chief Executive Officer, the Chief Financial Officer, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Treasurer or the Secretary of the Corporation.

“**Officer’s Certificate**” means a certificate of the Corporation, signed by any duly authorized Officer of the Corporation.

“**Parity Stock**” shall have the meaning set forth in Section 1.

“**Person**” means any individual, partnership, firm, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

“**Prospectus Supplement**” means the prospectus supplement, dated September 16, 2014, to the prospectus dated July 30, 2014, relating to the offering and sale of shares of Mandatory Convertible Preferred Stock.

“**Purchase Agreement**” means the purchase agreement, dated as of June 25, 2014, among the Corporation, FR Acquisition Corporation (US), Inc., FR Acquisitions Corporation (Europe) Limited, FR Acquisition Finance Subco (Luxembourg), S.à.r.l., Oak Hill Capital Partners III, L.P. and Oak Hill Capital Management Partners III, L.P., as the same may be amended or supplemented from time to time.

“Qualifying Market” means the New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or any of their respective successors) or another United States national securities exchange.

“**Record Date**” means, with respect to any Dividend Payment Date, the December 15, March 15, June 15 or September 15 immediately preceding the applicable January 1, April 1, July 1 or October 1 Dividend Payment Date, respectively. These Record Dates shall apply regardless of whether a particular Record Date is a Business Day.

“**Record Holder**” means, with respect to any Dividend Payment Date, a Holder of record of any shares of the Mandatory Convertible Preferred Stock as such Holder appears on the stock register of the Corporation at 5:00 p.m., New York City time, on the related Record Date.

“**Reference Amount**” shall have the meaning set forth in Section 5.

“**Registrar**” shall initially mean Computershare Trust Company, N.A., the Corporation’s duly appointed registrar for the Mandatory Convertible Preferred Stock and any successor appointed under Section 14.

“**Reorganization Event**” shall have the meaning set forth in Section 13(e).

“**Scheduled Trading Day**” means any day that is scheduled to be a Trading Day.

“**Senior Stock**” shall have the meaning set forth in Section 1.

“**Serial Preferred Stock**” shall mean the Serial Preferred Stock authorized under Article FIFTH of the Articles of Incorporation.

“**Shelf Registration Statement**” shall mean a shelf registration statement filed with the Securities and Exchange Commission in connection with the issuance of or resales of Common Shares issued as payment of a dividend or other amounts issuable in respect of the Mandatory Convertible Preferred Stock, including dividends paid in connection with a conversion.

“**Share Dilution Amount**” shall have the meaning set forth in Section 3(b).

“**Spin-Off**” means a dividend or other distribution (including, for these purposes only, a division under the Pennsylvania Business Corporation Law or any successor statute) by the Corporation to all holders of Common Shares consisting of capital stock of, or similar equity interests in, or relating to a subsidiary or other business unit of the Corporation.

“**Statement with Respect to Shares**” means the Statement with Respect to Shares filed with the Bureau of Corporations of the Department of State of the Commonwealth of Pennsylvania with respect to the Mandatory Convertible Preferred Stock, as it may be amended from time to time.

“**Threshold Appreciation Price**” shall have the meaning set forth in Section 7(b)(i).

“**Trading Day**” means a day on which the Common Stock:

(a) is not suspended from trading, and on which trading in the Common Stock is not limited, on any national or regional securities exchange or association or over-the-counter market during any period or periods aggregating one half-hour or longer; and

(b) has traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of the Common Stock; *provided that* if the Common Stock is not traded on any such exchange, association or market, “**Trading Day**” means any Business Day.

“**Transfer Agent**” shall initially mean Computershare Trust Company, N.A., the Corporation’s duly appointed transfer agent for the Mandatory Convertible Preferred Stock and any successor appointed under Section 14.

“**Trigger Event**” shall have the meaning set forth in Section 13(a)(iv).

“**Underwriting Agreement**” means the Underwriting Agreement relating to the Mandatory Convertible Preferred Stock and the depositary shares representing the Mandatory Convertible Preferred Stock, dated September 16, 2014, among the Corporation and the underwriters named therein.

“**Unit of Exchange Property**” shall have the meaning set forth in Section 13(e).

“**VWAP**” per Common Share on any Trading Day means the per share volume-weighted average price as displayed on Bloomberg page “AA<EQUITY>AQR” (or its equivalent successor if such page is not available) in respect of the period from 9:30 a.m. to 4:00 p.m., New York City time, on such Trading Day; or, if such price is not available, “**VWAP**” means the market value per Common Share on such Trading Day as determined, using a volume-weighted average method, by a nationally recognized independent investment banking firm retained by the Corporation for this purpose.

SECTION 3. *Dividends*.

(a) *Rate*. Subject to the rights of holders of any class of capital stock ranking senior to the Mandatory Convertible Preferred Stock with respect to dividends, including the Serial Preferred Stock, Holders shall be entitled to receive, when, as and if declared by the Board of Directors out of funds of the Corporation legally available therefor, cumulative dividends at the rate per annum of 5.375% on the Liquidation Preference per share of Mandatory Convertible Preferred Stock (the “**Dividend Rate**”) (equivalent to $26.8750 per annum per share), payable in cash, by delivery of Common Shares or by delivery of any combination of cash and Common Shares, as determined by the Corporation in its sole discretion, in accordance with the provisions set forth in Section 3(c)(i) (subject to the limitations described herein). Declared dividends on the Mandatory Convertible Preferred Stock shall be payable quarterly on each Dividend Payment Date at such annual rate, and dividends shall accumulate from the most recent date as to which dividends shall have been paid or, if no dividends have been paid, from the Initial Issue Date, whether or not in any Dividend Period or Dividend Periods there have been funds legally available for the payment of such dividends. Declared dividends shall be payable on the relevant Dividend Payment Date to Record Holders on the immediately preceding Record Date, whether or not the shares of Mandatory Convertible Preferred Stock held by such Record Holders on such Record Date are converted after such Record Date and on or prior to the immediately succeeding Dividend Payment Date. If a Dividend Payment Date is not a Business Day, payment shall be made on the next succeeding Business Day, without any interest or other payment in lieu of interest accruing with respect to this delay.

The amount of dividends payable on each share of Mandatory Convertible Preferred Stock for each full Dividend Period (after the initial Dividend Period) shall be computed by dividing the Dividend Rate by four. Dividends payable on the Mandatory Convertible Preferred Stock for the initial Dividend Period and any partial Dividend Period shall be computed based upon the actual number of days elapsed during such period over a 360-day year (consisting of twelve 30-day months). Accumulated dividends shall not bear interest.

No dividend shall be declared or paid upon, or any sum or number of Common Shares set apart for the payment of dividends upon, any outstanding shares of Mandatory Convertible Preferred Stock with respect to any Dividend Period unless all dividends for all preceding Dividend Periods have been declared and paid upon, or a sufficient sum or number of Common Shares have been set apart for the payment of such dividends upon, all outstanding shares of Mandatory Convertible Preferred Stock.

Holders shall not be entitled to any dividends on the Mandatory Convertible Preferred Stock, whether payable in cash, property or Common Shares, in excess of full cumulative dividends.

Except as described in this Section 3(a), dividends on any shares of Mandatory Convertible Preferred Stock converted to Common Shares shall cease to accumulate on the Mandatory Conversion Date, the Fundamental Change Conversion Date or the Early Conversion Date (each, a "**Conversion Date**"), as applicable.

(b) *Priority of Dividends*. So long as any share of Mandatory Convertible Preferred Stock remains outstanding, no dividend or distribution shall be declared or paid on Common Shares or any other shares of Junior Stock, and no Common Shares or shares of Junior Stock shall be purchased, redeemed or otherwise acquired for consideration by the Corporation or any of its subsidiaries unless all accumulated and unpaid dividends for all preceding Dividend Periods have been declared and paid upon, or a sufficient sum or number of Common Shares have been set apart for the payment of such dividends upon, all outstanding Mandatory Convertible Preferred Stock. The foregoing limitation shall not apply to (i) any dividend or distribution payable in Common Shares or other Junior Stock; (ii) redemptions, purchases or other acquisitions of Common Shares or shares of Junior Stock in connection with the administration of any benefit or other incentive plan, including any employment contract, in the ordinary course of business (including purchases to offset the Share Dilution Amount pursuant to a publicly announced repurchase plan or acquisitions of shares of Common Stock deemed surrendered in connection with the exercise of stock options); provided that any purchases to offset the Share Dilution Amount shall in no event exceed the Share Dilution Amount; (iii) any dividends or distributions of rights in connection with a shareholders' rights plan or any redemption or repurchase of rights pursuant to any shareholders' rights plan; (iv) purchases of Common Shares or shares of Junior Stock pursuant to a contractually binding requirement to buy Common Shares or shares of Junior Stock existing prior to the preceding Dividend Period, including under a contractually binding stock repurchase plan; or (v) the deemed purchase or acquisition of fractional interests in Common Shares or shares of Junior Stock pursuant to the conversion or exchange provisions of such shares or the security being converted or exchanged. The phrase "Share Dilution Amount" means the increase in the number of diluted shares of Common Stock outstanding (determined in accordance with U.S. GAAP, and as measured from the Initial Issue Date) resulting from the grant, vesting or exercise of equity-based compensation to directors, employees and agents and equitably adjusted for any share split, share dividend, reverse share split, reclassification or similar transaction.

When dividends on shares of Mandatory Convertible Preferred Stock (i) have not been declared and paid in full on any Dividend Payment Date or (ii) have been declared but a sum of cash or number of Common Shares sufficient for payment thereof has not been set aside for the benefit of the Record Holders thereof on the applicable Record Date, no dividends may be declared or paid on any shares of Parity Stock unless dividends are declared on the shares of Mandatory Convertible Preferred Stock such that the respective amounts of such dividends declared on the shares of Mandatory Convertible Preferred Stock and such shares of Parity Stock shall be allocated pro rata among the Holders of the shares of Mandatory Convertible Preferred Stock and the holders of any such shares of Parity Stock then outstanding. For purposes of calculating the pro rata allocation of partial dividend payments, the Corporation shall allocate those payments so that the respective amounts of those payments for the declared dividend bear the same ratio to each other as all accumulated dividends and declared and unpaid dividends per share on the shares of Mandatory Convertible Preferred Stock and the shares of such Parity Stock; *provided* that any unpaid dividends on the Mandatory Convertible Preferred Stock will continue to accumulate.

Subject to the foregoing, and not otherwise, such dividends (payable in cash, securities or other property) as may be determined by the Board of Directors may be declared and paid on any securities, including Common Shares, from time to time out of any funds legally available for such payment, and Holders shall not be entitled to participate in any such dividends.

(c) *Method of Payment of Dividends*.

(i) Subject to the limitations described below, any declared dividend (or any portion of any declared dividend) on the Mandatory Convertible Preferred Stock, whether or not for a current Dividend Period or any prior Dividend Period, may be paid by the Corporation, as determined in the Corporation's sole discretion:

(A) in cash;

(B) by delivery of Common Shares; or

(C) by delivery of any combination of cash and Common Shares.

(ii) Each payment of a declared dividend on the Mandatory Convertible Preferred Stock shall be made in cash, except to the extent the Corporation timely elects to make all or any portion of such payment in Common Shares. The Corporation shall give notice to Holders of any such election and the portions of such payment that will be made in cash and in Common Shares no later than 10 Scheduled Trading Days prior to the Dividend Payment Date for such dividend; *provided* that if the Corporation does not provide timely notice of this election, the Corporation will be deemed to have elected to pay the relevant dividend in cash.

(iii) All cash payments to which a Holder is entitled in connection with a declared dividend on the shares of Mandatory Convertible Preferred Stock will be rounded to the nearest cent. Any Common Shares issued in payment or partial payment of a declared dividend on the Mandatory Convertible Preferred Stock shall be valued for such purpose at 97% of the Average VWAP per Common Share over the five consecutive Trading Day period beginning on and including the seventh Scheduled Trading Day prior to the applicable Dividend Payment Date (the "**Average Price**").

(d) No fractional shares of Common Stock shall be delivered by the Corporation to Holders in payment or partial payment of a dividend. The Corporation shall instead pay a cash adjustment (computed to the nearest cent) to each Holder that would otherwise be entitled to receive a fraction of a share of Common Stock based on the Average Price with respect to such dividend.

(e) Notwithstanding the foregoing, in no event shall the number of Common Shares to be delivered in connection with any declared dividend on the Mandatory Convertible Preferred Stock, including any declared dividend payable in connection with a conversion, exceed a number equal to the total dividend payment divided by $5.66, subject to adjustment in a manner inversely proportional to any anti-dilution adjustment to each Fixed Conversion Rate as set forth in Section 13 (such dollar amount, as adjusted from time to time, the "**Floor Price**"). To the extent that the amount of any declared dividend exceeds the product of (x) the number of Common Shares delivered in connection with such declared dividend and (y) 97% of the Average Price, the Corporation shall, if it is legally able to do so, notwithstanding any notice by the Corporation to the contrary, pay such excess amount in cash (computed to the nearest cent).

