# 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, 2005**

**OR**

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

**Commission File Number 1-3610**

# ALCOA INC.
**(Exact name of registrant as specified in its charter)**

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

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

**Registrant's telephone numbers:**

| | |
|---|---|
| **Investor Relations** | **(212) 836-2674** |
| **Office of the Secretary** | **(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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐.

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

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

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 $23 billion. As of February 14, 2006, there were 871,819,586 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 2005 Annual Report to Shareholders (Annual Report). Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement for its 2006 Annual Meeting of Shareholders filed or to be filed pursuant to Regulation 14A (Proxy Statement).

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**Note on Incorporation by Reference**

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

# ALCOA INC.

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

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

## PART I

### Item 1. Business.

**Description of the Business**

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

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| Management's Discussion and Analysis of Financial Condition and Results of Operations: | |
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**Overview**

Alcoa is the world's leading producer of primary aluminum, fabricated aluminum, and alumina, and is active in all major aspects of the industry: technology, mining, refining, smelting, fabricating, and recycling. Aluminum is a commodity that is traded on the London Metal Exchange (LME) and priced daily based on market supply and demand. Aluminum and alumina represent approximately three-quarters 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 and electrical distribution systems for cars and trucks. Alcoa's products are used worldwide in aircraft, automobiles, commercial transportation, packaging, consumer products, building and construction, and industrial applications.

Alcoa is a global company operating in 42 countries. North America is the largest market with 61% of Alcoa's revenues. Europe is also a significant market with 23% of the company's revenues. Alcoa also has investments and activities in Australia, Brazil, China, Iceland, Jamaica, Russia, and Trinidad, which present opportunities for substantial growth. Governmental policies and other economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates, affect the results of operations in these countries.

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

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

## Bauxite Interests

Aluminum is one of the most plentiful elements in the earth's crust. Aluminum is produced primarily from bauxite, an ore containing aluminum in the form of aluminum oxide, commonly referred to as alumina. Aluminum is made by extracting alumina from bauxite and then removing oxygen from the alumina. Alcoa processes most of the bauxite that it mines into alumina. The company obtains bauxite from reserves held by AWAC, from the company's interests in the countries listed in the chart below, and under both long-term and short-term contracts and mining leases. In 2005, Alcoa consumed 31.5 million metric tons (mt) of bauxite from its own reserves, 7.1 million mt from related third parties and 2.5 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 | Mining Rights (% Entitlement ) | Expiration Date of Mining Rights |
|---|---|---|---|
| Australia | Darling Range Mines | Alcoa of Australia Limited (AofA)[2] (100%) | 2045 |
| Brazil | Poços de Caldas | Alcoa Aluminio S.A. (Aluminio)[3] (100%) | 2020 [4] |
| | Trombetas | Mineração Rio do Norte S.A. (MRN)[5] (100%) | 2046 [4] |
| Guinea | Boké | Compagnie des Bauxites de Guinée (CBG)[6] (100%) | 2038 [7] |
| Jamaica | Clarendon/Manchester Plateau | Alcoa Minerals of Jamaica, L.L.C.[8] (50%)<br>Clarendon Alumina Production Ltd.[9] (50%) | 2042 |
| Suriname | Lelydorp | BHP Billiton (45%)<br>Suriname Aluminum Company, L.L.C. (Suralco)[8] (55%) | 2033 [10] |
| | Coermotibo | BHP Billiton (45%)<br>Suralco (55%) | 2033 [10] |

[1] Alcoa also has interests at the following locations that are bauxite reserves or do not currently produce bauxite: Cape Bougainville and Mitchell Plateau (Australia), Juruti (Brazil), and Kaimangrasi, Klaverblad, Brownsberg, Coermotibo DS, Lely Mountains, and Nassau (eastern Suriname). On December 23, 2005, AofA exercised its pre-emptive rights to acquire minority partner AngloGold's equity position in the Cape Bougainville and Mitchell Plateau joint ventures in Western Australia for A$2.2 million.

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

[3] In August 2003, Alcoa acquired the 40.9% shareholding in Aluminio held by affiliates of Camargo Correa S.A. (collectively the “Camargo Group”). Prior to the acquisition, Alcoa had owned approximately 59% of Aluminio and the Camargo Group had been the principal minority shareholder since 1984. For more information on this acquisition, see Note F to the financial statements.

