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

FORM 10-K

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

For the fiscal year ended December 31, 2002

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.)**
201 Isabella Street, Pittsburgh, Pennsylvania **(Address of principal executive offices)**	**15212-5858** **(Zip code)**

Registrant's telephone numbers:

Investor Relations (212) 836-2674
Office of the Secretary (412) 553-4707

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☑ No ☐.

The aggregate market value of the outstanding common stock, other than shares held by persons who may be deemed affiliates of the registrant, as of the last business day of the registrant's most recently completed second fiscal quarter was approximately $28 billion. As of January 13, 2003, there were 844,925,354 shares of common stock, par value $1.00 per share, of the registrant outstanding.

Documents incorporated by reference.

Parts I, II and IV of this Form 10-K incorporate by reference certain information from the registrant's 2002 Annual Report to Shareholders (Annual Report). Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement dated February 20, 2003 (Proxy Statement).

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Note on Incorporation by Reference

In this Form 10-K, selected items of information and data are incorporated by reference to portions of the Annual Report. Any reference in this report to disclosures in the Annual Report shall constitute incorporation by reference of that specific disclosure into this Form 10-K.

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ALCOA INC.

Formed in 1888 under the laws of the Commonwealth of Pennsylvania, Alcoa Inc. has its registered office in Pittsburgh, Pennsylvania. In this report, unless the context otherwise requires, Alcoa or the “company” means Alcoa Inc. and all subsidiaries consolidated for the purposes of its financial statements.

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

PART I

Item 1. Business.

Description of the Business

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

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Structure of Certain Operations

The company's Alumina and Chemicals segment primarily consists of a series of affiliated operating entities referred to as Alcoa World Alumina and Chemicals (AWAC). Generally, Alcoa owns 60% and Alumina Limited (formerly WMC Limited) owns 40% of these entities. In December 2002, WMC Limited (WMC), an Australian mining and minerals processing company, demerged into two separate listed companies, Alumina Limited and WMC Resources Ltd. Alumina Limited is the successor to WMC for holding WMC's interest in AWAC. For more information on AWAC, see Exhibit Nos. 10(a) through 10(e) to this report.

Alcoa owns 59.1% of Alcoa Aluminio S.A. (Aluminio), an integrated aluminum producer in Brazil. Aluminio operates mining, refining, smelting and fabricated products facilities at various locations in Brazil. The remaining 40.9% of Aluminio is principally held through direct and indirect ownership by companies controlled by the Camargo Correa Group, a leading contractor and industrial conglomerate in Brazil.

Bauxite Interests

Aluminum is one of the most plentiful metals in the earth's crust. Aluminum is produced primarily from bauxite, an ore containing aluminum in the form of aluminum oxide, commonly referred to as alumina. Aluminum is made by extracting alumina from bauxite and then removing oxygen from the alumina. Alcoa processes most of the bauxite that it mines into alumina. The company obtains bauxite from reserves held by AWAC, from the company's interests in Brazil, and under both long-term and short-term contracts and mining leases. In 2002, Alcoa consumed 30.3 million metric tons (mt) of bauxite from its own reserves, 5.7 million mt from related third parties and 1.5 million mt from unrelated third parties. Alcoa's present sources of bauxite are sufficient to meet the forecasted requirements of its alumina refining operations for the foreseeable future. The following table provides information regarding the company's bauxite interests:

Alcoa Active[1] Bauxite Interests

Country	Project	Holder of Mining Rights (% Held)	Expiration Date of Mining Rights
Australia	Darling Range Mines	Alcoa of Australia Limited (AofA)[2] (100%)	2044
Brazil	Poços de Caldas	Aluminio (100%)	2017[3]
Guinea	Bôke	Compagnie des Bauxites de Guinea (CBG)[4] (100%)	2038[5]
Jamaica	Clarendon/Manchester Plateau	Alcoa Minerals of Jamaica, L.L.C.[6] (50%) Clarendon Alumina Production, Ltd.[7] (50%)	2031[8]
Suriname	Lelydorp	BHP Billiton (76%) Suriname Aluminum Company, L.L.C.[5] (24%)	2032[9]
	Coermotibo	Suriname Aluminum Company, L.L.C. (100%)	2032[9]

[1] Alcoa also has interests at the following locations that are bauxite reserves or do not currently produce bauxite: Cape Bougainville and Mitchell Plateau (Australia), Juruti (Brazil), and Kaimangrasi, Klaverblad, Brownsberg, Lely Mountains, and Nassau (eastern Suriname). Aluminio holds an 8.6% interest, Abalco S.A. (Abalco) holds a 4.6% interest and Alcoa World Alumina LLC (AWA LLC) holds a 5% interest in Mineração Rio do Norte S.A. (MRN), a mining company jointly owned with affiliates of Alcan Inc. (Alcan), Companhia Brasileira de Aluminio, Companhia Vale do Rio Doce, BHP Billiton Plc (BHP Billiton) and Norsk Hydro. MRN owns the Trombetas bauxite-mining project in Brazil. Aluminio and Abalco purchase bauxite from MRN under long-term supply contracts. AWA LLC has agreed to purchase bauxite from the Trombetas project through 2019. In July 2002, Alcoa sold its remaining investment (non-voting preferred

stock) in a bauxite-mining project called Aroaima Bauxite Company Ltd. in the Berbice region of Guyana to a Guyanese government entity.

[2] AofA is part of the AWAC group of companies and is owned 60% by Alcoa International Holdings Company, 39.25% by Alumina Limited, 0.5% by QBE Investments Pty Ltd., and 0.25% by QBE Nominees Pty Ltd.

[3] Brazilian mineral legislation does not establish the duration of mining concessions. The concession remains in force until the complete exhaustion of the deposit. Based on proven bauxite reserves and the currently anticipated needs of the Poços de Caldas alumina refinery, Aluminio estimates that the concessions will last at least until 2017. Depending, however, on the refinery's actual and future needs, the rate at which the deposits are explored and government approval, the concessions may be extended to (or expire at) a later (or an earlier) date.

[4] AWA LLC owns a 43% interest in Halco (Mining), Inc. Halco owns 51% and the Guinean government owns 49% of CBG, which has the exclusive right through 2038 to develop and mine bauxite in a 10,000 square-mile area in northwestern Guinea.

[5] Alcoa has a bauxite purchase contract with CBG that will provide Alcoa with bauxite through 2011.

[6] This entity is part of the AWAC group of companies and therefore is controlled by Alcoa.

[7] Clarendon Alumina Production Ltd. is a wholly-owned subsidiary of the government of Jamaica.

[8] This mining lease will be extended to a 40-year term beginning upon completion of the expansion of the Jamalco alumina refinery referred to in footnote 5 to the Alumina Refining Capacity table below. A new 40-year special mining lease also will be granted as of the completion of this expansion to support the needs of the expanded refinery.

[9] While mining rights extend until 2032, bauxite reserves proven to date extend until 2023.

Alumina Refining Facilities and Capacity

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

Alumina Refining Capacity

Country	Facility	Owners (% of Ownership)	Nameplate Capacity[1] (000 MTPY)	Alcoa Consolidated Capacity[2] (000 MTPY)
Australia	Kwinana	AofA[3] (100%)	2,000	2,000
	Pinjarra	AofA (100%)	3,400	3,400
	Wagerup	AofA (100%)	2,300	2,300
Brazil	Poços de Caldas	Aluminio (100%)	300	300
	Alumar	Abalco[3] (18.9%) Alcan[4] (10%) Aluminio (35.1%) BHP Billiton[4] (36%)	1,330	718
Jamaica	Jamalco[5]	Alcoa Minerals of Jamaica, L.L.C.[3] (50%) Clarendon Alumina Production, Ltd. (50%)	1,000	500
Spain	San Ciprián	Alúmina Española, S.A.[3] (100%)	1,330	1,330
Suriname	Suralco	BHP Billiton[4] (45%) Suriname Aluminum Company, L.L.C.[3] (55%)	1,900	1,045
U.S.	Point Comfort, Tex.	AWA LLC[3] (100%)	2,305	2,305
TOTAL			15,865	13,898

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

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

[3] This entity is part of the AWAC group of companies and therefore is controlled by Alcoa.

[4] The named company or an affiliate holds this interest.

[5] In April 2002, Alcoa and the government of Jamaica announced an agreement to invest $115 million to expand the Jamalco refinery and increase its capacity by 25% making it a 1.25 million mt per year (mtpy) refinery. The government also agreed to removal of the levy on bauxite from Jamalco upon completion of the expansion. Alcoa anticipates the levy will be removed in 2003.

In October 2002, Alcoa and BHP Billiton signed a non-binding letter of intent (LOI) formalizing cooperation on various mining and refining opportunities in Suriname. The LOI covers the continuation of mining and refining of bauxite in eastern Suriname beyond the existing term of the joint venture agreement (2006). The LOI also contemplates a 250,000 mtpy expansion to be commenced in 2003 at the existing 1.95 million mtpy refinery, and exploration over the next two years of bauxite mining and refining opportunities in western Suriname. Alcoa and BHP Billiton plan to own 55% and 45%, respectively, of all bauxite and alumina joint venture interests in Suriname, which is the current arrangement at the existing refinery.

In January 2003, Alcoa and BHP Billiton also signed a Memorandum of Understanding (MOU) with the government of Suriname providing for various exploration and other activities over the next two years relating to the feasibility of bauxite and alumina investment in western Suriname. Under the MOU, Alcoa and BHP Billiton have exclusive rights in western Suriname and have committed to spend up to $8.5 million over the next 21-25 months to investigate this opportunity, shared 55% (Alcoa) and 45% (BHP Billiton). The MOU provides that Alcoa and BHP Billiton will negotiate an investment agreement with the government within 18 months.

Primary Aluminum Facilities and Capacity

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

Alcoa Worldwide Smelting Capacity

Country	Facility	Owners (% Of Ownership)	Nameplate Capacity[1] (000 MTPY)	Alcoa Consolidated Capacity[2] (000 MTPY)
Australia	Point Henry	AofA (100%)	185	185
	Portland	AofA (55%) CITIC (22.5%) Marubeni (22.5%)	345	190
Brazil	Poços de Caldas	Aluminio (100%)	93	93
	São Luís (Alumar)	Aluminio (53.66%) BHP Billiton (46.34%)	370	199
Canada	Baie Comeau, Que.	Alcoa (100%)	420	420
	Bécancour, Que.	Alcoa (74.95%) Aluminium Pechiney (25.05%)	390	292
	Deschambault, Que.	Alcoa (100%)	240	240

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Country	Facility	Owners (% of Ownership)	Nameplate Capacity[1] (000 MTPY)	Alcoa Consolidated Capacity[2] (000 MTPY)
Italy	Fusina	Alcoa (100%)	44	44
	Portovesme	Alcoa (100%)	146	146
Spain	Avilés	Alcoa (100%)	83	83
	La Coruña	Alcoa (100%)	81	81
	San Ciprián	Alcoa (100%)	196	196
U.S.	Evansville, Ind. (Warrick)	Alcoa (100%)	309	309
	Frederick, Md. (Eastalco)	Alcoa (61%) Mitsui & Co. Ltd. (39%)	192	117
	Badin, N.C.[3]	Alcoa (100%)	120[3]	120[3]
	Massena, N.Y.	Alcoa (100%)	130	130
	St. Lawrence, N.Y.	Alcoa (100%)	125	125
	Mount Holly, S.C.	Alcoa (50.33%) Century Aluminum Company (49.67%)	212	107
	Alcoa, Tenn.	Alcoa (100%)	210	210
	Rockdale, Tex.[4]	Alcoa (100%)	264[4]	264[4]
	Ferndale, Wash. (Intalco)[5]	Alcoa (61%) Mitsui & Co. Ltd. (39%)	278[5]	170[5]
	Wenatchee, Wash.	Alcoa (100%)	227	227
TOTAL			4,660	3,948

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

2 The figures in this column include the minority interests in facilities owned by AofA and Aluminio. Alcoa takes 100% of the production from these facilities.

3 In August 2002, Alcoa temporarily idled the Badin, North Carolina facility.

4 In July 2002, the company declared two (of eight) potlines closed permanently. This reduces plant capacity from 340,000 mtpy to 264,000 mtpy.

5 Alcoa restarted two potlines at Intalco in May 2002.

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

Country	Facility	Owners (% Of Ownership)	Nameplate Capacity[1] (000 MTPY)
Germany	Hamburg	Alcoa (33.33%) Austria Metall AG (33.33%) VAW AG (33.33%)	120
Ghana	Tema[2]	Alcoa (10%) Kaiser Aluminum & Chemical Corporation (90%)	200[2]
Nigeria	Alscon[3]	Alcoa (10%) Federal Government of Nigeria (70%) Ferrostaal AG (20%)	97[3]

Country	Facility	Owners (% of Ownership)	Nameplate Capacity[1] (000 MTPY)
Norway	Lista	Alcoa (50%) Elkem ASA (50%)	90
	Mosjøen[4]	Alcoa (50%) Elkem ASA (50%)	120[4]
Venezuela	Alcasa	Alcoa (7.31%) CVG and Japanese Interests (92.69%)	210

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

[2] As of January 2003, the smelter is operating only one of five potlines due to limited hydropower availability.

[3] Alcoa is entitled to purchase all but 40,000 mt of the production of the Alscon smelter. Only one potline (of two planned potlines) has been completed and only one-half of that potline has ever been operated. The smelter has been idled since mid-1999 and the existing potline would require refurbishing before production could be recommenced. Presently, the Bureau of Public Enterprises (BPE), an agency of the Nigerian government, is seeking to privatize Alscon by selling about 75% of the government's shares in Alscon. Although Alcoa has formally expressed an interest in participating in that sale, no commitment has been made to do so. The outcome of the BPE's effort to privatize Alscon could negatively affect Alcoa's rights under its aluminum purchase contract described above.

[4] In the first quarter of 2002, Elkem began a potline expansion that is designed to increase plant capacity to 180,000 mtpy by mid-2003.

Production at primary aluminum smelters in the Northwest U.S. and in Brazil was curtailed in 2001 due to energy shortages or the unavailability of energy at competitive prices. In 2002, the smelters in Brazil restarted all of the previously curtailed production, and Alcoa restarted two potlines at Intalco. Also in 2002, Alcoa temporarily curtailed production at its Badin, North Carolina plant and permanently closed its Troutdale, Oregon plant, as well as approximately 25% of the capacity at its Rockdale, Texas facility. Alcoa currently has approximately 445,000 mtpy of idled smelting capacity out of a worldwide, consolidated primary aluminum capacity of 3,948,000 mtpy.

In July 2002, Alcoa signed an MOU with the government of Iceland and Landsvirkjun, Iceland's national power company, formalizing their cooperation in the evaluation and potential development of a 320,000 mtpy "Fjar?aál" aluminum smelter in eastern Iceland. The MOU encompasses the development of a 500-megawatt hydropower facility by Landsvirkjun in eastern Iceland; environmental and engineering studies of the smelter by Alcoa; and development of harbor and port facilities and related infrastructure improvements in eastern Iceland by Icelandic municipalities. In January 2003, Alcoa's board of directors approved plans for the construction of the smelter subject to approvals by the government of Iceland and other governmental authorities. The cost of the facility, which would begin production in 2007, is estimated to be approximately $1.1 billion over the next four years.

Alcoa also will explore the feasibility of establishing aluminum smelting and associated hydroelectric power opportunities in western Suriname. In January 2003 Alcoa signed an MOU with the government of Suriname providing for an 18-month exclusive period of investigation of the feasibility of smelting and associated hydroelectric power investment in western Suriname. Under the MOU Alcoa has budgeted $1.5 million - $7.5 million in expenditures over this period to assess the investment potential, and to negotiate an investment agreement with the government.

In December 2002, Alcoa announced that it plans to invest C$1 billion over eight years for the expansion and upgrade of its Baie Comeau, Quebec aluminum smelter. Under an MOU with the Quebec government, work would begin by the end of 2003 and the new facility would be operational by 2010. The Quebec government has conditionally agreed to provide financial support and a guarantee of additional energy supplies. Upon completion, the project will have increased annual production capacity from 420,000 mtpy to 547,000 mtpy.

Energy

Alcoa produces aluminum from alumina by an electrolytic process requiring large amounts of electric power. Electric power accounts for approximately 25% of the company's primary aluminum costs. Alcoa generates approximately 25% of the power used at its smelters worldwide, and generally purchases the remainder under long-term arrangements. The paragraphs below summarize the sources of power and material long-term power arrangements for Alcoa's smelters.

North America - Electricity

For its 13 North American smelters, the company (largely through its wholly-owned subsidiary, Alcoa Power Generating Inc. (APGI)) generates approximately 25% of the power requirements, and generally purchases the remainder under long-term contracts. APGI owns and operates two hydroelectric projects consisting of eight dams under Federal Energy Regulatory Commission licenses, which are up for renewal in 2005 and 2008.

In the Pacific Northwest, Alcoa obtains approximately half of its power needs for its Wenatchee smelter from its entitlement through 2011 to a fixed percentage of the output from Chelan County Public Utility District's Rocky Reach hydroelectric power facility located in the State of Washington. In addition, Alcoa has a contract through 2006 with the Bonneville Power Administration (BPA) that serves part of the Wenatchee smelter, as well as the Intalco smelter. Alcoa is currently returning its allotment of power to BPA under arrangements that end in September 2003. Several contractual provisions allow power supply restrictions when power is in short supply. Alcoa is purchasing a block of power used to operate part of the Intalco smelter from Powerex (British Columbia), under arrangements that continue through September 2003.

The company, through APGI, generates substantially all of the power used at its Warrick smelter using nearby coal reserves. A 1996 coal supply contract satisfies up to 70% of the smelter's fuel requirements through 2006. Annual contracts satisfy the remainder of the fuel requirements. In April 2001, under the terms of an operating agreement, the company assumed operation of the power plants that supply the Warrick smelter from Southern Indiana Gas & Electric Company until at least 2008.

The Rockdale smelter uses lignite supplied by the company's Sandow Mine to generate power. See the discussion of litigation involving Alcoa's power plant at the Rockdale facility on page 22 below. The company has applied for permits to open a new lignite mine, the Three Oaks Mine, on land it owns or controls adjacent to its existing Sandow Mine. Company-owned generating units supply about one-half of the total requirements of the smelter. TXU Energy supplies the balance through a long-term power contract expiring no sooner than 2013.

APGI hydroelectric facilities provide electric power for the aluminum smelters at Alcoa, Tennessee and Badin, North Carolina. The Tennessee smelter also purchases power from the Tennessee Valley Authority under a contract that extends to 2010. With the Badin smelter temporarily idled, power generated from APGI's Yadkin system is largely being sold in the regional market.

In the Northeast, the purchased power contracts for the Massena and St. Lawrence, New York smelters expire not earlier than June 30, 2003, and will be extended for an additional 10 years upon the successful relicensing by the New York Power Authority (NYPA) of one of its hydroelectric projects. The company, however, may terminate either of these contracts with one year's notice. It is anticipated that the relicense of the NYPA hydroelectric project will be issued in the course of 2003; operation by NYPA under the existing license will continue until the relicense is issued.

The Deschambault and Bécancour smelters located in Quebec purchase electricity under long-term contracts with Hydro-Quebec that expire in 2014, subject to certain extension provisions. The smelter located in Baie Comeau, Quebec purchases approximately 65% of its power needs under a long-term contract with Hydro-Quebec that expires in 2014 and receives the rest of its power needs from a 40%-owned hydroelectric generating company, Manicouagan Power Company. The recent MOU between the government of Quebec and Alcoa, subject to the execution of binding agreements, contemplates the extension until 2034 of the existing Hydro-Quebec-Baie Comeau power contract, the sale of an additional quantity of power and the renewal of the Manicouagan Power Company water rights.

The Eastalco smelter located in Frederick, Maryland and the Mt. Holly smelter in South Carolina purchase electricity under contracts that expire March 31, 2003 and December 31, 2005, respectively, subject to certain extension provisions. Alcoa is currently pursuing an extension of the Eastalco contract until at least December 31, 2005.

Australia - Electricity

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

Brazil - Electricity

The Alumar smelter has an agreement through 2004 to purchase electric power from Centrais Eletricas do Norte do Brasil S.A. Eletronorte, a government controlled electric utility. Aluminio had a purchase agreement with Centrais Eletricas de Minas Gerais S.A. that ended in December 2002 to supply energy to its Poços de Caldas smelter. It is now purchasing 49% of its power requirements under two power supply agreements with Chesf and Furnas, state controlled electric utilities. Agreements extend to December 2004 and 2006, respectively.

Aluminio participates in a consortium that owns the Machadinho hydroelectric power plant in southern Brazil, which began to generate power at full capacity in mid-2002. Aluminio now receives its share of the output of the plant, which is sufficient to cover the remaining 51% of its operating needs at the Poços de Caldas smelter.

Aluminio has entered into agreements to participate in five additional hydroelectric construction projects in Brazil that are scheduled to be completed at various dates ranging from 2005 to 2008. These projects are Barra Grande, Santa Isabel, Pai-Querê, Serra do Facão and Estreito. Aluminio's share of the output from the hydroelectric facilities, when completed, ranges from 19% to 42%. Total costs for all five projects are estimated at $1.7 billion, with Aluminio's share of total project costs totaling approximately $460 million. Financing for these projects is in various stages of development, with the Barra Grande project under construction. The future of the Santa Isabel project is subject to receiving appropriate regulatory licenses. Aluminio may be required to provide guarantees of project financing or commit to additional investments as these projects progress.

At December 31, 2002, Aluminio had provided $120 million of guarantees on these six hydroelectric projects in the form of debt guarantees or performance bonds.

Europe - Electricity

The company purchases electricity for its Italian smelters located at Portovesme and Fusina in the recently deregulated market, under contracts expiring in 2005.

The company's smelters at San Ciprián, La Coruña and Avilés, Spain purchase electricity from the power grid at the lowest applicable industrial tariff rate under regulations expiring in 2007.

Minority Interests - Electricity

The smelters in Germany, Ghana, Norway and Venezuela, in which Alcoa has only an equity stake and is not the operational manager, have made a variety of long-term electricity purchase arrangements, under the managing partner or entity. These contracts are up for renewal at various times, the majority of them in the period from 2011 to 2020. The smelter in Nigeria (in which Alcoa has the same position) has a captive gas turbine power plant that supplies its electricity needs.

Canada & U.S. - Natural Gas

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

Sources and Availability of Raw Materials

The major purchased raw materials in 2002 for each of the company's segments are listed below.

Alumina & Chemicals	Primary Metals
bauxite	alumina
calcined petroleum coke	aluminum fluoride
caustic soda	calcined petroleum coke
electricity	cathode blocks
fuel oil	electricity
natural gas	liquid pitch
silicon carbide	natural gas

Flat-Rolled Products	Engineered Products
alloying materials	cobalt
aluminum scrap	electricity
coatings	natural gas
commercial metals	nickel

electricity	primary aluminum (billet)
natural gas	steel
primary aluminum (rolling ingot)	titanium
used beverage cans	

Packaging & Consumer	Other
aluminum	aluminum tape
natural gas	copper
polyethylene resin compound	glass fiber
polypropylene resin compound	polyvinyl chloride resin compound
polyvinyl chloride resin compound	

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

Joint Ventures and Investments

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

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

Alcoa Closure Systems Japan, Ltd. Alcoa Closure Systems Japan, Ltd. (ACS Japan) is owned 95.9% by Alcoa and the remainder by the public. ACS Japan manufactures and markets plastic and aluminum closures and packaging equipment in Japan. In March 2002, Alcoa purchased an additional 20.3% stake from The Furukawa Electric Co., Ltd. This private acquisition raised Alcoa's holding in ACS Japan to 70.8% from the company's original 50.5% investment, which it had held since 1979. In May 2002, Alcoa conducted a tender offer for all the remaining shares of ACS Japan that it did not own, raising its stake to 95.9%.

Alcoa Fujikura Ltd. Alcoa Fujikura Ltd. (AFL), a global joint venture headquartered in Franklin Tennessee, is owned 51% by Alcoa and 49% by Fujikura International. AFL produces and markets electronic and electrical distribution systems for the automotive industry, as well as fiber optic products and systems for selected electric utilities, telecommunications, cable television and datacom markets. AFL subsidiaries provide EF&I (engineer, furnish and install) services to the telecom and CATV industries.

Alcoa Kobe Transportation Products, Inc. and Kobe Alcoa Transportation Products Ltd. These joint ventures are owned 50% by Alcoa and 50% by Kobe Steel, Ltd. (Kobe). The focus of these ventures, consisting of one company in the U.S. and one in Japan, is to expand the use of aluminum sheet products in passenger cars and light trucks. As a result of a restructuring of the venture in January 2000, the U.S. company will focus on research and development efforts, while the Japanese company will continue to engage in commercial (manufacturing, marketing and sales) as well as research and development efforts, to serve the transportation industry.

Alcoa (Shanghai) Aluminum Products Company Limited. Alcoa (Shanghai) Aluminum Products Company Limited is owned 60% by Alcoa and 40% by Shanghai Light Industry Equipment (Group) Co., Ltd. It produces aluminum foil products in Shanghai, China.

Aluminum Corporation of China Limited (Chalco). In November 2001, Alcoa entered into a strategic alliance with Chalco and its parent company, Aluminum Corporation of China (Chinalco). Under this alliance, in 2001 Alcoa became a strategic investor in Chalco's global offering and listing on the New York Stock Exchange and The Stock Exchange of Hong Kong. Alcoa's investment is 8% of the issued and outstanding shares. In connection with its investment, Alcoa is entitled to one seat on Chalco's board of directors. Chinalco will remain the largest shareholder in Chalco. As part of the strategic alliance, Alcoa and Chalco also agreed that they would enter into a Sino-foreign joint venture at Chalco's facility in Pingguo. Pingguo is one of the most efficient alumina and aluminum production facilities in China and is located in the Guangxi region. The Pingguo joint venture will be owned 50% by Alcoa and 50% by Chalco. Alcoa will transfer management, operational and technical expertise, and best practices to the Pingguo joint venture. In December 2002, the parties announced that they expect their joint venture to be formalized in 2003. This revised schedule will allow the parties additional time to complete the necessary commercial terms and to obtain the necessary government approvals.

Bohai Aluminum Industries Ltd. This venture is owned 32.48% by Alcoa, 37.36% by Shortridge Ltd. and 30.16% by China International Trust & Investment Corporation. The venture produces aluminum foil and aluminum extrusions in Qinghuangdao, China.

Elkem Aluminium ANS. This Norwegian partnership is owned 50% by Alcoa and 50% by Elkem ASA, with Elkem as managing partner. The partnership is the second largest aluminum producer in Norway and operates two plants: Mosjøen and Lista. These facilities supply extrusion billets, rolling ingots and foundry ingots to leading rolling mills, extrusion plants and foundries in Europe. Alcoa holds a 46.5% investment in Elkem ASA, one of Norway's largest industrial companies and a leading supplier of metals and materials.

Integris Metals, Inc. Integris Metals, Inc. is owned 50% by Alcoa and 50% by BHP Billiton. In November 2001, Alcoa and BHP Billiton merged Alcoa's North American metals distribution business, Reynolds Aluminum Supply Company (RASCO), and BHP Billiton's North American metals distribution business, Vincent Metal Goods in the U.S. and Atlas Ideal Metals in Canada. Integris Metals serves markets such as transportation, general manufacturing, machinery and equipment and building and construction. Integris Metals provides aluminum, stainless steel, carbon steel, copper, brass and nickel in a variety of forms and it offers a full range of processing services.

Kaal Australia Pty. Ltd. Kaal Australia Pty. Ltd. is owned 50% by Alcoa and 50% by Kobe. It owns and operates rolling mills at Point Henry and Yennora, Australia. These mills produce rigid container sheet (RCS) for the Australian and Asian markets and general sheet and foil for the Australian market. AofA supplies Kaal Australia's Point Henry rolling mill with molten aluminum.

KSL Alcoa Aluminum Company, Ltd. This joint venture is owned 50% by Alcoa and 50% by Kobe. It produces RCS for markets in Japan and other Asian countries. In connection with this venture, Alcoa has a long-term contract to supply metal to Kobe.

Latas de Aluminio, S.A. Latas de Aluminio, S.A. (Latasa) is owned 37% by Alcoa, 39% by Bradesco Seguros, S.A., 12% by J. P. Morgan International Capital Corporation, and 12% by others. Latasa, which is managed by Alcoa, manufactures and recycles aluminum beverage cans in Brazil and owns subsidiaries in other South American countries that also manufacture and recycle aluminum beverage cans. Alcoa intends to sell its investment in Latasa in connection with the divestitures announced in the 2002 fourth quarter.

Yunnan Xinmeilu Aluminum Foil Co., Ltd. This joint venture is owned 56% by Alcoa and 44% by Yunnan Aluminum Processing Factory. It produces aluminum foil products in Kunming, China.

Patents and Trademarks

The company believes that its domestic and international patent and trademark assets provide it with a significant competitive advantage. The company's rights under its patents, as well as the products made and sold under them, are important to the company as a whole and, to varying degrees, important to each business segment. The patents owned by Alcoa generally concern particular products or manufacturing techniques. Alcoa's business is not, however, materially dependent on patents, and no individual patent is of material importance to any segment.