(f) To the extent that the Corporation, in its reasonable judgment, determines that a Shelf Registration Statement is required in connection with the issuance of, or for resales of, Common Shares issued as payment of a dividend on the Mandatory Convertible Preferred Stock, including dividends paid in connection with a conversion, the Corporation shall, to the extent such a Shelf Registration Statement is not currently filed and effective, use its commercially reasonable efforts to file and maintain the effectiveness of such a Shelf Registration Statement until the earlier of such time as all such Common Shares have been resold thereunder and such time as all such shares would be freely tradable without registration by holders thereof that are not “affiliates” of the Corporation for purposes of the Securities Act of 1933, as amended. To the extent applicable, the Corporation shall also use its commercially reasonable efforts to have such Common Shares approved for listing on the New York Stock Exchange (or if the Common Shares are not then listed on the New York Stock Exchange, on the principal other U.S. national or regional securities exchange on which the Common Shares are then listed), and qualified or registered under applicable state securities laws, if required, provided that the Corporation will not be required to qualify as a foreign corporation or to take any action that would subject the Corporation to general service of process in any such jurisdiction where the Corporation is not presently qualified or subject to taxation as a foreign corporation and such qualification or action would subject the Corporation to such taxation.

SECTION 4. *Liquidation, Dissolution or Winding Up.*

(a) In the event of any voluntary or involuntary liquidation, winding up or dissolution of the Corporation, each Holder shall be entitled to receive:

(i) the Liquidation Preference per share of Mandatory Convertible Preferred Stock, plus

(ii) an amount (the “**Liquidation Dividend Amount**”) equal to all dividends that have accrued on such Holder’s shares to (but excluding) the date fixed for liquidation, winding up or dissolution but have not been paid or declared and a sum sufficient for the payment thereof been set apart,

to be paid out of the assets of the Corporation legally available for distribution to its shareholders, after satisfaction of liabilities owed to the Corporation’s creditors and payment of any liquidation preference of holders of shares of each class or series of Senior Stock, and before any payment or distribution is made to holders of Junior Stock, including Common Stock.

(b) Neither the merger or consolidation of the Corporation into or with any other corporation or corporations, any share exchange or division involving the Corporation in pursuance of applicable statutes providing for the consolidation, merger, share exchange or division shall be deemed to be a voluntary or involuntary liquidation, winding-up or dissolution of the Corporation for the purposes of this Section 4.

(c) If, upon the voluntary or involuntary liquidation, winding up or dissolution of the Corporation, the amounts payable with respect to (1) the Liquidation Preference plus the Liquidation Dividend Amount of the Mandatory Convertible Preferred Stock and (2) the liquidation preference of, and the amount of accumulated and unpaid dividends to, but excluding, the date fixed for liquidation, dissolution or winding up, on, any Parity Stock are not paid in full, the Holders and all holders of any classes or series of Parity Stock shall share equally and ratably in any distribution of the Corporation’s assets in proportion to the respective liquidation preferences and amounts equal to the accumulated and unpaid dividends to which they are entitled.

(d) After the payment to any Holder of the full amount of the Liquidation Preference and the Liquidation Dividend Amount for each of such Holder’s shares of Mandatory Convertible Preferred Stock, such Holder as such shall have no right or claim to any of the remaining assets of the Corporation.

SECTION 5. *Acquisition Termination Redemption; No Sinking Fund.*

(a) Within ten Business Days following the earlier of (a) the date on which an Acquisition Termination Event occurs and (b) 5:00 p.m. (New York City time) on April 1, 2015, if the Acquisition has not closed on or prior to such time on such date, the Corporation shall be entitled, but not required, to mail a notice of Acquisition Termination Redemption to the Holders (provided that, if depositary shares representing shares of Mandatory Convertible Preferred Stock are held in book-entry form through DTC, the Corporation may give such notice in respect of such shares in any matter permitted by DTC). If the Corporation shall mail such notice of Acquisition Termination Redemption to Holders, on the Acquisition Termination Redemption Date, the Corporation shall be required to redeem the Mandatory Convertible Preferred Stock, in whole but not in part, at a redemption amount per share of Mandatory Convertible Preferred Stock equal to the Acquisition Termination Make-whole Amount.

“**Acquisition Termination Event**” means either (1) the Purchase Agreement is terminated or (2) the Corporation shall determine in its reasonable judgment that the Acquisition will not occur.

“**Acquisition Termination Make-whole Amount**” means, for each share of Mandatory Convertible Preferred Stock, an amount in cash equal to $505 plus accumulated and unpaid dividends to the Acquisition Termination Redemption Date (whether or not declared); provided, however, that if the Acquisition Termination Share Price exceeds the Initial Price, the Acquisition Termination Make-whole Amount will equal the Reference Amount.

“**Acquisition Termination Share Price**” means the average VWAP per Common Share over the 10 consecutive Trading Day period ending on the Trading Day preceding the date on which the Corporation shall provide notice of Acquisition Termination Redemption to Holders.

The “**Reference Amount**” shall equal the sum of the following amounts:

(i) a number of Common Shares equal to the Acquisition Termination Conversion Rate; plus

(ii) cash in an amount equal to the Acquisition Termination Dividend Amount;

provided that the Corporation may deliver cash in lieu of all or any portion of the Common Shares set forth in clause (i) above, and the Corporation may deliver Common Shares in lieu of all or any portion of the cash amount set forth in clause (ii) above, in each case, as set forth in this Section 5.

“**Acquisition Termination Conversion Rate**” means a rate equal to the Fundamental Change Conversion Rate, assuming for such purpose that the date on which the Corporation shall provide notice of Acquisition Termination Redemption is the Fundamental Change Effective Date and that the Fundamental Change Share Price is the Acquisition Termination Share Price.

“**Acquisition Termination Dividend Amount**” means an amount of cash equal to the sum of (x) the Fundamental Change Dividend Make-whole Amount and (y) the Accumulated Dividend Amount, assuming in each case, for such purpose that the date on which the Corporation shall provide notice of Acquisition Termination Redemption is the Fundamental Change Effective Date.

(b) If the Acquisition Termination Share Price shall exceed the Initial Price, the Corporation may pay cash (computed to the nearest cent) in lieu of delivering all or any portion of the number of Common Shares equal to the Acquisition Termination Conversion Rate. If the Corporation shall make such an election, it shall deliver cash in an amount equal to such number of Common Shares in respect of which it shall have made such election multiplied by the Acquisition Termination Market Value.

(c) In addition, if the Acquisition Termination Share Price shall exceed the Initial Price, the Corporation may elect to deliver Common Shares in lieu of some or all of the Acquisition Termination Dividend Amount. If the Corporation shall make such an election, it shall deliver a number of Common Shares equal to such portion of the Acquisition Termination Dividend Amount to be paid in Common Shares divided by the greater of the Floor Price and 97% of the Acquisition Termination Market Value; provided that, if the Acquisition Termination Dividend Amount or portion thereof in respect of which Common Shares are delivered exceeds the product of such number of Common Shares multiplied by 97% of the Acquisition Termination Market Value, the Corporation shall, if it is legally able to do so, declare and pay such excess amount in cash (computed to the nearest cent).

“**Acquisition Termination Market Value**” means the average VWAP per Common Share over the twenty consecutive Trading Day period commencing on and including the third Trading Day following the date on which the Corporation provides notice of Acquisition Termination Redemption.

“**Acquisition Termination Redemption Date**” means the date specified by the Corporation in its notice of Acquisition Termination Redemption that is not less than 30 nor more than 60 days following the date on which the Corporation shall provide notice of such Acquisition Termination Redemption; provided, that, if the Acquisition Termination Share Price is greater than the Initial Price and the Corporation shall elect to pay cash in lieu of delivering all or any portion of the Common Shares equal to the Acquisition Termination Conversion Rate, or, if the Corporation shall elect to deliver Common Shares in lieu of all or any portion of the Acquisition Termination Dividend Amount, the Acquisition Termination Redemption Date shall be the third Business Day following the last Trading Day of the 20 consecutive Trading Day period used to determine the Acquisition Termination Market Value.

(d) The notice of Acquisition Termination Redemption shall specify, among other things:

(i) the Acquisition Termination Make-whole Amount;

(ii) if the Acquisition Termination Share Price exceeds the Initial Price, the number of Common Shares and the amount of cash comprising the Reference Amount per share of Mandatory Convertible Preferred Stock (before giving effect to any election to pay or deliver, with respect to each share of Mandatory Convertible Preferred Stock, cash in lieu of a number of Common Shares equal to the Acquisition Termination Conversion Rate or Common Shares in lieu of cash in respect of the Acquisition Termination Dividend Amount);

(iii) if applicable, whether the Corporation will deliver cash in lieu of all or any portion of the number of Common Shares equal to the Acquisition Termination Conversion Rate included as a portion of the Reference Amount (specifying, if applicable, the number of such Common Shares in respect of which cash will be delivered);

(iv) if applicable, whether the Corporation will deliver Common Shares in lieu of all or any portion of the Acquisition Termination Dividend Amount included as a portion of the Reference Amount (specifying, if applicable, the percentage of the Acquisition Termination Dividend Amount in respect of which Common Shares will be delivered in lieu of cash); and

(v) the Acquisition Termination Redemption Date.

(e) If any portion of the Acquisition Termination Make-whole Amount is to be paid in Common Shares, no fractional Common Shares will be delivered to the Holders. The Corporation shall instead pay a cash adjustment (rounded to the nearest cent) to each Holder that would otherwise be entitled to a fraction of a Common Share based on the average VWAP per Common Share over the five consecutive Trading Day period beginning on, and including, the seventh Scheduled Trading Day immediately preceding the Acquisition Termination Redemption Date. If more than one share of Mandatory Convertible Preferred Stock is to be redeemed from a Holder, the number of Common Shares issuable in connection with the payment of the Reference Amount shall be computed on the basis of the aggregate number of shares of Mandatory Convertible Preferred Stock so redeemed.

(f) All cash payments to which a Holder is entitled in connection with an Acquisition Termination Redemption will be rounded to the nearest cent.

(g) To the extent that the Corporation, in its reasonable judgment, determines that a Shelf Registration Statement is required in connection with the issuance of, or for resales of, Common Shares issued as any portion of the payment of the Acquisition Termination Make-whole Amount, the Corporation shall, to the extent such a Shelf Registration Statement is not currently filed and effective, use its commercially reasonable efforts to file and maintain the effectiveness of such a Shelf Registration Statement until the earlier of such time as all such Common Shares have been resold thereunder and such time as all such shares would be freely tradable without registration by holders thereof that are not “affiliates” of the Corporation for purposes of the Securities Act of 1933, as amended. To the extent applicable, the Corporation shall also use its commercially reasonable efforts to have such Common Shares qualified or registered under applicable state securities laws, if required, and approved for listing on the New York Stock Exchange (or if the Common Shares are not then listed on the New York Stock Exchange, on the principal other U.S. national or regional securities exchange on which the Common Shares are then listed), provided that the Corporation will not be required to qualify as a foreign corporation or to take any action that would subject the Corporation to general service of process in any such jurisdiction where the Corporation is not presently qualified or subject to taxation as a foreign corporation and such qualification or action would subject the Corporation to such taxation.

(h) Other than pursuant to the Acquisition Termination Redemption provisions described above, shares of Mandatory Convertible Preferred Stock shall not be subject to any redemption, sinking fund or other similar provisions.

SECTION 6. *Voting Rights*.

(a) *General*. Holders shall not have any voting rights except as set forth in Section 4 of Article FIFTH of the Articles of Incorporation (as further limited by subsection (b) of this Section 6) or as otherwise from time to time required by Pennsylvania law.

(b) *Change for Clarification*. Without the consent of the Holders, so long as such action does not adversely affect the special rights, preferences, privileges or voting powers, and limitations and restrictions thereof, of the shares of Mandatory Convertible Preferred Stock, the Corporation may amend, alter, supplement or repeal any terms of the Mandatory Convertible Preferred Stock:

(i) to cure any ambiguity or mistake, or to correct or supplement any provision contained in the Statement with Respect to Shares that may be defective or inconsistent with any other provision contained in the Statement with Respect to Shares;

(ii) to make any provision with respect to matters or questions relating to the Mandatory Convertible Preferred Stock that is not inconsistent with the provisions of the Articles of Incorporation or the Statement with Respect to Shares; or

(iii) to waive the Corporation’s rights with respect thereto;

provided, that any such amendment, alteration, supplement or repeal of any terms of the Mandatory Convertible Preferred Stock effected in order to conform the terms thereof to the description of the terms of the Mandatory Convertible Preferred Stock set forth under “Description of Mandatory Convertible Preferred Stock” in the Prospectus Supplement shall be deemed not to adversely affect the special rights, preferences, privileges and voting powers, and limitations and restrictions thereof, of the Mandatory Convertible Preferred Stock. The full text of the Prospectus Supplement is on file at the principal place of business of the Corporation at 390 Park Avenue, New York, New York 10022.