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

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

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

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

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

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

[10] While mining rights extend until 2033, bauxite deposits should not be exhausted until at least 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:

**Alcoa Worldwide Alumina Refining Capacity**

| Country | Facility | Owners (% of Ownership) | Nameplate Capacity[1] (000 MTPY) | Alcoa Consolidated Capacity[2] (000 MTPY) |
|---|---|---|---|---|
| Australia | Kwinana | AofA[3] (100%) | 2,150 | 2,150 |
| | Pinjarra | AofA (100%) | 3,700[4] | 3,700 |
| | Wagerup | AofA (100%) | 2,400 | 2,400 |
| Brazil | Poços de Caldas | Aluminio (100%) | 365 | 365 |
| | Alumar | Abalco[3] (18.9%) | | |
| | | Alcan[5] (10%) | | |
| | | Aluminio (35.1%) | | |
| | | BHP Billiton[5] (36%) | 1,400 | 756 |
| Jamaica | Jamalco | Alcoa Minerals of Jamaica, L.L.C.[3] (50%) | | |
| | | Clarendon Alumina Production Ltd. (50%) | 1,250 | 625 |
| Spain | San Ciprián | Alúmina Española, S.A.[3] (100%) | 1,450 | 1,450 |
| Suriname | Suralco | BHP Billiton[5] (45%) | | |
| | | Suralco[3] (55%) | 2,207 | 1,214 |
| U.S. | Point Comfort, Tex. | AWA LLC[3] (100%) | 2,305 | 2,305 |
| TOTAL | | | 17,227 | 14,965 |

[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, Alcoa takes 100% of the production from these facilities.

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

[4] In 2004, Alcoa received the Western Australian Government's environmental approval for its previously announced Pinjarra alumina refinery efficiency upgrade, which will increase production at the facility by 657,000 mt per year (mtpy). Completion of the upgrade is expected by the first quarter of 2006.

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

In November 2005, AWA LLC and Alcan announced the signing of a Basic Agreement with the Government of Guinea that sets forth the framework for development of a 1.5 million mtpy alumina refinery in Guinea with further expansion potential.

In September 2005, Alcoa announced that its Board of Directors approved plans to make further investments totaling $1.6 billion in the company's Brazilian "upstream" operations, including: a 2.1 million mtpy expansion of the Alumar consortium alumina refinery in São Luís, state of Maranhao; the creation of a bauxite mine in Juruti, in the state of Para, which will initially produce 2.6 million mtpy; and the modernization of the Poços de Caldas aluminum smelter, in the state of Minas Gerais. Pending finalization of definitive documents, which is expected in due course, the Alumar expansion project will increase the refinery's capacity from 1.4 million mtpy to approximately 3.5 million mtpy. Through AWAC, Alcoa will own a 54% interest in the expanded refinery and its share of the total facility output will more than double to 1.89 million mtpy.

In June 2005, Alcoa's Board of Directors approved AWAC's planned expansion of the Jamalco alumina refinery in Clarendon, Jamaica. Pending finalization of definitive documents, which is expected in due course, this project will add 1.5 million mtpy of production to Jamalco, more than doubling the refinery's capacity to approximately 2.8 million mtpy. The 1.5 million mtpy expansion is expected to cost approximately $1.2 billion. As a result of this expansion project, AWAC's ownership in Jamalco will increase from 50% to approximately 77%, with the Government of Jamaica continuing to own the remaining minority interest.

In January 2005, Alcoa and the Government of the Republic of Ghana announced the signing of a Memorandum of Understanding (MOU), under which the parties would evaluate the possible development of an integrated aluminum industry in Ghana, including bauxite mining, alumina refining, aluminum production, and rail transportation infrastructure upgrades. Alcoa is working with the Government to conduct feasibility studies that are expected to be completed in 2006, after which the parties will negotiate definitive agreements on the mining, refining, smelting, rail upgrades and ownership structure, as well as total investment costs. The feasibility review will include a study on the creation of an alumina refinery with an initial design capacity of up to 1.5 million mtpy.

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## Primary Aluminum Facilities and Capacity

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

**Alcoa Worldwide Smelting Capacity**

| Country | Facility | Owners (% Of Ownership) | Nameplate Capacity[1] (000 MTPY) | Alcoa Consolidated Capacity[2] (000 MTPY) |
|---|---|---|---|---|
| Australia | Point Henry | AofA (100%) | 185 | 185[3] |
| | Portland | AofA (55%) | 353 | 194[3] |
| | | CITIC (22.5%) | | |
| | | Marubeni (22.5%) | | |
| Brazil | Poços de Caldas | Aluminio (100%) | 90 | 90 |
| | São Luís (Alumar) | Aluminio (53.66%) | 375 | 201 |
| | | BHP Billiton (46.34%) | | |
| Canada | Baie Comeau, Que. | Alcoa (100%) | 438 | 438 |
| | Bécancour, Que. | Alcoa (74.95%) | 409[4] | 307[4] |
| | | Aluminium Pechiney (25.05%) | | |
| | Deschambault, Que. | Alcoa (100%) | 254 | 254 |
| Italy | Fusina | Alcoa (100%) | 44 | 44 |
| | Portovesme | Alcoa (100%) | 149 | 149 |
| Spain | Avilés | Alcoa (100%) | 88[5] | 88[5] |
| | La Coruña | Alcoa (100%) | 84[5] | 84[5] |
| | San Ciprián | Alcoa (100%) | 218[5] | 218[5] |
| U.S. | Evansville, Ind. (Warrick) | Alcoa (100%) | 309[6] | 309[6] |
| | Frederick, Md. (Eastalco) | Alcoa (61%) | 195[7] | 119[7] |
| | | Mitsui & Co. Ltd. (39%) | | |
| | Badin, N.C. | Alcoa (100%) | 120[8] | 120[8] |
| | Massena West, N.Y. | Alcoa (100%) | 130[9] | 130[9] |
| | Massena East, N.Y. | Alcoa (100%) | 125[9] | 125[9] |
| | Mount Holly, S.C. | Alcoa (50.33%) | 224 | 113 |
| | | Century Aluminum Company (49.67%) | | |
| | Alcoa, Tenn. | Alcoa (100%) | 215 | 215 |
| | Rockdale, Tex. | Alcoa (100%) | 267 | 267 |
| | Ferndale, Wash. (Intalco) | Alcoa (61%) | 278[10] | 170[10] |
| | | Mitsui & Co. Ltd. (39%) | | |
| | Wenatchee, Wash. | Alcoa (100%) | 184[11] | 184[11] |
| TOTAL | | | 4,734 | 4,004 |