The company has a number of domestic and international registered trademarks that have significant recognition at the consumer level, and others that have significant recognition within the markets that are served. Examples include Alcoa and the Alcoa Symbol for aluminum products, Howmet metal castings, Huck fasteners, Kawneer building panels, Presto storage bags, Cut-Rite wax paper, Reynolds plastic wrap and Reynolds Wrap aluminum foil. The company's rights under its trademarks are important to the company as a whole and, to varying degrees, important to each business segment.

Competitive Conditions

Alcoa is the world's leading producer of alumina, primary aluminum and fabricated aluminum. Alcoa is subject to highly competitive conditions in all aspects of its aluminum and non-aluminum businesses. Competitors include a variety of both U.S. and non-U.S. companies in all major markets. Price, quality and service are the principal competitive factors in Alcoa's markets. Where aluminum products compete with other materials — such as steel and plastics for automotive and building applications; magnesium, titanium, composites and plastics for aerospace and defense applications; steel, plastics and glass for packaging applications; and wood and vinyl for building and construction applications — aluminum's diverse characteristics, particularly its light weight, recyclability and flexibility, are also significant factors. For the Packaging and Consumer Products segment, which markets products under Alcoa's brand names, brand recognition and brand loyalty also play a role.

Research and Development

Alcoa, a technology leader in the aluminum industry, engages in research and development programs that include process and product development, and basic and applied research. Alcoa conducts these activities within its businesses and at the Alcoa Technical Center near Pittsburgh. Expenditures for R&D activities were $214 million in 2002, $203 million in 2001 and $194 million in 2000.

Most of the major process and product areas within the company have a Technology Management Review Board (TMRB) consisting of members from various worldwide locations. Each TMRB is responsible for formulating and communicating a technology strategy for the corresponding product and process area, developing and managing the technology portfolio and ensuring the global transfer of technology. Certain business units alternatively conduct these activities and research and development programs within the worldwide business unit, supported by the Alcoa Technical Center. Technical personnel from the TMRBs, the Technical

Center and such business units also participate in the corresponding Market Sector Lead Teams. In this manner, research and development activities are aligned with corporate and business unit goals.

During 2002, the company continued work on new developments in inert anode technology and the pursuit of patent protection in jurisdictions throughout the world related to these advanced technologies. The company, on June 3, 2002, started inert anode assembly testing in a full pot at its Massena, New York commercial smelting facility. Anodes were run in the pot, periodically exchanged, and the pot was shut down on November 22, 2002. Progress has been successful in many respects as a result of the testing, although there remain technical and cost targets to overcome. Technical targets include improvement of long-term current efficiency, anode life, reduction in operating voltage and maintenance of metal purity. If the technology proves to be commercially feasible, the company believes that it will be able to convert its existing potlines to this new technology, resulting in significant operating cost savings. The new technology would also generate environmental benefits by reducing and eliminating certain emissions. No timetable has been established for commercial use.

Environmental Matters

Information relating to environmental matters is included in three areas of the Annual Report: under Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading "Environmental Matters" on pages 37 and 38, in Note A to the financial statements under the caption "Environmental Expenditures" on page 47 and in Note W to the financial statements on pages 61-62.

Employees

Total worldwide employment at year-end 2002 was 127,000 people.

Alcoa has announced work force reductions of approximately 8,500 employees at over 70 locations, primarily in Mexico, Europe and the United States. The company expects these reductions to be substantially completed by the end of 2003.

On October 12, 2001, the United Steelworkers of America ratified a new five-year labor agreement that covers 19 locations in the United States and about 12,000 employees. The contract is effective from June 1, 2001 through May 31, 2006.

Cautionary Statements under the Private Securities Litigation Reform Act of 1995

Forward-Looking Statements

This report contains (and oral communications made by Alcoa may contain) forward-looking statements that may be identified by their use of words like "plans," "expects," "anticipates," "intends," "estimates," "forecasts," "will," "outlook" or other words of similar meaning. All statements that address Alcoa's expectations or projections about the future, including statements about Alcoa's strategy for growth, cost reduction goals, expenditures and financial results, are forward-looking statements. Forward-looking statements are based on Alcoa's estimates, assumptions and expectations of future events and are subject to a number of risks and uncertainties. Alcoa cannot guarantee that these estimates, assumptions and expectations are accurate or will be realized. Alcoa disclaims any intention or obligation (other than as required by law) to update or revise any forward-looking statements.

Risk Factors

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

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

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

    - significant increases in electricity costs rendering smelter operations uneconomic;
    - the unavailability of electrical power due to droughts;
    - interruptions in energy supply due to equipment failure or other causes; or
    - the inability to extend contracts upon expiration on economical terms.

- Alcoa's ability to grow earnings will be affected by increases in the cost of raw materials, including caustic soda, calcined petroleum coke and resins, in addition to energy. Alcoa may not be able to offset fully the effects of higher raw material costs through price increases or productivity improvements.

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

- Alcoa has investments and activities in numerous countries outside the U.S. and in emerging markets, including China, Brazil, India, Korea and Mexico. Changes in the laws or governmental policies in the countries in which Alcoa operates could affect its business in such countries and Alcoa's results of operations. In addition, economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates, and competitive factors in the countries could affect Alcoa's revenues, expenses and results of operations.

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

- A significant downturn in the business or financial condition of a key customer or customers supplied by Alcoa could affect Alcoa's results of operations in a particular period.
- Alcoa has undertaken and may continue to undertake productivity and cost-reduction initiatives to improve performance, including deployment of company-wide business process models, such as the Alcoa Business System and the Alcoa Enterprise Business Solution, an initiative designed to build a common global infrastructure across Alcoa for data, processes and supporting software. There can be no assurance that these initiatives will be completed or beneficial to Alcoa or that any estimated cost savings from such activities will be realized.
- Alcoa is working on new developments in advanced smelting process technologies, including inert anode technology. There can be no assurance that such technologies will be commercially feasible or beneficial to Alcoa.
- Alcoa's operations worldwide are subject to numerous complex and increasingly stringent environmental laws and regulations. The costs of complying with such environmental laws and regulations, including participation in assessments and cleanups of sites, as well as internal voluntary programs, are significant and will continue to be so for the foreseeable future. Alcoa's results of operations or liquidity in a particular period could be affected by certain environmental matters, including remediation costs and damages related to several sites.
- Alcoa's results of operations or liquidity in a particular period could be affected by significant legal proceedings or investigations adverse to Alcoa, including product liability, safety and health and other claims.
- Alcoa's estimates of liabilities and expenses for pensions and other postretirement benefits incorporate significant assumptions including the rate used to discount the future estimated liability, the long-term rate of return on plan assets and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age and mortality). Alcoa's results of operations, liquidity or shareholders' equity in a particular period could be affected by a decline in the rate of return on plan assets, the rate used to discount the future estimated liability or changes in employee workforce assumptions.
- Alcoa has projected a likely range of proceeds from the divestiture of the businesses and operations announced in the fourth quarter of 2002. There can be no assurance that Alcoa will realize the projected amount of proceeds from such divestitures.
- War or terrorist activities may increase the cost of doing business or otherwise impact Alcoa's financial performance.

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

Item 2. Properties.

Alcoa has plants and holdings under the following segments and in the following geographic areas:

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ALUMINA AND CHEMICALS

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

Alumina: See the table and related text in **Alumina Refining Facilities and Capacity** section on pages 5-6.

Alumina Chemicals:	Asia:	4 locations in 3 countries.
	Australia:	2 locations.
	Europe:	2 locations in 2 countries.
	United States:	6 locations in 5 states.

PRIMARY METALS

See the table and related text in **Primary Aluminum Facilities and Capacity** section on pages 6-9.

FLAT-ROLLED PRODUCTS

Sheet and Plate:	Asia:	1 location.
	Australia:	2 locations.
	Europe:	10 locations in 7 countries.
	South America:	1 location.
	United States:	5 locations in 5 states.
Foil Products:	Asia:	3 locations.
	Australia:	1 location.
	Europe:	2 locations.
	South America:	1 location.
	United States:	2 locations in 2 states.
Can Reclamation:	Australia:	1 location.
	Europe:	1 location.
	United States:	1 location.

ENGINEERED PRODUCTS

Aerospace:	Asia:	1 location.
	Canada:	2 locations in 2 provinces.
	Europe:	9 locations in 3 countries.
	United States:	21 locations in 14 states.
Auto Components:	Canada:	1 location.
	Europe:	6 locations in 4 countries.
	Mexico:	1 location.
	South America:	2 locations in 1 country.
	United States:	8 locations in 7 states.
Architectural Extrusions:	Canada:	2 locations in 2 provinces.
	Europe:	31 locations in 6 countries.
	South America:	8 locations in 3 countries.
	United States:	12 locations in 10 states.

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Castings:	Asia:	1 location.
	Canada:	3 locations in 2 provinces.
	Europe:	10 locations in 6 countries.
	South America:	1 location.
	United States:	17 locations in 12 states.
Extrusion, Tube:	Asia:	1 location.
	Europe:	16 locations in 6 countries.
	South America:	9 locations in 4 countries.
	United States:	16 locations in 15 states.
Fasteners:	Asia:	2 locations in 2 countries.
	Australia:	2 locations.
	Canada:	1 location.
	Europe:	14 locations in 6 countries.
	United States:	20 locations in 11 states.

PACKAGING AND CONSUMER

Consumer Products:	Europe:	2 locations.
	South America:	1 location.
	United States:	11 locations in 7 states.
Flexible Packaging:	Asia:	1 location.
	Europe:	1 location.
	United States:	8 locations in 4 states.
Closures, Machinery:	Asia:	6 locations in 6 countries.
	Europe:	7 locations in 6 countries.
	Mexico:	2 locations.
	South America:	8 locations in 6 countries.
	United States:	8 locations in 7 states.
Graphics:	Canada:	3 locations in 1 province.
	Mexico:	1 location.
	United States:	21 locations in 15 states.
Foodservice Packaging:	Canada:	5 locations in 4 provinces.
	Europe:	1 location.
	Mexico:	1 location.
	South America:	1 location.
	United States:	14 locations in 12 states.
Protective Packaging:	Canada:	2 locations in 1 province.
	Europe:	1 location.
	United States:	5 locations in 2 states.
Polymerization and Extrusion:	Canada:	1 location.
	Europe	2 locations in 2 countries.
	United States:	5 locations in 5 states.

OTHER

AFL

Automotive:	Canada:	1 location.
	Europe:	9 locations in 7 countries.
	Mexico:	6 locations.
	South America:	2 locations in 2 countries.
	United States:	5 locations in 3 states.
Telecommunications:	Europe:	1 location.
	Mexico:	1 location.
	United States:	15 locations in 14 states.
Auto Engineering:	Europe:	2 locations.
	United States:	8 locations in 5 states.
Home Exteriors:	United States:	6 locations in 6 states.
Other:	Australia:	1 location.
	Canada:	1 location.
	Europe:	4 locations in 2 countries.
	South America:	16 locations in 6 countries.
	United States:	24 locations in 15 states.

Alcoa's corporate center is located at 201 Isabella Street, Pittsburgh, Pennsylvania 15212-5858. Alcoa's global office is located at 390 Park Avenue, New York, New York 10022-4608.

Alcoa does lease some of its facilities; however, it is the opinion of management that the leases do not materially affect the continued use of the properties or their values. AFL and Southern Graphic Systems, Inc. lease most of their facilities. Ivex Packaging Corporation leases certain of its facilities.

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

Item 3. Legal Proceedings.

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

Environmental Matters

Alcoa is involved in proceedings under the Superfund or analogous state provisions regarding the usage, disposal, storage or treatment of hazardous substances at a number of sites in the

U.S. The company has committed to participate, or is engaged in negotiations with federal or state authorities relative to its alleged liability for participation, in clean-up efforts at several such sites.

Since 1989, Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa's Massena, New York plant site, under order from the U.S. Environmental Protection Agency (EPA) issued under Section 106 of the Comprehensive Environmental Response, Compensation and Liability Act, also known as Superfund (CERCLA). Sediments and fish in the river contain varying levels of polychlorinated biphenyl (PCB). In the fourth quarter of 1999, Alcoa submitted an Analysis of Alternatives Report to the EPA. This Report identified potential courses of remedial action related to the PCB contamination of the river. The EPA indicated to Alcoa that it believed additional remedial alternatives needed to be included in the Analysis of Alternatives Report. During 2000 and 2001, Alcoa completed certain studies and investigations on the river, including pilot tests of sediment capping techniques and other remediation technologies. In February 2002, Alcoa submitted a final Analysis of Alternatives Report based on these additional evaluations and included additional remedial alternatives required by the EPA. The range of costs associated with the remedial alternatives evaluated in the 2002 report is between $2 million and $525 million. Alcoa believes that rational, scientific analysis supports a remedy involving the containment of sediments in place via natural or man-made processes. Based on the current assessment of the EPA decision-making process, the company has now concluded that the selection of the $2 million alternative, based on natural recovery only, is remote. Alcoa continues to believe that alternatives involving the largest amounts of sediment removal should not be selected for the Grasse River remedy. Therefore, the company believes that the alternatives that should reasonably be considered for selection range from engineered capping and natural recovery of $30 million to a combination of moderate dredging, capping and natural recovery of $90 million. Accordingly, Alcoa has adjusted the reserve for the Grasse River to $30 million representing the low end of the range of possible alternatives, as no one of the alternatives is more likely to be selected than any other. The EPA's ultimate selection of a remedy could result in additional liability. However, as the process allows for input that can influence the scope and cost of the remedy through the issuance of the formal Record of Decision (ROD), Alcoa may be required to record a subsequent reserve adjustment at the time the ROD is issued.

Representatives of various U.S. federal and state agencies and a Native American tribe, acting in their capacities as trustees for natural resources, have asserted that Alcoa and Reynolds may be liable for loss or damage to such resources under federal and state law based on Alcoa's and Reynolds' operations at their Massena, New York and St. Lawrence, New York facilities. While formal proceedings have not been instituted, the company continues to actively investigate these claims.

Since 1990, Alcoa has undertaken investigations and evaluations concerning alleged releases of mercury from its Point Comfort, Texas facility into the adjacent Lavaca Bay pursuant to a Superfund order from the EPA. In March 1994, the EPA listed the "Alcoa (Point Comfort)/Lavaca Bay Site" on the National Priorities List, and Alcoa and Region VI of the EPA entered into an administrative order on consent, EPA docket no. 6-11-94, concerning the site. The administrative order required the company to conduct a remedial investigation and feasibility study under EPA oversight. Following submission by the company of all required information, in December 2001, the EPA issued its ROD selecting the final remedial approach for the site, which is fully reserved. The company is negotiating a Consent Order with the EPA under which it will undertake to implement the remedy. The company and certain federal and state natural resource trustees, who previously served Alcoa with notice of their intent to file suit to recover damages for alleged loss or injury of natural resources in Lavaca Bay, have cooperatively identified restoration alternatives and approaches for Lavaca Bay. The cost of such restoration is reserved and Alcoa anticipates negotiating a Consent Decree with the trustees under which it will implement the restoration. Alcoa does not believe that any additional liability for this site is reasonably possible.

In July 2001, the Louisiana Department of Environmental Quality (DEQ) filed an administrative law proceeding, docket no. 2001-5918-EQ, against Discovery Aluminas, Inc. (Discovery), an Alcoa subsidiary, and Waste Management, Inc. (Waste Management) seeking civil penalties for alleged infractions of DEQ's hazardous waste regulations. Both Discovery and Waste Management have denied the allegations and formal information discovery is proceeding. Settlement discussions with Waste Management and the state are ongoing.

In 1994, the EPA added Reynolds' Troutdale, Oregon primary aluminum production plant to the National Priorities List of Superfund sites. Alcoa has been cooperating with the EPA under a September 1995 consent order, docket number 1094-01-19-106, between Reynolds and EPA Region 10, to identify cleanup solutions for the site. Further analyses were done to determine the effects of the July 2002 decision to permanently close the Troutdale production plant on the number and scope of remedial alternatives for the facility. In August 2002, the EPA issued a preliminary remedial action plan representing the most probable scope and cost of cleanup. That cost has been fully reserved and Alcoa does not believe that any additional liability for this site is reasonably possible.

On December 26, 2001, three citizens groups filed an action in the U.S. District Court for the Western District of Texas against Alcoa. The groups alleged that activities conducted in the mid-1980s at the Alcoa power plant in Rockdale, Texas triggered various requirements under the Clean Air Act and the Texas Clean Air Act and that the plant did not comply with those requirements. The groups also alleged that the plant violated opacity limits. On January 29, 2002, the company filed its answer to the complaint denying the allegations. In addition, on January 9, 2002, the Texas Natural Resource Conservation Commission (TNRCC) issued a Notice of Enforcement and EPA Region VI issued a Notice of Violation against Alcoa. Both notices allege that activities conducted in the mid-1980s at the Alcoa power plant in Rockdale, Texas triggered requirements under the Clean Air Act and the Texas Clean Air Act and the plant did not comply with those requirements. On June 24, 2002, the U.S. Department of Justice (DOJ), the EPA, the TNRCC (now known as the Texas Commission on Environmental Quality ("TCEQ")) and Alcoa agreed to resolve the Texas and federal allegations with the permitting of reduced emission limits for the power plant and the payment of a civil penalty of $1.5 million, as well as supplemental environmental capital projects of $2.5 million. EPA, DOJ, TCEQ, the citizens groups and Alcoa are currently working on the drafting of a consent decree to memorialize the agreement reached by the parties.

To meet the terms of a newly issued decision by the Western Australia Minister for the Environment amending the license regulating emissions from the Wagerup alumina refinery, AWAC was required to implement projects to reduce emissions of odors and nitrogen oxides at the Wagerup facility by June 30, 2002. If the Wagerup facility did not complete the projects by that date, Wagerup's alumina production would have been reduced by approximately 6% to the production limits of the prior license until the projects were completed. AWAC met the new standards by the June 30 deadline.

In May through October of 2002, eight lawsuits were filed against Reynolds and Alcoa in the District Court of Wharton County, Texas, two of which have since been dismissed. In the same timeframe, five lawsuits were filed in the United States District Court, Southern District of Texas, Victoria Division. The cases were originally removed to federal court, but all but one of them have now been remanded back to state court in Wharton County. The lawsuits seek to recover damages relating to the presence of trichloroethylene in the groundwater near a former

Reynolds extrusion facility in El Campo, Texas. Additional defendants included in some of the lawsuits are the current owners to whom Reynolds sold the facility in 1997, Bon L. Campo Limited Partnership (Bon L. Campo) and Tredegar Corporation, a few former employees of the current plant owners and two neighboring businesses. Some of the cases request class certification to include other allegedly affected individuals as plaintiffs. Damages sought include those for the contamination of private wells, diminution of property value, medical monitoring and punitive damages. Reynolds owned and operated the facility from 1971 to 1997 and sold it to Bon L. Campo before Alcoa acquired Reynolds. Reynolds and Alcoa are currently participating in the Voluntary Cleanup Program under the supervision of the TCEQ and investigating the area to determine the source of the contamination. Answers have been filed in all but one of the cases as the last complaint has yet to be served and discovery is being conducted at this time. Currently, the amount of any possible loss cannot be estimated.

In August 2000, the DOJ notified IPC, Inc. ("IPC"), a wholly owned subsidiary of Ivex Packaging Corporation ("Ivex"), and Consolidated Fibers, Inc. ("CFI"), a wholly owned subsidiary of IPC, that they were potentially responsible parties (PRPs) under CERCLA at the Agriculture Street Landfill Superfund Site, New Orleans, Louisiana. In August 2002, the EPA and DOJ extended an offer to CFI to engage in pre-filing settlement discussions regarding the United States' claim for response costs at the Site. The EPA and DOJ stated that the government had incurred approximately $40.6 million in response costs at the Site and sought a settlement amount of approximately $13.8 million to be paid collectively by CFI and other PRPs. Ivex contends that CFI's involvement with the site was minimal. The United States filed a complaint in the United States District Court for the Eastern District of Louisiana on December 6, 2002 for recovery of its response costs. CFI was named as a defendant. CFI was served with the complaint on January 15, 2003. CFI's answer now is due on March 17, 2003.

Other Matters

Alcoa initiated a lawsuit in King County, Washington in December 1992 against nearly 100 insurance companies that provided insurance coverage for environmental property damage at Alcoa plant sites between the years 1956 and 1985. The trial for the first three sites concluded in October 1996 with a jury verdict partially in Alcoa's favor and an award of damages to Alcoa. In its post-trial decisions, the trial court substantially reduced the amount that Alcoa will be able to recover from its insurers on these three sites. Alcoa appealed these rulings to the Washington Court of Appeals, which certified the appeal to the Washington Supreme Court. Alcoa prevailed on significant portions of the appeal and the matter is currently set for trial in September 2003.

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

In July 1999, Alcoa Aluminio S.A. received notice that an administrative proceeding was commenced by Brazil's Secretary of Economic Law of the Ministry of Justice against Brazilian producers of primary aluminum, including Alcoa Aluminio. The suit alleges collusive action in the pricing of primary aluminum in violation of Brazilian antitrust law. Alcoa Aluminio has presented its defense and is awaiting the decision of the Secretary of Economic Law. If the Secretary of Economic Law determines that the antitrust law was violated, then the action may be further prosecuted by the Administrative Council of Economic Defense. Brazilian law provides for civil and criminal sanctions for violations of antitrust law, including fines ranging from 1% to 30% of a company's revenue during the last fiscal year.

On October 15, 1999, Victoria Shaev, who represents that she is an Alcoa shareholder, filed a purported derivative action on behalf of the company in the United States District Court for the Southern District of New York, naming as defendants the company, each member of Alcoa's Board of Directors, certain officers of the company and PricewaterhouseCoopers LLP, Alcoa's independent accountants. The lawsuit alleged, among other things, that Alcoa's proxy statement dated March 8, 1999 contained materially false and misleading statements and omissions regarding the proposed Alcoa Stock Incentive Plan. On March 19, 2001, the court granted without prejudice the defendants' motion to dismiss the plaintiff's claims. On May 31, 2001, Ms. Shaev served an amended complaint making the same allegations as in the previous complaint but styling the complaint as a class action on behalf of shareholders. The company served a motion to dismiss on June 25, 2001. On October 25, 2002, the amended complaint was dismissed on the factual and legal merits of the matter. A notice of appeal has been filed by the plaintiff.

A purported class action was filed on February 14, 2002 in the U.S. District Court for the Northern District of Ohio against the company and the International UAW, on behalf of 400 African-American employees of Cleveland Works, alleging discrimination in Cleveland's apprenticeship program. Plaintiffs sought certification of the class, declaratory and injunctive relief, lost wages, entry into apprenticeship programs, compensatory and punitive damages and costs and expenses of litigation. The complaint was served on May 23, 2002 and answered on June 12, 2002. Plaintiffs have not moved for class certification. On January 15, 2003, the parties jointly advised the court that a settlement agreement providing monetary and injunctive relief had been reached and that it would be presented to the court for approval.

As previously reported, in the first half of 2002, Alcoa discovered that a former Reynolds' distribution entity, RASCO, may have sold upwards of 800,000 pounds of aluminum plate made by an unrelated company for use in the Northwest maritime industry that may not be suitable for that use. Reynolds and the current owner of the business and the manufacturer of the metal are working jointly to identify the issues and find resolutions. All customers have been notified of the issue, inspection protocols have been put into place and the United States Coast Guard has been notified and is involved in the resolution process. Three lawsuits were originally filed by ship owners or operators and each has been resolved. The parties have been working cooperatively toward satisfactory resolutions. Currently, the company has expensed the amount of the loss it considers probable.

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

No matters were submitted to a vote of the company's security holders during the fourth quarter of 2002.

Item 4A. Executive Officers of the Registrant.

The names, ages, positions and areas of responsibility of the executive officers of the company as of February 15, 2003 are listed below.

Alain J. P. Belda, 59, Director, Chairman of the Board and Chief Executive Officer. Mr. Belda was elected to Alcoa's Board of Directors in September 1998 and became Chairman in January 2001. He has been Chief Executive Officer since May 1999. He was President and Chief Executive Officer from May 1999 to January 2001, and President and Chief Operating Officer from January 1997 to May 1999. He served as Vice Chairman from 1995 to 1997. Mr. Belda and Ricardo E. Belda, Executive Vice President–Alcoa and Group President, Alcoa Europe, are brothers.

Ricardo E. Belda, 58, Executive Vice President–Alcoa and Group President, Alcoa Europe. He was elected to his current position in November 2001. Mr. Belda was named President–Alcoa Europe in March 2000 and elected a Vice President of Alcoa in May 2000. He was named President of Alcoa Nederland B.V. in 1995 and took on responsibility for Extrusions and End Products for all of Europe in 1997.

William F. Christopher, 48, Executive Vice President – Alcoa and Group President, Alcoa Aerospace, Automotive and Commercial Transportation. In January 2003, Mr. Christopher assumed responsibility for Alcoa's global automotive market. He also will have leadership responsibility for corporate customers marketing initiatives. In September 2002, he was appointed to the assignment of Group President for Alcoa's Aerospace and Commercial Transportation Group. Mr. Christopher was elected a Vice President of Alcoa in 1999 and Executive Vice President in 2001. He was President of Alcoa Forged Products from 1996 to 2001.

Richard B. Kelson, 56, Executive Vice President and Chief Financial Officer. He was elected to his current position in May 1997. He was Executive Vice President, Environment, Health and Safety and General Counsel from May 1994 to 1997.

William E. Leahey, Jr., 53, Executive Vice President–Alcoa and Group President, Packaging, Consumer, Construction & Distribution. He was elected to his current position in September 2001. Mr. Leahey joined Alcoa in May 2000 as Vice President–Alcoa and Group President, Packaging, Consumer, Construction & Distribution following Alcoa's merger with Reynolds Metals Company. He was Executive Vice President and Chief Financial Officer of Reynolds since 1998; Senior Vice President of Reynolds' global can business in 1997 and Vice President and General Manager of Reynolds' Can Division from 1993 to 1997.

Charles D. McLane, Jr., 49, Vice President, Alcoa Business Support Services and Controller. Mr. McLane was elected to his current position in October 2002. He joined Alcoa in May 2000 as director of investor relations, following Alcoa's merger with Reynolds Metals Company. He became Assistant Treasurer of Reynolds in 1999 and Assistant Controller of that company in 1995.

G. John Pizzey, 57, Executive Vice President and Group President, Alcoa Primary Products. Alcoa Primary Products includes the Alumina and Chemicals segment and the Primary Metals segment. Mr. Pizzey was elected to his current position in July 2001. Mr. Pizzey was named Group President, Alcoa Primary Products in June 2000; was President of Primary Metals in 1997, President, Alcoa World Alumina in 1998 and took on additional responsibility for chemicals in August 1999. He has been a Vice President of Alcoa since 1996.

Lawrence R. Purtell, 55, Executive Vice President and General Counsel; Chief Compliance Officer. Mr. Purtell joined Alcoa as Executive Vice President and General Counsel in November 1997. He became Chief Compliance Officer in April 2002.

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

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Dividend per share data, high and low prices per share, the principal exchanges on which the company's common stock is traded, and the estimated number of holders of common stock are set forth on page 68 of the Annual Report and are incorporated by reference.

Item 6. Selected Financial Data.

The comparative table showing selected financial data for the company is on page 28 of the Annual Report and is incorporated by reference.

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

Management's review and comments on the consolidated financial statements are on pages 29 through 41 of the Annual Report and are incorporated by reference.

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

The information regarding quantitative and qualitative disclosures about market risk is on pages 36 through 37 of the Annual Report and is incorporated by reference.

Item 8. Financial Statements and Supplementary Data.

The company's consolidated financial statements, the notes thereto, selected quarterly financial data and the report of the independent accountants are on pages 42 through 63 of the Annual Report and are incorporated by reference.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information regarding directors is contained under the captions "Board of Directors" and "Item 1 – Election of Directors" on pages 6 through 16 of the Proxy Statement and is incorporated by reference.

The information regarding executive officers is set forth in Part I, Item 4A of this report under "Executive Officers of the Registrant."

The information required by Item 405 of Regulation S-K is contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" on page 19 of the Proxy Statement and is incorporated by reference.

Item 11. Executive Compensation.

This information is contained under the captions "Directors' Compensation" on page 7, "Stock Performance Graph" on page 19, "Executive Compensation" on pages 22 through 29, and "Change in Control" on page 33 of the Proxy Statement. Such information (other than the Stock Performance Graph and Report of the Compensation and Benefits Committee, which shall not be deemed to be "filed") is incorporated by reference.

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

The following table gives information about Alcoa's common stock that may be issued under the company's equity compensation plans as of December 31, 2002.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	*(b)*	*(c)*
Equity compensation plans approved by security holders[1]	70,081,673	$ 34.53	25,435,324[2]
Equity compensation plans not approved by security holders[3, 4]	—	—	—
Total	70,081,673	$ 34.53	25,435,324[2]

1 Includes the Alcoa Stock Incentive Plan (the "ASIP") and the former Alcoa Long-Term Stock Incentive Plan (the "Prior Plan").