SECTION 7. *Mandatory Conversion on the Mandatory Conversion Date.*

(a) Each share of Mandatory Convertible Preferred Stock shall automatically convert (unless previously redeemed at the option of the Corporation in accordance with Section 5, converted at the option of the Holder in accordance with Section 8 or pursuant to an exercise of a Fundamental Change Conversion right pursuant to Section 9) on the Mandatory Conversion Date (“**Mandatory Conversion**”), into a number of Common Shares equal to the Mandatory Conversion Rate.

(b) The “**Mandatory Conversion Rate,**” which is the number of Common Shares issuable upon conversion of each share of Mandatory Convertible Preferred Stock on the Mandatory Conversion Date (excluding Common Shares, if any, issued in respect of accrued and unpaid dividends) shall, subject to adjustment in accordance with Section 7(c), be as follows:

(i) if the Applicable Market Value is greater than $19.39 (the “**Threshold Appreciation Price**”), then the Mandatory Conversion Rate shall be equal to 25.7838 Common Shares per share of Mandatory Convertible Preferred Stock (the “**Minimum Conversion Rate**”);

(ii) if the Applicable Market Value is less than or equal to the Threshold Appreciation Price but equal to or greater than $16.16 (the “**Initial Price**”), then the Mandatory Conversion Rate per share of Mandatory Convertible Preferred Stock shall be equal to $500 divided by the Applicable Market Value; or

(iii) if the Applicable Market Value is less than the Initial Price, then the Mandatory Conversion Rate shall be equal to 30.9406 Common Shares per share of Mandatory Convertible Preferred Stock (the “**Maximum Conversion Rate**”);

provided that the Fixed Conversion Rates, the Threshold Appreciation Price, the Initial Price and the Applicable Market Value are each subject to adjustment in accordance with the provisions of Section 13.

(c) If prior to the Mandatory Conversion Date the Corporation has not declared all or any portion of the accumulated and unpaid dividends on the Mandatory Convertible Preferred Stock, the Mandatory Conversion Rate shall be adjusted so that Holders receive an additional number of Common Shares equal to the amount of accumulated and unpaid dividends that have not been declared ("**Mandatory Conversion Additional Conversion Amount**") divided by the greater of the Floor Price and 97% of the Average Price (calculated as though the Mandatory Conversion Date is the applicable Dividend Payment Date). To the extent that the Mandatory Conversion Additional Conversion Amount exceeds the product of such number of additional shares and 97% of the Average Price, the Corporation shall, if the Corporation is legally able to do so, declare and pay such excess amount in cash (computed to the nearest cent) pro rata to the Holders. No such payment in cash may be made if the payment is not permitted by the Corporation's then existing debt instruments.

SECTION 8. *Early Conversion at the Option of the Holder.*

(a) Other than during a Fundamental Change Conversion Period, the Holders shall have the right to convert their shares of Mandatory Convertible Preferred Stock, in whole or in part (but in no event less than one share of Mandatory Convertible Preferred Stock), at any time prior to the Mandatory Conversion Date ("**Early Conversion**"), into Common Shares at the Minimum Conversion Rate, subject to adjustment as described in Section 13 and to satisfaction of the conversion procedures set forth in Section 10.

(b) If as of any Early Conversion Date the Corporation has not declared all or any portion of the accumulated and unpaid dividends for all full Dividend Periods ending on a Dividend Payment Date prior to such Early Conversion Date, the Minimum Conversion Rate shall be adjusted, with respect to the relevant Early Conversion, so that the converting Holder receives an additional number of Common Shares equal to the amount of accumulated and unpaid dividends that have not been declared for such full Dividend Periods (the "**Early Conversion Additional Conversion Amount**"), *divided by* the greater of the Floor Price and the Average VWAP per Common Share over the 20 consecutive Trading Day period (the "**Early Conversion Settlement Period**") commencing on, and including, the 22nd Trading Day immediately preceding the Early Conversion Date (such average being referred to as the "**Early Conversion Average Price**"). To the extent that the Early Conversion Additional Conversion Amount exceeds the product of the number of additional shares of Common Stock and the Early Conversion Average Price, the Corporation shall not have any obligation to pay the shortfall in cash. Except as described in the first sentence of this Section 8(b), upon any Early Conversion of any shares of the Mandatory Convertible Preferred Stock, the Corporation shall make no payment or allowance for undeclared dividends on such shares of the Mandatory Convertible Preferred Stock, unless such Early Conversion occurs after the Record Date for a declared dividend and on or prior to the immediately succeeding Dividend Payment Date, in which case the Corporation shall pay such dividend on such Dividend Payment Date to the Record Holder of the converted shares as of such Record Date, in accordance with Section 3.

SECTION 9. *Fundamental Change Conversion.*

(a) If a Fundamental Change occurs on or prior to the Mandatory Conversion Date, the Holders shall have the right to (i) convert their shares of Mandatory Convertible Preferred Stock, in whole or in part (but in no event less than one share of Mandatory Convertible Preferred Stock) (any such conversion pursuant to this Section 9(a) being a "**Fundamental Change Conversion**") at any time during the period (the "**Fundamental Change Conversion Period**") that begins on the effective date of such Fundamental Change (the **"Fundamental Change Effective Date**") and ends at 5:00 p.m., New York City time, on the date that is 20 calendar days after the Fundamental Change Effective Date (or, if earlier, the Mandatory Conversion Date) into a number of Common Shares equal to the Fundamental Change Conversion Rate per share of Mandatory Convertible Preferred Stock, (ii) with respect to such converted shares, receive a Fundamental Change Dividend Make-whole Amount payable in cash or in Common Shares; and (iii) with respect to such converted shares, receive the Accumulated Dividend Amount, in the case of clauses (ii) and (iii), subject to the Corporation's right to deliver Common Shares in lieu of all or part of such amounts as set forth in clause (d) below; *provided* that if such Fundamental Change Effective Date or the relevant Fundamental Change Conversion Date falls after the Record Date for a declared dividend and prior to the next Dividend Payment Date, the Corporation shall pay such dividend on such Dividend Payment Date to the Record Holders as of such Record Date, in accordance with Section 3, and such dividend shall not be included in the Accumulated Dividend Amount, and the Fundamental Change Dividend Make-whole Amount shall not include the present value of such dividend. With respect to any Fundamental Change, Holders who do not submit shares of Mandatory Convertible Preferred Stock for conversion during the relevant Fundamental Change Conversion Period will not be entitled to convert their non-submitted shares of Mandatory Convertible Preferred Stock at the relevant Fundamental Change Conversion Rate or to receive the relevant Fundamental Change Dividend Make-whole Amount or the relevant Accumulated Dividend Amount.

(b) On or before the twentieth calendar day prior to the anticipated Fundamental Change Effective Date or, if such prior notice is not practicable, no later than the second Business Day immediately following the actual Fundamental Change Effective Date, a written notice (the "**Fundamental Change Notice**") shall be sent by or on behalf of the Corporation, by first-class mail, postage prepaid, to the Holders. Such notice shall state:

(i) the event causing the Fundamental Change;

(ii) the anticipated Fundamental Change Effective Date or actual Fundamental Change Effective Date, as the case may be;

(iii) that Holders shall have the right to effect a Fundamental Change Conversion in connection with such Fundamental Change during the Fundamental Change Conversion Period;

(iv) the Fundamental Change Conversion Period; and

(v) the instructions a Holder must follow to effect a Fundamental Change Conversion in connection with such Fundamental Change.

If the Corporation notifies Holders of a Fundamental Change later than the twentieth calendar day prior to the Fundamental Change Effective Date of such Fundamental Change, the Fundamental Change Conversion Period shall be extended by a number of days equal to the number of days from, and including, the twentieth calendar day prior to such Fundamental Change Effective Date to, but excluding, the date of such notice; *provided* that the Fundamental Change Conversion Period shall not be extended beyond the Mandatory Conversion Date.

(c) Not later than the second Business Day following the Fundamental Change Effective Date of a Fundamental Change, the Corporation shall notify Holders of:

(i) the Fundamental Change Conversion Rate;

(ii) the Fundamental Change Dividend Make-whole Amount and whether the Corporation will pay such amount in cash, Common Shares or a combination thereof, specifying the combination, if applicable; and

(iii) the Accumulated Dividend Amount as of the Fundamental Change Effective Date and whether the Corporation will pay such amount in cash, Common Shares or a combination thereof, specifying the combination, if applicable.

(d)(i) For any shares of Mandatory Convertible Preferred Stock that are converted during the Fundamental Change Conversion Period, in addition to the Common Shares issued upon conversion at the Fundamental Change Conversion Rate, the Corporation shall at its option:

(A) pay the Holder in cash (computed to the nearest cent), to the extent the Corporation is legally permitted to do so, the present value, computed using a discount rate of 5.375% per annum, of all dividend payments on the Holder's shares of Mandatory Convertible Preferred Stock for all the remaining Dividend Periods (excluding any Accumulated Dividend Amount) from and including such Fundamental Change Effective Date to but excluding the Mandatory Conversion Date (the "**Fundamental Change Dividend Make-whole Amount**");

(B) increase the number of Common Shares to be issued on conversion by a number equal to (x) the Fundamental Change Dividend Make-whole Amount divided by (y) the greater of the Floor Price and 97% of the Fundamental Change Share Price, or

(C) pay the Fundamental Change Dividend Make-whole Amount in a combination of cash and Common Shares in accordance with the provisions of clauses (A) and (B) immediately above.

(ii) In addition, to the extent that the Accumulated Dividend Amount exists as of the Fundamental Change Effective Date, Holders who convert shares of Mandatory Convertible Preferred Stock within the Fundamental Change Conversion Period will be entitled to receive such Accumulated Dividend Amount upon conversion. The Accumulated Dividend Amount will be payable, at the Corporation's election, in:

(A) cash (computed to the nearest cent), to the extent the Corporation is legally permitted to do so,

(B) an additional number of Common Shares equal to (x) the Accumulated Dividend Amount divided by (y) the greater of the Floor Price and 97% of the Fundamental Change Share Price, or

(C) a combination of cash and Common Shares in accordance with the provisions of clauses (A) and (B) immediately above.

(iii) The Corporation shall pay the Fundamental Change Dividend Make-whole Amount and the Accumulated Dividend Amount in cash (computed to the nearest cent), except to the extent the Corporation elects on or prior to the second Business Day following the Fundamental Change Effective Date of a Fundamental Change to make all or any portion of such payments in Common Shares. If the Corporation elects to deliver Common Shares in respect of all or any portion of the Fundamental Change Dividend Make-whole Amount or the Accumulated Dividend Amount, to the extent that the Fundamental Change Dividend Make-whole Amount or the Accumulated Dividend Amount or any portion thereof paid in Common Shares exceeds the product of the number of additional shares of Common Stock the Corporation delivers in respect thereof and 97% of the Fundamental Change Share Price, the Corporation shall, if it is legally able to do so, pay such excess amount in cash (computed to the nearest cent). No such payment in cash may be made if the payment is not permitted by the Corporation’s then existing debt instruments.

(iv) No fractional Common Shares shall be delivered by the Corporation to converting Holders in respect of the Fundamental Change Dividend Make-whole Amount or the Accumulated Dividend Amount. A cash adjustment (computed to the nearest cent) shall be paid by the Corporation to each Holder that would otherwise be entitled to receive a fraction of a Common Share based on the Average VWAP per Common Share over the five consecutive Trading Day period beginning on, and including, the seventh Scheduled Trading Day immediately preceding the relevant Conversion Date.

SECTION 10. *Conversion Procedures.*

(a) Pursuant to Section 7, on the Mandatory Conversion Date, any outstanding shares of Mandatory Convertible Preferred Stock shall automatically convert into Common Shares. The person or persons entitled to receive the Common Shares issuable upon Mandatory Conversion of the Mandatory Convertible Preferred Stock shall be treated as the record holder(s) of such Common Shares as of 5:00 p.m., New York City time, on the Mandatory Conversion Date. Except as provided under Section 13(c)(iii) and Section 13(c)(v), prior to 5:00 p.m., New York City time, on the Mandatory Conversion Date, the Common Shares issuable upon conversion of the Mandatory Convertible Preferred Stock shall not be deemed to be outstanding for any purpose and Holders shall have no rights with respect to such Common Shares, including voting rights, rights to respond to tender offers and rights to receive any dividends or other distributions on the Common Shares, by virtue of holding the Mandatory Convertible Preferred Stock.

(b) To effect an Early Conversion pursuant to Section 8, a Holder who

(i) holds a beneficial interest in a Global Preferred Share must deliver to DTC the appropriate instruction form for conversion pursuant to DTC’s conversion program and, if required, pay all transfer or similar taxes or duties, if any; or

(ii) holds shares of Mandatory Convertible Preferred Stock in definitive, certificated form must:

(A) complete and manually sign the conversion notice on the back of the Mandatory Convertible Preferred Stock certificate or a facsimile of such conversion notice;

(B) deliver the completed conversion notice and the certificated shares of Mandatory Convertible Preferred Stock to be converted to the Conversion and Dividend Disbursing Agent;

(C) if required, furnish appropriate endorsements and transfer documents; and

(D) if required, pay all transfer or similar taxes or duties, if any.