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

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

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

4 During 2004, Alcoa curtailed operations at the Bécancour aluminum smelter, from three potlines to one, due to a strike at the facility. In November 2004, the Syndicat des Métallurgistes unis d' Amerique (local 9700) approved a new five-year labor agreement at the Bécancour smelter. Upon reaching the new agreement, Alcoa restarted the two idled potlines and returned to full production by the end of May 2005.

[5] In 2005, Alcoa undertook certain technology and environmental improvements to three smelters located in northern Spain: Avilés, La Coruña, and San Ciprián. The improvements are aimed at reducing emissions and improving the local environment.
[6] The Warrick facility currently has one idled potline.
[7] At the end of 2005, all production was temporarily curtailed at the Eastalco smelter located in Frederick, Maryland. The curtailment coincides with the expiration of the smelter's power contract, as a competitively-priced replacement power supply could not be obtained.
[8] The Badin, North Carolina facility has been idled since August 2002.
[9] In the first quarter of 2005, Alcoa restarted 60,000 mtpy of capacity at its Massena East and Massena West, New York facilities which had been idled since May 2003. Following the restart, both smelters operate at capacity.
[10] In November 2003, Alcoa idled an additional potline at Intalco. Currently, one potline is operating and two are idled.
[11] In October 2004, Alcoa announced that workers at the Wenatchee, Washington facility, represented by the United Steelworkers of America and the Aluminum Trades Council of Wenatchee, Washington, accepted a new labor agreement. Two of the four lines at the smelter which had been idled since July 2001 were restarted in July 2005.

Alcoa currently has 509,000 mtpy of idle capacity against a base capacity of 4,004,000 mtpy.

In February 2006, Alcoa signed an Agreement in Principle with the Government of the Republic of Trinidad and Tobago to build a 341,000 mtpy aluminum smelter in the Cap-de-Ville area in southwestern Trinidad. This agreement follows the signing of an MOU in May 2004 for participation by Alcoa in the development of an aluminum industry in Trinidad and Tobago. Under the Agreement in Principle, Alcoa will take a lead role in the development and operation of the smelter, with the Government installing necessary infrastructure. Alcoa will also sponsor development of a new power station to support the facility. Negotiations are ongoing for the final commercial arrangements, which will be subject to final approvals by Alcoa's Board of Directors and by the Government.

During 2005, Aluminio began a 30% expansion of the capacity of its share of the São Luís (Alumar) aluminum smelter, increasing Aluminio's share of smelting capacity there by 62,000 mtpy to a total of 263,000 mtpy. When complete, Alcoa's share of output from the smelter will grow from 53.66% to 60%. Completion of the expansion and startup of the additional capacity is expected by the end of the first quarter of 2006.

As noted above, in September 2005, Alcoa announced that its Board of Directors approved plans to make further investments totaling $1.6 billion in the company's Brazilian upstream operations, including the modernization of the Poços de Caldas aluminum smelter, in the state of Minas Gerais. The modernization is aimed at reducing emissions and costs and improving operational efficiency.

During 2005, Alcoa continued construction on its new 346,000 mtpy Fjarðaál aluminum smelter in east Iceland. Alcoa broke ground on the new smelter in July 2004. The smelter is scheduled to begin production in April 2007.

Alcoa has a Joint Action Plan in place with the Government of Iceland and three communities in northern Iceland to evaluate the construction of an up to 250,000 mtpy smelter. Through the fall of 2005, three sites have been evaluated and a conclusion on whether to proceed further is expected by March 2006. An MOU covering further development of this smelter project based on a selected site is expected.

In 2005, Alcoa continued construction of a new anode plant in Mosjøen, Norway. The facility, being built together with Elkem AS, will produce anodes for Alcoa's Fjarðaál, Iceland and Elkem Aluminium ANS' Mosjøen, Norway smelters. Construction of the anode plant is expected to be completed by 2007.