2 The ASIP authorizes, in addition to stock options, other types of stock-based awards in the form of stock appreciation rights, contingent stock, performance shares and performance units and stock or other awards valued by reference to Alcoa stock. The shares that remain available for issuance under the ASIP may be issued in connection with any one of these awards. The ASIP has a provision that permits shares repurchased by Alcoa and designated by the Board of Directors to be added to the number of shares available for future issuance under the ASIP. In addition, the following are available to grant under the ASIP: (i) shares subject to awards under the ASIP or Prior Plan that are forfeited, settle for cash, expire or otherwise terminate without issuance of shares and (ii) shares tendered in payment of the purchase price of an option award under the ASIP or Prior Plan or tendered or withheld to pay required withholding taxes.

3 In connection with its acquisitions of Alumax, Cordant, Howmet and Reynolds, Alcoa assumed stock options outstanding under these companies' stock option plans. An aggregate of 11,485,568 shares of Alcoa common stock are to be issued upon exercise of the outstanding options. The options have a weighted average exercise price of $24.98. No further grants of stock options will be made under these plans

4 The Alcoa Fee Continuation Plan for Non-Employee Directors, adopted in 1990, provides fee continuation payments for persons who meet a minimum service requirement as a non-employee director. Each of the eleven eligible participants receives such cash and stock payments for life upon retirement from the Board or age 65 (whichever is later), based upon the cash retainer fee for directors and an

annual stock grant under the company's former Stock Plan for Non-Employee Directors. In 1995, the Board froze future annual payments to eligible directors at a maximum of $30,000 and 2,000 shares (or a lesser proportion based on service). The Plan was otherwise terminated at that time. Alcoa's practice has been to use treasury shares for such share payments. All current fees and other compensation for directors are outlined in the Proxy Statement.

The information required by Item 403 of Regulation S-K is contained under the captions "Stock Ownership of Certain Beneficial Owners" and "Stock Ownership of Directors and Executive Officers" on pages 17 through 18 of the Proxy Statement and is incorporated by reference.

Item 13. Certain Relationships and Related Transactions.

This information is contained under the captions "Transactions with Directors' Companies" and "Transactions with Management" on pages 7 and 29, respectively, of the Proxy Statement and is incorporated by reference.

PART IV

Item 14. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Alcoa's Chief Executive Officer and Chief Financial Officer have evaluated the company's disclosure controls and procedures as of February 14, 2003, and they concluded that these controls and procedures are effective.

(b) Changes in Internal Controls

There are no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to February 14, 2003.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

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

(1) The company's consolidated financial statements, the notes thereto and the report of the independent accountants are on pages 42 through 62 of the Annual Report and are incorporated by reference.

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

Report of PricewaterhouseCoopers LLP dated January 8, 2003 on the company's financial statement schedule filed as a part hereof for the fiscal years ended December 31, 2002, 2001 and 2000.

Schedule II – Valuation and Qualifying Accounts For the Years Ended December 31, 2002, 2001 and 2000.

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(3) Exhibits

Exhibit Number	Description*
3(a).	Articles of the Registrant as amended, incorporated by reference to exhibit 3(a) to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
3(b).	By-Laws of the Registrant as amended, incorporated by reference to exhibit 3 to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
4(a).	Articles. See Exhibit 3(a) above.
4(b).	By-Laws. See Exhibit 3(b) above.
4(c).	Form of Indenture, dated as of September 30, 1993, between Alcoa and J. P. Morgan Trust Company, N.A. (formerly Chase Manhattan Trust Company, N.A.), as successor Trustee (undated form of Indenture incorporated by reference to exhibit 4(a) to Registration Statement No. 33-49997 on Form S-3).
10(a).	Alcoa's Summary of the Key Terms of the AWAC Agreements, incorporated by reference to exhibit 99.2 to the company's Current Report on Form 8-K, dated November 28, 2001.
10(b).	Charter of the Strategic Council executed December 21, 1994, incorporated by reference to exhibit 99.3 to the company's Current Report on Form 8-K, dated November 28, 2001.
10(c).	Amended and Restated Limited Liability Company Agreement of Alcoa Alumina & Chemicals, L.L.C. dated as of December 31, 1994, incorporated by reference to exhibit 99.4 to the company's Current Report on Form 8-K, dated November 28, 2001.
10(d).	Shareholders Agreement dated May 10, 1996 between Alcoa International Holdings Company and WMC Limited, incorporated by reference to exhibit 99.5 to the company's Current Report on Form 8-K, dated November 28, 2001.
10(e).	Side Letter of May 16, 1995 clarifying transfer restrictions, incorporated by reference to exhibit 99.6 to the company's Current Report on Form 8-K, dated November 28, 2001.
10(f).	Amended and Extended Revolving Credit Agreement (364-Day), dated as of April 26, 2002, incorporated by reference to exhibit 10 to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
10(g).	Amended and Restated Revolving Credit Agreement (Five-Year), dated as of April 27, 2001, incorporated by reference to exhibit 10(o) to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.

10(h).	Revolving Credit Agreement (Five-Year), dated as of August 14, 1998, incorporated by reference to exhibit 10(o) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
10(i).	Alcoa Stock Acquisition Plan, effective January 1, 1999, incorporated by reference to exhibit 10(a) to the company's Annual Report on Form 10-K for the year ended December 31, 1999.
10(i)(1).	Amendments to Alcoa Stock Acquisition Plan, effective September 1, 2000, incorporated by reference to exhibit 10(a)(1) to the company's Annual Report on Form 10-K for the year ended December 31, 2000.
10(j).	Employees' Excess Benefit Plan, Plan A, incorporated by reference to exhibit 10(b) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1980.
10(j)(1).	Amendments to Employees' Excess Benefit Plan, Plan A, effective January 1, 2000, incorporated by reference to exhibit 10(b)(1) to the company's Annual Report on Form 10-K for the year ended December 31, 2000.
10(j)(2).	Amendments to Employees' Excess Benefit Plan, Plan A, effective January 1, 2002.
10(k).	Incentive Compensation Plan, as amended effective January 1, 1993, incorporated by reference to exhibit 10(c) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1992.
10(l).	Employees' Excess Benefit Plan, Plan C, as amended and restated in 1994, effective January 1, 1989, incorporated by reference to exhibit 10(d) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1994.
10(l)(1).	Amendments to Employees' Excess Benefit Plan, Plan C, effective January 1, 2000, incorporated by reference to exhibit 10(d)(1) to the company's Annual Report on Form 10-K for the year ended December 31, 2000.
10(l)(2).	Amendments to Employees' Excess Benefit Plan, Plan C, effective January 1, 2002.
10(m).	Employees' Excess Benefit Plan, Plan D, as amended effective October 30, 1992, incorporated by reference to exhibit 10(e) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1992 and exhibit 10(e)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1994.
10(n).	Deferred Fee Plan for Directors, as amended effective July 9, 1999, incorporated by reference to exhibit 10(g)(1) to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.
10(o).	Restricted Stock Plan for Non-Employee Directors, as amended effective March 10, 1995, incorporated by reference to exhibit 10(h) to the company's Annual

	Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1994.
10(o)(1).	Amendment to Restricted Stock Plan for Non-Employee Directors, effective November 10, 1995, incorporated by reference to exhibit 10(h)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1995.
10(p).	Fee Continuation Plan for Non-Employee Directors, incorporated by reference to exhibit 10(k) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1989.
10(p)(1).	Amendment to Fee Continuation Plan for Non-Employee Directors, effective November 10, 1995, incorporated by reference to exhibit 10(i)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1995.
10(q).	Deferred Compensation Plan, as amended effective October 30, 1992, incorporated by reference to exhibit 10(k) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1992.
10(q)(1).	Amendments to Deferred Compensation Plan, effective January 1, 1993, February 1, 1994 and January 1, 1995, incorporated by reference to exhibit 10(j)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1994.
10(q)(2).	Amendment to Deferred Compensation Plan, effective June 1, 1995, incorporated by reference to exhibit 10(j)(2) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1995.
10(q)(3).	Amendment to Deferred Compensation Plan, effective November 1, 1998, incorporated by reference to exhibit 10(j)(3) to the company's Annual Report on Form 10-K for the year ended December 31, 1999.
10(q)(4).	Amendments to Deferred Compensation Plan, effective January 1, 1999, incorporated by reference to exhibit 10(j)(4) to the company's Annual Report on Form 10-K for the year ended December 31, 1999.
10(q)(5).	Amendments to Deferred Compensation Plan, effective January 1, 2000, incorporated by reference to exhibit 10(j)(5) to the company's Annual Report on Form 10-K for the year ended December 31, 2000.
10(r).	Summary of the Executive Split Dollar Life Insurance Plan, dated November 1990, incorporated by reference to exhibit 10(m) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1990.
10(s).	Dividend Equivalent Compensation Plan, effective February 3, 1997, incorporated by reference to exhibit 10(l) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1996.

10(t).	Form of Indemnity Agreement between the company and individual directors or officers, incorporated by reference to exhibit 10(j) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1987.
10(u).	Alcoa Stock Incentive Plan, effective June 1, 1999, incorporated by reference to exhibit 10(p)(1) to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.
10(v).	Alcoa Supplemental Pension Plan for Senior Executives, effective January 1, 1999, incorporated by reference to exhibit 10(q) to the company's Annual Report on Form 10-K for the year ended December 31, 1998.
10(v)(1).	Amendments to Alcoa Supplemental Pension Plan for Senior Executives, effective January 1, 2000, incorporated by reference to exhibit 10(q)(1) to the company's Annual Report on Form 10-K for the year ended December 31, 2000.
10(w).	Deferred Fee Estate Enhancement Plan for Directors, effective July 10, 1998, incorporated by reference to exhibit 10(r) to the company's Annual Report on Form 10-K for the year ended December 31, 1998.
10(x).	Alcoa Deferred Compensation Estate Enhancement Plan, effective July 10, 1998, incorporated by reference to exhibit 10(s) to the company's Annual Report on Form 10-K for the year ended December 31, 1998.
10(x)(1).	Amendments to Alcoa Deferred Compensation Estate Enhancement Plan, effective January 1, 2000, incorporated by reference to exhibit 10(s)(1) to the company's Annual Report on Form 10-K for the year ended December 31, 1999.
10(x)(2).	Amendments to Alcoa Deferred Compensation Estate Enhancement Plan, effective January 1, 2000, incorporated by reference to exhibit 10(s)(2) to the company's Annual Report on Form 10-K for the year ended December 31, 2000.
10(y).	2001 PLUS Performance Plan, effective 2001, incorporated by reference to exhibit 10(y) to the company's Annual Report on Form 10-K for the year ended December 31, 2001.
10(z).	Alcoa Inc. Change in Control Severance Plan, incorporated by reference to exhibit 10(z) to the company's Annual Report on Form 10-K for the year ended December 31, 2001.
12.	Computation of Ratio of Earnings to Fixed Charges.
13.	Portions of Alcoa's 2002 Annual Report to Shareholders.
21.	Subsidiaries and Equity Entities of the Registrant.
23.	Consent of Independent Accountants.
24.	Power of Attorney for certain directors.

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

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

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

(b) Reports on Form 8-K. None were filed during the fourth quarter of 2002.

Report of Independent Accountants on
Financial Statement Schedule

To the Shareholders and Board of Directors of Alcoa Inc. (Alcoa)

Our audits of the consolidated financial statements referred to in our report dated January 8, 2003 appearing in the 2002 Annual Report to Shareholders of Alcoa (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

600 Grant Street
Pittsburgh, Pennsylvania
January 8, 2003

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

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
Allowance for doubtful accounts:					
2002	$121	$22	$(10)(A)	$13(B)	$120
2001	$ 62	$57	$ 7(A)	$ 5(B)	$121
2000	$ 47	$ 8	$ 12(A)	$ 5(B)	$ 62
Income tax valuation allowance:					
2002	$201	$17	$(15)(A)	$ 24(C)	$179
2001	$165	$50	$ (7)(A)	$ 7(C)	$201
2000	$134	$27	$ 30(A)	$26(C)	$165

Notes: (A) Collections on accounts previously written off, acquisition/divestiture of subsidiaries and foreign currency translation adjustments.
(B) Uncollectible accounts written off.
(C) Related primarily to utilization of tax loss carryforwards or amounts written off.

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

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SIGNATURES

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

ALCOA INC.

February 28, 2003	By	/s/ Charles D. McLane, Jr.
		Charles D. McLane, Jr. Vice President, Alcoa Business Support Services and Controller (Also signing as Principal Accounting Officer)

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

Signature	Title	Date
/s/ Alain J. P. Belda Alain J. P. Belda	Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Director)	February 28, 2003
/s/ Richard B. Kelson Richard B. Kelson	Executive Vice President and Chief Financial Officer	February 28, 2003

Kathryn S. Fuller, Carlos Ghosn, Joseph T. Gorman, Judith M. Gueron, Sir Ronald Hampel, John P. Mulroney, Henry B. Schacht, Franklin A. Thomas and Ernesto Zedillo, each as a Director, on February 28, 2003, by Donna C. Dabney, their Attorney-in-Fact.*

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

CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of Alcoa Inc.;
2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 28, 2003

/s/ ALAIN J. P. BELDA

Title: Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

I, Richard B. Kelson, Executive Vice President and Chief Financial Officer of Alcoa Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Alcoa Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 28, 2003

/s/ RICHARD B. KELSON

Title: Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Exhibit 10(j)(2)

ALCOA INC.
EMPLOYEES' EXCESS BENEFITS PLAN A

Pursuant to authorization by its Board of Directors, Alcoa Inc. has adopted the following Alcoa Inc. Employees' Excess Benefits Plan A, as amended and restated effective as of January 1, 2002, for the exclusive benefit of salaried employees who are not in a collective bargaining unit, who are eligible for retirement under the Alcoa Inc. Retirement Plan I ("Plan I"), Rules IC, IM and IN ("Plan I Rules"), and whose pension as calculated under the Plan I Rules would be in excess of the limitations provided for in Section 415(b) of the Internal Revenue Code of 1986, as amended ("415(b) limitations").

ARTICLE I
DEFINITIONS

1.1 The following terms have the specified meanings:

a. "Company" means Alcoa Inc.

b. "Board of Directors" means the Board of Directors of Alcoa Inc.

c. "Committee" means the Benefits Management Committee, which has been delegated by the Board of Directors to have the discretionary authority to interpret and administer the Plan.

d. "Excess Pension" means the portion of the Pension otherwise payable under the Plan I Rules, which is not payable under the Plan I Rules because of the 415(b) limitations.

e. "Excess Plan" means this Alcoa Inc. Employees' Excess Benefits Plan A.

f. "Participant" means a participant in the Plan I Rules who are eligible for a regular pension under the Plan I Rules and to whom monthly amount of regular pension is being paid or is immediately payable.

g. "Pension" means the regular pension provided under the Plan I Rules and, for purposes of this Excess Plan, include the Special Retirement Pension as defined in Plan I.

h. "Subsidiary" means a corporation at least 50% of whose outstanding voting stock is owned or controlled by the Company or one or more other Subsidiaries, and any non-corporate business entity in which the Company or one or more other Subsidiary have at least a 50% interest in capital or profits.

ARTICLE II
BENEFITS

2.1 All Excess Pensions will be payable to a Participant under this Excess Plan.

2.2 All Excess Pensions will be payable in monthly installments, commencing on the last day of the month of a Participant's retirement or, if later, upon the last day of the first month in which there may be such Excess Pension and continuing to and including the month in which the Participant's death occurs, except as otherwise provided in this Excess Plan.

2.3 No benefit under this Excess Plan may be assigned, transferred, pledged, encumbered, or be subject in any manner to alienation or anticipation, except that any exceptions to the non-alienation provisions in Plan I will also apply to benefits hereunder.

2.4 This Excess Plan will not be construed as conferring any rights upon any Participant for continuation of employment with the Company or any Subsidiary, nor will it interfere with the rights of the Company or any Subsidiary to terminate the employment of any Participant, or to take any personnel action affecting any Participant, without regard to the effect which such action might have upon the Participant as a prospective recipient of benefits under this Excess Plan.

ARTICLE III
CONTRIBUTIONS

3.1 Benefits payable hereunder will be payable out of the general assets of the Company, and no segregation of assets for the benefits will be made. The right of a Participant to receive benefits under this Excess Plan will be an unsecured claim against said assets.

ARTICLE IV
ADMINISTRATION OF EXCESS PLAN

4.1 The general administration of this Excess Plan will be by the Committee. The Committee's resolution of any matter concerning this Excess Plan will be final and binding upon the Company and any Participant or other person affected thereby.

ARTICLE V
AMENDMENT AND TERMINATION

5.1 This Excess Plan may be amended, suspended or terminated at any time by the Board of Directors or any other entity approved by the Board of Directors, provided however that no such amendment, suspension or termination will reduce or in any manner adversely affect any Participant's rights with respect to benefits that are payable or that may become payable under Article II hereof as of the date of such amendment, suspension or termination.

ARTICLE VI
CONSTRUCTION

6.1 This Excess Plan will be construed, regulated and administered under the laws of the Commonwealth of Pennsylvania except as modified by any applicable law.

Exhibit 10(l)(2)

ALCOA INC.
EMPLOYEES' EXCESS BENEFITS PLAN C

Pursuant to due authorization by the Board of Directors, Alcoa Inc. has adopted the following Alcoa Inc. Employees' Excess Benefits Plan C, as amended and restated effective January 1, 2002, for the exclusive benefit of selected management and highly compensated employees, whose pension benefits calculated under certain qualified and non-qualified plans does not take into account certain deferred compensation amounts.

ARTICLE I - DEFINITIONS

1.1 The following terms have the specified meanings.

A. "Additional Compensation" means any amount which the Participant has irrevocably elected to defer under one or more of the following: (1) the Incentive Compensation Plan of the Company, not including any gain or loss thereon, (2) Employees' Excess Benefit Plan D, of the Company ("Excess D"), not including any gain or loss thereon, (3) the Alcoa Deferred Compensation Plan, not including any gain or loss thereon, or (4) the Performance Pay Plan of the Company, not including any gain or loss thereon.

B. "Annual Compensation" means the total payments made by the Company and by any Subsidiaries during a calendar year for services rendered as an employee, except as otherwise provided by contractual agreement, other than living and similar allowances and premium pay and payments made for specific purposes as determined under supplemental rules adopted by the Company. Annual Compensation will include any amounts by which the Participant has elected to reduce his or her salary under the Alcoa Savings Plan for Non-Bargaining Employees or under any cash or deferred arrangement established under Section 401(k) of Internal Revenue Code of 1986 as amended, and will include any Additional Compensation. "Special Payments" within the meaning of the Alcoa Deferred Compensation Plan are not treated as Annual Compensation.

C. "Average Final Compensation" means the average Annual Compensation received during the five highest years within the ten calendar years preceding the date such compensation was discontinued (including the calendar year in which such compensation was discontinued if this would increase Average Final Compensation) affording the highest such average.

D. "Board of Directors" means the Board of Directors of the Company.

E. "Committee" means the Benefits Management Committee, which has been delegated by the Board of Directors to have the discretionary authority to interpret and administer the Plan.

F. "Company" means Alcoa Inc.

G. “Excess Plan” means the amended and restated Alcoa Inc. Employees’ Excess Benefit Plan C, adopted by the Company as described herein or as from time to time hereafter amended.

H. “Other Plans” means Plan I, any defined benefit retirement plan of any Subsidiary, Alcoa Inc. Employees’ Excess Benefits Plan A (“Excess A”) and Employees’ Excess Benefits Plan B of the Company (“Excess B”), as such plans presently exist or as from time to time hereafter amended.

I. “Participant” means any employee of the Company or any Subsidiary who meets one or more of the following requirements:

(1) retires or dies while covered under Excess B, or

(2) has Additional Compensation, or

(3) on or after January 1, 1989, retires, dies or terminates while covered under Plan I, and immediately prior to retirement, death or termination is in a job grade of 19 or above, or an equivalent of such job grades as determined by the Company.

J. “Pension Service” means the service used to calculate the Participant’s monthly retirement benefit under Excess B, or if such Plan is inapplicable, the service used to calculate such benefit under Plan I.

K. “Plan I” means Employees’ Retirement Plan of Alcoa Inc. Retirement Plan I.

L. “Reduced Average Final Compensation” means Average Final Compensation which is calculated by reducing each year’s Annual Compensation used by one-half of the amount, if any, received by a Participant from the Incentive Compensation Plan and the Performance Pay Plan of the Company.

M. “Subsidiary” means a corporation at least 50% of whose outstanding voting stock is owned or controlled by the Company and/or one or more other Subsidiaries, and any non-corporate business entity in which the Company and/or one or more other Subsidiaries have at least a 50% interest in capital or profits.

N. “Surviving Spouse” means a deceased Participant’s spouse who is entitled to receive surviving spouse benefits under Plan I or Excess B.

ARTICLE II - BENEFITS

2.1 A benefit payable under this Excess Plan to a Participant who retires or terminates with at least 5 years of Pension Service will be the greater of the following:

A. <u>FORMULA 1</u> - for participants who retire on or after January 1, 1989 and are eligible under Plan I - Rules IC, ID, IE, IF, IG, IH, IJ, IM or IN, or Excess B, the portion of pension benefits in pay status that would have been payable for that month to a Participant under Plan I at the time Pension Service terminates, had Plan I used Annual Compensation in determining the pension benefit; however, Annual Compensation is subject to the limits provided for in Section 401(a)(17) of the Internal Revenue Code of 1986, as amended, through 1993, and $250,000 thereafter, or

B. <u>FORMULA 2</u> - for participants who retire on or after April 1, 2002, and are eligible under Plan I, Rules IC, IM or IN, or Excess B, the amount of pension benefits which would have been payable to the Participant using the formula contained in Plan I, Rules IC, IM or IN effective May 31, 2001, had Plan I, Rules IC, IM or IN used Annual Compensation in determining the pension benefit, or

C. <u>FORMULA 3</u> - for participants who retire on or after April 1, 2002 under Plan I, Rules IC, IM or IN, or Excess B, one-twelfth of the following:

(1) a. 1.7% of Reduced Average Final Compensation for each year of Pension Service up to 30 years, plus

b. 1.3% of Reduced Average Final Compensation for each year of Pension Service in excess of 30, less

c. the projected earnings Social Security offset as defined in Plan I, Rule IC as of December 31, 1988,

less the amount determined in the following paragraph (2) a. and b, or (3) a. and b., as applicable.

(2) a. for Participants who retire prior to attaining age 62 on any type of pension provided under Plan I, Rules IC, IM or IN, or pension equivalent under Excess B (other than a 55/10 pension or deferred vested pension), a reduction which equals one percent (1%) for each year, and prorated monthly for a partial year, said retirement precedes age 62, times the amount calculated in the foregoing paragraph (1), plus

b. any and all applicable reductions and offsets in accordance with the provisions of Plan I, Rules IC, IM or IN, or of Excess B, (i.e., actuarial reductions and any other percentage reduction made in order to create a joint and survivor annuity).

(3) a. for Participants who retire prior to attaining age 62 on a 55/10 pension or deferred vested pension, the Plan I, Rules IC, IM or IN actuarial reduction to provide for payment prior to age 62, times the amount calculated in the foregoing paragraph (1), plus

b. any and all applicable reductions and offsets in accordance with the provisions of Plan I, Rules IC, IM or IN, or Excess B (i.e., actuarial reductions and any other percentage reduction made in order to create a joint and survivor annuity).

D. The pension otherwise payable under Formulae 1, 2 or 3 will be subject to offsets for payments made from Other Plans.

2.2 A benefit payable under this Excess Plan to the Surviving Spouse:

A. of a deceased retiree, will be 50% of the pension payable to the retiree on the retiree's date of death, subject to offset for payments made from Other Plans.

B. of an employee who dies while accruing Pension Service, will be 50% of the greater of: Formula 1, Formula 2 or Formula 3 (excluding paragraphs 2.1 C. (2), as applicable, on the employee's date of death, subject to the offset for payments made under Other Plans.

C. of an employee who terminates with only rights to a deferred vested pension, will be 50% of the greater of Formula 1, Formula 2 or Formula 3, as applicable, on the date that the employee's Pension Service is terminated, subject to the offset of payments made under Other Plans.

2.3 Where the benefits under the Other Plans are not payable solely in the form of monthly pension benefits over the same time period, the Committee will, if necessary, adjust the benefits payable under this Excess Plan so that the Participant or Surviving Spouse is neither advantaged nor disadvantaged for pension purposes.

2.4 Benefits payable to a Participant who retires or to a Surviving Spouse under this Excess Plan in conjunction with benefits payable under any specific Other Plans will commence concurrently with benefits payable to said Participant or Surviving Spouse under such Other Plans. Upon the cessation of payment of benefits to a Participant or Surviving Spouse under any Other Plans, benefits payable under this Excess Plan in conjunction with benefits payable under said Other Plans will concurrently cease.

2.5 This Excess Plan will not be construed as conferring any rights upon any Participant for continuation of employment with the Company or any Subsidiary, nor will it interfere with the rights of the Company or Subsidiary to terminate the employment of any Participant and/or to take any personnel action affecting any Participant without regard to the effect which such action might have upon such Participant as a prospective recipient of benefits under this Excess Plan.

2.6 No benefit under this Excess Plan may be assigned, transferred, pledged or encumbered or be subject in any manner to alienation or anticipation, except that any exceptions to the non-alienation provisions in Plan I, will also apply to benefits hereunder.

ARTICLE III - CONTRIBUTIONS

3.1 Benefits payable hereunder will be payable out of general assets of the Company, and no segregation of assets for such benefits will be made. The right of a Participant or a Surviving Spouse to receive benefits under this Excess Plan will be an unsecured claim against said assets.

ARTICLE IV - ADMINISTRATION OF EXCESS PLAN

4.1 The general administration of this Excess Plan will be by the Committee. The Committee has the discretionary authority to interpret this Excess Plan. The Committee’s resolution of any matter concerning this Excess Plan will be final binding upon the Company, any Participant or beneficiary affected hereby.

ARTICLE V - AMENDMENT AND TERMINATION

5.1 This Excess Plan may be amended, suspended or terminated at any time by the Board of Directors or any other entity approved by said Board, provided, however, that no amendment, suspension or termination will reduce or in any manner adversely affect any Participant’s rights with respect to benefits that are payable or may become payable under Article II hereof based upon said Participant’s Additional Compensation as of the date of such amendment, suspension termination.

ARTICLE VI - CONSTRUCTION

6.1 This Excess Plan will be construed, regulated and administered under the laws of the Commonwealth of Pennsylvania.

Exhibit 12

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

	2002	2001	2000	1999	1998
Earnings:					
Income from continuing operations before taxes on income and before accounting change	$ 925	$ 1,637	$ 2,794	$ 1,838	$ 1,600
Minority interests' share of earnings of majority-owned subsidiaries without fixed charges	—	—	1	—	(2)
Less equity earnings	(72)	(118)	(115)	(55)	(50)
Fixed charges added to earnings	382	422	468	230	244
Distributed income of less than 50% owned persons	21	23	9	9	—
Amortization of capitalized interest:					
Consolidated	14	13	15	15	20
Proportionate share of 50% owned persons	—	—	—	—	—
Total earnings	$ 1,270	$ 1,977	$ 3,172	$ 2,037	$ 1,812
Fixed Charges:					
Interest expense:					
Consolidated	$ 350	$ 371	$ 427	$ 195	$ 198
Proportionate share of 50% owned persons	4	6	6	4	3
	354	377	433	199	201
Amount representative of the interest factor in rents:					
Consolidated	27	43	33	30	42
Proportionate share of 50% owned persons	1	2	2	1	1
	28	45	35	31	43
Fixed charges added to earnings	382	422	468	230	244
Interest capitalized:					
Consolidated	22	22	20	21	13
Proportionate share of 50% owned persons	—	—	—	—	—
	22	22	20	21	13
Total fixed charges	$ 404	$ 444	$ 488	$ 251	$ 257
Ratio of earnings to fixed charges	3.1	4.5	6.5	8.1	7.1

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

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

	2002	2001	2000	1999	1998
Sales	$20,263	$22,497	$22,659	$16,133	$15,259
Income from continuing operations	498	907	1,477	1,048	848
(Loss) income from discontinued operations	(112)	1	12	6	5
Cumulative effect of accounting change	34	—	(5)	—	—
Net income	420	908	1,484	1,054	853
Earnings (loss) per share:					
Basic:					
Income from continuing operations	.59	1.06	1.81	1.42	1.21
(Loss) income from discontinued operations	(.13)	—	.02	.01	.01
Cumulative effect of accounting change	.04	—	(.01)	—	—
Net income	.50	1.06	1.82	1.43	1.22
Diluted:					
Income from continuing operations	.58	1.05	1.79	1.40	1.20
(Loss) income from discontinued operations	(.13)	—	.02	.01	.01
Cumulative effect of accounting change	.04	—	(.01)	—	—
Net income	.49	1.05	1.80	1.41	1.21
Alcoa's average realized price per pound for aluminum ingot	.66	.72	.77	.67	.67
LME average 3-month price per pound for aluminum ingot	.62	.66	.71	.63	.63
Cash dividends paid per common share	.600	.600	.500	.403	.375
Total assets	29,810	28,355	31,691	17,066	17,463
Short-term borrowings	37	162	2,715	340	431
Long-term debt	8,450	6,486	5,408	2,718	3,051

The financial information for all prior periods has been reclassified to reflect assets held for sale and discontinued operations.

See Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Consolidated Financial Statements for a discussion of special items, the adoption of new accounting standards, goodwill impairment, and discontinued operations that impacted net income in 2002 and special items, gains on asset sales, and various charges to cost of goods sold and selling and general administrative expenses that impacted net income in 2001. In 2000, net income includes the cumulative effect of accounting change for revenue recognition.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in millions, except per-share amounts and ingot prices; shipments in thousands of metric tons [mt])

Certain statements in this report under this caption and elsewhere relate to future events and expectations and, as such, constitute forward-looking statements. Forward-looking statements also include those containing such words as "anticipates," "believes," "estimates," "expects," "hopes," "targets," "should," "will," "will likely result," "forecast," "outlook," "projects," or similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements of Alcoa to be different from those expressed or implied in the forward-looking statements. For discussion of some of the specific factors that may cause such a difference, see Notes L and W to the Consolidated Financial Statements and the disclosures included below under Segment Information and Market Risks.

Alcoa is the world's leading producer of primary aluminum, fabricated aluminum, and alumina, and is active in all major aspects of the industry: technology, mining, refining, smelting, fabricating, and recycling. Aluminum is a commodity that is traded on the London Metal Exchange (LME) and priced daily based on market supply and demand. Aluminum and alumina represent approximately two-thirds of Alcoa's revenues, and the price of aluminum influences the operating results of Alcoa. Nonaluminum products include precision castings, industrial fasteners, vinyl siding, consumer products, food service and flexible packaging products, plastic closures, fiber-optic cables, and electrical distribution systems for cars and trucks.

Alcoa is a global company operating in 39 countries. North America is the largest market with 67% of Alcoa's revenues. Europe is also a significant market with 21% of the company's revenues. Alcoa also has investments and activities in Asia and Latin America, which present opportunities for substantial growth, particularly in Brazil, China, and Korea. Governmental policies and other economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates, affect the results of operations in these emerging markets.

RESULTS OF OPERATIONS

EARNINGS SUMMARY

Alcoa's net income for 2002 was $420, or $0.49 per diluted share, compared with $908, or $1.05 per share, in 2001. The decline in net income is primarily due to lower realized prices for alumina and aluminum; lower volumes in businesses serving the aerospace, commercial building and construction, telecommunications, and industrial gas turbine markets; power sales that were recognized in 2001; a goodwill impairment charge; lower gains on sales of assets and lower equity income in 2002; and losses recognized on discontinued operations in 2002. Partially offsetting these declines were benefits resulting from continued focus on cost savings and restructuring initiatives; lower costs recognized in 2002 for contract losses, customer claims and bad debts; the favorable impact in 2002 of ceasing amortization of goodwill and recording cumulative effect income for the change in accounting for goodwill; lower restructuring charges recognized in 2002 compared with 2001; and lower minority interests' share of earnings. See the discussion that follows for additional details on the results of operations.

During the fourth quarter of 2002, Alcoa performed a portfolio review of its businesses and the markets they serve. As a result of this review, Alcoa committed to a plan to divest certain noncore businesses that do not meet internal growth and return measures. Certain of the businesses to be divested were classified as discontinued operations and a $78 (after tax and minority interests) impairment charge was recorded to reduce the carrying value of these businesses to their estimated fair value less costs to sell. These businesses include Alcoa's commodity automotive fasteners business, certain fabricating businesses serving the residential building and construction market in North America, and a packaging business in South America. Alcoa also intends to divest the protective packaging business of Ivex Packaging Corporation (Ivex), as this line of business does not meet future growth plans of the company.

Certain other businesses to be divested were classified as assets held for sale due to management's belief that Alcoa may enter into supply agreements in connection with the sale of these businesses. Alcoa recorded a loss of $143 (after tax and minority interests) in special items, representing the impairment charge to reduce these businesses to their estimated fair value less costs to sell. These businesses include certain architectural products businesses in North America, certain fabricating and packaging operations in South America, and foil facilities in St. Louis, MO and Russellville, AR.

The financial information of all prior periods has been reclassified to reflect these businesses as assets held for sale and/or discontinued operations. See Note B to the Consolidated Financial Statements for further information.

Alcoa's net income for 2001 was $908, or $1.05 per diluted share, compared with $1,484, or $1.80 per share, in 2000. Net income in 2001 included special after-tax charges of $355 related to the strategic restructuring of Alcoa's primary and fabricating businesses to optimize assets and lower costs. Results for 2001 were also negatively affected by lower realized prices and lower volumes due to weak market conditions in the transportation, building and construction, and distribution markets. Also impacting earnings in 2001 were costs incurred for contract losses, customer claims, and bad debts. These negative factors were partially offset by cost savings and gains on the sales of businesses. In 2001, Alcoa announced a goal to reduce costs by $1,000 by December 2003.

Return on average shareholders' equity for 2002 was 4.1% compared with 8.3% in 2001 and 16.8% in 2000. The decrease in 2002 was primarily due to lower earnings, as discussed above. The decrease in 2001 was due to the earnings decline mentioned above and a larger average number of shares outstanding during the period primarily resulting from the Reynolds acquisition in 2000.

SALES—Sales in 2002 were $20,263 compared with sales of $22,497 in 2001. The 10% decline in sales was primarily due to lower volumes in downstream businesses serving the aerospace, commercial building and construction, telecommunications, and industrial gas turbine markets; lower realized prices for alumina and aluminum; the lack of power sales in 2002 that were recognized in 2001; the divestiture of Thiokol Propulsion (Thiokol) in 2001; and the contribution of the net assets of Reynolds' metals distribution business (RASCO) in 2001 to a joint venture, Integris Metals, Inc. (Integris), in which Alcoa retained a 50% equity interest. These decreases were somewhat offset by increased volumes in businesses serving the automotive and commercial transportation markets, increased volumes in the alumina and primary metals businesses, and the acquisitions of Ivex and several smaller businesses.

Sales in 2001 of $22,497 were essentially flat compared with sales of $22,659 in 2000. The positive impact in 2001 of the full year's results of the Reynolds and Cordant acquisitions made in 2000 was offset by lower realized prices for alumina and aluminum, lower volumes, and the sale of Thiokol.

COST OF GOODS SOLD—COGS as a percentage of sales was 80.2% in 2002 compared with 78% in 2001. The increase in the percentage in 2002 was primarily due to lower realized prices, the lack of significant power sales in 2002, and lower volumes. These unfavorable impacts were somewhat offset by ongoing cost reductions generated by productivity and purchasing cost savings and a higher LIFO benefit of $38 in 2002 as a result of a reduction in inventories and lower purchased material costs.

COGS as a percentage of sales was 78% in 2001 compared with 75.5% in 2000. The increase in the percentage was primarily due to lower realized prices, lower volumes, and a full year's impact of the higher cost of sales ratios of the acquired Reynolds and Cordant businesses. Additionally, COGS was impacted by a pretax charge of $56 for contract losses, customer claims, and the power failure at the company's Warrick, IN smelter. Partially offsetting these negative factors were cost savings and operating improvements.

SELLING AND GENERAL ADMINISTRATIVE EXPENSES—S&GA expenses were $1,147, or 5.7% of sales, in 2002 compared with S&GA expenses of $1,256, or 5.6% of sales, in 2001, resulting in a decrease of $109. The 9% decrease in S&GA expenses in 2002 was primarily due to lower bad debt expense, bad debt recoveries, and lower employee compensation costs.

S&GA expenses in 2001 increased to $1,256 compared with S&GA expenses of $1,088, or 4.8% of sales, in 2000. The increase in S&GA expenses in 2001 was primarily due to customer bad debt write-offs of $78 and the full-year impact of the acquisitions of Reynolds and Cordant.

RESEARCH AND DEVELOPMENT EXPENSES—R&D expenses were $214 in 2002 compared with $203 in 2001 and $194 in 2000. The increases were primarily due to increases in spending in the Primary Metals segment related to inert anode technology. The full-year impact in 2001 of acquisitions made in 2000 also contributed to the increase in R&D expenses in 2001 compared with 2000.

PROVISION FOR DEPRECIATION, DEPLETION, AND AMORTIZATION—The provision for depreciation, depletion, and amortization was $1,108 in 2002 compared with $1,234 in 2001. The 10% decrease was primarily the result of ceasing amortization of goodwill in 2002 under the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets.” The elimination of goodwill amortization expense of $171 in 2002 was partly offset by increases in depreciation and amortization expense related to acquisitions in 2002.

The provision for depreciation, depletion, and amortization was $1,234 in 2001 compared with $1,199 in 2000. The 3% increase was primarily due to the full-year impact of the Reynolds and Cordant acquisitions.

IMPAIRMENT OF GOODWILL—In the fourth quarter of 2002, Alcoa recorded an impairment charge of $44 for goodwill associated with its operations serving the telecommunications market. Alcoa’s telecommunications business experienced lower than expected operating profits and cash flows in the second half of 2002. As a result of this trend and the overall industry expectations, the projected operating profits and cash flows for the telecommunications business were reduced for the next five years. The projected decline in cash flows resulted in the recognition of the $44 impairment loss.

SPECIAL ITEMS—Special items of $407 were recognized in 2002 compared with $565 in 2001. During 2002, Alcoa recorded special charges of $407 ($261 after tax and minority interests) for restructurings, consisting of charges of $39 ($23 after tax and minority interests) in the third quarter of 2002 and charges of $368 ($238 after tax and minority interests) in the fourth quarter of 2002. The third quarter special charge of $39 was primarily the result of the curtailment of aluminum production at three smelters. Alcoa temporarily curtailed aluminum production at its Badin, NC plant and permanently closed its Troutdale, OR plant as well as approximately 25% of the capacity at its Rockdale, TX facility. The remaining carrying value and results of operations related to these facilities were not material. The fourth quarter special charge of $368 was primarily the result of restructuring operations for those businesses experiencing negligible growth due to continued market declines as well as the decision to divest certain businesses that have failed to meet internal growth and return measures. Of the total special charge of $368, $154 ($95 after tax and minority interests) was related to the restructuring of operations of businesses serving the aerospace, automotive, and industrial gas turbine markets, and in the U.S. smelting system. The remaining $214 ($143 after tax and minority interests) of the total special charge of $368 was related to impairment charges on businesses to be divested, comprised of certain architectural products businesses in North America, certain fabricating and packaging operations in South America, and foil facilities in St. Louis, MO and Russellville, AR.

The 2002 charges were comprised of asset write-downs of $278, consisting of $136 of goodwill on businesses to be divested, as well as $142 for structures, machinery, and equipment; employee termination and severance costs of $105 related to approximately 8,500 salaried and hourly employees at over 70 locations, primarily in Mexico, Europe, and the U.S.; and exit costs, including environmental, demolition, and lease termination costs, of $31. Special charges in 2002 were not recorded in the segment results. The impact to the segments would have been a pretax charge of $3 in Alumina and Chemicals, $64 in Primary Metals, $65 in Flat-Rolled Products, $199 in Engineered Products, $46 in Packaging and Consumer, and $28 in the Other group.

Alcoa expects to substantially complete all actions relative to the 2002 restructuring charges by the end of 2003. Cost savings associated with lower employee and other costs are anticipated to be approximately $75 to $100 in 2003 and $125 to $150 in 2004. Cost savings associated with suspending depreciation on these assets are expected to be approximately $35 in 2003.

During 2001, Alcoa recorded charges of $565 ($355 after tax and minority interests) as a result of a restructuring plan based on a strategic review of the company’s primary products and fabricating businesses aimed at optimizing and aligning its manufacturing systems with customer needs, while positioning the company for stronger profitability. The charge of $565 consisted of a charge of $212 ($114 after tax and minority interests) in the second quarter of 2001 and a charge of $353 ($241 after tax and minority interests) in the fourth quarter of 2001. The second quarter charge was primarily due to actions taken in Alcoa’s primary products businesses because of economic and competitive conditions. These actions included the shutdown of three facilities in the U.S. The fourth quarter charge was primarily due to actions taken in Alcoa's fabricating businesses. These actions included the shutdown of 15 facilities in the U.S. and Europe.

The 2001 special charges consisted of asset write-downs of $371, employee termination and severance costs of $178 related to workforce reductions of approximately 10,400 employees, and other exit costs of $16 related to the shutdown of facilities. These charges were not recorded in the segment results. The impact to the segments would have been a pretax charge of $94 in Alumina and Chemicals, $157 in Primary Metals, $105 in Flat-Rolled Products, $126 in Engineered Products, and $63 in the Other group.

During 2002, various adjustments were recorded to the 2001 restructuring program reserves. Additional restructuring charges of $18 were recorded for additional asset impairments related to the 2001 restructuring plan and for additional employee termination and severance costs, primarily related to additional severance costs not accruable in 2001 for layoffs of approximately 250 salaried and hourly employees, primarily in Europe and Mexico. Also, reversals of restructuring reserves of $32 were recorded due to changes in estimates of liabilities resulting from lower than expected costs associated with certain plant shutdowns and disposals.

As of December 31, 2002, approximately 9,200 of the 10,650 employees associated with the 2001 restructuring program had been terminated. The remaining reserve balance associated with the 2001 restructuring program was approximately $130 at December 31, 2002. This reserve consisted primarily of asset write-down costs of $60 and employee termination and severance costs of $70. These reserves are for ongoing site remediation work and employee layoff costs that primarily consist of monthly payments made over an extended period.

INTEREST EXPENSE—Interest expense was $350 in 2002 compared with $371 in 2001. The 6% decrease in 2002 was primarily due to lower average effective interest rates, partially offset by higher borrowings during the year.

In 2001, interest expense decreased 13% to $371, from $427 in 2000, due to lower interest rates as well as the pay down of debt, primarily short-term borrowings.

OTHER INCOME—Other income was $179 in 2002 compared with $308 in 2001. The 42% decrease was primarily due to $62 higher net gains on asset sales in 2001, as noted below, and a decrease of $46 in equity earnings, driven by lower earnings at Elkem ASA (Elkem).

In 2001, other income increased to $308 compared with $154 in 2000. The increase was primarily due to $114 ($93 after tax) of gains on asset sales related primarily to the sales of Thiokol, Alcoa Proppants, Inc., and Alcoa's interest in a Latin American cable business, as well as the impact of foreign currency exchange adjustments.

Foreign exchange losses included in other income were $30 in 2002, $11 in 2001, and $82 in 2000.

INCOME TAXES—Alcoa’s effective tax rate of 31.5% in 2002 differed from the statutory rate of 35% and Alcoa's 2001 and 2000 effective tax rates of 31.9% and 33.5%, respectively, primarily due to taxes on foreign income, the impact of ceasing goodwill amortization, and adjustments to prior-year taxes.

MINORITY INTERESTS—Minority interests’ share of income from operations was $135 in 2002 compared with $208 in 2001 and $381 in 2000. The decreases were due to lower earnings at Alcoa Aluminio, Alcoa World Alumina and Chemicals, and Alcoa Fujikura Ltd. (AFL). The goodwill impairment charge of $44 (pretax) contributed to the earnings decline of AFL in 2002.

LOSS FROM DISCONTINUED OPERATIONS—Loss from discontinued operations was $112 in 2002 compared with income from discontinued operations of $1 in 2001 and $12 in 2000. The loss of $112 recognized in 2002 is comprised of $34 in operating losses of certain businesses to be disposed of as well as an impairment loss of $78 recognized for the write-down of the carrying amount of the businesses to estimated fair value less costs to sell. See Note B to the Consolidated Financial Statements for further information.

CUMULATIVE EFFECT OF ACCOUNTING CHANGE—Cumulative effect income of $34 was recognized in 2002 for the change in accounting for goodwill under SFAS No. 142. A cumulative effect loss of $5 was recognized in 2000 for the change in accounting for revenue recognition under Staff Accounting Bulletin 101, “Revenue Recognition in Financial Statements.” See Notes A and D to the Consolidated Financial Statements for further information.

SEGMENT INFORMATION

Alcoa’s operations consist of five worldwide segments: Alumina and Chemicals, Primary Metals, Flat-Rolled Products, Engineered Products, and Packaging and Consumer. Alcoa businesses that are not reported to management as part of one of these five segments are aggregated and reported as “Other.” Alcoa’s management reporting system measures the after-tax operating income (ATOI) of each segment. Nonoperating items, such as interest income, interest expense, foreign exchange gains/losses, the effects of last-in, first-out (LIFO) inventory accounting, minority interests, special items, discontinued operations, and accounting changes are excluded from segment ATOI. In addition, certain expenses, such as corporate general administrative expenses and depreciation and amortization on corporate assets, are not included in segment ATOI. Segment assets exclude cash, cash equivalents, short-term investments, and all deferred taxes. Segment assets also exclude items such as corporate fixed assets, LIFO reserves, goodwill allocated to corporate, assets held for sale, and other amounts.

ATOI for all segments totaled $1,481 in 2002 compared with $2,042 in 2001 and $2,377 in 2000. See Note O to the Consolidated Financial Statements for additional information. The following discussion provides shipment, revenue, and ATOI data for each segment for the years 2000 through 2002. The financial information and data on shipments of all prior periods have been reclassified to reflect discontinued operations.

ALUMINA AND CHEMICALS

	2002	2001	2000
Alumina production (mt)	13,027	12,527	13,968
Third-party alumina shipments (mt)	7,486	7,217	7,472
Third-party sales	$ 1,743	$ 1,908	$ 2,108
Intersegment sales	955	1,021	1,104
Total sales	$ 2,698	$ 2,929	$ 3,212
After-tax operating income	$ 315	$ 471	$ 585

This segment consists of Alcoa’s worldwide alumina and chemicals system that includes the mining of bauxite, which is then refined into alumina. Alumina is sold directly to internal and external smelter customers worldwide or is processed into industrial chemical products. The industrial chemical products are sold to a broad spectrum of markets including refractories, ceramics, abrasives, chemicals processing, and other specialty applications. Slightly more than half of Alcoa’s alumina production is sold under supply contracts to third parties worldwide, while the remainder is used internally. Alumina comprises approximately three-quarters of the total third-party sales.

In 2002, third-party sales of alumina decreased 8% compared with 2001, primarily due to an 11% decline in realized prices, which more than offset increased shipments. In 2001, third-party sales of alumina decreased 13% compared with 2000, primarily due to a decrease in shipments of 3% and a decrease in realized prices of 10%.

Third-party sales of alumina-based chemical products were down 12% in 2002 compared to 2001 and down 31% in 2001 compared with 2000, primarily due to lower volumes.

ATOI for this segment declined 33% in 2002 compared with 2001, primarily due to lower realized prices, partially offset by increased volumes and cost improvements. ATOI in 2001 fell 20% from 2000 due to lower volumes resulting from production curtailments at Point Comfort, TX and Brazil and the shutdown of the alumina refinery in St. Croix, as well as lower prices.

PRIMARY METALS

	2002	2001	2000
Aluminum production (mt)	3,500	3,488	3,539
Third-party aluminum shipments (mt)	2,073	1,873	2,071
Third-party sales	$3,174	$3,432	$3,756
Intersegment sales*	2,655	2,849	3,395
Total sales	$5,829	$6,281	$7,151
After-tax operating income	$ 650	$ 905	$1,000

* Intersegment sales have been adjusted from amounts previously reported to reflect the elimination of intrasegment sales. These adjustments had no impact on ATOI.

This segment consists of Alcoa's worldwide smelter system. Primary Metals receives alumina primarily from the Alumina and Chemicals segment and produces aluminum ingot to be used by Alcoa's fabricating businesses, as well as sold to external customers, aluminum traders, and commodity markets. Results from the sale of aluminum powder, scrap, and excess power are also included in this segment, as well as the results of aluminum derivative contracts. Aluminum ingot produced by Alcoa and used internally is transferred to other segments at prevailing market prices. The sale of ingot represents approximately 90% of this segment's third-party sales.

Third-party sales in 2002 decreased $258, or 8%, compared with 2001. Higher shipments in 2002 were more than offset by lower realized prices and the lack of significant power sales resulting from production curtailments at plants located in the northwestern U.S. in 2001. Third-party sales in 2001 decreased $324, or 9%, from 2000. The decrease was primarily due to a 10% decrease in shipments and lower realized prices, partially offset by power sales and the full-year results of the Reynolds acquisition. Alcoa's average third-party realized price for ingot in 2002 was 66 cents per pound, a decrease of 8% from the average realized price of 72 cents per pound in 2001. In 2000, the average realized price was 77 cents. This compares with average 3-month prices on the LME of 62 cents per pound in 2002, 66 cents per pound in 2001, and 71 cents per pound in 2000.

ATOI for this segment decreased $255, or 28%, in 2002 compared with 2001. The decline was primarily due to lower realized prices and the lack of significant power sales in 2002. These decreases were somewhat offset by increased volumes and lower foreign taxes. ATOI decreased by $95, or 10%, in 2001 compared with 2000. The decrease was primarily attributed to lower volumes and lower prices, partially offset by power sales. The year-over-year impact of power sales, net of volume-related decreases, was approximately $50.

Alcoa has approximately 445,000 mt per year (mtpy) of idle capacity on a base capacity of 3,948,000 mtpy.

FLAT-ROLLED PRODUCTS

	2002	2001	2000
Third-party aluminum shipments (mt)	1,774	1,818	1,960
Third-party sales	$4,640	$4,999	$5,446
Intersegment sales	68	64	97
Total sales	$4,708	$5,063	$5,543
After-tax operating income	$ 220	$ 262	$ 299

This segment's principal business is the production and sale of aluminum plate, sheet, and foil. This segment includes rigid container sheet (RCS), which is sold directly to customers in the packaging and consumer market and is used to produce aluminum beverage cans. Seasonal increases in RCS sales are generally experienced in the second and third quarters of the year. This segment also includes sheet and plate used in transportation and distributor markets, of which approximately two-thirds is sold directly to customers while the remainder is sold through distributors. Approximately 60% of the third-party sales in this segment are derived from sheet and plate, and foil used in industrial markets, while the remaining 40% of third-party sales consists of RCS. Sales of RCS, sheet, and plate are dependent on a relatively small number of customers.

In 2002, third-party sales decreased $359, or 7%, compared with 2001. The decrease was primarily due to lower metal prices, an unfavorable mix for sheet and plate in the U.S. and Europe due to continued weakness in the aerospace market, and lower volumes for RCS and sheet and plate in Europe. In 2001, third-party sales from this segment decreased by $447, or 8%, compared with 2000. This decrease was driven primarily by 7% lower shipments due to weakness in the transportation and distribution markets in North America and Europe, partially offset by sales increases resulting from the acquisition of British Aluminium and improved mix on sheet and plate sales.

ATOI for this segment decreased $42, or 16%, in 2002 compared with 2001. The decrease in 2002 was primarily due to unfavorable product mix for sheet and plate in the U.S. and Europe, as well as lower volumes and lower prices in Europe. These decreases were partially offset by cost savings in the RCS business. ATOI decreased $37, or 12%, in 2001 compared with 2000 due to lower volumes in North America and Europe, which were partly offset by a more profitable product mix for sheet and plate in the U.S.

ENGINEERED PRODUCTS

	2002	2001	2000
Third-party aluminum shipments (mt)	891	900	1,021
Third-party sales	$5,018	$5,765	$5,199
Intersegment sales	34	35	62
Total sales	$5,052	$5,800	$5,261
After-tax operating income	$ 107	$ 173	$ 198

This segment includes hard- and soft-alloy extrusions, including architectural extrusions, super-alloy castings, steel and aluminum fasteners, aluminum forgings, and wheels. These products serve the transportation, building and construction, and distributor markets and are sold directly to customers and through distributors.

Third-party sales decreased $747, or 13%, in 2002 compared with 2001. The decrease was primarily due to lower volumes in businesses serving the aerospace, industrial gas turbine, and commercial building and construction markets as these markets continued to decline, somewhat offset by increased volumes in businesses serving the commercial transportation market during the year. In 2001, third-party sales increased $566, or 11%, compared with 2000, primarily due to a full year's results of the 2000 acquisitions of Reynolds, Cordant, and British Aluminium, partially offset by a decrease in volume primarily in North America due to weakness in the transportation and distributor markets.

ATOI for this segment decreased $66, or 38%, in 2002 compared with 2001. The decrease was primarily due to declining volumes as a result of continued weakness in certain markets, as noted, partially offset by productivity and purchasing cost savings, higher volumes due to a stronger commercial transportation market during the year, and the absence of goodwill amortization of $61 in 2002. ATOI decreased $25, or 13%, in 2001 compared with 2000. This decrease was primarily due to decreased volumes and prices as a result of weak market conditions and the impact of exchange rate fluctuations in Brazil, somewhat offset by the positive impact of acquisitions and cost reduction efforts.

PACKAGING AND CONSUMER

	2002	2001	2000
Third-party aluminum shipments (mt)	162	141	119
Third-party sales	$2,882	$2,691	$2,079
After-tax operating income	$ 198	$ 184	$ 131

This segment includes consumer products, foodservice, flexible packaging, and packaging graphics design, as well as closures and packaging machinery businesses. The principal products in this segment include aluminum foil; plastic wraps and bags; metal and plastic beverage and food closures; flexible packaging; prepress services; and thermoformed plastic containers and extruded plastic sheet and film. Consumer products are marketed under brands including Reynolds Wrap®, Diamond®, Baco®, and Cut- Rite® wax paper. Seasonal increases generally occur in the third and fourth quarters of the year for such products as consumer foil and plastic wraps and bags, while seasonal slowdowns for closures generally occur in the fourth quarter of the year. Products are generally sold directly to customers, consisting of supermarkets, beverage companies, food processors, retail chains, and commercial foodservice distributors.

Third-party sales increased $191, or 7%, in 2002 compared with 2001. The increase was primarily due to the acquisition of Ivex in 2002, which contributed approximately $240, as well as higher volumes in the closures, consumer products, and packaging design businesses. These increases were partly offset by lower volumes, lower prices, and currency devaluation in Latin America. Third-party sales increased $612, or 29%, in 2001 compared with 2000. The increase was primarily due to the full-year results of the Reynolds acquisition as well as several smaller acquisitions in 2000.

ATOI increased $14, or 8%, in 2002 compared with 2001. The increase was primarily due to the acquisition of Ivex, which contributed approximately $12. Also impacting ATOI, to a lesser extent, were higher volumes in the closures, consumer products, and packaging design businesses, as well as cost savings across various businesses within this segment. These increases were partially offset by the negative impact of the business conditions in Latin America, as noted. ATOI increased $53, or 40%, in 2001 compared with 2000, due primarily to acquisitions as well as improved volumes in closures sales.

OTHER

	2002	2001	2000
Third-party aluminum shipments (mt)	308	228	187
Third-party sales	$2,806	$3,702	$4,071
After-tax operating income	$ (9)	$ 47	$ 164

This group includes other Alcoa businesses that are not included in the segments previously mentioned. This group includes AFL, which produces electrical components for the automotive industry and fiber-optic cable and provides services to the telecommunications industry; the residential building products operations, Alcoa Home Exteriors (formerly Alcoa Building Products); automotive parts businesses; Thiokol, a producer of solid rocket propulsion systems (Thiokol was sold in April 2001); and RASCO (In November 2001, the net assets of RASCO were contributed to a joint venture, Integris, in which Alcoa retains a 50% equity interest. Effective January 1, 2002, equity income from Integris is included in corporate.). Products in this segment are generally sold directly to customers or through distributors. AFL sales are dependent on a relatively small number of customers. Seasonal increases in the building products business generally occur in the second and third quarters of the year.

In 2002, third-party sales decreased $896, or 24%, compared with 2001. The decrease was due to the divestiture of Thiokol and the contribution of the net assets of RASCO to a joint venture in 2001, as well as lower volumes in the AFL telecommunications business, as the market for this business continued to decline. These decreases were partially offset by volume increases in the automotive businesses (aided by the acquisition of the remaining 50% interest in Engineered Plastic Components, Inc.). In 2001, third-party sales decreased $369, or 9%, compared with 2000, due primarily to the sale of Thiokol in 2001, as well as lower volumes and prices in the AFL automotive and telecommunications businesses. These decreases were somewhat offset by improved demand for residential building products.

In 2002, ATOI for this group decreased $56 compared with 2001. The decrease was due to volume declines in the telecommunications business, an impairment loss on goodwill of $39 (before minority interests) associated with the AFL telecommunications business, and the absence of gains on the sales of Thiokol, Alcoa Proppants, Inc., and Alcoa's interest in a Latin American cable business that were recognized in 2001. These decreases were partially offset by performance improvements in the automotive businesses and the absence of goodwill amortization that favorably impacted the segment by $32 in 2002. In 2001, ATOI for this group decreased $117 compared with 2000, primarily as a result of volume and price declines at AFL, partially offset by gains from the sales of Thiokol, Alcoa Proppants, Inc., and Alcoa's interests in a Latin American cable business as well as improved sales of building products.

RECONCILIATION OF ATOI TO CONSOLIDATED NET INCOME—The following table reconciles segment ATOI to consolidated net income.