The Early Conversion shall be effective on the date on which a Holder has satisfied the foregoing requirements, to the extent applicable (“**Early Conversion Date**”). A Holder shall not be required to pay any transfer or similar taxes or duties relating to the issuance or delivery of Common Shares if such Holder exercises its conversion rights, but such

Holder shall be required to pay any transfer or similar tax or duty that may be payable relating to any transfer involved in the issuance or delivery of Common Shares in a name other than the name of such Holder. A certificate representing the Common Shares issuable upon conversion shall be issued and delivered to the converting Holder or, if the shares of Mandatory Convertible Preferred Stock being converted are in book-entry form, the Common Shares issuable upon conversion shall be delivered to the converting Holder through book-entry transfer through the facilities of the Depositary, in each case together with delivery by the Corporation to the converting Holder of any cash to which the converting Holder is entitled, on the latest of (i) the third Business Day immediately succeeding the Early Conversion Date, (ii) the third Business Day immediately succeeding the last day of the Early Conversion Settlement Period and (iii) the Business Day after the Holder has paid in full all applicable taxes and duties, if any.

The person or persons entitled to receive the Common Shares issuable upon Early Conversion shall be treated for all purposes as the record holder(s) of such Common Shares as of 5:00 p.m., New York City time, on the applicable Early Conversion Date. Except as set forth in Section 13(c)(iii) and Section 13(c)(v), prior to 5:00 p.m., New York City time on such applicable Early Conversion Date, the Common Shares issuable upon conversion of any Mandatory Convertible Preferred Stock shall not be deemed to be outstanding for any purpose, and Holders shall have no rights with respect to such Common Shares (including voting rights, rights to respond to tender offers for the Common Shares and rights to receive any dividends or other distributions on the Common Shares) by virtue of holding Mandatory Convertible Preferred Stock.

In the event that an Early Conversion is effected with respect to shares of Mandatory Convertible Preferred Stock constituting fewer than all the shares of Mandatory Convertible Preferred Stock held by a Holder, upon such Early Conversion the Corporation shall execute and instruct the Registrar and Transfer Agent to countersign and deliver to the Holder thereof, at the expense of the Corporation, a certificate evidencing the shares of Mandatory Convertible Preferred Stock as to which Early Conversion was not effected, or, if the shares of Mandatory Convertible Preferred Stock are held in book-entry form, the Corporation shall cause the Transfer Agent and Registrar to reduce the number of shares of Mandatory Convertible Preferred Stock represented by the global certificate by making a notation on Schedule I attached to the global certificate or otherwise notate such reduction in the register maintained by such Transfer Agent and Registrar.

(c) To effect a Fundamental Change Conversion pursuant to Section 9, a Holder who

(i) holds a beneficial interest in a Global Preferred Share must deliver to DTC the appropriate instruction form for conversion pursuant to DTC's conversion program and, if required, pay all transfer or similar taxes or duties, if any; or

(ii) holds shares of Mandatory Convertible Preferred Stock in definitive, certificated form must:

(A) complete and manually sign the conversion notice on the back of the Mandatory Convertible Preferred Stock certificate or a facsimile of such conversion notice;

(B) deliver the completed conversion notice and the certificated shares of Mandatory Convertible Preferred Stock to be converted to the Conversion and Dividend Disbursing Agent;

(C) if required, furnish appropriate endorsements and transfer documents; and

(D) if required, pay all transfer or similar taxes or duties, if any.

The Fundamental Change Conversion shall be effective on the date on which a Holder has satisfied the foregoing requirements, to the extent applicable (the "**Fundamental Change Conversion Date**"). A Holder shall not be required to pay any transfer or similar taxes or duties relating to the issuance or delivery of Common Shares if such Holder exercises its conversion rights, but such Holder shall be required to pay any transfer or similar tax or duty that may be payable relating to any transfer involved in the issuance or delivery of Common Shares in a name other than the name of such Holder. A certificate representing the Common Shares issuable upon conversion shall be issued and delivered to the converting Holder or, if the shares of Mandatory Convertible Preferred Stock being converted are in book-entry form, the Common Shares issuable upon conversion shall be delivered to the converting Holder through book-entry transfer through the facilities of the Depositary, in each case together with delivery by the Corporation to the converting Holder of any cash to which the converting Holder is entitled, on the later of the third Business Day immediately succeeding the Fundamental Change Conversion Date and the Business Day after the Holder has paid in full all applicable taxes and duties, if any.

The person or persons entitled to receive the Common Shares issuable upon such Fundamental Change Conversion shall be treated for all purposes as the record holder(s) of such Common Shares as of 5:00 p.m., New York City time, on the applicable Fundamental Change Conversion Date. Except as set forth in Section 13(c)(iii) and Section 13(c)(v), prior to 5:00 p.m., New York City time on such applicable Fundamental Change Conversion Date, the Common Shares issuable upon conversion of any shares of Mandatory Convertible Preferred Stock shall not be deemed to be outstanding for any purpose, and Holders shall have no rights with respect to the Common Shares (including voting rights, rights to respond to tender offers for the Common Shares and rights to receive any dividends or other distributions on the Common Shares) by virtue of holding Mandatory Convertible Preferred Stock.

In the event that a Fundamental Change Conversion is effected with respect to shares of Mandatory Convertible Preferred Stock constituting fewer than all the shares of Mandatory Convertible Preferred Stock held by a Holder, upon such Fundamental Change Conversion the Corporation shall execute and instruct the Registrar and Transfer Agent to countersign and deliver to the Holder thereof, at the expense of the Corporation, a certificate evidencing the shares of Mandatory Convertible Preferred Stock as to which Fundamental Change Conversion was not effected, or, if the shares of Mandatory Convertible Preferred Stock are held in book-entry form, the Corporation shall cause the Transfer Agent and Registrar to reduce the number of shares of Mandatory Convertible Preferred Stock represented by the global certificate by making a notation on Schedule I attached to the global certificate or otherwise notate such reduction in the register maintained by such Transfer Agent and Registrar.

(d) In the event that a Holder shall not by written notice designate the name in which Common Shares to be issued upon conversion of shares of Mandatory Convertible Preferred Stock should be registered or, if applicable, the address to which the certificate or certificates representing such Common Shares should be sent, the Corporation shall be entitled to register such shares, and make such payment, in the name of the Holder as shown on the records of the Corporation and, if applicable, to send the certificate or certificates representing such Common Shares to the address of such Holder shown on the records of the Corporation.

(e) Converted shares of Mandatory Convertible Preferred Stock shall cease to be outstanding on the applicable Conversion Date, subject to the right of Holders of such shares to receive Common Shares issuable upon conversion of such shares of Mandatory Convertible Preferred Stock and other amounts and Common Shares, if any, to which they are entitled pursuant to Sections 7, 8 or 9, as applicable and, if the applicable Conversion Date occurs after the Record Date for a declared dividend and prior to the immediately succeeding Dividend Payment Date, subject to the right of the Record Holders of such shares on such Record Date to receive payment of such declared dividend on such Dividend Payment Date pursuant to Section 3.

SECTION 11. *Reservation of Common Shares.*

(a) The Corporation shall at all times reserve and keep available out of its authorized and unissued Common Shares, solely for issuance upon the conversion of Mandatory Convertible Preferred Stock as herein provided, free from any preemptive or other similar rights, a number of Common Shares equal to the product of the Maximum Conversion Rate then in effect and the number of shares of Mandatory Convertible Preferred Stock then outstanding. For purposes of this Section 11(a), the number of Common Shares that shall be deliverable upon the conversion of all outstanding shares of Mandatory Convertible Preferred Stock shall be computed as if at the time of computation all such outstanding shares were held by a single Holder.

(b) All Common Shares delivered upon conversion of shares of Mandatory Convertible Preferred Stock shall be duly authorized, validly issued, fully paid and non-assessable, free and clear of all liens, claims, security interests and other encumbrances (other than liens, charges, security interests and other encumbrances created by the Holders).

(c) Prior to the delivery of any securities that the Corporation shall be obligated to deliver upon conversion of shares of Mandatory Convertible Preferred Stock, the Corporation shall use reasonable best efforts to comply with all federal and state laws and regulations thereunder requiring the registration of such securities with, or any approval of or consent to the delivery thereof by, any governmental authority.

(d) The Corporation hereby covenants and agrees that, if at any time the Common Stock shall be listed on the New York Stock Exchange or any other national securities exchange or automated quotation system, the Corporation shall, if permitted by the rules of such exchange or automated quotation system, list and keep listed, so long as the Common Stock shall be so listed on such exchange or automated quotation system, all Common Shares issuable upon conversion of, or issuable in respect of the payment of dividends, the Acquisition Termination Make-whole Amount, the Accumulated Dividend Amount or the Fundamental Change Dividend Make-whole Amount on, the Mandatory Convertible Preferred Stock.

SECTION 12. *Fractional Shares.*

(a) No fractional Common Shares shall be issued as a result of any conversion of Mandatory Convertible Preferred Stock.

(b) In lieu of any fractional Common Share otherwise issuable in respect of any mandatory conversion pursuant to Section 7 or a conversion at the option of the Holder pursuant to Section 8 or Section 9, the Corporation shall pay an amount in cash (computed to the nearest cent) equal to the product of (i) that same fraction and (ii) the Average VWAP of the Common Shares over the five consecutive Trading Day period beginning on, and including, the seventh Scheduled Trading Day immediately preceding the Mandatory Conversion Date, Fundamental Change Conversion Date or Early Conversion Date, as applicable.

(c) If more than one share of Mandatory Convertible Preferred Stock is surrendered for conversion at one time by or for the same Holder, the number of full Common Shares issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Mandatory Convertible Preferred Stock so surrendered.

SECTION 13. *Anti-Dilution Adjustments to the Fixed Conversion Rates.*

(a) Each Fixed Conversion Rate shall be subject to the following adjustments:

(i) *Stock Dividends and Distributions*. If the Corporation issues Common Shares to all holders of Common Shares as a dividend or other distribution, each Fixed Conversion Rate in effect at 5:00 p.m., New York City time, on the date fixed for determination of the holders of Common Shares entitled to receive such dividend or other distribution shall be divided by a fraction:

(A) the numerator of which is the number of Common Shares outstanding at 5:00 p.m., New York City time, on the date fixed for such determination, and

(B) the denominator of which is the sum of the number of Common Shares outstanding at 5:00 p.m., New York City time, on the date fixed for such determination and the total number of Common Shares constituting such dividend or other distribution.

Subject to the provisions of Section 13(a)(iv)(E), any adjustment made pursuant to this clause (i) shall become effective immediately after 5:00 p.m., New York City time, on the date fixed for such determination. If any dividend or distribution described in this clause (i) is declared but not so paid or made, each Fixed Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to make such dividend or distribution, to such Fixed Conversion Rate that would be in effect if such dividend or distribution had not been declared. For the purposes of this clause (i), the number of Common Shares outstanding at 5:00 p.m., New York City time, on the date fixed for such determination shall not include any Direct Treasury Shares but shall include any shares issuable in respect of any scrip certificates issued in lieu of fractions of Common Shares. For so long as any shares of Mandatory Convertible Preferred Stock are outstanding, the Corporation shall not pay any dividend or make any other distribution on Common Shares that are Direct Treasury Shares.

(ii) *Issuance of Stock Purchase Rights*. If the Corporation issues to all holders of Common Shares rights or warrants (other than rights or warrants issued pursuant to a dividend reinvestment plan or share purchase plan or other similar plans), entitling such holders, for a period of up to 45 calendar days from the date of issuance of such rights or warrants, to subscribe for or purchase Common Shares at a price per share less than the Current Market Price, each Fixed Conversion Rate in effect at 5:00

p.m., New York City time, on the date fixed for determination of the holders of Common Shares entitled to receive such rights or warrants shall be increased by multiplying such Fixed Conversion Rate by a fraction:

(A) the numerator of which is the sum of the number of Common Shares outstanding at 5:00 p.m., New York City time, on the date fixed for such determination and the number of Common Shares issuable pursuant to such rights or warrants, and

(B) the denominator of which shall be the sum of the number of Common Shares outstanding at 5:00 p.m., New York City time, on the date fixed for such determination and the number of Common Shares equal to the the aggregate offering price payable to exercise such rights or warrants divided by the Current Market Price.