Alcoa is exploring aluminum smelting and associated hydroelectric power opportunities in Suriname. In January 2003, Suralco, one of the AWAC group of companies, signed an MOU with the Government of Suriname providing for an initial 18-month exclusive period of investigation of the feasibility of smelting and associated hydroelectric power investment in western Suriname. In December 2004, the parties agreed, retroactively, to extend the MOU through December 31, 2005. Alcoa is in the process of negotiating a follow on agreement with the Government.

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Alcoa has an exclusive MOU in effect with the Brunei Economic Development Board (BEDB) for building a smelter in Brunei. In November 2005, the BEDB received a McKinsey report evaluating the use of Brunei's gas reserves for downstream industry. The potential smelter is one of several industrial developments being considered by the BEDB.

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

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

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

[2] In 2003, the smelter was idled due to a power shortage. In August 2005, under the MOU discussed immediately below, Alcoa and the Government of Ghana announced plans to re-start three potlines representing 120,000 mtpy. As of year-end 2005, two potlines have been restarted.

As noted above, in January 2005, Alcoa and the Government of the Republic of Ghana signed an MOU, under which the parties would evaluate the development of an integrated aluminum industry in Ghana, including aluminum production. Alcoa is working with the Government to conduct feasibility studies for the project. These studies are expected to be completed in 2006, at which time the parties would negotiate definitive agreements on smelting and other matters.

At the end of 2005, the shareholders of Hamburger Aluminium-Werk closed the 132,000 mtpy Hamburg, Germany smelter due to escalating power costs. The Hamburg smelter is owned 33.33% each by Alcoa, Austria Metall AG and Norsk Hydro.

## 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 24% of the power used at its smelters worldwide and generally purchases the remainder under long-term arrangements. The paragraphs below summarize the sources of power and long-term power arrangements for Alcoa's smelters.

*North America - Electricity*

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

Carolina. APGI received a renewed 40-year FERC license for the Tapoco project in 2005 and the Yadkin hydroelectric project license is up for renewal in 2008. With the Badin smelter idled, power generated from APGI's Yadkin system is largely being sold to an affiliate, Alcoa Power Marketing, Inc. The Tennessee smelter also purchases power from the Tennessee Valley Authority under a contract that extends to 2010.

In the Pacific Northwest, Alcoa has a contract with Chelan County Public Utility District located in the State of Washington that is sufficient to supply about half of the capacity of the Wenatchee smelter through October 2011. In addition, Alcoa has a contract through September 2006 for a limited amount of power from the Bonneville Power Administration (BPA) that can be used to cover the remainder of the capacity at the Wenatchee smelter or to operate the Intalco smelter. Alcoa is currently returning part of its BPA power through the end of the contract period. BPA has embarked on the contracting process for the period October 2006-September 2011, but it is not yet clear whether the BPA offer will be adequate for Intalco and/or Wenatchee operations.

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 fuel requirements of the Warrick power plant supplying the smelter through June 2006. In May 2005, Alcoa acquired mining rights to the nearby Friendsville, Illinois coal reserves, and it expects coal from this mine to be available for its use by the summer of 2006. When fully operational, the mine will be capable of producing approximately 1 million tons of coal per year, approximately 45% of the Warrick power plant's requirements. In April 2001, under the terms of an operating agreement, the company assumed operation of the power plant that supplies the Warrick smelter from Vectren (formerly Southern Indiana Gas & Electric Company) until at least 2008. In July 2005, Alcoa announced its plans to invest approximately $330 million at the Warrick power plant to improve environmental performance and operational efficiency and lower costs.

Power for the Rockdale smelter is generated by company-owned generating units and TXU Generation Company LP (TXU)-owned generating units. Historically, both the company-owned and the TXU-owned units used lignite supplied by the company's Sandow Mine. The company has opened a new lignite mine, the Three Oaks Mine, on adjacent land it owns or controls. The fuel supply for the company-owned and TXU-owned units is transitioning from the Sandow Mine to the Three Oaks Mine, with active mining in Sandow expected to conclude in 2006. Company-owned generating units supply about one-half of the total electricity requirements of the smelter, although this capacity will retire not later than 2007. TXU supplies the balance through a long-term power contract that does not expire until at least the end of 2038, with the parties having the right to terminate the contract after 2013 if there has been an unfavorable change in law or after 2025 if the cost of the electricity exceeds the market price. TXU and Alcoa recently signed a letter of intent in connection with the possible development of a new circulating fluidized bed power plant adjacent to the existing Sandow Unit Four Power Plant. Alcoa would supply lignite for the new unit from the Three Oaks Mine, and have a right to purchase a portion of the plant's electricity output.