	2002	2001	2000
Total after-tax operating income	$1,481	$2,042	$2,377
Impact of intersegment profit eliminations	(6)	(20)	24
Unallocated amounts (net of tax):			
Interest income	30	40	40
Interest expense	(227)	(242)	(278)
Minority interests	(135)	(208)	(381)
Corporate expense	(234)	(261)	(227)
Special items	(286)	(397)	—
Discontinued operations	(112)	1	12
Accounting changes	34	—	(5)
Other	(125)	(47)	(78)
Consolidated net income	$ 420	$ 908	$1,484

Items required to reconcile segment ATOI to consolidated net income include:

- Corporate adjustments to eliminate any remaining profit or loss between segments;
- The after-tax impact of interest income and expense;
- Minority interests;
- Corporate expense, comprised of general administrative and selling expenses of operating the corporate headquarters and other global administrative facilities along with depreciation on corporate-owned assets;
- Special items (excluding minority interests) related to restructurings in 2002 and 2001;
- Discontinued operations;
- Accounting changes for goodwill in 2002 and revenue recognition in 2000; and
- Other, which includes the impact of LIFO, differences between estimated tax rates used in the segments and the corporate effective tax rate and other nonoperating items such as foreign exchange.

The increase in Other in 2002 in the reconciliation was primarily due to the impact of intracompany profit eliminations and differences between the estimated tax rates used in the segments and the corporate effective tax rate, somewhat offset by the impact of LIFO adjustments.

MARKET RISKS

In addition to the risks inherent in its operations, Alcoa is exposed to financial, market, political, and economic risks. The following discussion provides additional detail regarding Alcoa's exposure to the risks of changing commodity prices, foreign exchange rates, or interest rates.

DERIVATIVES

Alcoa’s commodity and derivative activities are subject to the management, direction, and control of the Strategic Risk Management Committee (SRMC). SRMC is composed of the chief executive officer, the chief financial officer, and other officers and employees that the chief executive officer selects. SRMC reports to the Board of Directors on the scope of its derivative activities.

All of the aluminum and other commodity contracts, as well as various types of derivatives, are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility, and cover underlying exposures. The company is not involved in energy-trading activities, weather derivatives, or to any material extent in other nonexchange commodity trading activities.

The following discussion includes sensitivity analyses for hypothetical changes in the commodity price, exchange rate, or interest rate contained in the various derivatives used for hedging certain exposures. In all cases, the hypothetical change was calculated based on a parallel shift in the forward price curve existing at December 31, 2002. The forward curve takes into account the time value of money and the future expectations regarding the value of the underlying commodity, currency, and interest rate.

COMMODITY PRICE RISKS—Alcoa is a leading global producer of aluminum ingot and aluminum fabricated products. As a condition of sale, customers often require Alcoa to enter into long-term fixed-price commitments. These commitments expose Alcoa to the risk of 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, through the use of futures and options contracts, the aluminum price risk associated with a portion of its fixed price firm commitments. At December 31, 2002, these contracts totaled approximately 739,000 mt with a fair value loss of approximately $21 ($14 after tax). A hypothetical 10% increase (or decrease) in aluminum ingot prices from the year-end 2002 level of $1,350 per mt would result in a pretax gain (or loss) of $93 related to these positions.

Alcoa sells products to various third parties at prices that are influenced by changes in LME aluminum prices. From time to time, the company may elect to sell forward a portion of its anticipated primary aluminum and alumina production to reduce the risk of fluctuating market prices on these sales. Toward this end, Alcoa may enter into short positions using futures and options contracts. At December 31, 2002, these contracts totaled 205,000 mt with a fair value gain of approximately $7 ($4 after tax and minority interests). These contracts act to fix a portion of the price related to these sales contracts. A hypothetical 10% increase (or decrease) in aluminum ingot prices from the year-end 2002 level of $1,350 per mt would result in a pretax loss (or gain) of $27 related to these positions.

Alcoa purchases natural gas to meet its production requirements. These purchases expose the company to the risk of higher natural gas prices. To hedge this risk, Alcoa enters into long positions, principally using futures and options. Alcoa follows a stable pattern of purchasing natural gas; therefore, it is highly likely that anticipated natural gas purchases will occur. The fair value of the contracts for natural gas was a gain of approximately $42 ($25 after tax and minority interests) at December 31, 2002. A hypothetical 25% increase (or decrease) in the market price of natural gas from year-end 2002 levels would result in a pretax gain (or loss) of $50 related to these positions.

Alcoa also purchases certain other commodities, such as electricity and fuel oil, for its operations and may enter into futures and options contracts to eliminate volatility in the prices of such products. None of these contracts were material at December 31, 2002.

FINANCIAL RISK

CURRENCIES—Alcoa is subject to significant exposure from fluctuations in foreign currencies. Foreign currency exchange contracts are used to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. These contracts cover periods commensurate with known or expected exposures, generally within three years. The fair value of these contracts was a gain of approximately $57 ($27 after tax and minority interests) at December 31, 2002.

Certain contracts, which are included in the $57 above, are used to offset a portion of the impact of exchange and interest rate changes on foreign currency denominated debt. The fair value of these contracts was a gain of approximately $33 ($13 after tax and minority interests) at December 31, 2002. Changes in the fair value of these contracts are included in other income on the Statement of Consolidated Income and offset a portion of the impact of the exchange differences on the debt.

A hypothetical 10% strengthening (or weakening) of the U.S. dollar at December 31, 2002 would result in a pretax loss (or gain) of approximately $59 related to these positions.

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. The company has entered into pay floating, receive fixed interest rate swaps to change the interest rate risk exposure of its outstanding debt. The fair value of these swaps was a gain of $80 ($52 after tax) at December 31, 2002.

At December 31, 2002 and 2001, Alcoa had $8,487 and $6,648 of debt outstanding at effective interest rates of 4.4% for 2002 and 5.0% for 2001, after the impact of settled and outstanding interest rate swaps is taken into account. A hypothetical change of 10% in Alcoa's effective interest rate from year-end 2002 levels would increase or decrease interest expense by $37.

MATERIAL LIMITATIONS—The disclosures with respect to commodity prices, interest rates, and foreign exchange risk do not take into account the underlying anticipated purchase obligations and the underlying transactional foreign exchange exposures. If the underlying items were included in the analysis, the gains or losses on the futures and options 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. Futures and options 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.

For additional information on derivative instruments, see Notes A, J, and V to the Consolidated Financial Statements.

ENVIRONMENTAL MATTERS

Alcoa continues to participate in environmental assessments and cleanups at a number of locations. These include approximately 28 owned or operating facilities and adjoining properties, approximately 38 previously owned or operated facilities and adjoining properties, and approximately 72 Superfund and other waste sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. For additional information, see Notes A and W to the Consolidated Financial Statements.

As assessments and cleanups proceed, the liability is adjusted based on progress in determining the extent of remedial actions and related costs and damages. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements, and technological changes. Therefore, it is not possible to determine the outcomes or to estimate with any degree of accuracy the potential costs for certain of these matters.

The following discussion provides additional details regarding the current status of Alcoa’s significant sites where the final outcome cannot be determined or the potential costs in the future cannot be estimated.

In February 2002, Alcoa submitted a final Analysis of Alternatives Report to the EPA related to PCB contamination of the Grasse River, adjacent to Alcoa’s Massena, NY plant site. The range of costs associated with the remedial alternatives evaluated in the 2002 report is between $2 and $525. Alcoa believes that rational, scientific analysis supports a remedy involving the containment of sediments in place via natural or man-made processes. Based on the current assessment of the EPA decision-making process, Alcoa has now concluded that the selection of the $2 alternative, based on natural recovery only, is remote. Alcoa continues to believe that alternatives involving the largest amounts of sediment removal should not be selected for the Grasse River remedy. Therefore, Alcoa believes that the alternatives that should reasonably be considered for selection range from engineered capping and natural recovery of $30 to a combination of moderate dredging, capping, and natural recovery of $90. Accordingly, Alcoa has adjusted the reserve for the Grasse River to $30, representing the low end of the range of possible alternatives, as no one of the alternatives is more likely to be selected than any other. The EPA’s ultimate selection of a remedy could result in additional liability. However, as the process continues, it allows for input that can influence the scope and cost of the remedy that will be selected by the EPA in its issuance of the formal Record of Decision (ROD). Alcoa may be required to record a subsequent reserve adjustment at the time the ROD is issued.

In connection with the sale of the Sherwin alumina refinery in Texas, which was required to be divested as part of the Reynolds merger in 2000, Alcoa has agreed to retain responsibility for the remediation of then existing environmental conditions, as well as a pro rata share of the final closure of the active waste disposal areas, which remain in use. Alcoa’s share of the closure costs is proportional to the total period of operation of the active waste disposal areas. Alcoa estimated its liability for the active disposal areas by making certain assumptions about the period of operation, the amount of material placed in the area prior to closure, and the appropriate technology, engineering, and regulatory status applicable to final closure. The most probable cost for remediation has been reserved. It is reasonably possible that an additional liability, not expected to exceed $75, may be incurred if actual experience varies from the original assumptions used.

Based on the foregoing, it is possible that Alcoa’s results of operations, in a particular period, could be materially affected by matters relating to these sites. However, based on facts currently available, management believes that adequate reserves have been provided and that the disposition of these matters will not have a materially adverse effect on the financial position or liquidity of the company.

Alcoa’s remediation reserve balance at the end of 2002 was $436, of which $68 was classified as a current liability, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. Of the 2002 reserve balance, approximately 33% relates to the Massena, NY and Sherwin, TX plant sites. Remediation expenses charged to the reserve were $50 in 2002, $72 in 2001, and $77 in 2000. These include expenditures currently mandated, as well as those not required by any regulatory authority or third party. In 2002, the reserve balance was increased by $55 primarily to cover anticipated future environmental expenditures at various sites, including Massena, and for acquisitions made.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be about 2% of cost of goods sold.

LIQUIDITY AND CAPITAL RESOURCES

CASH FROM OPERATIONS

Cash provided from continuing operations was $1,914 in 2002 compared with $2,387 in 2001. The decrease of $473, or 20%, was primarily due to a decline in net income as a result of lower realized prices for alumina and aluminum, lower volumes in businesses serving the aerospace, commercial building and construction, telecommunications, and industrial gas turbine markets, and the lack of significant power sales that were recognized in 2001. The changes in noncash adjustments to net income were principally offset by changes in assets and liabilities. See discussion under Results of Operations for further details. Cash provided from continuing operations was $2,387 in 2001 compared with $2,835 in 2000. The decrease of $448 was primarily due to lower earnings.

FINANCING ACTIVITIES

Cash provided from financing activities was $593 in 2002 compared with cash used for financing activities of $3,127 in 2001, resulting in a change of $3,720. The largest driver of the change was in borrowing activities, including short-term borrowings, commercial paper, and long-term debt. In 2002, these activities resulted in net cash provided of $1,468, primarily used to fund the acquisitions of Ivex and Fairchild Fasteners. In 2001, these activities resulted in net cash payments to reduce borrowings by $1,458 using cash provided by proceeds from the sales of operations required to be divested from the Reynolds merger and from the sale of Thiokol. Also contributing to the increase in 2002 compared with 2001 were lower levels of common stock repurchases of $1,228, somewhat offset by a decrease in the level of common stock issued for stock compensation plans of $497.

In August 2002, Alcoa issued $1,400 of notes. Of these notes, $800 mature in 2007 and carry a coupon rate of 4.25%, and $600 mature in 2013 and carry a coupon rate of 5.375%. The proceeds from these borrowings were used to fund the acquisition of Ivex and to refinance commercial paper.

Alcoa maintains $4,000 of revolving-credit facilities with varying expiration dates as backup to its commercial paper program. In April 2002, Alcoa refinanced its $2,000 revolving-credit agreement that expired in April 2002 into a revolving-credit agreement that expires in April 2003. In addition, $1,000 in revolving-credit facilities is due to expire in August 2003. Alcoa intends to refinance both the April and August 2003 facilities in April 2003. There are no other significant maturities of revolving- credit facilities or debt issues scheduled in 2003.

Cash used for financing activities was $3,127 in 2001 compared with cash provided from financing activities of $1,552 in 2000, resulting in a change of $4,679. The largest driver of the change was in borrowing activities, including short-term borrowings, commercial paper, and long-term debt. In 2001, these activities resulted in net cash payments of $1,458, as noted above, while in 2000, these activities resulted in net cash provided of $2,694, primarily to fund the acquisition of Cordant. Also contributing to the decrease in 2001 compared with 2000 were higher common stock repurchases of $689 and higher common stock dividends of $100, partially offset by lower levels of common stock issued for stock compensation plans of $301. The increase in common stock dividends paid in 2001 compared with 2000 was due to an increase in the total dividend paid from 50 cents per share in 2000 to 60 cents per share in 2001, due to the payout of a variable dividend in addition to Alcoa's base dividend in 2001. Alcoa had a variable dividend program that provided for the distribution, in the following year, of 30% of Alcoa's annual earnings in excess of $1.50 per basic share. In January 2002, the Board of Directors approved a 20% increase in the base quarterly dividend from 12.5 cents per common share to 15 cents per common share. In addition, the Board approved eliminating the variable dividend.

In May 2001, Alcoa issued $1,500 of notes. Of these notes, $1,000 mature in 2011 and carry a coupon rate of 6.5%, and $500 mature in 2006 and carry a coupon rate of 5.875%. In December 2001, Alcoa issued an additional $1,500 of notes. This issue consisted of $1,000 of notes that mature in 2012 and carry a coupon rate of 6% and $500 of floating- rate notes that mature in 2004.

In August 2002, Moody's Investors Service downgraded the long-term debt ratings of Alcoa from A1 to A2 and its rated subsidiaries principally from A2 to A3. Alcoa's Prime-1 short-term rating was not included in the downgrade. In October 2002, Standard & Poor's lowered Alcoa's long- term corporate credit rating to A from A+, while affirming Alcoa's A-1 short-term corporate credit and commercial paper ratings. The impact of the downgrades is not expected to be material to the company.

Debt as a percentage of invested capital was 43.1% at the end of 2002 compared with 35.8% for 2001 and 38.6% for 2000.

INVESTING ACTIVITIES

Cash used for investing activities was $2,544 in 2002 compared with cash provided from investing activities of $939 in 2001, resulting in a change of $3,483. The increase in cash used for these activities was primarily due to increased spending on acquisitions of $1,094, comprised of Ivex, Fairchild Fasteners, and several smaller acquisitions, and lower proceeds from the sale of assets of $2,380, resulting from the sales of assets required to be divested from the Reynolds merger, as well as from the sale of Thiokol in 2001.

Cash provided from investing activities was $939 in 2001 compared with cash used for investing activities of $4,309 in 2000, resulting in a change of $5,248. The increase in cash in 2001 was partly due to $2,507 of proceeds from asset sales in 2001 due to the dispositions noted above. Additionally, cash paid for acquisitions in 2001 was $159, while in 2000, cash paid for acquisitions was $3,121, primarily attributable to the acquisition of Cordant.

Capital expenditures from continuing operations totaled $1,263 in 2002 compared with $1,170 and $1,102 in 2001 and 2000, respectively. Of the total capital expenditures in 2002, 26% related to capacity expansion. Also included were costs of new and expanded facilities for environmental control in ongoing operations totaling $115 in 2002, $80 in 2001, and $96 in 2000. Capital expenditures related to environmental control are anticipated to be approximately $100 in 2003.

Alcoa added $112, $270, and $94 to its investments in 2002, 2001, and 2000, respectively. Cash paid for investments of $112 in 2002 was primarily due to the purchase of additional shares in the Norwegian metals producer, Elkem. Cash paid for investments of $270 in 2001 is primarily due to Alcoa's purchase of an 8% interest in Aluminum Corporation of China (Chalco) for approximately $150, as part of a strategic alliance to form a 50/50 joint venture at Chalco's facility in Pingguo, China, as well as an increased stake in Elkem. Additions to investments in 2000 were primarily related to Elkem.

In 2002 and 2001, Alcoa made announcements indicating its intention to participate in several significant expansion projects. These projects include the construction of a smelter in Iceland, the expansion of a refinery and smelter in China, the investment in several hydroelectric power construction projects in Brazil, the expansion of operations in Canada, and the installation of new emissions control equipment at its Warrick, IN facility. These projects are in various stages of development and, depending on business and/or regulatory circumstances, may not be completed. The total anticipated costs of these projects, if all were completed, is approximately $4,000 and will require funding over a number of years through 2008. It is anticipated that these projects will be funded through various sources, including cash provided from operations, proceeds from the divestitures of certain businesses, borrowing activities, and other structured financing activities such as project financing. In addition, during 2002, Alcoa announced its intention to evaluate other investments that may result in material financing requirements if ultimately committed. These include expansion of a smelter in Bahrain and other development opportunities in Suriname. Alcoa anticipates that financing required to execute all of these investments will be readily available to it over the time frame required.

In January 2003, Alcoa announced its intention to divest businesses that no longer meet its portfolio requirements, with proceeds used primarily to pay down debt. Certain of the businesses to be divested include specialty chemicals, specialty packaging equipment, certain architectural products businesses in North America, commodity automotive fasteners, certain fabricating and packaging operations in South America, and foil facilities in St. Louis, MO and Russellville, AR. These businesses generated approximately $1,300 in total revenues in 2002.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The company is obligated to make future payments under various contracts such as debt agreements, lease agreements, and unconditional purchase obligations and has certain contingent commitments such as debt guarantees. The following tables represent the significant contractual cash obligations and other commercial commitments of Alcoa as of December 31, 2002.

Contractual cash obligations	Total	Due in 2003	Due in 2004	Due in 2005	Due in 2006	Due in 2007	Thereafter
Long-term debt (including $21 of capital lease obligations)	$ 8,450	$ 85	$ 596	$ 1,453	$ 596	$ 899	$ 4,821
Operating leases	694	134	112	91	74	60	223
Unconditional purchase obligations	3,381	194	201	213	205	177	2,391
Total contractual cash obligations	$12,525	$ 413	$ 909	$ 1,757	$ 875	$ 1,136	$ 7,435

See Notes J, L, and T to the Consolidated Financial Statements for additional information regarding these obligations.

Other commercial commitments	Total amounts committed	Amount of commitment expiration per period: Less than 1 year	1-3 years	4-5 years	Over 5 years
Standby letters of credit	$ 168	$ 147	$ 21	$ —	$ —
Guarantees	120	—	1	9	110
Total commercial commitments	$ 288	$ 147	$ 22	$ 9	$ 110

The standby letters of credit are related to environmental, insurance, and other activities. See Note L to the Consolidated Financial Statements for additional information regarding guarantees.

CRITICAL ACCOUNTING POLICIES

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make judgments, estimates, and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Areas of uncertainty that require judgments, estimates, and assumptions include the accounting for derivatives, environmental matters, the testing of goodwill and other intangible assets for impairment, proceeds on assets to be sold, pensions and other postretirement benefits, and tax matters. Management uses historical experience and all available information to make these judgments and estimates, and actual results will inevitably differ from those estimates and assumptions that are used to prepare the company's financial statements at any given time. Despite these inherent limitations, management believes that Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and the financial statements and related footnotes provide a meaningful and fair perspective of the company. A discussion of the judgments and uncertainties associated with accounting for derivatives and environmental matters can be found in the Market Risks and Environmental Matters sections of MD&A.

A summary of the company’s significant accounting policies is included in Note A to the Consolidated Financial Statements. Management believes that the application of these policies on a constant basis enables the company to provide the users of the financal statements with useful and reliable information about the company's operating results and financial condition.

In 2002, Alcoa adopted the new standard of accounting for goodwill and intangible assets with indefinite lives. The cumulative effect adjustment recognized on January 1, 2002, upon adoption of the new standard, was income of $34 (after tax). Also in 2002, amortization ceased for goodwill and intangible assets with indefinite lives. Amortization expense recognized in the Consolidated Income Statement was $171 in 2001 and $125 in 2000. Additionally, goodwill and indefinite-lived intangibles are required to be tested for impairment at least annually. The evaluation of impairment involves comparing the current fair value of the business to the recorded value (including goodwill). The company uses a discounted cash flow model (DCF model) to determine the current fair value of the business. A number of significant assumptions and estimates are involved in the application of the DCF model to forecasted operating cash flows, including markets and market share, sales volumes and prices, costs to produce, and working capital changes. Management considers historical experience and all available information at the time the fair values of its businesses are estimated. However, actual fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill.

In the fourth quarter of 2002, Alcoa committed to a plan to divest certain noncore businesses that do not meet internal growth and return measures. The fair values of all businesses to be divested were estimated using accepted valuation techniques such as a DCF model, earnings multiples, or indicative bids, when available. A number of significant estimates and assumptions are involved in the application of these techniques, including the forecasting of markets and market share, sales volumes and prices, costs and expenses, and multiple factors. Management considered historical experience and all available information at the time the estimates were made; however, the fair values that are ultimately realized upon the sale of the businesses to be divested may differ from the estimated fair values used to record the loss in 2002.

Other areas of significant judgments and estimates include the liabilities and expenses for pensions and other postretirement benefits. These amounts are determined using actuarial methodologies and incorporate significant assumptions, including the rate used to discount the future estimated liability, the long-term rate of return on plan assets, and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age, and mortality). The rate used to discount future estimated liabilities is determined considering the rates available at year-end on debt instruments that could be used to settle the obligations of the plan. The impact on the liabilities of a change in the discount rate of 1/4 of 1% is approximately $340 and a change of $5 to after-tax earnings in the following year. The long-term rate of return is estimated by considering historical returns and expected returns on current and projected asset allocations and is generally applied to a five-year average market value of assets. A change in the assumption for the long- term rate of return on plan assets of 1/4 of 1% would impact after-tax earnings by approximately $13 for 2003. Effective January 1, 2003, Alcoa reduced the assumption for the expected long-term return on plan assets to 9.0% from 9.5%.

The recent declines in equity markets and interest rates have had a negative impact on Alcoa's pension plan liability and fair value of plan assets. As a result, the accumulated benefit obligation exceeded the fair value of plan assets at the end of 2002, which resulted in an $820 charge to shareholders' equity in the fourth quarter.

As a global company, Alcoa records an estimated liability or benefit for income and other taxes based on what it determines will likely be paid in the various tax jurisdictions in which it operates. Management uses its best judgment in the determination of these amounts. However, the liabilities ultimately realized and paid are dependent on various matters including the resolution of the tax audits in the various affected tax jurisdictions and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the amount recorded.

RELATED PARTY TRANSACTIONS

Alcoa buys products from and sells products to various related companies, consisting of entities in which Alcoa retains a 50% or less equity interest, at negotiated prices between the two parties. These transactions were not material to the financial position or results of operations of Alcoa at December 31, 2002.

RECENTLY ISSUED AND ADOPTED ACCOUNTING STANDARDS

Effective December 31, 2002, Alcoa adopted Financial Accounting Standards Board (FASB) Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."FIN 45 is an interpretation of FASB Statement Nos. 5, 57, and 107. FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued, and it requires the recognition of a liability at fair value by a guarantor at the inception of a guarantee. The disclosure requirements of FIN 45 are effective as of December 31, 2002. See Note L to the Consolidated Financial Statements for additional details. The initial recognition and measurement provisions of FIN 45 are effective on a prospective basis for all guarantees issued or modified after December 31, 2002. Alcoa has not issued or modified any material guarantees since December 31, 2002.

Effective December 31, 2002, Alcoa adopted the disclosure provisions of FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 addresses consolidation and disclosure by business enterprises of variable interest entities. See Note L to the Consolidated Financial Statements for additional details. Alcoa is currently evaluating the impact of this standard.

Effective December 31, 2002, Alcoa adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123."SFAS No. 148 provides alternative methods of transition for entities that voluntarily change to the fair value method of accounting for stock-based employee compensation, and it also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects of an entity's accounting policy decisions with respect to stock-based employee compensation in both annual and interim financial reporting. See Notes A and P to the Consolidated Financial Statements for the disclosures related to the company's method of accounting for stock- based compensation.

Effective January 1, 2003, Alcoa will adopt SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement establishes standards for accounting for obligations associated with the retirement of tangible long-lived assets. Under the provisions of this standard, Alcoa will record the estimated fair value of liabilities for existing asset retirement obligations as well as associated asset retirement costs, which will be capitalized as increases to the carrying amounts of related long-lived assets. The amounts recorded are for legal obligations associated with the normal operation of Alcoa's bauxite mining, alumina refining, and aluminum smelting facilities and the retirement of those assets. The company's asset retirement obligations consist primarily of environmental remediation costs associated with landfills, spent pot lining disposal, bauxite residue disposal, and mine reclamation. Alcoa is currently evaluating the cumulative effect impact of the application of SFAS No. 143 on the Consolidated Financial Statements.

Effective January 1, 2003, Alcoa will adopt SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," under which a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred. The provisions of this statement will be applied to any future exit or disposal activities.

MANAGEMENT'S REPORT TO ALCOA SHAREHOLDERS

The accompanying financial statements of Alcoa and consolidated subsidiaries were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this annual report is consistent with that in the financial statements.

The company maintains a system of internal controls, including accounting controls, and a strong program of internal auditing. The system of controls provides for appropriate procedures that are consistent with high standards of accounting and administration. The company believes that its system of internal controls provides reasonable assurance that assets are safeguarded against losses from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

Management also recognizes its responsibility for conducting the company’s affairs according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in key policy statements issued from time to time regarding, among other things, conduct of its business activities within the laws of the host countries in which the company operates and potentially conflicting outside business interests of its employees. The company maintains a systematic program to assess compliance with these policies.

/s/ A. Belda

Alain J. P. Belda
Chairman and Chief Executive Officer

/s/ Richard B. Kelson

Richard B. Kelson
Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors Alcoa Inc. (Alcoa)

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and shareholders’ equity and of cash flows present fairly, in all material respects, the financial position of Alcoa at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Alcoa’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes B and D to the consolidated financial statements, Alcoa changed its method of accounting for long-lived asset impairments, and goodwill and other intangible assets in 2002.