Subject to the provisions of Section 13(a)(iv)(E), any adjustment made pursuant to this clause (ii) shall become effective immediately after 5:00 p.m., New York City time, on the date fixed for such determination. In the event that such rights or warrants described in this clause (ii) are not so issued, each Fixed Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to issue such rights or warrants, to such Fixed Conversion Rate that would then be in effect if such issuance had not been declared. To the extent that such rights or warrants are not exercised prior to their expiration or Common Shares are otherwise not delivered pursuant to such rights or warrants upon the exercise of such rights or warrants, each Fixed Conversion Rate shall be readjusted to such Fixed Conversion Rate that would then be in effect had the adjustment made upon the issuance of such rights or warrants been made on the basis of the delivery of only the number of Common Shares actually delivered. In determining whether any rights or warrants entitle the holders thereof to subscribe for or purchase Common Shares at less than the Current Market Price, and in determining the aggregate offering price payable to exercise such rights or warrants, there shall be taken into account any consideration received for such rights or warrants and the value of such consideration (if other than cash, to be determined in good faith by the Board of Directors, which determination shall be final). For the purposes of this clause (ii), the number of Common Shares at the time outstanding shall not include any Direct Treasury Shares but shall include any shares issuable in respect of any scrip certificates issued in lieu of fractions of Common Shares. For so long as any shares of Mandatory Convertible Preferred Stock are outstanding, the Corporation shall not issue any such rights or warrants in respect of Common Shares that are Direct Treasury Shares.

(iii) *Subdivisions and Combinations of the Common Shares*. If outstanding Common Shares shall be subdivided into a greater number of Common Shares or combined into a lesser number of Common Shares, each Fixed Conversion Rate in effect at 5:00 p.m., New York City time, on the effective date of such subdivision or combination shall be multiplied by a fraction:

(A) the numerator of which is the number of Common Shares that would be outstanding immediately after, and solely as a result of, such subdivision or combination, and

(B) the denominator of which is the number of Common Shares outstanding immediately prior to such subdivision or combination.

Any adjustment made pursuant to this clause (iii) shall become effective immediately after 5:00 p.m., New York City time, on the effective date of such subdivision or combination.

(iv) *Debt or Asset Distribution*.

(A) If the Corporation distributes to all holders of Common Shares evidences of its indebtedness, shares of capital stock, securities, rights to acquire the Corporation's capital stock, cash or other assets (excluding (1) any dividend or distribution covered by Section 13(a)(i), (2) any rights or warrants covered by Section 13(a)(ii), (3) any dividend or distribution covered by Section 13(a)(v) and (4) any Spin-Off to which the provisions set forth in Section 13(a)(iv)(B) apply), each Fixed Conversion Rate in effect at 5:00 p.m., New York City time, on the date fixed for the determination of holders of Common Shares entitled to receive such distribution shall be multiplied by a fraction:

(1) the numerator of which is the Current Market Price, and

(2) the denominator of which is the Current Market Price minus the Fair Market Value, on such date fixed for determination, of the portion of the evidences of indebtedness, shares of capital stock, securities, rights to acquire the Corporation's capital stock, cash or other assets so distributed applicable to one Common Share.

(B) In the case of a Spin-Off, each Fixed Conversion Rate in effect at 5:00 p.m., New York City time, on the date fixed for the determination of holders of Common Shares entitled to receive such distribution shall be multiplied by a fraction:

(1) the numerator of which is the sum of (x) the Current Market Price of the Common Shares and (y) the Fair Market Value of the portion of those shares of capital stock or similar equity interests so distributed that is applicable to one Common Share as of the 15th Trading Day after the effective date for such distribution (or, if such shares of capital stock or equity interests are listed on a national or regional securities exchange, the Current Market Price of such securities), and

(2) the denominator of which is the Current Market Price of the Common Shares.

(C) Any adjustment made pursuant to this clause (iv) shall become effective immediately after 5:00 p.m., New York City time, on the date fixed for the determination of the holders of Common Shares entitled to receive such distribution. In the event that such distribution described in this clause (iv) is not so made, each Fixed Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to make such distribution, to such Fixed Conversion Rate that would then be in effect if such distribution had not been declared. If an adjustment to each Fixed Conversion Rate is required under this clause (iv) during any settlement period or Early Conversion Settlement Period in respect of shares of Mandatory Convertible Preferred Stock that have been tendered for conversion, delivery of the Common Shares issuable upon conversion shall be delayed to the extent necessary in order to complete the calculations provided for in this clause (iv).

(D) For purposes of this clause (iv) (and subject in all respects to clause (ii)), rights, options or warrants distributed by the Corporation to all holders of its Common Shares entitling them to subscribe for or purchase shares of the Corporation's capital stock, including, but not limited to, Common Shares (either initially or under certain circumstances), which rights, options or warrants, until the occurrence of a specified event or events (**"Trigger Event"**): (i) are deemed to be transferred with such Common Shares; (ii) are not exercisable; and (iii) are also issued in respect of future issuances of the Common Shares, shall be deemed not to have been distributed for purposes of this clause (iv) (and no adjustment to the Conversion Rate under this clause (iv) shall be required) until the occurrence of the earliest Trigger Event, whereupon such rights, options or warrants shall be deemed to have been distributed and an appropriate adjustment (if any is required) to the Fixed Conversion Rates shall be made under this clause (iv).

If any such right, option or warrant, including any such existing rights, options or warrants distributed prior to the Initial Issue Date, is subject to events, upon the occurrence of which such rights, options or warrants become exercisable to purchase different securities, evidences of indebtedness or other assets, then the date of the occurrence of any and each such event shall be deemed to be the date of distribution and the date fixed for the determination of the holders of Common Shares entitled to receive such distribution with respect to new rights, options or warrants with such rights (in which case the existing rights, options or warrants shall be deemed to terminate and expire on such date without exercise by any of the holders thereof). In addition, in the event of any distribution (or deemed distribution) of rights, options or warrants, or any Trigger Event or other event (of the type described in the immediately preceding sentence) with respect thereto that was counted for purposes of calculating a distribution amount for which an adjustment to the Fixed Conversion Rates under this clause (iv) was made, (1) in the case of any such rights, options or warrants that shall all have been redeemed or purchased without exercise by any holders thereof, upon such final redemption or purchase (x) the Fixed Conversion Rates shall be readjusted as if such rights, options or warrants had not been issued and (y) the Fixed Conversion Rates shall then again be readjusted to give effect to such distribution, deemed distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or purchase price received by a holder or holders of Common Shares with respect to such rights, options or warrants (assuming such holder had retained such rights, options or warrants), made to all holders of Common Shares as of the date of such redemption or purchase, and (2) in the case of such rights, options or warrants that shall have expired or been terminated without exercise by any holders thereof, the Fixed Conversion Rates shall be readjusted as if such rights, options and warrants had not been issued. For purposes of clause (1) of the immediately preceding sentence, any rights that have become void by reason of the actions or status of the holder(s) thereof shall not be included in determining whether all rights have been redeemed or purchased.

(E) For purposes of clause (i), clause (ii) and this clause (iv), if any dividend or distribution to which this clause (iv) is applicable includes one or both of:

(A) a dividend or distribution of Common Shares to which clause (i) is applicable (the "**Clause I Distribution**"); or

(B) an issuance of rights or warrants to which clause (ii) is applicable (the "**Clause II Distribution**"),

then (1) such dividend or distribution, other than the Clause I Distribution, if any, and the Clause II Distribution, if any, shall be deemed to be a dividend or distribution to which this clause (iv) is applicable (the "**Clause IV Distribution**") and any Fixed Conversion Rate adjustment required by this clause (iv) with respect to such Clause IV Distribution shall then be made, and (2) the Clause I Distribution, if any, and Clause II Distribution, if any, shall be deemed to immediately follow the Clause IV Distribution and any Fixed Conversion Rate adjustment required by clause (i) and clause (ii) with respect thereto shall then be made, except that, if determined by the Corporation (I) the date fixed for determination of the holders of Common Shares entitled to receive any Clause I Distribution or Clause II Distribution shall be deemed to be the date fixed for the determination of holders of Common Shares entitled to receive the Clause IV Distribution and (II) any Common Shares included in any Clause I Distribution or Clause II Distribution shall be deemed not to be "outstanding at 5:00 p.m., New York City time, on the date fixed for such determination" within the meaning of clauses (i) and (ii).

(v) *Cash Distributions*. If the Corporation distributes an amount consisting exclusively of cash to all holders of Common Shares other than a regular, quarterly cash dividend that does not exceed $0.03 per Common Share (the "**Initial Dividend Threshold**") (excluding (1) any cash that is distributed in a Reorganization Event to which Section 13(e) applies, (2) any dividend or other distribution in connection with the voluntary or involuntary liquidation, dissolution or winding up of the Corporation and (3) any consideration payable as part of a tender or exchange offer by the Corporation or any subsidiary of the Corporation covered by Section 13(a)(vi)), each Fixed Conversion Rate in effect at 5:00 p.m., New York City time, on the date fixed for determination of the holders of Common Shares entitled to receive such dividend or other distribution shall be multiplied by a fraction:

(1) the numerator of which is the Current Market Price minus the Initial Dividend Threshold (provided that if the distribution is not a regular quarterly cash dividend, the Initial Dividend Threshold will be deemed to be zero), and

(2) the denominator of which is the Current Market Price minus the amount per Common Share of

such dividend or other distribution.

The Initial Dividend Threshold is subject to adjustment in a manner inversely proportional to adjustments to the Fixed Conversion Rates; provided that no adjustment will be made to the Initial Dividend Threshold for any adjustment to the Fixed Conversion Rates pursuant to this clause (v).

Any adjustment made pursuant to this clause (v) shall become effective immediately after 5:00 p.m., New York City time, on the date fixed for the determination of the holders of Common Shares entitled to receive such dividend or other distribution. In the event that any distribution described in this clause (v) is not so paid or made, each Fixed Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to pay such dividend or make such distribution, to such Fixed Conversion Rate which would then be in effect if such distribution had not been declared.

(vi) *Self Tender Offers and Exchange Offers*. If the Corporation or any subsidiary of the Corporation successfully completes a tender or exchange offer pursuant to a Schedule TO or registration statement on Form S-4 for Common Shares (excluding any securities convertible or exchangeable for Common Shares), where the cash and the value of any other consideration included in the payment per Common Share exceeds the Current Market Price, each Fixed Conversion Rate in effect at 5:00 p.m., New York City time, on the date of expiration of the tender or exchange offer (the "**Expiration Date**") shall be multiplied by a fraction:

(A) the numerator of which shall be equal to the sum of:

(1) the aggregate cash and Fair Market Value on the Expiration Date of any other consideration paid or payable for Common Shares purchased in such tender or exchange offer; and

(2) the product of (I) the Current Market Price and (II) (A) the number of Common Shares outstanding at the time such tender or exchange offer expires less (B) any purchased Common Shares; and

(B) the denominator of which shall be equal to the product of (I) the Current Market Price and (II) the number of Common Shares outstanding at the time such tender or exchange offer expires, including any purchased Common Shares.

Any adjustment made pursuant to this clause (vi) shall become effective immediately after 5:00 p.m., New York City time, on the 10th Trading Day immediately following the Expiration Date but will be given effect as of 9:00 a.m., New York City time, on the Expiration Date. In the event that the Corporation or one of its subsidiaries is obligated to purchase Common Shares pursuant to any such tender offer or exchange offer, but the Corporation or such subsidiary is permanently prevented by applicable law from effecting any such purchases, or all such purchases are rescinded, then each Fixed Conversation Rate shall be readjusted to be such Fixed Conversion Rate that would then be in effect if such tender offer or exchange offer had not been made. Except as set forth in the preceding sentence, if the application of this clause (vi) to any tender offer or exchange offer would result in a decrease in each Fixed Conversation Rate, no adjustment shall be made for such tender offer or exchange offer under this clause (vi). If an adjustment to each Fixed Conversion Rate is required pursuant to this clause (vi) during any settlement period or Early Conversion Settlement Period in respect of shares of Mandatory Convertible Preferred Stock that have been tendered for conversion, delivery of the related conversion consideration shall be delayed to the extent necessary in order to complete the calculations provided for in this clause (vi).

(vii) *Fair Market Value in Excess of Current Market Price.* Except with respect to a Spin-Off, in cases as to which Section 13(a)(iv) or Section 13(a)(v) applies where the Fair Market Value of the evidences of the Corporation's indebtedness, shares of capital stock, securities, rights to acquire the Corporation's capital stock, cash or other assets applicable to one Common Share distributed to holders of Common Shares equals or exceeds the Current Market Price (as determined for purposes of calculating the conversion rate adjustment pursuant to Section 13(a)(iv) or Section 13(a)(v)), rather than being entitled to an adjustment in each Fixed Conversion Rate, Holders shall be entitled to receive upon conversion, in addition to a number of Common Shares otherwise deliverable on the applicable Conversion Date, the kind and amount of the evidences of the Corporation's indebtedness, shares of capital stock, securities, rights to acquire the Corporation's capital stock, cash or other assets comprising the distribution that such Holder would have received if such Holder had owned immediately prior to the record date for determining the holders of Common Shares entitled to receive the distribution, for each share of Mandatory Convertible Preferred Stock, a number of Common Shares equal to the Maximum Conversion Rate in effect on the date of such distribution.