In the Northeast, the purchased power contracts for both the Massena East and Massena West smelters in New York expire not earlier than June 30, 2013, following their extension for 10 years upon New York Power Authority (NYPA) having relicensed its St. Lawrence-FDR Hydro Project. The company is currently in discussions with NYPA to extend the power supply arrangements in order to facilitate potential technical improvements in the plants, but may terminate either of these contracts with one year's notice.

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

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

At the end of 2005, all production was temporarily curtailed at the Eastalco smelter located in Frederick, Maryland. The curtailment coincides with the expiration of the smelter's power contract on December 31, 2005, as a competitively-priced replacement power supply could not be obtained.

*Australia - Electricity*

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

*Brazil - Electricity*

The Alumar smelter is supplied by Eletronorte (Centrais Elétricas do Norte do Brasil S.A.) through a long-term power purchase agreement signed in June 2004 and expiring in June 2024. Eletronorte has supplied the Alumar smelter from the beginning of its operations in 1984.

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

Aluminio also has a 42% interest in Energética Barra Grande S.A. – BAESA, which built the Barra Grande hydroelectric power plant in southern Brazil. Barra Grande began operating in November 2005, and is expected to reach full generating capacity in 2006. Aluminio's share of the project will cover a substantial portion of its currently-purchased needs at the Poços de Caldas smelter.

Aluminio is also participating in a number of Brazilian hydropower projects. In general, the projects have been approved by the Federal Government, and they are in the process of obtaining necessary environmental licenses:

- *Estreito*, northern Brazil - Aluminio share = 19.08%
- *Pai Querê*, southern Brazil - Aluminio share = 35.00%
- *Serra do Facão*, in the southeast of Brazil - Aluminio share = 39.47%

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

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

*Europe - Electricity*

The company purchases electricity for its Italian smelters in the deregulated market, under contracts expiring in December 2009 for both the Portovesme and Fusina smelters. A new law went into effect on May 14, 2005, extending through December 2010 the special conditions applicable to the Italian smelters. This provision has been communicated by the Italian Government to the European Union (EU) as a non-state-aid measure, and EU assent is expected in the first half of 2006.

The company's smelters at San Ciprián, La Coruña and Avilés, Spain purchase electricity from the power grid at the lowest applicable industrial tariff rate under regulations expiring in January 2010.

*Iceland - Electricity*

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

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*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 electricity purchase arrangements, through their respective managing or majority partners. The power contract for Germany ran through December 2005; at the end of 2005, the shareholders closed the smelter due to escalating power costs. Power for the smelter in Ghana is provided under an interim power rate agreement with the Volta River Authority. The other contracts are up for renewal at various times, the majority of them in the period from 2011 to 2020.

*Canada & U.S. - Natural Gas*

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

*Australia - Natural Gas*

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

## Sources and Availability of Raw Materials

The major purchased raw materials in 2005 for each of the company's segments are listed below.

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

| Flat-Rolled Products | Engineered Solutions |
|---|---|
| alloying materials | cobalt |
| aluminum scrap | copper |
| coatings | electricity |
| electricity | natural gas |

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**Flat-Rolled Products (continued)**

natural gas
primary aluminum (rolling ingot, high purity, P1020)

**Engineered Solutions (continued)**

nickel
nitrogen
polyvinyl chloride resin
primary aluminum (billet)
steel
titanium

**Packaging and Consumer**

aluminum
electricity
natural gas
paper
polyethylene resin compound
polyethylene terephthalate (PET) resin compound
polypropylene resin
polystyrene resin compound
polyvinyl chloride resin compound

**Extruded and End Products**

cobalt
electricity
natural gas
nitrogen
polypropylene resin
polyvinyl chloride resin compound
primary aluminum (billet)

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

## Joint Ventures and Investments

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

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

**Alcoa Kobe Transportation Products, Inc. and Kobe Alcoa Transportation Products Ltd. (KATP).** These joint ventures, owned 50% by Alcoa and 50% by Kobe Steel, Ltd. (Kobe), continue despite the termination in 2003 of the Alcoa-Kobe joint ventures in rolled aluminum sheet products for aluminum cans. 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 2000, the U.S. company focuses on research and development efforts, while the Japanese company engages in commercial (manufacturing, marketing and sales) as well as research and development efforts, to serve the transportation industry. In 2003, Alcoa and Kobe further agreed to discuss extending this cooperation into joint research and development products related to other aluminum automotive products such as applied technology of aluminum extrusion and casting. In 2005, Alcoa and Kobe amended the relevant joint venture agreements to permit Alcoa and Kobe to manufacture, sell and distribute aluminum brazing sheet, bare alloy sheet, and fin stock for use in all heat exchanger related applications in all Asian countries except for Japan, where KATP continues to have the primary responsibility for these activities.

**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. In early 2004, Chalco made an additional public share offering in which Alcoa purchased sufficient shares to maintain its holdings in Chalco at the 8% level. Chinalco remains 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 would be owned 50% by Alcoa and 50% by Chalco. Alcoa would transfer management, operational and technical expertise, and best practices to the Pingguo joint venture. The parties continue to work diligently on terms of their joint venture and to obtain the necessary government approvals.