/s/ PricewaterhouseCoopers LLP

600 Grant St., Pittsburgh, Pa.
January 8, 2003

STATEMENT OF CONSOLIDATED INCOME
Alcoa and subsidiaries
(in millions, except per-share amounts)

	For the year ended December 31		
	2002	**2001**	**2000**
Sales (A and O)	$20,263	$22,497	$22,659
Cost of goods sold	16,247	17,539	17,111
Selling, general administrative, and other expenses	1,147	1,256	1,088
Research and development expenses	214	203	194
Provision for depreciation, depletion, and amortization (D)	1,108	1,234	1,199
Impairment of goodwill (D)	44	—	—
Special items (C)	407	565	—
Interest expense (U)	350	371	427
Other income, net (M)	(179)	(308)	(154)
	19,338	20,860	19,865
Income from continuing operations before taxes on income	925	1,637	2,794
Provision for taxes on income (R)	292	522	936
Income from continuing operations before minority interests' share	633	1,115	1,858
Less: Minority interests' share	135	208	381
Income from continuing operations	498	907	1,477
(Loss) income from discontinued operations (B)	(112)	1	12
Cumulative effect of accounting change (A and D)	34	—	(5)
NET INCOME	$ 420	$ 908	$ 1,484
EARNINGS (LOSS) PER SHARE (Q)			
Basic:			
Income from continuing operations	$ .59	$ 1.06	$ 1.81
(Loss) income from discontinued operations	(.13)	—	.02
Cumulative effect of accounting change	.04	—	(.01)
Net income	$ .50	$ 1.06	$ 1.82
Diluted:			
Income from continuing operations	$ .58	$ 1.05	$ 1.79
(Loss) income from discontinued operations	(.13)	—	.02
Cumulative effect of accounting change	.04	—	(.01)
Net income	$ .49	$ 1.05	$ 1.80

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

CONSOLIDATED BALANCE SHEET
Alcoa and subsidiaries
(in millions)

	December 31	
	2002	**2001**
ASSETS		
Current assets:		
Cash and cash equivalents (V)	$ 344	$ 512
Short-term investments (V)	69	15
Receivables from customers, less allowances: 2002-$120; 2001-$121	2,378	2,386
Other receivables	174	286
Inventories (F)	2,441	2,385
Deferred income taxes (R)	468	409
Prepaid expenses and other current assets	439	456
Total current assets	6,313	6,449
Properties, plants, and equipment, net (G)	12,111	11,530
Goodwill (D and E)	6,365	5,597
Other assets (H)	4,446	3,828
Assets held for sale (B)	575	951
TOTAL ASSETS	$29,810	$28,355
LIABILITIES		
Current liabilities:		
Short-term borrowings (J and V)	$ 37	$ 162
Accounts payable, trade	1,618	1,539
Accrued compensation and retirement costs	933	871
Taxes, including taxes on income	818	904
Other current liabilities	970	1,307
Long-term debt due within one year (J and V)	85	102
Total current liabilities	4,461	4,885
Long-term debt, less amount due within one year (J and V)	8,365	6,384
Accrued postretirement benefits (S)	2,320	2,513
Other noncurrent liabilities and deferred credits (I)	2,878	1,968
Deferred income taxes (R)	502	556
Liabilities of operations held for sale (B)	64	122
Total liabilities	18,590	16,428
MINORITY INTERESTS (K)	1,293	1,313
Commitments and Contingencies (L)		
SHAREHOLDERS' EQUITY		
Preferred stock (P)	55	56
Common stock (P)	925	925
Additional capital	6,101	6,114
Retained earnings	7,428	7,517
Treasury stock, at cost	(2,828)	(2,706)
Accumulated other comprehensive loss	(1,754)	(1,292)
Total shareholders' equity	9,927	10,614
TOTAL LIABILITIES AND EQUITY	$29,810	$28,355

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

STATEMENT OF CONSOLIDATED CASH FLOWS
Alcoa and subsidiaries
(in millions)

	For the year ended December 31		
	2002	**2001**	**2000**
CASH FROM OPERATIONS			
Net income	$ 420	$ 908	$ 1,484
Adjustments to reconcile net income to cash from operations:			
Depreciation, depletion, and amortization	1,116	1,246	1,211
Impairment of goodwill (D)	44	—	—
Change in deferred income taxes	(178)	(24)	135
Equity income, net of dividends	(40)	(56)	(66)
Noncash special items (C)	394	525	—
Gains from investing activities—sale of assets	(52)	(114)	(14)
Provision for doubtful accounts	16	78	10
Loss (income) from discontinued operations (B)	112	(1)	(12)
Accounting changes (A and D)	(34)	—	5
Minority interests	135	208	381
Other	8	9	32
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:			
Reduction (increase) in receivables	411	578	(441)
Reduction (increase) in inventories	202	(11)	109
Reduction (increase) in prepaid expenses and other current assets	36	(69)	5
Reduction in accounts payable and accrued expenses	(318)	(429)	(79)
(Reduction) increase in taxes, including taxes on income	(232)	(49)	412
Net change in noncurrent assets and liabilities	(239)	(431)	(320)
Reduction (increase) in net assets held for sale	113	19	(17)
CASH PROVIDED FROM CONTINUING OPERATIONS	1,914	2,387	2,835
CASH (USED FOR) PROVIDED FROM DISCONTINUED OPERATIONS	(75)	24	16
CASH FROM OPERATIONS	1,839	2,411	2,851
FINANCING ACTIVITIES			
Net changes to short-termborrowings	(382)	(2,570)	2,123
Common stock issued for stock compensation plans	55	552	251
Repurchase of common stock	(224)	(1,452)	(763)
Dividends paid to shareholders	(509)	(518)	(418)
Dividends paid to minority interests	(197)	(251)	(212)
Net change in commercial paper	445	(1,290)	530
Additions to long-term debt	1,636	3,343	1,918
Payments on long-term debt	(231)	(941)	(1,877)
CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES	593	(3,127)	1,552
INVESTING ACTIVITIES			
Capital expenditures	(1,263)	(1,170)	(1,102)
Capital expenditures of discontinued operations	(7)	(7)	(19)
Acquisitions, net of cash acquired (N)	(1,253)	(159)	(3,121)
Proceeds from the sale of assets	127	2,507	22
Additions to investments	(112)	(270)	(94)
Changes in short-term investments	(54)	41	21
Changes in minority interests	26	6	—
Other	(8)	(9)	(16)
CASH (USED FOR) PROVIDED FROM INVESTING ACTIVITIES	(2,544)	939	(4,309)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(56)	(26)	(16)
Net change in cash and cash equivalents	(168)	197	78
Cash and cash equivalents at beginning of year	512	315	237
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 344	$ 512	$ 315

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

STATEMENT OF SHAREHOLDERS' EQUITY
Alcoa and subsidiaries
(in millions, except per-share amounts)

December 31	Compre-hensive income	Preferred stock	Common stock	Addi-tional capital	Retained earnings	Treasury stock	Accumu-lated other compre-hensive loss	Total share-holders' equity
BALANCE AT END OF 1999		$ 56	$ 395	$ 1,704	$ 6,061	$(1,260)	$ (638)	$ 6,318
Comprehensive income—2000:								
Net income—2000	$ 1,484				1,484			1,484
Other comprehensive income (loss):								
Change in minimum pension liability, net of $(3) tax expense	5							
Unrealized translation adjustments	(263)						(258)	(258)
Comprehensive income	$ 1,226							
Cash dividends:								
Preferred @ $3.75 per share					(2)			(2)
Common @ $.500 per share					(416)			(416)
Treasury shares purchased						(763)		(763)
Stock issued: Reynolds acquisition			135	4,367				4,502
Stock issued: compensation plans				251		306		557
Stock issued: two-for-one split			395	(395)				—
BALANCE AT END OF 2000		56	925	5,927^	7,127	(1,717)	(896)	11,422
Comprehensive income—2001:								
Net income—2001	$ 908				908			908
Other comprehensive income (loss):								
Change in minimum pension liability, net of $27 tax benefit	(51)							
Unrealized translation adjustments	(241)							
Unrecognized gains/(losses) on derivatives, net of tax and minority interests of $124 (V):								
Cumulative effect of accounting change	(4)							
Net change from periodic revaluations	(175)							
Net amount reclassified to income	75							
Net unrecognized losses on derivatives	(104)						(396)	(396)
Comprehensive income	$ 512							
Cash dividends:								
Preferred @ $3.75 per share					(2)			(2)
Common @ $.600 per share					(516)			(516)
Treasury shares purchased						(1,452)		(1,452)
Stock issued: compensation plans				187		463		650
BALANCE AT END OF 2001		56	925	6,114^	7,517	(2,706)	(1,292)	10,614
Comprehensive loss—2002:								
Net income—2002	$ 420				420			420
Other comprehensive income (loss):								
Change in minimum pension liability, net of $421 tax benefit	(851)							
Unrealized translation adjustments	309							
Unrealized losses on available-for-sale securities, net of $13 tax benefit	(25)							
Unrecognized gains on derivatives, net of tax and minority interests of $(106) (V):								
Net change from periodic revaluations	60							
Net amount reclassified to income	45							
Net unrecognized gains on derivatives	105						(462)	(462)
Comprehensive loss	$ (42)							
Cash dividends:								
Preferred @ $3.75 per share					(2)			(2)
Common @ $.600 per share					(507)			(507)
Treasury shares purchased		(1)				(224)		(225)
Stock issued: compensation plans				(13)		102		89
BALANCE AT END OF 2002		$ 55	$ 925	$ 6,101^	$ 7,428	$(2,828)	$ (1,754)*	$ 9,927

* Comprised of unrealized translation adjustments of $(818), minimum pension liability of $(912), unrealized losses on available-for-sale securities of $(25), and unrecognized gains/(losses) on derivatives of $1

^ Includes stock to be issued under options of $130, $138, and $182 in 2002, 2001, and 2000, respectively

SHARE ACTIVITY (number of shares)

		Common stock		
	Preferred stock	Issued	Treasury	Net outstanding
BALANCE AT END OF 1999	557,649	789,391,852	(53,893,856)	735,497,996
Treasury shares purchased			(21,742,600)	(21,742,600)
Stock issued: Reynolds acquisition		135,182,686		135,182,686
Stock issued: compensation plans			16,579,158	16,579,158
BALANCE AT END OF 2000	557,649	924,574,538	(59,057,298)	865,517,240
Treasury shares purchased			(39,348,136)	(39,348,136)
Stock issued: compensation plans			21,412,772	21,412,772
BALANCE AT END OF 2001	557,649	924,574,538	(76,992,662)	847,581,876
Treasury shares purchased	(11,625)		(6,313,100)	(6,313,100)
Stock issued: compensation plans			3,550,686	3,550,686
BALANCE AT END OF 2002	546,024	924,574,538	(79,755,076)	844,819,462

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in millions, except per-share amounts)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION. The Consolidated Financial Statements include the accounts of Alcoa and companies more than 50% owned. Investments in other entities are accounted for principally on the equity basis.

The Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America and require management to make certain estimates and assumptions. These may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. They may also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates upon subsequent resolution of identified matters.

CASH EQUIVALENTS. Cash equivalents are highly liquid investments purchased with an original maturity of three months or less.

INVENTORY VALUATION. Inventories are carried at the lower of cost or market, with cost for a substantial portion of U.S. and Canadian inventories determined under the last-in, first-out (LIFO) method. The cost of other inventories is principally determined under the average-cost method. See Note F for additional detail.

PROPERTIES, PLANTS, AND EQUIPMENT. Properties, plants, and equipment are recorded at cost. Depreciation is recorded principally on the straight-line method at rates based on the estimated useful lives of the assets, averaging 33 years for structures and between 5 and 25 years for machinery and equipment. Gains or losses from the sale of assets are included in other income. Repairs and maintenance are charged to expense as incurred. Interest related to the construction of qualifying assets is capitalized as part of the construction costs. Depletion is taken over the periods during which the estimated mineral reserves are extracted. See Notes G and U for additional detail.

AMORTIZATION OF INTANGIBLES. Intangible assets with finite useful lives are amortized generally on a straight-line basis over the periods benefited, with a weighted average useful life of ten years. Goodwill and intangible assets with indefinite useful lives are not amortized. Prior to 2002, goodwill and indefinite-lived intangible assets were amortized over periods not exceeding 40 years. The carrying values of goodwill and other intangible assets with indefinite useful lives are tested at least annually for impairment. If it is determined that the carrying value exceeds fair value, an impairment loss is recognized. See Note D for additional information.

REVENUE RECOGNITION. Alcoa recognizes revenue when title, ownership, and risk of loss pass to the customer. In 2000, Alcoa changed its method of accounting for revenue recognition in accordance with the provisions of Staff Accounting Bulletin 101, “Revenue Recognition in Financial Statements.” The application of this method of accounting for revenue recognition resulted in a cumulative effect charge to income of $5 (net of taxes and minority interests of $3) in 2000. The change did not have a significant effect on revenues or results of operations for the year ended December 31, 2000.

ENVIRONMENTAL EXPENDITURES. Expenditures for current operations are expensed or capitalized, as appropriate. Expenditures relating to existing conditions caused by past operations, and which do not contribute to future revenues, are expensed. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated. The liability may include costs such as site investigations, consultant fees, feasibility studies, outside contractor, and monitoring expenses. Estimates are not discounted or reduced by potential claims for recovery. Claims for recovery are recognized when received. The estimates also include costs related to other potentially responsible parties to the extent that Alcoa has reason to believe such parties will not fully pay their proportionate share. The liability is periodically reviewed and adjusted to reflect current remediation progress, prospective estimates of required activity, and other factors that may be relevant, including changes in technology or regulations. See Note W for additional information.

STOCK-BASED COMPENSATION. Alcoa accounts for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations using the intrinsic value method, which resulted in no compensation cost for options granted.

Alcoa’s net income and earnings per share would have been reduced to the pro forma amounts shown below if compensation cost had been determined based on the fair value at the grant dates in accordance with Statement of Financial Accounting Standards (SFAS) Nos. 123 and 148, “Accounting for Stock-Based Compensation.”

	2002	2001	2000
Net income, as reported	$ 420	$ 908	$ 1,484
Less: compensation cost determined under the fair value method, net of tax	113	178	207
Pro forma net income	$ 307	$ 730	$ 1,277
Basic earnings per share:			
As reported	$ .50	$ 1.06	$ 1.82
Pro forma	.37	.85	1.57
Diluted earnings per share:			
As reported	.49	1.05	1.80
Pro forma	.36	.84	1.55

The fair value of each option is estimated on the date of grant or subsequent reload using the Black-Scholes pricing model with the following assumptions:

	2002	2001	2000
Average risk-free interest rate	3.5%	3.8%	6.1%
Expected dividend yield	2.1	1.6	1.6
Expected volatility	42	43	40
Expected life (years):			
New option grants	3.0	2.5	2.5
Reload option grants	2.5	2.0	2.0

The weighted average fair value per option granted was $9.96 in 2002, $9.54 in 2001, and $10.13 in 2000.

DERIVATIVES AND HEDGING. Effective January 1, 2001, Alcoa adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The fair values of all outstanding derivative instruments are recorded on the Consolidated Balance Sheet in other current and noncurrent assets and liabilities. The transition adjustment on January 1, 2001 resulted in a net charge of $4 (after tax and minority interests), which was recorded in other comprehensive income.

Derivatives are held as part of a formally documented risk management (hedging) program. All derivatives are straightforward and are held for purposes other than trading. Alcoa measures hedge effectiveness by formally assessing, at least quarterly, the historical and probable future high correlation of changes in the fair value or expected future cash flows of the hedged item. The ineffective portions are recorded in other income or expense in the current period. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, gains or losses on the derivative are recorded in other income or expense.

Changes in the fair value of derivatives are recorded in current earnings along with the change in the fair value of the underlying hedged item if the derivative is designated as a fair value hedge or in other comprehensive income if the derivative is designated as a cash flow hedge. If no hedging relationship is designated, the derivative is marked to market through earnings.

Cash flows from financial instruments are recognized in the statement of cash flows in a manner consistent with the underlying transactions.

Prior to the adoption of SFAS No. 133, gains and losses related to transactions that qualified for hedge accounting, including closed contracts, were deferred and reflected in earnings when the underlying physical transactions took place.

Past accounting convention also required that certain positions be marked to market. Mark-to-market gains and losses were recorded in other income. As a result of the change in accounting under SFAS No. 133, these contracts were re-designated and qualified as hedges on January 1, 2001. See Note V for additional information.

FOREIGN CURRENCY. The local currency is the functional currency for Alcoa's significant operations outside the U.S., except in Canada, where the U.S. dollar is used as the functional currency. The determination of the functional currency for Alcoa's operations is made based on the appropriate economic and management indicators.

RECENTLY ISSUED AND ADOPTED ACCOUNTING STANDARDS. Effective December 31, 2002, Alcoa adopted Financial Accounting Standards Board (FASB) Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 is an interpretation of FASB Statement Nos. 5, 57, and 107. FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued, and it requires the recognition of a liability at fair value by a guarantor at the inception of a guarantee. The disclosure requirements of FIN 45 are effective as of December 31, 2002. See Note L for additional details. The initial recognition and measurement provisions of FIN 45 are effective on a prospective basis for all guarantees issued or modified after December 31, 2002. Alcoa has not issued or modified any material guarantees since December 31, 2002.

Effective December 31, 2002, Alcoa adopted the disclosure provisions of FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 addresses consolidation and disclosure by business enterprises of variable interest entities. See Note L for additional details. Alcoa is currently evaluating the impact of this standard.

Effective December 31, 2002, Alcoa adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for entities that voluntarily change to the fair value method of accounting for stock-based employee compensation, and it also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects of an entity's accounting policy decisions with respect to stock-based employee compensation in both annual and interim financial reporting. See Stock-Based Compensation within this note and Note P for the disclosures related to the company's method of accounting for stock- based compensation.

Effective January 1, 2003, Alcoa will adopt SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement establishes standards for accounting for obligations associated with the retirement of tangible long-lived assets. Under the provisions of this standard, Alcoa will record the estimated fair value of liabilities for existing asset retirement obligations as well as associated asset retirement costs, which will be capitalized as increases to the carrying amounts of related long-lived assets. The amounts recorded are for legal obligations associated with the normal operation of Alcoa's bauxite mining, alumina refining, and aluminum smelting facilities and the retirement of those assets. The company's asset retirement obligations consist primarily of environmental remediation costs associated with landfills, spent pot lining disposal, bauxite residue disposal, and mine reclamation. Alcoa is currently evaluating the cumulative effect impact of the application of SFAS No. 143 on the Consolidated Financial Statements.

Effective January 1, 2003, Alcoa will adopt SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," under which a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred. The provisions of this statement will be applied to any future exit or disposal activities.

RECLASSIFICATION. Certain amounts in previously issued financial statements were reclassified to conform to 2002 presentations. See Note B for further details.

B. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Effective January 1, 2002, Alcoa adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which establishes accounting and reporting standards for the impairment and disposal of long-lived assets and discontinued operations. During the fourth quarter of 2002, Alcoa performed a portfolio review of its businesses and the markets they serve. As a result of this review, Alcoa committed to a plan to divest certain noncore businesses that do not meet internal growth and return measures.

Certain of the businesses to be divested are classified as discontinued operations, and a pretax impairment charge of $109 ($78 after tax and minority interests) was recorded to reduce the carrying value of these businesses to their estimated fair value less costs to sell. The businesses classified as discontinued operations include Alcoa's commodity automotive fasteners business, certain fabricating businesses serving the residential building and construction market in North America, and a packaging business in South America. These businesses were previously included within the Engineered Products and Packaging and Consumer segments and have been reclassified to corporate.

Alcoa also intends to divest the protective packaging business acquired in the July 2002 acquisition of Ivex Packaging Corporation (Ivex), as further described in Note E. The assets and liabilities of the protective packaging business are included within assets held for sale and liabilities of operations held for sale on the Consolidated Balance Sheet. The results of operations of this business are included in discontinued operations in the Statement of Consolidated Income.

The financial information for all prior periods has been reclassified to reflect these businesses as assets held for sale and liabilities of operations held for sale on the Consolidated Balance Sheet and as discontinued operations on the Statement of Consolidated Income.

The following table details selected financial information for the businesses included within discontinued operations.

	December 31		
	2002	2001	2000
Sales	$ 355	$362	$277
(Loss) income from operations	(53)	4	18
Loss from impairment	(109)	—	—
Pretax (loss) income	(162)	4	18
Benefit (provision) for taxes	50	(3)	(6)
(Loss) income from discontinued operations	$(112)	$ 1	$ 12

Certain other businesses to be divested are classified as assets held for sale due to management's belief that Alcoa may enter into supply agreements in connection with the sale of these businesses. Alcoa has recorded a pretax loss of $214 ($143 after tax and minority interests) in special items on the Statement of Consolidated Income, representing the impairment charge to reduce these businesses to their estimated fair value less costs to sell. The $214 charge includes $136 for the write-down of goodwill. These businesses to be divested principally include certain architectural products businesses in North America, certain fabricating and packaging operations in South America, and foil facilities in St. Louis, MO and Russellville, AR. The operating results of these businesses are included within the Engineering Products, Flat-Rolled Products, and Packaging and Consumer segments. The assets and liabilities of these businesses have been classified as assets held for sale and liabilities of operations held for sale on the Consolidated Balance Sheet. All prior financial information has also been reclassified to reflect this treatment.

For all of the businesses to be divested, the fair values were estimated utilizing accepted valuation techniques. Alcoa expects that all of the businesses to be divested will be sold within a one-year period. The fair values that are ultimately realized upon the sale of the businesses to be divested may differ from the estimated fair values used to record the loss in 2002.

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

	December 31	
	2002	2001
Assets:		
Receivables	$146	$193
Inventories	128	146
Properties, plants, and equipment, net	274	452
Goodwill	—	136
Other assets	27	24
Total assets held for sale	$575	$951
Liabilities:		
Accounts payable and accrued expenses	36	88
Other liabilities	28	34
Total liabilities of operations held for sale	$ 64	$122

Alcoa also intends to divest its specialty chemicals and packaging equipment businesses. These businesses are classified as held and used at December 31, 2002 because the period required to complete the sale is in excess of one year.

C. SPECIAL ITEMS

During 2002, Alcoa recorded special charges of $407 ($261 after tax and minority interests) for restructurings, consisting of charges of $39 ($23 after tax and minority interests) in the third quarter of 2002 and charges of $368 ($238 after tax and minority interests) in the fourth quarter of 2002. The third quarter special charge of $39 was primarily the result of the curtailment of aluminum production at three smelters. Alcoa temporarily curtailed aluminum production at its Badin, NC plant and permanently closed its Troutdale, OR plant as well as approximately 25% of the capacity at its Rockdale, TX facility. The remaining carrying value and results of operations related to these facilities were not material. The fourth quarter special charge of $368 was primarily the result of restructuring operations for those businesses experiencing negligible growth due to continued market declines, as well as the decision to divest certain businesses that have failed to meet internal growth and return measures. Of the total fourth quarter special charge of $368, $154 ($95 after tax and minority interests) was related to the restructuring of operations of businesses serving the aerospace, automotive, and industrial gas turbine markets, and in the U.S. smelting system. The remaining $214 ($143 after tax and minority interests) was related to impairment charges on businesses to be divested, as detailed in Note B.

The 2002 charges were comprised of $278 for asset write- downs, consisting of $136 of goodwill on businesses to be divested, as well as $142 for structures, machinery, and equipment; $105 for employee termination and severance costs related to approximately 8,500 salaried and hourly employees at over 70 locations, primarily in Mexico, Europe, and the U.S.; and charges of $31 for exit costs, primarily for remediation and demolition costs, as well as lease termination costs.

As of December 31, 2002, approximately 850 employees of the 8,500 associated with the 2002 restructuring charges had been terminated, and approximately $9 of cash payments were made against the accrual. Additionally, of the $31 accrued for exit costs, approximately $4 was paid in cash as of December 31, 2002. Alcoa expects to substantially complete all actions relative to the 2002 restructuring charges by the end of 2003.

During 2002, various adjustments were recorded to the 2001 restructuring program reserves. Additional restructuring charges of $18 were recorded for additional asset impairments and for additional employee termination and severance costs, primarily related to additional severance costs not accruable in 2001 for layoffs of approximately 250 salaried and hourly employees, primarily in Europe and Mexico. Also, reversals of 2001 restructuring reserves of $32 were recorded due to changes in estimates of liabilities resulting from lower than expected costs associated with certain plant shutdowns and disposals.

During 2001, Alcoa recorded charges of $565 ($355 after tax and minority interests) as a result of a restructuring plan based on a strategic review of the company’s primary products and fabricating businesses aimed at optimizing and aligning its manufacturing systems with customer needs, while positioning the company for stronger profitability. The total charge of $565 consisted of a charge of $212 ($114 after tax and minority interests) in the second quarter of 2001 and a charge of $353 ($241 after tax and minority interests) in the fourth quarter of 2001. These charges consisted of asset write-downs of $371, employee termination and severance costs of $178 related to workforce reductions of approximately 10,400 employees, and other exit costs of $16 related to the shutdown of facilities. The second quarter charge was primarily due to actions taken in Alcoa’s primary products businesses because of economic and competitive conditions. These actions included the shutdown of three facilities in the U.S. The fourth quarter charge was primarily due to actions taken in Alcoa’s fabricating businesses. These actions included the shutdown of 15 facilities in the U.S. and Europe.

Asset write-downs of $371 were primarily recorded as a direct result of the company’s decision to close certain facilities. The asset write-downs consisted primarily of structures and machinery and equipment, as well as related selling or disposal costs, and were comprised of $144 related to assets that will be phased out and $227 of assets that could be disposed of immediately. Assets to be phased out consisted of $46 of assets in the Flat-Rolled Products segment, $77 of assets in the Engineered Products segment, and $21 at corporate. Assets to be disposed of consisted of $110 of assets in the Alumina and Chemicals segment, $84 of assets in the Primary Metals segment, $23 of assets in the Engineered Products segment, $4 in the Other group, and $6 at corporate. The results of operations related to these assets were not material. These assets were sold or vacated in 2002.

Assets to be phased out were removed from service in 2002. Fair values of assets were determined based on expected future cash flows or appraised values. Expected operating cash flows during the phaseout period were not significant and did not have a material impact on the determination of the amount of the write-down.

Employee termination and severance costs of $178 were recorded as management implemented workforce reductions of 10,400 hourly and salaried employees at various manufacturing facilities – primarily located outside of the U.S. – due to weak market conditions and the shutdowns of several manufacturing facilities. These workforce reductions primarily consisted of a combination of early retirement incentives and involuntary severance programs. As of December 31, 2002, approximately 9,200 of the 10,650 employees associated with the 2001 restructuring program had been terminated.

The $16 of exit costs were recorded for activities associated with the shutdowns above.

Pretax restructuring charges consisted of:

	Asset write-downs	Employee termination and severance costs	Other	Total
2001:				
2001 restructuring charges	$ 371	$ 178	$ 16	$ 565
Cash payments	(3)	(32)	(5)	(40)
Noncash charges*	(288)	—	—	(288)
Reserve balances at December 31, 2001	$ 80	$ 146	$ 11	$ 237
2002:				
Cash payments	$ (17)	$ (74)	$ (13)	$(104)
2002 restructuring charges	278	105	31	414
Noncash charges in 2002	(278)	—	—	(278)
Additions to 2001 restructuring charges	9	9	—	18
Reversals of 2001 restructuring reserves	(10)	(20)	(2)	(32)
Reserve balances at December 31, 2002	$ 62	$ 166	$ 27	$ 255

* Adjusted

Of the remaining reserve balances at December 31, 2002, approximately $130 relates to the 2001 restructuring program, consisting primarily of asset write-down costs of $60 and employee termination and severance costs of $70. These reserves are for ongoing site remediation work and employee layoff costs that primarily consist of monthly payments made over an extended period.

D. GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, Alcoa adopted SFAS No. 142, “Goodwill and Other Intangible Assets.” Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized. This standard also requires, at a minimum, an annual assessment of the carrying value of goodwill and intangibles with indefinite useful lives. If the carrying value of goodwill or an intangible asset exceeds its fair value, an impairment loss shall be recognized.

The changes in the carrying amount of goodwill for the years ended December 31, 2002 and 2001 follow.

	2002	2001
Balance at beginning of year	$5,597	$5,867
Intangible assets reclassified to goodwill	28	—
Impairment loss recognized in cumulative effect adjustment	(15)	—
Additions during the period	765	237
Sale of a business	—	(320)
Impairment loss	(44)	—
Translation and other adjustments	34	(16)
Amortization expense	—	(171)
Balance at end of year	$6,365	$5,597

In accordance with the provisions of SFAS No. 141, "Business Combinations," Alcoa transferred $28 (after tax) of customer base intangibles, initially recorded in the Reynolds acquisition, to goodwill (Packaging and Consumer segment). Upon adoption of SFAS No. 142 on January 1, 2002, Alcoa recognized a $15 charge for the impairment of goodwill in the automotive business (Other group) resulting from a change in the criteria for the measurement of fair value under SFAS No. 142 from an undiscounted to a discounted cash flow method. Goodwill increased $765 during the period related to ten acquisitions (primarily impacting the Engineered Products segment by $253, the Packaging and Consumer segment by $488, and the Other group by $96) and adjustments to preliminary purchase price allocations from prior periods. In the fourth quarter of 2002, Alcoa recorded an impairment charge of $44 for goodwill associated with its operations serving the telecommunications market. Alcoa's telecommunications business experienced lower than expected operating profits and cash flows in the second half of 2002. As a result of this trend and the overall industry expectations, the projected operating profits and cash flows for the telecommunications business were reduced for the next five years. The projected decline in cash flows resulted in the recognition of the $44 impairment loss in the Other group. The fair value of Alcoa's businesses was determined based on a discounted cash flow model for purposes of testing goodwill for impairment. The discount rate used was based on a risk-adjusted weighted average cost of capital for each business. See Note O for further detail on goodwill balances by segment.

Intangible assets, which are included in other assets on the Consolidated Balance Sheet, totaled $741, net of accumulated amortization of $361, at December 31, 2002, and $661, net of accumulated amortization of $314, at December 31, 2001. At December 31, 2002, $169 of the net balance of $741 represents trade name intangibles with indefinite useful lives that are not being amortized. The remaining intangibles relate to customer relationships, computer software, patents, and licenses. Amortization expense for intangible assets for the years ended December 31, 2002, 2001, and 2000 was $68, $69, and $65, respectively. Amortization expense is expected to range from approximately $68 to $47 each year between 2003 and 2007.

The effects of adopting SFAS Nos. 141 and 142 on net income and diluted earnings per share for the years ended December 31, 2002, 2001, and 2000, follow.

	2002	2001	2000
Net income	$420	$ 908	$1,484
Less: cumulative effect income from accounting change for goodwill	(34)	—	—
Income excluding cumulative effect	386	908	1,484
Add: goodwill amortization	—	171	125
Income excluding cumulative effect and goodwill amortization	$386	$1,079	$1,609
Diluted earnings per common share:			
Net income	$ .49	$ 1.05	$ 1.80
Less: cumulative effect income from accounting change for goodwill	(.04)	—	—
Income excluding cumulative effect	.45	1.05	1.80
Add: goodwill amortization	—	.20	.15
Income excluding cumulative effect and goodwill amortization	$ .45	$ 1.25	$ 1.95

The impact to the segments of no longer amortizing goodwill in 2002 was as follows: Primary $23, Flat-Rolled Products $(5), Engineered Products $61, Packaging and Consumer $16, and Other $32. The impact to corporate was $44.

The cumulative effect adjustment recognized on January 1, 2002, upon adoption of SFAS Nos. 141 and 142, was $34 (after tax), consisting of income from the write-off of negative goodwill from prior acquisitions of $49, offset by a $15 write-off for the impairment of goodwill in the automotive business resulting from a change in the criteria for the measurement of impairments from an undiscounted to a discounted cash flow method.

E. ACQUISITIONS AND DIVESTITURES

During 2002, Alcoa completed 15 acquisitions at a cost of $1,573, of which $1,253 was paid in cash. The most significant of these transactions were the acquisitions of Ivex in July 2002 and Fairchild Fasteners (Fairchild) in December 2002.

The Ivex transaction was valued at approximately $790, including debt assumed of $320, and the preliminary purchase price allocation resulted in goodwill of approximately $470. Alcoa will divest the protective packaging business of Ivex, as this line of business does not meet future growth plans of the company. See Note B for additional information. Ivex is part of Alcoa's Packaging and Consumer segment. Alcoa paid $650 in cash for Fairchild, and the preliminary purchase price allocation resulted in goodwill of approximately $237. Fairchild is part of the Engineered Products segment.

The purchase price allocations for both Ivex and Fairchild are preliminary; the final allocation of the purchase price will be based upon valuation and other studies, including environmental and other contingent liabilities, that have not been completed. Pro forma results of the company, assuming all acquisitions had been made at the beginning of each period presented, would not have been materially different from the results reported.