(viii) *Rights Plans*. To the extent that the Corporation has a rights plan in effect with respect to the Common Shares on any Conversion Date, upon conversion of any shares of Mandatory Convertible Preferred Stock, converting Holders shall receive, in addition to the Common Shares, the rights under such rights plan, unless, prior to such Conversion Date, the rights have separated from the Common Shares, in which case each Fixed Conversion Rate shall be adjusted at the time of separation of such rights as if the Corporation made a distribution to all holders of the Common Shares as described in Section 13(a)(iv), subject to readjustment in the event of the expiration, termination or redemption of such rights. Any distribution of rights or warrants pursuant to a rights plan that would allow Holders to receive upon conversion, in addition to any Common Shares, the rights described therein (unless such rights or warrants have separated from Common Shares) shall not constitute a distribution of rights or warrants that would entitle Holders to an adjustment to the Fixed Conversion Rates.

(b) *Adjustment for Tax Reasons*. The Corporation may make such increases in each Fixed Conversion Rate, in addition to any other increases required by this Section 13, as the Corporation deems advisable to avoid or diminish any income tax to holders of the Common Shares resulting from any dividend or distribution of Common Shares (or issuance of rights or warrants to acquire Common Shares) or from any event treated as such for income tax purposes or for any other reasons; *provided* that the same proportionate adjustment must be made to each Fixed Conversion Rate.

(c) *Calculation of Adjustments; Adjustments to Threshold Appreciation Price, Initial Price and Fundamental Change Share Price*.

(i) All adjustments to each Fixed Conversion Rate shall be calculated to the nearest 1/10,000th of a Common Share. Prior to the Mandatory Conversion Date, no adjustment in a Fixed Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least one percent therein. If any adjustment by reason of this Section 13(c)(i) is not required to be made, such adjustment shall be carried forward and taken into account in any subsequent adjustment; *provided*, however, that on the earlier of the Mandatory Conversion Date, an Acquisition Termination Redemption Date, an Early Conversion Date and a Fundamental Change Effective Date, adjustments to each Fixed Conversion Rate shall be made with respect to any such adjustment carried forward that has not been taken into account before such date.

(ii) If an adjustment is made to the Fixed Conversion Rates pursuant to Sections 13(a) or 13(b), an inversely proportional adjustment shall also be made to the Threshold Appreciation Price and the Initial Price solely for purposes of determining which of clauses (i), (ii) and (iii) of Section 7(b) shall apply on the Mandatory Conversion Date. Such adjustment shall be made by dividing each of the Threshold Appreciation Price and the Initial Price by a fraction, the numerator of which shall be either Fixed Conversion Rate immediately after such adjustment pursuant to Sections 13(a) or 13(b) and the denominator of which shall be such Fixed Conversion Rate immediately before such adjustment. Whenever any provision of the Statement with Respect to Shares requires the Corporation or the Board of Directors to calculate the VWAP per Common Share over a span of multiple days, the Board of Directors shall make appropriate adjustments (including, without limitation, to the Applicable Market Value, the Early Conversion Average Price, the Stock Price and the Average Price (as the case may be)) to account for any adjustments to the Initial Price, the Threshold Appreciation Price, the Floor Price and the Fixed Conversion Rates (as the case may be) that become effective, or any event that would require such an adjustment if the Ex-Date, Effective Date or Expiration Date (as the case may be) of such event occurs, during the relevant period used to calculate such prices or values (as the case may be).

(iii) If:

(A) the record date for a dividend or distribution on Common Shares occurs after the end of the 20 consecutive Trading Day period used for calculating the Applicable Market Value and before the Mandatory Conversion Date; and

(B) such dividend or distribution would have resulted in an adjustment of the number of Common Shares issuable to the Holders had such record date occurred on or before the last Trading Day of such 20 consecutive Trading Day period,

then the Corporation shall deem the Holders to be holders of record, for each share of their Mandatory Convertible Preferred Stock, of a number of Common Shares equal to the Mandatory Conversion Rate for purposes of that dividend or distribution. In this case, the Holders would receive the dividend or distribution on Common Shares together with the number of Common Shares issuable upon the Mandatory Conversion Date.

(iv) If an adjustment is made to the Fixed Conversion Rates pursuant to Sections 13(a) or 13(b), a proportional adjustment shall be made to each Fundamental Change Share Price column heading set forth in the table included in the definition of "Fundamental Change Conversion Rate" as of the day on which the Fixed Conversion Rates are so adjusted. Such adjustment shall be made by multiplying each Fundamental Change Share Price included in such table, applicable immediately prior to such adjustment, by a fraction, the numerator of which is the Minimum Conversion Rate immediately prior to the adjustment giving rise to such Fundamental Change Share Price adjustment, and the denominator of which is the Minimum Conversion Rate as so adjusted.

(v) No adjustment to the Fixed Conversion Rates shall be made if Holders may participate, at the same time, upon the same terms and otherwise on the same basis as holders of Common Stock and solely as a result of holding Mandatory Convertible Preferred Stock, in the transaction that would otherwise give rise to an adjustment as if they held, for each share of Mandatory Convertible Preferred Stock, a number of Common Shares equal to the Maximum Conversion Rate then in effect. In addition, the Fixed Conversion Rates shall not be adjusted:

(A) upon the issuance of any Common Shares pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on the Corporation's securities and the investment of additional optional amounts in Common Stock under any plan;

(B) upon the issuance of any Common Shares or rights or warrants to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by the Corporation or any of its subsidiaries;

(C) upon the issuance of any Common Shares pursuant to any option, warrant, right or exercisable, exchangeable or convertible security outstanding as of the Initial Issue Date;

(D) for a change solely in the par value of the Common Stock;

(E) for stock repurchases that are not tender offers, including structured or derivative transactions; or

(F) for accumulated and unpaid dividends on the Mandatory Convertible Preferred Stock, except as provided under Sections 7, 8 and 9.

(d) *Notice of Adjustment*. Whenever the Fixed Conversion Rates and the Fundamental Change Conversion Rates set forth in the table in the definition of "Fundamental Change Conversion Rate" are to be adjusted, the Corporation shall:

(i) compute such adjusted Fixed Conversion Rates and Fundamental Change Conversion Rates and prepare and transmit to the Transfer Agent an Officer's Certificate setting forth such adjusted Fixed Conversion Rates and Fundamental Change Conversion Rates, the method of calculation thereof in reasonable detail and the facts requiring such adjustment and upon which such adjustment is based;

(ii) as soon as practicable following the occurrence of an event that requires an adjustment to the Fixed Conversion Rates and the Fundamental Change Conversion Rates, provide, or cause to be provided, a written notice to the Holders of the occurrence of such event; and

(iii) within 10 Business Days following the determination of such adjusted Fixed Conversion Rates and Fundamental Change Conversion Rates provide, or cause to be provided, to the Holders a statement setting forth in reasonable detail the method by which the adjustments to the Fixed Conversion Rates and Fundamental Change Conversion Rates were determined and setting forth such adjusted Fixed Conversion Rates and Fundamental Change Conversion Rates.

(e) *Reorganization Events*. In the event of:

(i) any consolidation or merger of the Corporation with or into another Person (other than a merger or consolidation in which the Corporation is the continuing corporation and in which the Common Shares outstanding immediately prior to the merger or consolidation are not exchanged for cash, securities or other property of the Corporation or another Person);

(ii) any sale, transfer, lease or conveyance to another Person of all or substantially all of the property and assets of the Corporation;

(iii) any reclassification of Common Shares into securities including securities other than Common Shares; or

(iv) any statutory exchange of securities of the Corporation with another Person (other than in connection with a merger or acquisition),

in each case, as a result of which the Common Shares would be converted into, or exchanged for, securities, cash or other property (each, a "**Reorganization Event**"), each share of Mandatory Convertible Preferred Stock outstanding immediately prior to such Reorganization Event shall, without the consent of the Holders, become convertible into the kind of securities, cash and other property that such Holder would have been entitled to receive if such Holder had converted its Mandatory Convertible Preferred Stock into Common Shares immediately prior to such Reorganization Event (such securities, cash and other property, the "**Exchange Property**," with each "**Unit of Exchange Property**" meaning the kind and amount of such Exchange Property that a Holder of one Common Share is entitled to receive). For purposes of the foregoing, the type and amount of Exchange Property in the case of any Reorganization Event that causes the Common Stock to be converted into the right to receive more than a single type of consideration (determined based in part upon any form of shareholder election) shall be deemed to be the weighted average of the types and amounts of consideration received by the holders of Common Shares that affirmatively make such an election (or of all holders of Common Shares if none makes an election). The Corporation shall notify Holders of the weighted average as soon as practicable after such determination is made. The number of Units of Exchange Property for each share of Mandatory Convertible Preferred Stock converted following the effective date of such Reorganization Event shall be determined as if references in Section 7, Section 8 and Section 9 to Common Shares were to Units of Exchange Property (without any interest thereon and without any right to dividends or distributions thereon which have a record date that is prior to such Conversion Date, except as provided in Section 13(a)(vii), Section 13(c)(iii) and Section 13(c)(v)). For the purpose of determining which of clauses (i), (ii) and (iii) of Section 7(b) shall apply upon Mandatory Conversion, and for the purpose of calculating the Mandatory Conversion Rate if clause (ii) of Section 7(b) is applicable, the value of a Unit of Exchange Property shall be determined in good faith by the Board of Directors (which determination will be final), except that if a Unit of Exchange Property includes common stock or American Depositary Receipts ("**ADRs**") that are traded on a U.S. national securities exchange, the value of such common stock or ADRs shall be the average over the 20 consecutive Trading Day period ending on, and including, the third Trading Day immediately preceding the Mandatory Conversion Date of the volume weighted average prices for such common stock or ADRs, as displayed on the applicable Bloomberg screen (as determined in good faith by the Board of Directors (which determination will be final)); or, if such price is not available, the average market value per share of such common stock or ADRs over such period as determined, using a volume-weighted average method, by a nationally recognized independent investment banking firm retained by the Corporation for this purpose.

The above provisions of this Section 13(e) shall similarly apply to successive Reorganization Events and the provisions of Section 13 shall apply to any shares of capital stock or ADRs of the Corporation (or any successor thereto) received by the holders of Common Shares in any such Reorganization Event.

The Corporation (or any successor thereto) shall, as soon as reasonably practicable (but in any event within 20 calendar days) after the occurrence of any Reorganization Event, provide written notice to the Holders of such occurrence and of the kind and amount of the cash, securities or other property that constitute the Exchange Property. Failure to deliver such notice shall not affect the operation of this Section 13(e).

SECTION 14. *Transfer Agent, Registrar, and Conversion, Dividend Disbursing and Redemption Agent.* The duly appointed Transfer Agent and Registrar for the Mandatory Convertible Preferred Stock shall be Computershare Trust Company, N.A., and the Conversion Agent, Dividend Disbursing Agent, and Redemption Agent for the Mandatory Convertible Preferred Stock shall be Computershare Inc. The Corporation may, in its sole discretion, remove the Transfer Agent, Registrar or Conversion Agent, Dividend Disbursing Agent and Redemption Agent in accordance with the agreement between the Corporation and the Transfer Agent, Registrar or Conversion Agent, Dividend Disbursing Agent and Redemption Agent, as the case may be; *provided* that if the Corporation removes Computershare Trust Company, N.A. or Computershare Inc., the Corporation shall appoint a successor transfer agent, registrar or conversion, dividend disbursing and redemption agent, as the case may be, who shall accept such appointment prior to the effectiveness of such removal. Upon any such removal or appointment, the Corporation shall send notice thereof by first-class mail, postage prepaid, to the Holders.

SECTION 15. *Record Holders.* To the fullest extent permitted by applicable law, the Corporation and the Transfer Agent may deem and treat the Holder of any share of Mandatory Convertible Preferred Stock as the true and lawful owner thereof for all purposes.

SECTION 16. *Notices.* All notices or communications in respect of the Mandatory Convertible Preferred Stock shall be sufficiently given if given in writing and delivered in person or by first class mail, postage prepaid, or if given in such other manner as may be permitted in the Statement with Respect to Shares, in the Articles of Incorporation or the By-laws and by applicable law. Notwithstanding the foregoing, if shares of Mandatory Convertible Preferred Stock are represented by Global Preferred Shares, such notices may also be given to the Holders in any manner permitted by DTC or any similar facility used for the settlement of transactions in the shares of Mandatory Convertible Preferred Stock.

SECTION 17. *No Preemptive Rights.* The Holders shall have no preemptive or preferential rights to purchase or subscribe for any stock, obligations, warrants or other securities of the Corporation of any class.

SECTION 18. *Other Rights.* The shares of the Mandatory Convertible Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Articles of Incorporation or as provided by applicable law.

SECTION 19. *Share Certificates.*

(a) Shares of Mandatory Convertible Preferred Stock shall initially be represented by share certificates substantially in the form set forth as Exhibit A hereto.