**Elkem Aluminium ANS.** This Norwegian partnership is owned 50% by Alcoa and 50% by Elkem AS, one of Norway's largest industrial companies and a leading supplier of metals and materials, with Elkem as managing partner. The partnership is the second largest aluminum producer in Norway and operates two smelters: Mosjøen and Lista. These facilities supply extrusion billets, rolling ingots and foundry ingots to leading rolling mills, extrusion plants and foundries in Europe. In 2005, Alcoa sold its 46.5% investment in Elkem ASA in response to a tender offer from Orkla ASA. This transaction closed in the second quarter of 2005.

In 2005, Alcoa restructured the following joint ventures and investments:

**Alcoa Bohai Aluminum Industries Company Limited.** In October 2005, Alcoa inaugurated a restructured joint venture with China International Trust & Investment (CITIC), its equity partner, which will produce aluminum rolled products in Qinghuangdao, China. Alcoa is the managing partner in the new venture, holding a 73% stake, with CITIC holding a 27% stake. The joint venture will operate existing aluminum cold rolling and foil facilities and will undertake a major expansion, which will include a hot rolling mill and related equipment.

**Alcoa Closure Systems International (Tianjin) Co., Ltd.** Alcoa Closure Systems International (Tianjin) Co., Ltd. was established in 1994 to produce plastic closures for beverages. In December 2005, Alcoa purchased the remaining 30% interest in the Tianjin joint venture previously owned by its partner China Suntrust Investment Group Co., Ltd. CSI Tianjin is now a wholly-owned subsidiary.

**Alcoa Fujikura Ltd.** Alcoa Fujikura Ltd. (AFL) was a global joint venture headquartered in Franklin, Tennessee, owned 51% by Alcoa and 49% by Fujikura Ltd., which produced and marketed 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 provided EF&I (engineer, furnish and install) services to the telecom and CATV industries. In 2005, Alcoa and Fujikura terminated the joint venture by way of a share exchange in which Fujikura exchanged all of its shares in AFL for all of the shares in a new telecommunications entity, including cash. As a result, Fujikura obtained complete ownership of the AFL telecommunications business and Alcoa obtained complete ownership of AFL, which continues to operate the automotive business described above.

**Alcoa (Shanghai) Aluminum Products Co., Ltd.** Alcoa (Shanghai) Aluminum Products Co., Ltd. is now owned 100% by Alcoa. In June 2005, Alcoa purchased the remaining 40% interest in this joint venture then owned by its partner, Shanghai Light Industrial Equipment (Group) Company, Ltd. (SLIEC). Alcoa and SLIEC established the joint venture in 1995 to produce foil products primarily for pharmaceutical and other packaging applications in China. It produces aluminum foil products in Shanghai, China.

## Patents, Trade Secrets and Trademarks

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

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

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

## Competitive Conditions

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

## Research and Development

Alcoa, a technology leader in the aluminum industry, engages in research and development programs that include process and product development, and basic and applied research. Alcoa conducts these activities within its businesses and at the Alcoa Technical Center near Pittsburgh, Pennsylvania. Expenditures for R&D activities were $194 million in 2005, $182 million in 2004 and $190 million in 2003.

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 2005, 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. Progress has been successful in many respects as a result of anode assembly testing, although there remain technical and cost targets to overcome. Technical targets include improvement of anode life, optimization of pot operating conditions and maintenance of metal purity. If the technology proves to be commercially feasible, the company believes that it would be able to convert its existing potlines to this new technology, resulting in significant operating cost savings. The new technology would also generate environmental benefits by reducing and eliminating certain emissions. No timetable has been established for commercial use.

## 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 34 and 35, in Note A to the financial statements under the caption "Environmental Expenditures" on page 47 and in Note Y to the financial statements on pages 64 and 65.

**Employees**

Total worldwide employment at year-end 2005 was 129,000 people.

On May 31, 2006, the master labor agreement between Alcoa and the United Steelworkers (USW) covering 15 locations in the United States and about 9,000 employees is scheduled to expire. The parties will negotiate in May with the intent of reaching a new long-term agreement. To the extent a new long-term agreement is not reached, a work stoppage at some or all of the plants could begin on June 1, 2006.

**Cautionary Statements under the Private Securities Litigation Reform Act of 1995**

*Forward-Looking Statements*

This report and the portions of the Annual Report incorporated by reference herein contain (and oral communications made by Alcoa may contain) forward-looking statements that may be identified by their use of words like "anticipates," "believes," "estimates," "expects," "hopes," "targets," "should," "will," "will likely result," "forecast," "outlook," "projects" or other words of similar meaning. All statements that address Alcoa's expectations or projections about the future, including statements about Alcoa's strategy for growth, cost reduction goals, expenditures and financial results, are forward-looking statements. Forward-looking statements are based on Alcoa's estimates, assumptions and expectations of future events and are subject to a number of risks 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.