In connection with certain acquisitions made during 2002, Alcoa could be required to make additional payments of approximately $90 from 2003 through 2006 based upon the achievement of various financial and operating targets.

During 2001, Alcoa completed nine acquisitions for $159 in cash. None of these transactions had a material impact on Alcoa's financial statements.

During 2000, Alcoa completed 17 acquisitions for $3,121 in cash and approximately $4,500 in shares of Alcoa common stock, the most significant of which were the acquisitions of Reynolds Metals Company (Reynolds) and Cordant Technologies, Inc. (Cordant).

In May of 2000, Alcoa completed a merger with Reynolds by issuing approximately 135 million shares of Alcoa common stock at a value of $33.30 per share to Reynolds stockholders. The transaction was valued at approximately $5,900, including debt assumed of $1,297. The purchase price included the conversion of outstanding Reynolds options to Alcoa options as well as other direct costs of the acquisition. Goodwill of approximately $2,100 resulted from the purchase price allocation.

As part of the merger with Reynolds, Alcoa divested Reynolds' interest in an alumina refinery in Sherwin, TX in 2000 and Reynolds' interests in alumina refineries in Worsley, Australia and Stade, Germany and its aluminum smelter in Longview, WA during 2001. In accordance with the provisions of Emerging Issues Task Force 87-11, "Allocation of Purchase Price to Assets to be Sold," there were no gains or losses on sales of these assets.

In November of 2001, Alcoa contributed net assets of approximately $200 of Reynolds Aluminum Supply Company (RASCO), the metals distribution business acquired in the Reynolds acquisition, to a joint venture in which Alcoa retains a 50% equity interest.

In May and June of 2000, Alcoa completed the acquisitions of Cordant and Howmet International Inc. (Howmet), a majority- owned company of Cordant. Under the agreement and tender offer, Alcoa paid $57 for each outstanding share of Cordant common stock and $21 for each outstanding share of Howmet common stock. The total value of the transactions was approximately $3,300, including the assumption of debt of $826. The purchase price includes the conversion of outstanding Cordant and Howmet options to Alcoa options as well as other direct costs of the acquisition. In April of 2001, Alcoa completed the sale of Thiokol Propulsion (Thiokol), a business acquired in the Cordant transaction, to Alliant Techsystems Inc. for net proceeds of $698 in cash, which included a working capital adjustment, and recognized a $55 pretax gain that was included in other income. Goodwill of approximately $2,200 resulted from the purchase price allocation, after considering the impact of the Thiokol sale.

The following unaudited pro forma information for the year ended December 31, 2000 assumes that the acquisitions of Reynolds and Cordant had occurred at the beginning of 2000. Adjustments that have been made to arrive at the pro forma totals include those related to acquisition financing; the amortization of goodwill; the elimination of transactions among Alcoa, Reynolds, and Cordant; and additional depreciation related to the increase in basis that resulted from the transactions. Tax effects from the pro forma adjustments previously noted have been included at the 35% U.S. statutory rate.

(Unaudited)	2000
Sales	$ 25,636
Net income	1,514
Earnings per share:	
Basic	$ 1.86*
Diluted	1.84*

* Includes the cumulative effect adjustment of the accounting change for revenue recognition

The pro forma results are not necessarily indicative of what actually would have occurred if the transactions had been in effect for the periods presented, are not intended to be a projection of future results, and do not reflect any cost savings that might be achieved from the combined operations.

Alcoa's acquisitions have been accounted for using the purchase method. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair market values. Any excess purchase price over the fair market value of the net assets acquired has been recorded as goodwill. For all of Alcoa's acquisitions, operating results have been included in the Statement of Consolidated Income since the dates of the acquisitions.

F. INVENTORIES

	December 31	
	2002	2001
Finished goods	$ 754	$ 641
Work in process	750	675
Bauxite and alumina	341	410
Purchased raw materials	420	497
Operating supplies	176	162
	$ 2,441	$ 2,385

Approximately 45% of total inventories at December 31, 2002 were valued on a LIFO basis. If valued on an average- cost basis, total inventories would have been $514 and $605 higher at the end of 2002 and 2001, respectively. During 2002 and 2000, LIFO inventory quantities were reduced, which resulted in partial liquidations of the LIFO bases. The impact of these liquidations increased net income by $40 in 2002 and $31 in 2000.

G. PROPERTIES, PLANTS, AND EQUIPMENT, AT COST

	December 31	
	2002	2001
Land and land rights, including mines	$ 424	$ 372
Structures	5,360	5,159
Machinery and equipment	16,144	15,305
	21,928	20,836
Less: accumulated depreciation and depletion	11,009	10,344

	10,919	10,492
Construction work in progress	1,192	1,038
	$12,111	$11,530

H. OTHER ASSETS

	December 31	
	2002	2001
Investments, principally equity investments	$1,485	$1,384
Intangibles, net of accumulated amortization of $361 in 2002 and $314 in 2001	741	661
Noncurrent receivables	74	42
Deferred income taxes	1,014	445
Prepaid pension benefit	133	502
Deferred charges and other	999	794
	$4,446	$3,828

I. OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS

	December 31	
	2002	2001
Deferred alumina sales revenue	$ 195	$ 204
Environmental remediation	368	357
Deferred credits	194	278
Accrued pension benefit liability	1,547	568
Other noncurrent liabilities	574	561
	$2,878	$1,968

J. DEBT

	December 31	
	2002	2001
Commercial paper, variable rate, (1.4% and 1.9% average rates)	$ 665	$ 220
6.625% Notes, due 2002	—	57
9% Bonds, due 2003	21	21
Floating-rate notes, due 2004 (2.1% and 2.2% average rates)	500	500
6.125% Bonds, due 2005	200	200
7.25% Notes, due 2005	500	500
5.875% Notes, due 2006	500	500
4.25% Notes, due 2007	800	—
6.625% Notes, due 2008	150	150
7.375% Notes, due 2010	1,000	1,000
6.5% Notes, due 2011	1,000	1,000
6% Notes, due 2012	1,000	1,000
5.375% Notes, due 2013	600	—
6.5% Bonds, due 2018	250	250
6.75% Bonds, due 2028	300	300
Tax-exempt revenue bonds ranging from 2.9% to 7.3%, due 2003-2033	323	341
Medium-term notes, due 2003-2013 (7.9% and 8.0% average rates)	212	224
Alcoa Aluminio 7.5% Export notes, due 2008	144	165
Fair value adjustments	244	39
Other	41	19
	8,450	6,486
Less: amount due within one year	85	102
	$8,365	$6,384

The amount of long-term debt maturing in each of the next five years is $85 in 2003, $596 in 2004, $1,453 in 2005, $596 in 2006, and $899 in 2007.

In August 2002, Alcoa issued $1,400 of notes. Of these notes, $800 mature in 2007 and carry a coupon rate of 4.25%, and $600 mature in 2013 and carry a coupon rate of 5.375%. The proceeds from these borrowings were used to fund the acquisition of Ivex and to refinance commercial paper.

In May 2001, Alcoa issued $1,500 of notes. Of these notes, $1,000 mature in 2011 and carry a coupon rate of 6.5%, and $500 mature in 2006 and carry a coupon rate of 5.875%. In December 2001, Alcoa issued $1,500 of notes. This issue consisted of $1,000 of notes that mature in 2012 and carry a coupon rate of 6%, and $500 of floating-rate notes that mature in 2004. The proceeds from these borrowings were used to refinance debt, primarily commercial paper, and for general corporate purposes.

In April 2002, Alcoa refinanced its $2,000 revolving-credit agreement that expired in April 2002 into a revolving- credit agreement that expires in April 2003. Alcoa also has a $1,000 revolving-credit facility that expires in August 2003 and a $1,000 revolving-credit facility that expires in April 2005. Under these agreements, a certain ratio of indebtedness to consolidated net worth must be maintained. Commercial paper of $665 and $220 at December 31, 2002 and 2001, respectively, was classified as long- term debt because it is backed by the revolving-credit facility. There were no amounts outstanding under the revolving-credit facilities at December 31, 2002. The interest rate on these facilities, if drawn upon, is Libor plus 19 basis points, which is subject to adjustment if Alcoa’s credit rating changes, to a maximum interest rate of Libor plus 40 basis points.

Aluminio’s export notes are collateralized by receivables due under an export contract. Certain financial ratios must be maintained, including the maintenance of a minimum debt service ratio as well as a certain level of tangible net worth of Aluminio and its subsidiaries. During 2002, the notes were amended to exclude the effects of foreign currency changes from the tangible net worth calculation.

The fair value adjustments result from changes in the carrying amount of certain fixed-rate debt that was designated as a fair value hedge. Of the $244 in 2002, $80 relates to outstanding hedges and $164 relates to hedges on outstanding debt that were settled early. These adjustments will be recognized as reductions of interest expense over the remaining maturity of the related hedged debt (through 2011). For additional information about interest rate swaps, see Note V.

Short-term borrowings of $37 and $162 at December 31, 2002 and 2001, respectively, consisted of bank and other borrowings. The weighted average interest rate on short- term borrowings was 5.3% in 2002 and 2.5% in 2001.

K. MINORITY INTERESTS

The following table summarizes the minority shareholders’ interests in the equity of consolidated subsidiaries.

	December 31	
	2002	2001
Alcoa of Australia	$ 510	$ 431
Alcoa Aluminio	124	222
Alcoa World Alumina and Chemicals	208	175
Alcoa Fujikura Ltd.	269	277
Other majority-owned companies	182	208
	$ 1,293	$ 1,313

L. COMMITMENTS AND CONTINGENCIES

Various lawsuits, claims, and proceedings have been or may be instituted or asserted against Alcoa, including those pertaining to environmental, product liability, and safety and health matters. While the amounts claimed may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are pending or asserted will not have a materially adverse effect on the financial position of the company.

Aluminio is a participant in several hydroelectric construction projects in Brazil for purposes of increasing its energy self-sufficiency and providing a long-term, low-cost source of power for its facilities.

The completed and committed hydroelectric construction projects that Aluminio participates in are outlined in the following tables.

COMPLETED PROJECTS	Date completed	Investment participation	Share of output	Debt guarantee	Debt guarantee through 2013
Machadinho	2002	27.23%	22.62%	35.53%	$ 95

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

COMMITTED PROJECTS	Scheduled completion date	Share of output	Investment participation	Total estimated project costs	Aluminio's share of project costs	Performance bond guarantee
Barra Grande	2005	42.20%	42.20%	$ 359	$ 151	$ 5
Serra do Facao	2006	39.50%	39.50%	$ 149	$ 59	$ 3
Pai-Quere	2007	35.00%	35.00%	$ 180	$ 63	$ 2
Santa Isabel	to be determined	20.00%	20.00%	$ 460	$ 92	$ 7
Estreito	2008	19.08%	19.08%	$ 511	$ 97	$ 8

These projects were committed to during 2001 and 2002, and the Barra Grande project commenced construction in 2002. The plans for financing these projects have not yet been finalized. It is anticipated that a portion of the project costs will be financed with third parties. Aluminio may be required to provide guarantees of project financing or commit to additional investments as these projects progress. The future of the Santa Isabel project is subject to receiving appropriate regulatory licenses.

Aluminio accounts for the Machadinho and Barra Grande hydroelectric projects on the equity method. Its total investment was $88 and $108 at December 31, 2002 and 2001, respectively. There have been no significant investments made in any of the other projects.

Alcoa of Australia (AofA) is party to a number of natural gas and electricity contracts that expire between 2003 and 2020. Under these take-or-pay contracts, AofA is obligated to pay for a minimum amount of natural gas or electricity even if these commodities are not delivered. Commitments related to these contracts total $194 in 2003, $201 in 2004, $213 in 2005, $205 in 2006, $177 in 2007, and $2,391 thereafter. Expenditures under these contracts totaled $178 in 2002, $179 in 2001, and $188 in 2000.

Alcoa has standby letters of credit related to environmental, insurance, and other activities. The total amount committed under these letters of credit, which expire at various dates in 2003 through 2005, was $168 at December 31, 2002.

M. OTHER INCOME, NET

	December 31		
	2002	2001	2000
Equity income	$ 72	$118	$115
Interest income	46	61	61
Foreign exchange losses	(30)	(11)	(82)
Gains on sales of assets	52	114	14
Other income	39	26	46
	$179	$308	$154

N. CASH FLOW INFORMATION

Cash payments for interest and income taxes follow.

	2002	2001	2000
Interest	$329	$418	$388
Income taxes	583	548	419

The details of cash payments related to acquisitions follow.

	2002	2001	2000
Fair value of assets acquired	$1,944	$184	$14,991
Liabilities assumed	(666)	(24)	(7,075)
Stock options issued	—	—	(182)
Stock issued	—	—	(4,502)
Cash paid	1,278	160	3,232
Less: cash acquired	25	1	111
Net cash paid for acquisitions	$1,253	$159	$ 3,121

O. SEGMENT AND GEOGRAPHIC AREA INFORMATION

Alcoa is primarily a producer of aluminum products. Its segments are organized by product on a worldwide basis. Alcoa's management reporting system evaluates performance based on a number of factors; however, the primary measure of performance is the after-tax operating income (ATOI) of each segment. Nonoperating items such as interest income, interest expense, foreign exchange gains/losses, the effects of LIFO inventory accounting, minority interests, special items, discontinued operations, and accounting changes are excluded from segment ATOI. In addition, certain expenses, such as corporate general administrative expenses, and depreciation and amortization on corporate assets, are not included in segment ATOI. Segment assets exclude cash, cash equivalents, short-term investments, and all deferred taxes. Segment assets also exclude items such as corporate fixed assets, LIFO reserves, goodwill allocated to corporate, assets held for sale, and other amounts.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (Note A). Transactions among segments are established based on negotiation among the parties. Differences between segment totals and Alcoa's consolidated totals for line items not reconciled are primarily due to corporate allocations. Alcoa's products are used primarily by packaging, consumer products, transportation (including aerospace, automotive, truck trailer, rail and shipping), building and construction, and industrial customers worldwide. Total exports from the U.S. from continuing operations were $1,609 in 2002 compared with $2,050 in 2001 and $1,686 in 2000.

Alcoa's reportable segments, as reclassified for discontinued operations and assets held for sale, follow.

Segment information	Alumina and Chemicals	Primary Metals	Flat-Rolled Products	Engineered Products	Packaging and Consumer	Other	Total
2002							
Sales:							
Third-party sales	$ 1,743	$3,174	$ 4,640	$ 5,018	$ 2,882	$2,806	$20,263
Intersegment sales	955	2,655*	68	34	—	—	3,712
Total sales	$ 2,698	$5,829	$ 4,708	$ 5,052	$ 2,882	$2,806	$23,975
Profit and loss:							
Equity income (loss)	$ 1	$ 44	$ (4)	$ —	$ 17	$ 4	$ 62
Depreciation, depletion, and amortization	139	300	192	214	130	82	1,057
Income taxes	130	266	87	50	101	17	651
After-tax operating income (loss)	315	650	220	107	198	(9)	1,481
Assets:							
Capital expenditures	$ 161	$ 248	$ 227	$ 199	$ 89	$ 66	$ 990
Equity investments	170	411	50	—	134	177	942
Goodwill	24	910	153	2,465	869	307	4,728
Total assets	2,852	7,166	3,266	6,164	3,143	1,876	24,467
2001							
Sales:							
Third-party sales	$ 1,908	$3,432	$ 4,999	$ 5,765	$ 2,691	$3,702	$22,497
Intersegment sales	1,021	2,849*	64	35	—	—	3,969
Total sales	$ 2,929	$6,281	$ 5,063	$ 5,800	$ 2,691	$3,702	$26,466
Profit and loss:							
Equity income (loss)	$ 1	$ 52	$ (2)	$ —	$ 28	$ 16	$ 95
Depreciation, depletion, and amortization	144	327	191	250	136	113	1,161
Income taxes	184	434	94	111	79	—	902
After-tax operating income	471	905	262	173	184	47	2,042
Assets:							
Capital expenditures	$ 129	$ 209	$ 221	$ 252	$ 94	$ 84	$ 989
Equity investments	170	319	47	—	128	317	981
Goodwill	35	929	143	2,178	331	271	3,887
Total assets	2,797	7,122	3,368	5,523	2,340	1,883	23,033
2000							
Sales:							
Third-party sales	$ 2,108	$3,756	$ 5,446	$ 5,199	$ 2,079	$4,071	$22,659
Intersegment sales	1,104	3,395*	97	62	—	—	4,658
Total sales	$ 3,212	$7,151	$ 5,543	$ 5,261	$ 2,079	$4,071	$27,317
Profit and loss:							
Equity income	$ 3	$ 50	$ 6	$ 1	$ —	$ 32	$ 92
Depreciation, depletion, and amortization	163	311	188	213	105	127	1,107
Income taxes	279	505	126	124	70	93	1,197
After-tax operating income	585	1,000	299	198	131	164	2,377
Assets:							
Capital expenditures	$ 154	$ 232	$ 185	$ 231	$ 96	$ 100	$ 998
Equity investments	176	274	90	6	1	139	686
Goodwill	39	956	164	2,129	310	699	4,297
Total assets	2,924	7,700	3,570	5,727	2,274	3,376	25,571

* Intersegment sales have been adjusted from amounts previously reported to reflect the elimination of intrasegment sales. These adjustments had no impact on ATOI.

ALUMINA AND CHEMICALS. This segment consists of Alcoa’s worldwide alumina and chemicals system that includes the mining of bauxite, which is then refined into alumina. Alumina is sold directly to internal and external smelter customers worldwide or is processed into industrial chemical products. Alcoa’s alumina operations in Australia are a significant component of this segment. Approximately three-quarters of the third-party sales from this segment are derived from alumina.

PRIMARY METALS. This segment consists of Alcoa’s worldwide smelter system. Primary Metals receives alumina primarily from the Alumina and Chemicals segment and produces aluminum ingot to be used by Alcoa’s fabricating businesses, as well as sold to external customers, aluminum traders, and commodity markets. Results from the sale of aluminum powder, scrap, and excess power are also included in this segment, as well as the results from aluminum derivative contracts. The sale of ingot represents approximately 90% of this segment's third-party sales.

FLAT-ROLLED PRODUCTS. This segment's principal business is the production and sale of aluminum plate, sheet, and foil. This segment includes rigid container sheet (RCS), which is used to produce aluminum beverage cans, and sheet and plate used in the transportation and distributor markets. Approximately 60% of the third-party sales in this segment are derived from sheet and plate, and foil used in industrial markets, while the remaining 40% of third-party sales consists of RCS.

ENGINEERED PRODUCTS. This segment includes hard- and soft- alloy extrusions, including architectural extrusions, super-alloy castings, steel and aluminum fasteners, aluminum forgings, and wheels. These products serve the transportation, building and construction, and distributor markets.

PACKAGING AND CONSUMER. This segment includes consumer products, foodservice, flexible packaging, and packaging graphics design, as well as closures and packaging machinery. The principal products in this segment include aluminum foil; plastic wraps and bags; metal and plastic beverage and food closures; flexible packaging; prepress services; and thermoformed plastic containers and extruded plastic sheet and film. Consumer products are marketed under brands including Reynolds Wrap®, Diamond®, Baco®, and Cut- Rite® wax paper.

OTHER. This group includes other Alcoa businesses that are not included in the segments previously mentioned. This group includes Alcoa Fujikura Ltd., which produces electrical components for the automotive industry along with fiber-optic cable and provides services to the telecommunications industry; residential building products operations, Alcoa Home Exteriors (formerly Alcoa Building Products); automotive parts businesses; Thiokol, a producer of solid rocket propulsion systems (Thiokol was sold in April 2001); and Reynolds’ metal distribution business, RASCO (In November 2001, the net assets of RASCO were contributed to a joint venture, Integris Metals, Inc., in which Alcoa retains a 50% equity interest. Effective January 1, 2002, equity income from Integris is included in corporate.).

The following reconciles segment information to consolidated totals.

	2002	2001	2000
Sales:			
Total sales	$23,975	$26,466	$27,317
Elimination of intersegment sales	(3,712)	(3,969)	(4,658)
Consolidated sales	$20,263	$22,497	$22,659
Net income:			
Total after-tax operating income	$ 1,481	$ 2,042	$ 2,377
Impact of intersegment profit eliminations	(6)	(20)	24
Unallocated amounts (net of tax):			
Interest income	30	40	40
Interest expense	(227)	(242)	(278)
Minority interests	(135)	(208)	(381)
Corporate expense	(234)	(261)	(227)
Special items	(286)	(397)	—
Discontinued operations	(112)	1	12
Accounting changes	34	—	(5)
Other	(125)	(47)	(78)
Consolidated net income	$ 420	$ 908	$ 1,484
Assets:			
Total assets	$24,467	$23,033	$25,571
Elimination of intersegment receivables	(285)	(309)	(530)
Unallocated amounts:			
Cash, cash equivalents, and short-term investments	413	527	371
Deferred tax assets	1,482	854	744
Corporate goodwill	1,637	1,710	1,570
Corporate fixed assets	593	513	414
LIFO reserve	(514)	(605)	(658)
Operations to be divested from Reynolds acquisition	—	—	1,473
Assets held for sale	575	951	998
Other	1,442	1,681	1,738
Consolidated assets	$29,810	$28,355	$31,691

Geographic information for revenues, based on country of origin, and long-lived assets follows.

	2002	2001	2000
Revenues:			
U.S.	$12,884	$14,667	$15,215
Australia	1,250	1,350	1,690

Spain	999	1,011	1,146
United Kingdom	742	899	379
Brazil	676	707	880
Germany	656	720	713
Other	3,056	3,143	2,636
	$20,263	$22,497	$22,659
Long-lived assets:			
U.S.	$12,637	$12,113	$13,941
Canada	2,701	2,782	2,837
Australia	1,543	1,345	1,458
United Kingdom	752	682	378
Brazil	340	520	603
Germany	246	194	213
Other	1,925	1,411	1,281
	$20,144	$19,047	$20,711

P. PREFERRED AND COMMON STOCK

PREFERRED STOCK. Alcoa has two classes of preferred stock. Serial preferred stock has 557,740 shares authorized and 546,024 shares outstanding, with a par value of $100 per share and an annual $3.75 cumulative dividend preference per share. Class B serial preferred stock has 10 million shares authorized (none issued) and a par value of $1 per share.

COMMON STOCK. There are 1.8 billion shares authorized at a par value of $1 per share. As of December 31, 2002, 107.2 million shares of common stock were reserved for issuance under the long-term stock incentive plans.

Stock options under the company's stock incentive plans have been and may be granted, generally at not less than market prices on the dates of grant. The stock option program includes a reload or stock continuation ownership feature. Stock options granted have a maximum term of ten years. Vesting periods are one year from the date of grant and six months for options granted under the reload feature. Beginning in 2003, new option grants will vest one-third in each of three years from the date of the grant and the reload feature of new options will be subject to cancellation or modification.

The transactions for shares under options were: (shares in millions)

	2002	2001	2000
Outstanding, beginning of year:			
Number of options	73.5	74.8	53.0
Weighted average exercise price	$32.02	$29.29	$22.15
Options assumed from acquisitions:			
Number of options	—	—	15.2
Weighted average exercise price	$ —	$ —	$25.09
Granted:			
Number of options	17.3	28.9	31.3
Weighted average exercise price	$36.10	$36.19	$37.87
Exercised:			
Number of options	(7.1)	(29.0)	(24.3)
Weighted average exercise price	$26.77	$29.03	$22.03
Expired or forfeited:			
Number of options	(2.1)	(1.2)	(.4)
Weighted average exercise price	$37.50	$32.50	$34.90
Outstanding, end of year:			
Number of options	81.6	73.5	74.8
Weighted average exercise price	$33.19	$32.02	$29.29
Exercisable, end of year:			
Number of options	68.8	58.6	44.6
Weighted average exercise price	$32.68	$31.88	$23.42
Shares reserved for future options	25.6	21.0	15.8

The following tables summarize certain stock option information at December 31, 2002: (shares in millions)

OPTIONS OUTSTANDING

Range of exercise price	Number	Weighted average remaining life	Weighted average exercise price
$0.125	0.1	employment career	$0.125
$4.38-$12.15	1.6	2.54	10.27
$12.16-$19.93	4.7	3.08	16.95
$19.94-$27.71	9.8	4.34	22.28
$27.72-$35.49	20.0	6.28	31.68
$35.50-$45.59	45.4	6.64	38.76
Total	81.6	5.99	$33.19

OPTIONS EXERCISABLE

Range of exercise price	Number	Weighted average exercisable price
$0.125	0.1	$ 0.125
$4.38-$12.15	1.6	10.27
$12.16-$19.93	4.7	16.95
$19.94-$27.71	9.8	22.28
$27.72-$35.49	20.0	31.68
$35.50-$45.59	32.6	39.81
Total	68.8	$ 32.68

Q. EARNINGS PER SHARE

Basic earnings per common share (EPS) amounts are computed by dividing earnings after the deduction of preferred stock dividends by the average number of common shares outstanding. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive equivalents outstanding.

The information used to compute basic and diluted EPS on income from continuing operations follows. (shares in millions)

	2002	2001	2000
Income from continuing operations	$ 498	$ 907	$1,477
Less: preferred stock dividends	2	2	2
Income from continuing operations available to common shareholders	$ 496	$ 905	$1,475
Average shares outstanding—basic	845.4	858.0	814.2
Effect of dilutive securities:			
Shares issuable upon exercise of dilutive stock options	4.4	8.6	9.0
Average shares outstanding—diluted	849.8	866.6	823.2

Options to purchase 68 million shares of common stock at an average exercise price of $36 per share were outstanding as of December 31, 2002 but were not included in the computation of diluted EPS because the option exercise price was greater than the average market price of the common shares.

R. INCOME TAXES

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

	2002	2001	2000
U.S.	$ (383)	$ (24)	$ 798
Foreign	1,308	1,661	1,996
	$ 925	$1,637	$2,794

The provision for taxes on income from continuing operations consisted of:

	2002	2001	2000
Current:			
U.S. federal*	$ 95	$ (20)	$212
Foreign	358	521	568
State and local	17	45	21
	470	546	801
Deferred:			
U.S. federal*	(204)	(32)	90
Foreign	11	3	42
State and local	15	5	3
	(178)	(24)	135
Total	$ 292	$522	$936

* Includes U.S. taxes related to foreign income

The exercise of employee stock options generated a tax benefit of $34 in 2002, $90 in 2001, and $108 in 2000. This amount was credited to additional capital and reduced current taxes payable.

Reconciliation of the U.S. federal statutory rate to Alcoa's effective tax rate for continuing operations follows.

	2002	2001	2000
U.S. federal statutory rate	35.0%	35.0%	35.0%
Taxes on foreign income	(5.9)	(8.4)	(3.5)
State taxes net of federal benefit	2.4	1.1	.5
Minority interests	1.4	1.8	.1
Permanent differences on asset disposals	1.8	(1.4)	—
Goodwill impairment and amortization	1.1	2.4	1.2
Adjustments to prior years' accruals	(3.8)	1.5	.3
Other	(.5)	(.1)	(.1)
Effective tax rate	31.5%	31.9%	33.5%

The components of net deferred tax assets and liabilities follow.

	December 31			
	2002		2001	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Depreciation	$ —	$ 1,499	$ —	$ 1,744
Employee benefits	1,484	—	1,071	—
Loss provisions	373	—	405	—
Deferred income/expense	365	157	279	132
Tax loss carryforwards	334	—	329	—
Tax credit carryforwards	176	—	219	—
Other	293	279	293	251
	3,025	1,935	2,596	2,127
Valuation allowance	(179)	—	(201)	—
	$ 2,846	$ 1,935	$ 2,395	$ 2,127

Of the total deferred tax assets associated with the tax loss carryforwards, $79 expires over the next ten years, $85 over the next 20 years, and $170 is unlimited. Of the tax credit carryforwards, $144 is unlimited with the balance expiring over the next ten years. A substantial portion of the valuation allowance relates to the loss carryforwards because the ability to generate sufficient foreign taxable income in future years is uncertain. Approximately $52 of the valuation allowance relates to acquired companies for which subsequently recognized benefits will reduce goodwill.

The cumulative amount of Alcoa’s share of undistributed earnings for which no deferred taxes have been provided was $5,893 at December 31, 2002. Management has no plans to distribute such earnings in the foreseeable future. It is not practical to determine the deferred tax liability on these earnings.

S. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Alcoa maintains pension plans covering most U.S. employees and certain other employees. Pension benefits generally depend on length of service, job grade, and remuneration. Substantially all benefits are paid through pension trusts that are sufficiently funded to ensure that all plans can pay benefits to retirees as they become due. Alcoa maintains health care and life insurance benefit plans covering most eligible U.S. retired employees and certain other retirees. Generally, the medical plans pay a stated percentage of medical expenses, reduced by deductibles and other coverages. These plans are generally unfunded, except for certain benefits funded through a trust. Life benefits are generally provided by insurance contracts. Alcoa retains the right, subject to existing agreements, to change or eliminate these benefits. All U.S. salaried and certain hourly employees hired after January 1, 2002 will not have postretirement health care benefits.

The table below reflects the status of Alcoa's pension and postretirement benefit plans.