(b) Share certificates representing shares of the Mandatory Convertible Preferred Stock shall be signed in accordance with the By-laws and applicable Pennsylvania law, by manual or facsimile signature.

(c) A share certificate representing shares of the Mandatory Convertible Preferred Stock shall not be valid until manually countersigned by an authorized signatory of the Transfer Agent and Registrar. Each share certificate representing shares of the Mandatory Convertible Preferred Stock shall be dated the date of its countersignature.

(d) If any Officer of the Corporation who has signed a share certificate no longer holds that office at the time the Transfer Agent and Registrar countersigns the stock certificate, the share certificate shall be valid nonetheless.

(e) The Corporation may at its option issue shares of Mandatory Convertible Preferred Stock without certificates under the circumstances specified in Section 21(d).

SECTION 20. *Replacement Certificates*.

(a) If physical certificates are issued, and any of the Mandatory Convertible Preferred Stock certificates shall be mutilated, lost, stolen or destroyed, the Corporation shall, at the expense of the Holder, issue, in exchange and in substitution for and upon cancellation of the mutilated Mandatory Convertible Preferred Stock certificate, or in lieu of and substitution for the Mandatory Convertible Preferred Stock certificate lost, stolen or destroyed, a new Mandatory Convertible Preferred Stock certificate of like tenor and representing an equivalent Liquidation Preference of Mandatory Convertible Preferred Stock, but only upon receipt of evidence of such loss, theft or destruction of such Mandatory Convertible Preferred Stock certificate and indemnity, if requested, reasonably satisfactory to the Corporation and the Transfer Agent.

(b) The Corporation is not required to issue any certificate representing the Mandatory Convertible Preferred Stock on or after the Mandatory Conversion Date. In lieu of the delivery of a replacement certificate following the Mandatory Conversion Date, the Transfer Agent, upon delivery of the evidence and indemnity described above, shall deliver the Common Shares issuable and any cash deliverable pursuant to the terms of the Mandatory Convertible Preferred Stock formerly evidenced by the certificate.

SECTION 21. *Book Entry Form.*

(a) Shares of Mandatory Convertible Preferred Stock shall be issued in global form ("**Global Preferred Shares**") eligible for book-entry settlement with the Depositary, represented by one or more stock certificates in global form registered in the name of the Depositary or a nominee of the Depositary bearing the form of global securities legend set forth in Exhibit A. The aggregate number of shares of Mandatory Convertible Preferred Stock represented by each stock certificate representing Global Preferred Shares may from time to time be increased or decreased by a notation by the Registrar and Transfer Agent on Schedule I attached to the stock certificate.

(b) Members of, or participants in, the Depositary ("**Agent Members**") shall have no rights under the Statement with Respect to Shares, with respect to any Global Preferred Shares, and the Depositary shall be treated by the Corporation, the Registrar and any agent of the Corporation or the Registrar as the absolute owner of the Mandatory Convertible Preferred Stock held as Global Preferred Shares. Notwithstanding the foregoing, nothing herein shall prevent the Corporation, the Registrar or any agent of the Corporation or the Registrar from giving effect to any written certification, proxy or other authorization furnished by the Depositary or impair, as between the Depositary and its Agent Members, the operation of customary practices of the Depositary governing the exercise of the rights of a holder of a beneficial interest in any shares of Mandatory Convertible Preferred Stock. The Holders may grant proxies or otherwise authorize any Person to take any action that a Holder is entitled to take pursuant to the Mandatory Convertible Preferred Stock, the Statement with Respect to Shares, or the Articles of Incorporation.

(c) Transfers of a Global Preferred Share shall be limited to transfers of such Global Preferred Share in whole, but not in part, to nominees of the Depositary or to a successor of the Depositary or such successor's nominee.

(d) If DTC is at any time unwilling or unable to continue as Depositary for the Global Preferred Shares or DTC ceases to be registered as a "clearing agency" under the Exchange Act, and in either case a successor Depositary is not appointed by the Corporation within 90 days, the Corporation shall issue certificated shares in exchange for the Global Preferred Shares or otherwise provide for alternate book-entry arrangements with respect to the Mandatory Convertible Preferred Stock. In any such case, the Global Preferred Shares shall be exchanged in whole for definitive stock certificates, in substantially the form attached hereto as Exhibit A, representing an equal aggregate Liquidation Preference or otherwise exchanged pursuant to such alternate book-entry arrangements providing for beneficial interests of an equal aggregate Liquidation Preference. If definitive stock certificates are issued pursuant to this Section 21(d), such definitive stock certificates shall be registered in the name or names of the Person or Persons specified by DTC in a written instrument to the Registrar.

SECTION 22. *Miscellaneous*

(a) The Corporation shall pay any and all stock transfer and documentary stamp taxes that may be payable in respect of any issuance or delivery of shares of Mandatory Convertible Preferred Stock or Common Shares or other securities issued on account of shares of Mandatory Convertible Preferred Stock pursuant hereto or certificates representing such shares or securities. The Corporation shall not, however, be required to pay any such tax that may be payable in respect of any transfer involved in the issuance or delivery of Common Shares or other securities in a name other than that in which the shares of Mandatory Convertible Preferred Stock with respect to which such shares or other securities are issued or delivered were registered, and shall not be required to make any such issuance or delivery unless and until the Person otherwise entitled to such issuance or delivery has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid or is not payable.

(b) The Liquidation Preference and the Dividend Rate each shall be subject to equitable adjustment whenever there shall occur a stock split, combination, reclassification or other similar event involving the Mandatory Convertible Preferred Stock. Such adjustments shall be determined in good faith by the Board of Directors and submitted by the Board of Directors to the Transfer Agent.

Exhibit A

[FORM OF FACE OF CLASS B MANDATORY CONVERTIBLE PREFERRED STOCK, SERIES 1 CERTIFICATE]

[INCLUDE FOR GLOBAL PREFERRED SHARES]

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("**DTC**"), TO THE CORPORATION OR THE TRANSFER AGENT NAMED ON THE FACE OF THIS CERTIFICATE, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO., OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO. HAS AN INTEREST HEREIN. TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE.

Certificate Number [ ]	[Initial] Number of shares of Mandatory Convertible Preferred Stock: [ ]
CUSIP: [ADD]	ISIN: [ADD]

Alcoa Inc.

5.375% Class B Mandatory Convertible Preferred Stock, Series 1 (par value $1.00 per share) (Liquidation Preference as specified below)

Alcoa, Inc., a Pennsylvania corporation (the "**Corporation**"), hereby certifies that [ ] (the "**Holder**"), is the registered owner of [ ]][the number shown on Schedule I hereto of] fully paid and non-assessable shares of the Corporation's designated 5.375% Class B Mandatory Convertible Preferred Stock, Series 1, with a par value of $1.00 per share and a Liquidation Preference of $500 per share (the "**Mandatory Convertible Preferred Stock**"). Shares of Mandatory Convertible Preferred Stock are transferable on the books and records of the Registrar, in person or by a duly authorized attorney, upon surrender of this certificate duly endorsed and in proper form for transfer. The designations, rights, privileges, restrictions, preferences and other terms and provisions of the shares of Mandatory Convertible Preferred Stock represented hereby are and shall in all respects be subject to the provisions of the Statement with Respect to Shares establishing the terms of the 5.375% Mandatory Convertible Preferred Stock of Alcoa Inc. dated September 22, 2014, as the same may be amended from time to time (the "**Statement with Respect to Shares**"), and the other provisions of the Articles of Incorporation of Alcoa Inc., as the same may be amended from time to time. Capitalized terms used herein but not defined shall have the meaning given them in the Statement with Respect to Shares. The Corporation will provide a copy of the Statement with Respect to Shares and the Articles of Incorporation to the Holder without charge upon written request to the Corporation at its principal place of business.

Reference is hereby made to the provisions of the Mandatory Convertible Preferred Stock set forth on the reverse hereof and in the Statement with Respect to Shares and the Articles of Incorporation, which provisions shall for all purposes have the same effect as if set forth at this place.

Upon receipt of this executed certificate, the Holder is bound by the Statement with Respect to Shares and the Articles of Incorporation and is entitled to the benefits thereunder.

Unless the Transfer Agent and Registrar have properly countersigned, these shares of Mandatory Convertible Preferred Stock shall not be entitled to any benefit under the Statement with Respect to Shares or the Articles of Incorporation or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, this certificate has been executed on behalf of the Corporation by two Officers of the Corporation this [ ] of [ ] [ ].

Alcoa Inc.

By: ______________________________
Name:
Title:

By: ______________________________
Name:
Title:

COUNTERSIGNATURE

These are shares of the Mandatory Convertible Preferred Stock referred to in the within-mentioned Statement with Respect to Shares.

Dated: [ ], [ ]

[Computershare Trust Company, N.A..], as Registrar and
Transfer Agent

By: ______________________________
Name:
Title:

[FORM OF REVERSE OF CERTIFICATE FOR MANDATORY CONVERTIBLE PREFERRED STOCK]

Cumulative dividends on each share of Mandatory Convertible Preferred Stock shall be payable at the applicable rate provided in the Statement with Respect to Shares.

The Mandatory Convertible Preferred Stock shall be convertible in the manner and accordance with the terms set forth in the Statement with Respect to Shares.

The Corporation shall furnish without charge to each Holder who so requests a statement of the designations, voting rights, preferences, limitations, and special rights of the shares of each class or series authorized to be issued so far as they have been fixed and the authority of the board of directors to fix and determine the designations, voting rights, preferences, limitations, and special rights of the classes and series of shares of the corporation.

NOTICE OF CONVERSION

(To be Executed by the Holder
in order to Convert the Mandatory Convertible Preferred Stock)

The undersigned hereby irrevocably elects to convert (the "**Conversion**") [ ] shares of 5.375% Class B Mandatory Convertible Preferred Stock, Series 1 (the "**Mandatory Convertible Preferred Stock**"), of Alcoa, Inc. (hereinafter called the "**Corporation**"), represented by stock certificate No(s). [ ] (the "**Mandatory Convertible Preferred Stock Certificates**"), into shares of the common stock, par value $1.00 per share, of the Corporation (the "**Common Stock**") according to the conditions of the Statement with Respect to Shares establishing the terms of Mandatory Convertible Preferred Stock (the "**Statement with Respect to Shares**"), as of the date written below. If shares of Common Stock are to be issued in the name of a person other than the undersigned, the undersigned shall pay all transfer taxes payable with respect thereto, if any. Each Mandatory Convertible Preferred Stock Certificate (or evidence of loss, theft or destruction thereof) is attached hereto.

Capitalized terms used but not defined herein shall have the meanings ascribed thereto in or pursuant to the Statement with Respect to Shares.

Date of Conversion: ______________________________

Applicable Conversion Rate: ______________________

Number of shares of Mandatory Convertible Preferred Stock to be Converted: __________

Number of Shares of Common Stock to be Issued:* ________________

Signature: ____

Name: ____

Address:** _______________________________________

____

____

Fax No.: ____

* The Corporation is not required to issue shares of Common Stock until the original Mandatory Convertible Preferred Stock Certificate(s) (or evidence of loss, theft or destruction thereof) to be converted are received by the Corporation or the Conversion and Dividend Disbursing Agent.

** Address where shares of Common Stock and any other payments or certificates shall be sent by the Corporation.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned assigns and transfers the shares of Mandatory Convertible Preferred Stock evidenced hereby to:

(Insert assignee's social security or taxpayer identification number, if any)

(Insert address and zip code of assignee)

and irrevocably appoints:

as agent to transfer the shares of Mandatory Convertible Preferred Stock evidenced hereby on the books of the Transfer Agent. The agent may substitute another to act for him or her.

Date:

Signature: ________________________________

(Sign exactly as your name appears on the other side of this Certificate)

Signature Guarantee: ________________________

(Signature must be guaranteed by an "eligible guarantor institution" that is a bank, stockbroker, savings and loan association or credit union meeting the requirements of the Transfer Agent, which requirements include membership or participation in the Securities Transfer Agents Medallion Program ("**STAMP**") or such other "signature guarantee program" as may be determined by the Transfer Agent in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.)

Schedule I[1]

Alcoa Inc.