**Item 1A. Risk Factors.**

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

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

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

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

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

- significant increases in electricity costs rendering smelter operations uneconomic;
- significant increases in natural gas prices;
- unavailability of electrical power due to droughts;

- interruptions in energy supply due to equipment failure or other causes; or
- curtailment of one or more refineries or smelters due to inability to extend energy contracts upon expiration or negotiate new arrangements on cost-effective terms.

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

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

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

Some of Alcoa's employees are represented by labor unions in a number of countries under various collective bargaining agreements with varying durations and expiration dates. At the end of May 2006, the master labor agreement between Alcoa and the USW covering 15 locations in the United States and about 9,000 employees is scheduled to expire. Alcoa may not be able to satisfactorily renegotiate this or other collective bargaining agreements in the United States and other countries when they expire. In addition, existing collective bargaining agreements may not prevent a strike or work stoppage at Alcoa's facilities in the future. Any such work stoppages could have a material adverse effect on our financial results.

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

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

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

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

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

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

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

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

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

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

A significant downturn in the business or financial condition of a key customer or customers supplied by Alcoa could affect Alcoa's results of operations in a particular period. If Alcoa is not successful in replacing business lost from such customers, profitability may be adversely affected.

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

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

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

Alcoa is working on new developments in advanced smelting process technologies, including inert anode technology. There can be no assurance that such technologies will be commercially feasible or beneficial to Alcoa.

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

Alcoa's operations worldwide are subject to numerous complex and increasingly stringent environmental laws and regulations. The costs of complying with such environmental laws and regulations, including participation in assessments and cleanups of sites, as well as internal voluntary programs, are significant and will continue to be so for the foreseeable future. Alcoa's results of operations or liquidity in a particular period could be affected by certain environmental matters, including remediation costs and damages related to several sites. Climate change agreements in several parts of the world may result in emission restrictions on carbon dioxide and other greenhouse gases.

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

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

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

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

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

Unexpected events, including fires or explosions at facilities, natural disasters such as the Gulf Coast hurricanes in 2005, war or terrorist activities, unplanned outages, supply disruptions, or failure of equipment or processes to meet specifications, may increase the cost of doing business or otherwise impact Alcoa's financial performance.

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

## Item 1B. Unresolved Staff Comments.

None.

## Item 2. Properties.

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

### ALUMINA

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

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

### PRIMARY METALS

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

### FLAT-ROLLED PRODUCTS

| | | |
|---|---|---|
| **Sheet and Plate:** | Australia: | 2 locations. |
| | Europe: | 10 locations in 7 countries. |
| | South America: | 1 location. |
| | United States: | 10 locations in 9 states. |
| **Foil Products:** | Asia: | 4 locations in 1 country. |
| | Australia: | 1 location. |
| | Europe: | 1 location. |
| | South America: | 1 location. |
| | United States: | 2 locations in 2 states. |
| **Can Reclamation:** | Australia: | 1 location. |
| | Netherlands: | 1 location. |
| | United States: | 2 locations in 1 state. |

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**ENGINEEREDSOLUTIONS**

| | | |
|---|---|---|
| **Aerospace:** | Asia: | 1 location. |
| | Canada: | 2 locations in 2 provinces. |
| | Europe: | 6 locations in 3 countries. |
| | United States: | 19 locations in 13 states. |
| **Automotive Components:** | Asia: | 1 location. |
| | Australia: | 2 locations. |
| | Canada: | 2 locations in 2 provinces. |
| | Europe: | 3 locations in 3 countries. |
| | Mexico: | 2 locations. |
| | South America: | 1 location. |
| | United States: | 11 locations in 9 states. |
| **AFL Automotive:** | Asia: | 1 location. |
| | Canada: | 1 location. |
| | Central America: | 2 locations in 1 country. |
| | Europe: | 12 locations in 8 countries. |
| | Mexico: | 5 locations. |
| | South America: | 1 location. |
| | United States: | 7 locations in 3 states. |
| **Castings:** | Asia: | 1 location. |
| | Canada: | 3 locations in 2 provinces. |
| | Europe: | 7 locations in 5 countries. |
| | Mexico: | 1 location. |
| | South America: | 1 location. |
| | United States: | 15 locations in 10 states. |
| **Auto Engineering:** | Europe: | 2 locations in 2 countries. |
| | United States: | 4 locations in 3 states. |
| **Fasteners:** | Asia: | 1 location. |
| | Australia: | 1 location. |
| | Europe: | 10 locations in 4 countries. |
| | Mexico: | 1 location. |
| | United States: | 10 locations in 6 states. |