	December 31			
	Pension benefits		Postretirement benefits	
	2002	2001	2002	2001
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 8,488	$8,270	$ 3,177	$ 2,924
Service cost	176	162	25	25
Interest cost	593	578	224	220
Amendments	20	136	(52)	76
Actuarial losses	677	634	608	369
Acquisitions (principally Ivex and Fairchild)	7	—	18	—
Divestitures (principally Thiokol in 2001)	(1)	(664)	—	(159)
Benefits paid	(656)	(585)	(339)	(278)
Exchange rate	56	(43)	—	—
Benefit obligation at end of year	$ 9,360	$8,488	$ 3,661	$ 3,177
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	8,434	$9,790	$ 123	$ 155
Actual return on plan assets	(376)	65	(4)	1
Acquisitions (principally Ivex and Fairchild)	1	—	—	—
Employer contributions	59	37	—	—
Participants' contributions	18	11	—	—
Divestitures (principally Thiokol in 2001)	—	(783)	—	(33)
Transfer to defined contribution pension plan	—	(49)	—	—
Benefits paid	(634)	(574)	—	—
Administrative expenses	(21)	(17)	—	—
Exchange rate	50	(46)	—	—
Fair value of plan assets at end of year	$ 7,531	$8,434	$ 119	$ 123
FUNDED STATUS	$(1,829)	$ (54)	$(3,542)	$(3,054)
Unrecognized net actuarial loss (gain)	1,803	(8)	843	221
Unrecognized net prior service cost (credit)	126	138	(7)	11
Net amount recognized	$ 100	$ 76	$(2,706)	$(2,822)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET CONSIST OF:				
Prepaid benefit	$ 133	$ 502	$ —	$ —
Accrued benefit liability	(1,547)	(568)	(2,706)	(2,822)
Intangible asset	102	50	—	—
Accumulated other comprehensive loss	1,412	92	—	—
Net amount recognized	$ 100	$ 76	$(2,706)	$(2,822)

The components of net periodic benefit costs are reflected below.

	December 31					
	Pension benefits			Postretirement benefits		
	2002	2001	2000	2002	2001	2000
COMPONENTS OF NET PERIODIC BENEFIT COSTS (INCOME)						
Service cost	$ 176	$ 162	$ 162	$ 25	$ 25	$ 25
Interest cost	593	578	502	224	220	177
Expected return on plan assets	(776)	(781)	(666)	(11)	(11)	(11)
Amortization of prior service cost (benefit)	38	34	35	(32)	(33)	(34)
Recognized actuarial loss (gain)	4	(26)	(18)	5	(2)	(2)
Amortization of transition obligation	—	—	2	—	—	—
Net periodic benefit costs (income)	$ 35	$ (33)	$ 17	$211	$199	$155

The aggregate benefit obligation and fair value of plan assets for the pension plans with benefit obligations in excess of plan assets were $9,121 and $7,310, respectively, as of December 31, 2002, and $1,921 and $1,362, respectively, as of December 31, 2001. The aggregate pension accumulated benefit obligation and fair value of plan assets with accumulated benefit obligations in excess of plan assets were $8,712 and $7,300, respectively, as of December 31, 2002, and $1,708 and $1,284, respectively, as of December 31, 2001.

Weighted average assumptions used in the accounting for Alcoa's plans follow.

	2002	2001	2000
Discount rate, at year-end	6.75%	7.25%	7.75%
Expected long-term return on plan assets	9.50	9.50	9.00
Rate of compensation increase	5.00	5.00	5.00

Effective January 1, 2003, the expected long-term return on plan assets was changed to 9.0%. For measurement purposes, an 11% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003. The rate was assumed to decrease gradually to 5% by 2008 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in these assumed rates would have the following effects:

	1% increase	1% decrease
Effect on total of service and interest cost components	$ 15	$ (13)
Effect on postretirement benefit obligations	212	(189)

Alcoa also sponsors a number of defined contribution pension plans. Expenses were $101 in 2002, $103 in 2001, and $80 in 2000.

T. LEASE EXPENSE

Certain equipment, warehousing and office space, and oceangoing vessels are under operating lease agreements. Total expense from continuing operations for all leases was $212 in 2002, $197 in 2001, and $151 in 2000. Under long-term operating leases, minimum annual rentals are $134 in 2003, $112 in 2004, $91 in 2005, $74 in 2006, $60 in 2007, and a total of $223 for 2008 and thereafter.

U. INTEREST COST COMPONENTS

	2002	2001	2000
Amount charged to expense	$350	$371	$427
Amount capitalized	22	22	20
	$372	$393	$447

V. OTHER FINANCIAL INSTRUMENTS AND DERIVATIVES

OTHER FINANCIAL INSTRUMENTS. The carrying values and fair values of Alcoa's financial instruments at December 31 follow.

	2002		2001	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 344	$ 344	$ 512	$ 512
Short-term investments	69	69	15	15
Noncurrent receivables	74	74	42	42
Available-for-sale investments	135	135	159	159
Short-term debt	122	122	264	264
Long-term debt	8,365	8,935	6,384	6,531

The methods used to estimate the fair values of certain financial instruments follow.

CASH AND CASH EQUIVALENTS, SHORT-TERM INVESTMENTS, AND SHORT-TERM DEBT. The carrying amounts approximate fair value because of the short maturity of the instruments.

NONCURRENT RECEIVABLES. The fair value of noncurrent receivables is based on anticipated cash flows which approximates carrying value.

AVAILABLE-FOR-SALE INVESTMENTS. The fair value of investments is based on readily available market values. Investments in marketable equity securities are classified as "available for sale" and are carried at fair value.

LONG-TERM DEBT. The fair value is based on interest rates that are currently available to Alcoa for issuance of debt with similar terms and remaining maturities.

DERIVATIVES. Alcoa holds or purchases derivative financial instruments for purposes other than trading. Details of the fair values of the significant instruments follow.

	2002	2001
Aluminum	$(14)	$ (65)
Interest rates	80	34
Foreign currency	57	(132)
Other commodities, principally natural gas	51	(30)

FAIR VALUE HEDGES

ALUMINUM. 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 commodity risk management policy is to manage, through the use of futures and option contracts, the aluminum price risk associated with a portion of its fixed-price firm commitments. These contracts cover known exposures, generally within three years.

INTEREST RATES. Alcoa uses interest rate swaps to help maintain a strategic balance between fixed- and floating- rate debt and to manage overall financing costs. The company has entered into pay floating, receive fixed interest rate swaps to effectively convert the interest rate from fixed to floating on $1,950 of debt, through 2010. For additional information about interest rate swaps (including settlements that occurred during 2002) and their effect on debt and interest expense, see Note J.

CURRENCIES. During 2002, Aluminio entered into cross-currency interest rate swaps that effectively convert its U.S. dollar denominated debt into Brazilian reais debt at local interest rates.

Hedges of these existing assets, liabilities, and firm commitments qualify as "fair value" hedges. As a result, the fair values of derivatives and changes in the fair values of the underlying hedged items are reported in the Consolidated Balance Sheet. Changes in the fair values of these derivatives and underlying hedged items generally offset and are recorded each period in sales, cost of goods sold, interest expense, or other income, consistent with the underlying hedged item. There were no transactions that ceased to qualify as a fair value hedge in 2002.

CASH FLOW HEDGES

CURRENCIES. Alcoa is subject to exposure from fluctuations in foreign currencies. Foreign currency exchange contracts are used to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. Alcoa's foreign currency contracts were principally used to purchase Australian dollars, Brazilian reais, and Canadian dollars. The U.S. dollar notional amount of all foreign currency contracts was $798 and $1,409 as of December 31, 2002 and 2001, respectively.

COMMODITIES. Alcoa may elect to sell forward a portion of its anticipated primary aluminum and alumina production. In addition, Alcoa anticipates the continued requirement to purchase aluminum and other commodities such as natural gas, fuel oil, and electricity for its operations. Alcoa enters into futures and options contracts to reduce volatility in the price of these commodities.

For these cash flow hedge transactions, the fair values of the derivatives are recorded on the Consolidated Balance Sheet. The effective portions of the changes in the fair values of these derivatives are recorded in other comprehensive income and are reclassified to sales, cost of goods sold, or interest expense in the period in which earnings are impacted by the hedged items or in the period that the transaction no longer qualifies as a cash flow hedge. There were no material transactions that ceased to qualify as a cash flow hedge in 2002. These contracts cover periods commensurate with known or expected exposures, generally within three years. Assuming market rates remain constant with the rates at December 31, 2002, $22 of the $105 gain included in other comprehensive income is expected to be recognized in earnings over the next 12 months.

OTHER

Certain contracts are used to offset a portion of the impact of exchange and interest rate changes on foreign currency denominated debt. The fair value of these contracts was a gain of approximately $33 (pretax) at December 31, 2002. Changes in the fair value of these contracts are included in other income on the Statement of Consolidated Income and offset a portion of the impact of the exchange differences on the debt.

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.

For further information on Alcoa's hedging and derivatives activities, see Note A.

W. ENVIRONMENTAL MATTERS

Alcoa participates in environmental assessments and cleanups at a number of locations. These include approximately 28 owned or operating facilities and adjoining properties, approximately 38 previously owned or operated facilities and adjoining properties, and approximately 72 Superfund and other waste sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. See Note A for additional information.

As assessments and cleanups proceed, the liability is adjusted based on progress in determining the extent of remedial actions and related costs and damages. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements, and technological changes. Therefore, it is not possible to determine the outcomes or to estimate with any degree of accuracy the potential costs for certain of these matters.

The following discussion provides additional details regarding the current status of Alcoa's significant sites where the final outcome cannot be determined or the potential costs in the future cannot be estimated.

MASSENA, NEW YORK. Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa's Massena, NY plant site, under order from the U.S. Environmental Protection Agency (EPA) issued under the Comprehensive Environmental Response, Compensation, and Liability Act, also known as Superfund. Sediments and fish in the river contain varying levels of polychlorinated biphenyl (PCB). During 2000 and 2001, Alcoa completed certain studies and investigations on the river, including pilot tests of sediment-capping techniques, and other remediation technologies. In February 2002, Alcoa submitted a final Analysis of Alternatives Report based on these evaluations and included additional remedial alternatives required by the EPA. The range of costs associated with the remedial alternatives evaluated in the 2002 report is between $2 and $525. Alcoa believes that rational, scientific analysis supports a remedy involving the containment of sediments in place via natural or man-made processes. Based on the current assessment of the EPA decision-making process, Alcoa has concluded that the selection of the $2 alternative, based on natural recovery only, is remote. Alcoa continues to believe that alternatives involving the largest amounts of sediment removal should not be selected for the Grasse River remedy. Therefore, Alcoa believes that the alternatives that should reasonably be considered for selection range from engineered capping and natural recovery of $30 to a combination of moderate dredging, capping, and natural recovery of $90. Accordingly, Alcoa has adjusted the reserve for the Grasse River to $30, representing the low end of the range of possible alternatives, as no one of the alternatives is more likely to be selected than any other. The EPA's ultimate selection of a remedy could result in additional liability. However, as the process continues, it allows for input that can influence the scope and cost of the remedy that will be selected by the EPA in its issuance of the formal Record of Decision (ROD). Alcoa may be required to record a subsequent reserve adjustment at the time the ROD is issued.

SHERWIN, TEXAS. In connection with the sale of the Sherwin alumina refinery in Texas, which was required to be divested as part of the Reynolds merger in 2000, Alcoa has agreed to retain responsibility for the remediation of then existing environmental conditions, as well as a pro rata share of the final closure of the active waste disposal areas, which remain in use. Alcoa's share of the closure costs is proportional to the total period of operation of the active waste disposal areas. Alcoa estimated its liability for the active disposal areas by making certain assumptions about the period of operation, the amount of material placed in the area prior to closure, and the appropriate technology, engineering, and regulatory status applicable to final closure. The most probable cost for remediation has been reserved. It is reasonably possible that an additional liability, not expected to exceed $75, may be incurred if actual experience varies from the original assumptions used.

Based on the foregoing, it is possible that Alcoa's results of operations, in a particular period, could be materially affected by matters relating to these sites. However, based on facts currently available, management believes that adequate reserves have been provided and that the disposition of these matters will not have a materially adverse effect on the financial position or liquidity of the company.

Alcoa's remediation reserve balance at the end of 2002 and 2001 was $436 and $431 (of which $68 and $74 were classified as a current liability), respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. Of the 2002 reserve balance, approximately 33% relates to the Massena, NY and Sherwin, TX sites. Remediation expenses charged to the reserve were $50 in 2002, $72 in 2001, and $77 in 2000. These include expenditures currently mandated, as well as those not required by any regulatory authority or third party. In 2002, the reserve balance was increased by $55 primarily to cover anticipated future environmental expenditures at various sites, including Massena, and for acquisitions made. In 2001, the reserve balance was increased by $56 primarily as a result of acquisitions and the shutdown of the company's magnesium plant in Addy, WA.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be about 2% of cost of goods sold.

SUPPLEMENTAL FINANCIAL INFORMATION

QUARTERLY DATA (UNAUDITED)
(dollars in millions, except per-share amounts)

	First	Second	Third	Fourth	Year
2002					
Sales	$4,900	$5,158	$5,144	$5,061	$20,263
Income (loss) from continuing operations	184	237	202	(125)	498
Loss from discontinued operations (B)	—	(5)	(9)	(98)	(112)
Cumulative effect of accounting change	34	—	—	—	34
Net income (loss)*	218	232	193	(223)^	420
Earnings (loss) per share:					
Basic:					
Income (loss) from continuing operations	.22	.28	.24	(.15)	.59
Loss from discontinued operations	—	(.01)	(.01)	(.12)	(.13)
Cumulative effect of accounting change	.04	—	—	—	.04
Net income (loss)	.26	.27	.23	(.27)	.50
Diluted:					
Income (loss) from continuing operations	.22	.28	.24	(.15)	.58
Loss from discontinued operations	—	(.01)	(.01)	(.12)	(.13)
Cumulative effect of accounting change	.04	—	—	—	.04
Net income (loss)	.26	.27	.23	(.27)	.49

* After special charges of $23 in the third quarter, and special charges of $238 and impairment of goodwill of $20 in the fourth quarter (Notes C and D)

^ The 2002 fourth quarter includes a credit of $20 related to changes in the LIFO index.

	First	Second	Third	Fourth	Year
2001					
Sales	$6,085	$5,894	$5,418	$5,100	$22,497
Income (loss) from continuing operations	402	306	337	(138)	907
Income (loss) from discontinued operations (B)	2	1	2	(4)	1
Net income (loss)*	404	307	339	(142)^	908
Earnings (loss) per share:					
Basic:					
Income (loss) from continuing operations	.47	.36	.40	(.17)	1.06
Income (loss) from discontinued operations	—	—	—	—	—
Net income (loss)	.47	.36	.40	(.17)	1.06
Diluted:					
Income (loss) from continuing operations	.46	.35	.39	(.17)	1.05
Income (loss) from discontinued operations	—	—	—	—	—
Net income (loss)	.46	.35	.39	(.17)	1.05

* After special charges of $114 in the second quarter and $241 in the fourth quarter (Note C)

^ The 2001 fourth quarter includes a credit of $22 related to changes in the LIFO index.

NUMBER OF EMPLOYEES (UNAUDITED)

	2002	2001	2000
U.S.	53,500	56,500	61,600
Other Americas	38,200	38,700	46,500
Europe	28,300	27,700	27,400
Pacific	7,000	6,100	6,500
	127,000	129,000	142,000

SHAREHOLDER INFORMATION

ANNUAL MEETING

The annual meeting of shareholders will be at 9:30 a.m. Friday, April 11, 2003 at the Westin Convention Center Pittsburgh.

COMPANY NEWS

Visit www.alcoa.com for Securities and Exchange Commission (SEC) filings, quarterly earnings reports, and other company news. This information is also available toll-free 24 hours a day by calling 1 800 522 6757 (in the U.S. and Canada) or 1 402 572 4993 (all other calls). Reports may be requested by voice, fax, or mail.

Copies of the annual report and Forms 10-K and 10-Q may be requested at no cost at www.alcoa.com, by calling the toll-free numbers, or by writing to Corporate Communications at the corporate center address.

INVESTOR INFORMATION

Security analysts and investors may write to Director- Investor Relations at 390 Park Avenue, New York, NY 10022-4608, call 1 212 836 2674, or E-mail investor.relations@alcoa.com.

OTHER PUBLICATIONS

For more information on Alcoa Foundation and its programs and other community investments, visit www.alcoa.com under “community.”

For a report on Alcoa’s environmental, health, and safety performance, write Alcoa EHS Department at the corporate center address or go to www.alcoa.com

DIVIDENDS

Alcoa’s objective is to pay common stock dividends at rates competitive with other investments of equal risk and consistent with the need to reinvest earnings for long-term growth. To support this objective, in January 2002, the Board of Directors approved a 20% increase in the base quarterly dividend from 12.5 cents per common share to 15 cents per common share. Base quarterly dividends are paid to shareholders of record at each quarterly distribution date.

The Board also approved eliminating the variable dividend that was equal to 30% of Alcoa’s annual earnings over $1.50 per basic share. Basic earnings per share for 2001 did not meet the $1.50 threshold, so there would have been no variable dividend paid in 2002.

DIVIDEND REINVESTMENT

The company offers a Dividend Reinvestment and Stock Purchase Plan for shareholders of Alcoa common and preferred stock. The plan allows shareholders to reinvest all or part of their quarterly dividends in shares of Alcoa common stock. Shareholders also may purchase additional shares under the plan with cash contributions. The company pays brokerage commissions and fees on these stock purchases.

DIRECT DEPOSIT OF DIVIDENDS

Shareholders may have their quarterly dividends deposited directly to their checking, savings, or money market accounts at any financial institution that participates in the Automated Clearing House (ACH) system.

SHAREHOLDER SERVICES

Shareholders with questions on account balances; dividend checks, reinvestment, or direct deposit; address changes; lost or misplaced stock certificates; or other shareholder account matters may contact Alcoa’s stock transfer agent, registrar, and dividend disbursing agent:

Equiserve Trust Company, N.A.
P.O. Box 43069
Providence, RI 02940-3069

Telephone Response Center:
1 800 317 4445
Outside U.S. and Canada:
1 781 575 2724

Internet address: www.equiserve.com
Telecommunications Device for the Deaf (TDD): 1 800 952 9245

For shareholder questions on other matters related to Alcoa, write to Donna Dabney, Office of the Secretary, at the corporate center headquarters address or call 1 412 553 4707.

STOCK LISTING

Common: New York Stock Exchange and exchanges in Australia, Belgium, Germany, Switzerland, and the United Kingdom Preferred: American Stock Exchange Ticker symbol: AA

QUARTERLY COMMON STOCK INFORMATION

	2002			2001		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$39.75	$33.34	$ .15	$39.58	$30.63	$ .15
Second	39.09	30.17	.15	45.71	33.75	.15
Third	33.80	18.35	.15	42.00	27.36	.15
Fourth	26.37	17.62	.15	40.50	29.82	.15
Year	$39.75	$17.62	$ .60	$45.71	$27.36	$ .60

COMMON SHARE DATA

	Estimated number of shareholders*	Average shares outstanding (000)
2002	273,000	845,439
2001	266,800	857,990
2000	265,300	814,229

1999	185,000	733,888
1998	119,000	698,228

* These estimates include shareholders who own stock registered in their own names and those who own stock through banks and brokers.

CORPORATE CENTER

Alcoa
201 Isabella St. at 7th St. Bridge
Pittsburgh, PA 15212-5858
Telephone: 1 412 553 4545
Fax: 1 412 553 4498
Internet: www.alcoa.com

Alcoa Inc. is incorporated
in the Commonwealth of
Pennsylvania.

Exhibit 21

SUBSIDIARIES AND EQUITY ENTITIES OF THE REGISTRANT
(As of December 31, 2002)
(Reported Under Item 601 of Regulation S-K)

Name	State or Country of Organization
Alcoa Brazil Holdings Company	Delaware
Alcoa Aluminio S.A.	Brazil
Abalco S.A.	Brazil
Alcoa Closures Holding Company LLC	Delaware
Alcoa Closure Systems Japan, Ltd.[1]	Japan
Alcoa Domestic LLC	Delaware
Alcoa Closure Systems International, Inc.	Delaware
Alcoa Home Exteriors, Inc.[2]	Ohio
Alcoa Laudel, Inc.	Delaware
Alcoa Securities Corporation	Delaware
Alcoa Remediation Management, Inc.	Delaware
Alcoa CSI de Mexico en Saltillo, S.A. de C.V.	Mexico
Alcoa Fujikura Ltd.	Delaware
Alcoa Fujikura GmbH	Germany
AFL Network Services-Southeast, L.L.C.[3]	Delaware
Tele-Tech Company, Inc.	Kentucky
Pimalco, Inc.	Arizona
Tifton Aluminum Company, Inc.	Delaware
Howmet International Inc.	Delaware
Alcoa International Holdings Company	Delaware
AIHC Export, Ltd.	Barbados
Alcoa Luxembourg S.àr.l.	Luxembourg
Alcoa Europe Holding B.V.	Netherlands
Alcoa Automotive GmbH	Germany
Alcoa Chemie Nederland B.V.	Netherlands
Alcoa Europe S.A.	Switzerland
Alcoa Inespal, S.A.	Spain
Alúmina Española, S.A.	Spain
Aluminio Español, S.A.	Spain
Alcoa Servizi S.p.A.[4]	Italy
Financiere D'Ocquier SAS	France
Alcoa Architectural Products SAS	France
Norsk Alcoa A/S	Norway
Alcoa Transformación, SL	Spain
Alcoa Automotive Castings Scandinavian Casting Center ANS	Norway
Alcoa Inter-America, Inc.	Delaware
Alcoa-Köfém Kft	Hungary
Alcoa of Australia Limited	Australia

Name	State or Country of Organization
Alcoa UK Holdings Limited	United Kingdom
Alcoa Manufacturing (G.B.) Limited	United Kingdom
Baco Consumer Products Limited	United Kingdom
UK Aluminium Holdings Limited	United Kingdom
British Aluminium Limited	United Kingdom
Alcoa Latin American Holdings Corporation	British Virgin Islands
Alcoa Power Generating Inc.[5]	Tennessee
Alcoa (Shanghai) Aluminum Products Company Limited	China
Alcoa World Alumina LLC[6]	Delaware
AAC Holdings Company	Delaware
Alcoa Steamship Company, Inc.	New York
Alcoa Minerals of Jamaica, L.L.C.	Delaware
Halco (Mining) Inc.	Delaware
Compagnie des Bauxites de Guinee	Delaware
Suriname Aluminum Company, L.L.C.	Delaware
Alumax Inc.	Delaware
Alcoa Extrusions, Inc.	Pennsylvania
Alumax Foils, Inc.	Delaware
Alumax Mill Products, Inc.	Delaware
Aluminerie Lauralco, Inc.	Delaware
Alcoa-Lauralco Management Company	Nova Scotia
Alcoa-Aluminerie de Deschambault G.P.	Quebec
Alcoa-Lauralco Holdings Company	Nova Scotia
Eastalco Aluminum Company	Delaware
Intalco Aluminum Corporation	Delaware
Kawneer Company, Inc.	Delaware
Cordant Technologies Holding Company	Delaware
Huck International Inc.	Delaware
Gulf Closures W.L.L.	Bahrain

Name	State or Country of Organization
Reynolds Metals Company	Delaware
Reynolds International, Inc.	Delaware
RMCC Company	Delaware
Alcoa Canada Ltd.	Quebec
Alcoa Ltd.	Quebec
Reynolds International do Brasil Participacoes, Ltda.	Brazil
Reynolds Aluminium Deutschland, Inc.	Delaware
Reynolds Bécancour, Inc.	Delaware
RB Sales Company, Limited	Delaware
Reynolds Consumer Products, Inc.	Delaware
RMC Delaware, Inc.	Delaware
Southern Graphic Systems, Inc.	Kentucky
RMC Properties, Ltd.	Delaware
Saint George Insurance Company	Vermont

[1] Effective June 1, 2002, the name of the company was changed from Shibazaki Seisakusho Limited to Alcoa Closure Systems Japan, Ltd.

[2] Effective December 2, 2002, the name of the company was changed from Alcoa Building Products, Inc. to Alcoa Home Exteriors, Inc. Registered to do business in Ohio under the names of Mastic and ABP, Inc.

[3] Effective April 29, 2002, the name of the company was changed from Six "R" Communications, L.L.C. to AFL Network Services-Southeast, L.L.C.

[4] Effective May 7, 2002, the name of the company was changed from Alcoa Italia S.p.A. to Alcoa Servizi S.p.A.

[5] Registered to do business in Tennessee under the names Tapoco and APG Trading, in Indiana under the name of AGC, in North Carolina under the names of Yadkin and Tapoco, in New York under the name of Long Sault and in Washington under the name of Colockum.

[6] Registered to do business in Alabama, Arkansas, California, Florida, Georgia, Louisiana, North Carolina, Pennsylvania and Texas under the name of Alcoa World Chemicals.

The names of a number of subsidiaries and equity entities have been omitted because considered in the aggregate they would not constitute a significant subsidiary.

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Registration No. 333-74874) and Form S-8 (Registration Nos. 33-22346, 33-24846, 33-49109, 33-60305, 333-27903, 333-62663, 333-79575, 333-91331, 333-32516, 333-36208, 333-36214, 333-37740, 333-39708 and 333-47116) of Alcoa Inc., of our report dated January 8, 2003 relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 8, 2003 relating to the financial statement schedule which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

600 Grant Street
Pittsburgh, Pennsylvania
February 28, 2003

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned Directors of Alcoa Inc. (the “Company”) hereby constitute and appoint RICHARD B. KELSON, WILLIAM B. PLUMMER, CHARLES D. MCLANE and DONNA C. DABNEY, or any of them, their true and lawful attorneys-in-fact and agents to do any and all acts and things and to execute any and all instruments which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable or may be required:

(1) To enable the Company to comply with the Securities Exchange Act of 1934, as amended (the “1934 Act”), and any rules, regulations or requirements of the Securities and Exchange Commission (the “Commission”) in respect thereof, in connection with the filing under the 1934 Act of the Company’s Annual Report on Form 10-K for the year ended December 31, 2002 (the “2002 Annual Report”), including specifically, but without limiting the generality of the foregoing, power and authority to sign the name of each of the undersigned in the capacity of Director of the Company to the 2002 Annual Report to be filed with the Commission and to any instruments or documents filed as part of or in connection with the 2002 Annual Report, including any amendments or supplements thereto;

(2) To enable the Company to comply with the Securities Act of 1933, as amended (the “1933 Act”), and any rules, regulations or requirements of the Commission in respect thereof, in connection with the registration under the 1933 Act of the offer and sale or delivery of shares of common stock of the Company to be issued under the Alcoa Stock Incentive Plan (the “Stock Incentive Plan”) or any successor plan, including specifically, but without limiting the generality of the foregoing, power and authority to sign the name of each of the undersigned in the capacity of Director of the Company to any registration statement on Form S-8, or on such other form as may be appropriate, to be filed with the Commission in respect of said shares and the Stock Incentive Plan or any successor plan, or either of them, to any and all pre-effective amendments, post-effective amendments and supplements to any such registration statement, and to any instruments or documents filed as part of or in connection with any such registration statement or any such amendments or supplements thereto; and

(3) To enable the Company to comply with the 1933 Act, and any rules, regulations or requirements of the Commission in respect thereof, in connection with the registration under the 1933 Act of the offer and sale or delivery of shares of common stock of the Company to be issued under various employee savings and thrift plans, including, without limitation, the Alcoa Savings Plan for Bargaining Employees, the Alcoa Savings Plan for Non-Bargaining Employees, the Alcoa Savings Plan for Subsidiary and Affiliate Employees, the Alumax Inc. Thrift Plan for Salaried Employees, the Alumax Inc. Thrift Plan for Hourly Employees, the Alumax Thrift Plan for Collectively Bargained Employees and the Reynolds Metals Company Savings Plan for Hourly Employees (the “Plans”), including specifically, but without limiting the generality of the foregoing, power and authority to sign the name of each of the undersigned in the capacity of Director of the Company to any registration statement on Form S-8, or on such other form as may be appropriate, to be filed with the Commission in respect of said shares and the Plans, or either of them, to any and all pre-effective amendments, post-effective amendments and supplements to any such registration statement, and to any instruments or documents filed as part of or in connection with any such registration statement or any such amendments or supplements thereto; and

granting unto each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as the undersigned might or could do in person, and the undersigned hereby ratify and confirm all that said attorneys-in-fact and agents, or any of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have subscribed these presents on the date set opposite their names below.

/s/ Kathryn S. Fuller Kathryn S. Fuller	January 10, 2003
/s/ Carlos Ghosn Carlos Ghosn	January 10, 2003
/s/ Joseph T. Gorman Joseph T. Gorman	January 10, 2003
/s/ Judith M. Gueron Judith M. Gueron	January 10, 2003
/s/ Sir Ronald Hampel Sir Ronald Hampel	January 10, 2003
/s/ John P. Mulroney John P. Mulroney	January 10, 2003
/s/ Henry B. Schacht Henry B. Schacht	January 10, 2003
/s/ Franklin A. Thomas Franklin A. Thomas	January 10, 2003
/s/ Ernesto Zedillo Ernesto Zedillo	January 10, 2003