Global Preferred Share
5.375% Class B Mandatory Convertible Preferred Stock, Series 1

Certificate Number:

The number of shares of Mandatory Convertible Preferred Stock initially represented by this Global Preferred Share shall be [ ]. Thereafter the Transfer Agent and Registrar shall note changes in the number of shares of Mandatory Convertible Preferred Stock evidenced by this Global Preferred Share in the table set forth below:

Amount of Decrease in Number of Shares Represented by this Global Preferred Share	Amount of Increase in Number of Shares Represented by this Global Preferred Share	Number of Shares Represented by this Global Preferred Share following Decrease or Increase	Signature of Authorized Officer of Transfer Agent and Registrar

1 Attach Schedule I only to Global Preferred Shares.

Exhibit 10(c)

AMENDMENT TO ALCOA INC.
EMPLOYEES' EXCESS BENEFITS PLAN C

Pursuant to Section 5.1 of the Alcoa Inc. Employees' Excess Benefits Plan C ("Plan"), the Plan is amended effective September 1, 2014, as follows:

1. A new Section 2.9 shall be added to the Plan to allow the Company, in its sole and absolute discretion, to require that participants take distributions of balances in the Plan where the present value of a Participant's nonqualified benefits under all nonqualified defined benefit plans of the Company, not otherwise payable under the provisions of the Plan, shall be equal to or less than the Internal Revenue Code Section 402(g) limit, as follows:

> "2.9 Notwithstanding any provision to the contrary in this Plan, if at any time the present value of a Participant's nonqualified benefits under all nonqualified defined benefit plans of the Company, not otherwise payable under the provisions of the Plan, shall be equal to or less than the Internal Revenue Code Section 402(g) limit in effect at the time of any payment event (for 2014, $17,500 or less and as adjusted from time to time by the Internal Revenue Service), the Company may, in the sole and absolute discretion of the Company, elect to distribute the entire benefit to the Participant in the form of a lump sum payment, *in lieu* of any other benefit payable under the Plan. The present value shall be determined by the Company, in the Company's sole and absolute discretion, using reasonable actuarial assumptions. The distribution of the lump sum shall be made as soon as reasonably practicable, but no later than ninety (90) days after a payment event or two and one-half (2 ½) months after the year of the payment event, whichever is later. This payment shall extinguish any and all liability under this Plan and any and all the plans from which the lump sum is provided."

2. In all other respects, the Plan is ratified and confirmed.

Exhibit 10(d)

AMENDMENT TO ALCOA
SUPPLEMENTAL PENSION PLAN FOR SENIOR EXECUTIVES

Pursuant to Section 5.1 of the Alcoa Supplemental Pension Plan for Senior Executives ("Plan"), the Plan is amended effective September 1, 2014, as follows:

1. A new Section 2.6 shall be added to the Plan to allow the Company, in its sole and absolute discretion, to require that participants take distributions of balances in the Plan where the present value of a Participant's nonqualified benefits under all nonqualified defined benefit plans of the Company, not otherwise payable under the provisions of the Plan, shall be equal to or less than the Internal Revenue Code Section 402(g) limit, as follows:

> "2.6 Notwithstanding any provision to the contrary in this Plan, if at any time the present value of a Participant's nonqualified benefits under all nonqualified defined benefit plans of the Company, not otherwise payable under the provisions of the Plan, shall be equal to or less than the Internal Revenue Code Section 402(g) limit in effect at the time of any payment event (for 2014, $17,500 or less and as adjusted from time to time by the Internal Revenue Service), the Company may, in the sole and absolute discretion of the Company, elect to distribute the entire benefit to the Participant in the form of a lump sum payment, *in lieu* of any other benefit payable under the Plan. The present value shall be determined by the Company, in the Company's sole and absolute discretion, using reasonable actuarial assumptions. The distribution of the lump sum shall be made as soon as reasonably practicable, but no later than ninety (90) days after a payment event or two and one-half (2 ½) months after the year of the payment event, whichever is later. This payment shall extinguish any and all liability under this Plan and any and all the plans from which the lump sum is provided."

2. In all other respects, the Plan is ratified and confirmed.

Exhibit 10(e)

AMENDMENT TO REYNOLDS METALS COMPANY
BENEFIT RESTORATION PLAN
FOR NEW RETIREMENT PROGRAM

Pursuant to Section 6 of the Reynolds Metals Company Benefit Restoration Plan For New Retirement Program (“Plan”), the Plan is amended effective September 1, 2014, as follows:

1. A new Section 4.04 shall be added to the Plan to allow the Employer or its delegate, including but not limited to the Benefits Management Committee of Alcoa Inc., in its sole and absolute discretion, to require that participants take distributions of balances in the Plan where the present value of a Participant’s nonqualified benefits under all nonqualified defined benefit plans of the Alcoa Inc., not otherwise payable under the provisions of the Plan, shall be equal to or less than the Internal Revenue Code Section 402(g) limit, as follows:

> “4.04 Notwithstanding any provision to the contrary in this Plan, if at any time the present value of a Participant’s nonqualified benefits under all nonqualified defined benefit plans of Alcoa Inc. and all members of its controlled group of corporations, not otherwise payable under the provisions of the Plan, shall be equal to or less than the Internal Revenue Code Section 402(g) limit in effect at the time of any payment event (for 2014, $17,500 or less and as adjusted from time to time by the Internal Revenue Service), the Employer or its delegate, including but not limited to the Benefits Management Committee of Alcoa Inc., may, in its sole and absolute discretion, elect to distribute the entire benefit to the Participant in the form of a lump sum payment, *in lieu* of any other benefit payable under the Plan. The present value shall be determined by the Employer or its delegate, including but not limited to the Benefits Management Committee of Alcoa Inc., in its sole and absolute discretion, using reasonable actuarial assumptions. The distribution of the lump sum shall be made as soon as reasonably practicable, but no later than ninety (90) days after a payment event or two and one-half (2 ½) months after the year of the payment event, whichever is later. This payment shall extinguish any and all liability under this Plan and any and all the plans from which the lump sum is provided.”

2. In all other respects, the Plan is ratified and confirmed.

Alcoa and subsidiaries
Computation of Ratio of Earnings to Fixed Charges
(in millions, except ratio)

Nine months ended September 30,	2014
Earnings:	
Income before income taxes	$263
Noncontrolling interests' share of earnings of majority-owned subsidiaries without fixed charges	—
Equity loss	22
Fixed charges added to earnings	380
Distributed income of less than 50 percent-owned persons	66
Amortization of capitalized interest:	
Consolidated	36
Proportionate share of 50 percent-owned persons	—
Total earnings	$767
Fixed Charges:	
Interest expense:	
Consolidated	$351
Proportionate share of 50 percent-owned persons	—
	$351
Amount representative of the interest factor in rents:	
Consolidated	$ 29
Proportionate share of 50 percent-owned persons	—
	$ 29
Fixed charges added to earnings	$380
Interest capitalized:	
Consolidated	$ 41
Proportionate share of 50 percent-owned persons	—
	$ 41
Preferred stock dividend requirements of majority-owned subsidiaries	—
Total fixed charges	$421
Ratio of earnings to fixed charges	1.8

Exhibit 15

October 23, 2014

Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

RE: Alcoa Inc.

Commissioners:

We are aware that our report dated October 23, 2014, on our review of interim financial information of Alcoa Inc. and its subsidiaries (Alcoa) for the three- and nine-month periods ended September 30, 2014 and 2013 and included in Alcoa's quarterly report on Form 10-Q for the quarter ended September 30, 2014 is incorporated by reference in its Registration Statements on Form S-3 (No. 333-197371) and Form S-8 (Nos. 33-60305, 333-27903, 333-62663, 333-79575, 333-32516, 333-36208, 333-37740, 333-39708, 333-106411, 333-128445, 333-146330, 333-153369, 333-155668, 333-159123, 333-168428, 333-170801, 333-182899, and 333-189882).

Very truly yours,

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania

Exhibit 31

Certifications

I, Klaus Kleinfeld, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: October 23, 2014

/s/ KLAUS KLEINFELD

Name: Klaus Kleinfeld
Title: Chairman and Chief Executive Officer

I, William F. Oplinger, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: October 23, 2014

/s/ WILLIAM F. OPLINGER

Name: William F. Oplinger

Title: Executive Vice President and Chief Financial Officer

Exhibit 32

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Alcoa Inc., a Pennsylvania corporation (the "Company"), does hereby certify that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 (the "Form 10-Q") 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-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 23, 2014

/s/ KLAUS KLEINFELD
Name: Klaus Kleinfeld
Title: Chairman and Chief Executive Officer

Date: October 23, 2014

/s/ WILLIAM F. OPLINGER
Name: William F. Oplinger
Title: Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.

MINE SAFETY

At Alcoa, management strives to work safely in a manner that protects and promotes the health and well-being of the Company's employees, contractors, and the communities in which Alcoa operates because it is fundamentally the right thing to do. Despite uncertainties and economic challenges, Alcoa remains committed to living its values and managing risks accordingly. In 2013, 42.4% of Alcoa's global locations reported no recordable injuries, and 84.2% reported zero lost workdays. In Alcoa's 2013 Employee Global Voices Survey, "If I see a situation that is unsafe, I can stop work" received the highest overall rating (at 91% favorable) by employees participating in the survey.

Alcoa's health and safety systems are anchored by committed people who are actively engaged and effectively support a safe work environment, safe work methods, and overall production system stability. Each day, people at all levels proactively monitor and intervene to defend against weaknesses that develop in Alcoa's safety systems by identifying potential hazards and error-likely situations and responding to eliminate or control them.

In the table below, there are disclosures involving the Point Comfort, TX alumina refinery. All citations have been or are being addressed. None constituted an imminent danger.

Dodd-Frank Act Disclosure of Mine Safety and Health Administration Safety Data

Certain of Alcoa's U.S. facilities are subject to regulation by the Mine Safety and Health Administration (MSHA) under the U.S. Federal Mine Safety and Health Act of 1977 (the "Mine Act"). The MSHA inspects these facilities on a regular basis and issues various citations and orders when it believes a violation has occurred under the Mine Act. Whenever the MSHA issues a citation or order, it also generally proposes a civil penalty, or fine, related to the alleged violation. Citations or orders can be contested and appealed, and as part of that process, are often reduced in severity and amount, and are sometimes dismissed.

Management believes the following mine safety disclosures meet the requirements of section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

Mine Safety Data. The table and other data below present mine safety information related to Alcoa's U.S. facilities subject to MSHA regulation, as required by section 1503(a)(1) of the Dodd-Frank Act. The following data reflects citations and orders received from the MSHA during the quarter ended September 30, 2014, as reflected in the MSHA system on September 30, 2014, and the proposed penalties received from the MSHA during such period. ($ in full amounts)

Mine or Operating Name/MSHA Identification Number(1)	Section 104 S&S Citations(3) (#)	Section 104(b) Orders(4) (#)	Section 104(d) Citations and Orders(5) (#)	Section 110(b)(2) Violations(6) (#)	Section 107(a) Orders(7) (#)	Total Dollar Value of MSHA Assessments Proposed(8) ($)	Total Number of Mining Related Fatalities (#)	Received Notice of Pattern of Violations Under Section 104(e) (yes/no)	Received Notice of Potential to Have Pattern Under Section 104(e)(9) (yes/no)	Legal Actions Pending as of Last Day of Period (#)	Legal Actions Initiated During Period (#)	Legal Actions Resolved During Period (#)
Point Comfort, TX Alumina Refinery(2)	3	—	3	—	—	$ 146,960	—	no	no	6	5	7

(1) The MSHA assigns an identification number to each mine or operation and may or may not assign separate identification numbers to related facilities. The information provided in this table is presented by mine or operation rather than the MSHA identification number because that is how Alcoa manages and operates its business, and management believes that this presentation is more useful to investors.
(2) Under the Interagency Agreement dated March 29, 1979 between the MSHA, the U.S. Department of Labor, and The Occupational Safety and Health Administration, alumina refineries (such as Alcoa's Point Comfort facility) are subject to MSHA jurisdiction.
(3) Represents the total number of citations issued under section 104 of the Mine Act, for violations of mandatory health or safety standards that could significantly and substantially contribute to a serious injury if left unabated. This includes the citations listed under the column headed §104(d).
(4) Represents the total number of orders issued under section 104(b) of the Mine Act, which represents a failure to abate a citation under section 104(a) within the period prescribed by the MSHA. This results in an order of immediate withdrawal from the area of the mine affected by the condition until the MSHA determines that the violation has been abated.
(5) Represents the total number of citations and orders issued under section 104(d) of the Mine Act for unwarrantable failure to comply with mandatory health or safety standards.
(6) Represents the total number of flagrant violations identified under section 110(b)(2) of the Mine Act.
(7) Represents the total number of imminent danger orders issued under section 107(a) of the Mine Act.
(8) Amounts represent the total dollar value of proposed assessments received.
(9) On September 24, 2014, MSHA notified Alcoa that it had decided to postpone issuance of a pattern of violations notice to Alcoa's facility in Point Comfort, Texas because of Alcoa's recent corrective actions and safety improvements.

During the quarter ended September 30, 2014, Alcoa had no mining related fatalities, and none of the Company's mining operations received written notice from the MSHA of a pattern of, or the potential to have a pattern of, violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of mine health or safety hazards under section 104(e) of the Mine Act.

The Federal Mine Safety and Health Review Commission (the "Commission") is an independent adjudicative agency that provides administrative trial and appellate review of legal disputes arising under the Mine Act. As of September 30, 2014, Alcoa has a total of six matters pending before the Commission. All of these matters concern contests of citations or orders issued under section 104 of the Mine Act. Of the six matters pending before the Commission, four concern citations issued in 2014 and two concern citations issued in 2013.