**EXTRUDED AND END PRODUCTS**

| | | |
|---|---|---|
| **Extrusion, Tube:** | Europe: | 14 locations in 6 countries. |
| | South America: | 3 locations in 1 country. |
| | United States: | 16 locations in 15 states. |
| **Rolling Facilities:** | Europe: | 2 locations in 2 countries. |
| | United States: | 3 locations in 3 states. |
| **Architectural Extrusions:** | Africa: | 1 location. |
| | Canada: | 2 locations in 2 provinces. |
| | Europe: | 17 locations in 9 countries. |
| | South America: | 5 locations in 2 countries. |
| | United States: | 11 locations in 10 states. |

| | | |
|---|---|---|
| **Home Exteriors:** | United States: | 6 locations in 6 states. |
| **PACKAGING AND CONSUMER** | | |
| **Consumer Products:** | Canada: | 1 location. |
| | Europe: | 3 locations in 2 countries. |
| | United States: | 10 locations in 7 states. |
| **Flexible Packaging:** | Asia: | 1 location. |
| | Europe: | 1 location. |
| | United States: | 8 locations in 6 states. |
| **Closures:** | Africa: | 1 location. |
| | Asia: | 4 locations in 3 countries. |
| | Canada: | 1 location. |
| | Central America: | 1 location. |
| | Europe: | 5 locations in 5 countries. |
| | India: | 1 location. |
| | Indonesia: | 1 location. |
| | Mexico: | 2 locations. |
| | Middle East: | 1 location. |
| | South America: | 7 locations in 6 countries. |
| | United States: | 5 locations in 5 states. |
| **Foodservice Packaging:** | Canada: | 3 locations in 2 provinces. |
| | United States: | 10 locations in 9 states. |
| **Polymerization and Extrusion:** | Europe: | 1 location. |
| | United States: | 4 locations in 4 states. |

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

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

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

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

**Item 3. Legal Proceedings.**

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

Environmental Matters

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

As previously reported, since 1989 Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa's Massena, New York plant site, under order from the U.S. Environmental Protection Agency (EPA) issued under Section 106 of CERCLA. Sediments and fish in the river contain varying levels of polychlorinated biphenyl (PCB). In early 2002, Alcoa submitted a revised Analysis of Alternatives Report to EPA. This Report identified potential remedial actions related to PCB contamination of the river, including additional remedial alternatives that may be required by EPA. It also reflected certain recent studies and investigations on the river, including pilot tests of sediment capping techniques and other remediation technologies. The range of costs associated with the remedial alternatives evaluated in the 2002 Report was between $2 million and $525 million. Alcoa believes that rational, scientific analysis supports a remedy involving the containment of sediments in place via natural or man-made processes. Because the selection of the $2 million alternative (natural recovery) was considered remote, the company adjusted the reserve for the Grasse River in 2002 to $30 million representing the low end of the range of possible alternatives, as no single alternative could be identified as more probable than the others. In June 2003, based on then recent river observations, EPA requested that Alcoa gather additional field data to assess the potential for sediment erosion from winter river ice formation and breakup so that it could be factored into the range of remedial alternatives being considered. The results of these additional studies, submitted in a report to EPA in April of 2004, suggest that this phenomenon has the potential to occur approximately every 10 years and may impact sediments in certain portions of the river under all remedial scenarios. Those evaluations were submitted to EPA along with a proposal to perform additional pilot remedial studies in the river. In May 2004, EPA approved Alcoa's proposed Remedial Options Pilot Study (ROPS) that includes sediment removal and capping, the installation of an ice control structure, and significant monitoring. At the same time, Alcoa adjusted the reserve for the river to include the $35 million estimated cost of the ROPS, in addition to the $30 million previously reserved. Most of the construction work for the ROPS was completed in 2005 with monitoring proposed for 2006. The findings will be incorporated into a revised Analysis of Alternatives Report that is expected to be submitted in 2007. EPA will use this information to develop a remedy for the river. With the exception of the natural recovery remedy, none of the existing alternatives in the 2002 Analysis of Alternatives Report is more probable than the others and the results of the ROPS are necessary to revise the scope and estimated cost of many of the current alternatives. EPA's ultimate selection of a remedy could result in additional liability. Alcoa may be required to record a subsequent reserve adjustment at the time EPA's Record of Decision is issued, which is expected in 2008 or later.

As previously reported, in May through October 2002, eleven lawsuits were filed against Reynolds Metals Company (Reynolds) and Alcoa in the District Court of Wharton County, Texas and one in the United States District Court, Southern District of Texas, Victoria Division**.** 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. Three of the cases were later dismissed, and all except one of the remaining cases were consolidated into a single case in the District Court of Wharton County, Texas. Bon L Campo Limited Partnership and its parent, Tredegar Corporation, operators of the plant from 1997-2000, have also been listed among the defendants in some of the lawsuits, and Reynolds brought its predecessor in interest, Whittaker Corporation, into the litigation. The only significant personal injury claim was settled in 2003. Alcoa, on behalf of itself, Reynolds, a Reynolds subsidiary, Bon L Campo LP, and Tredegar, has settled the claims of nearly all remaining plaintiffs whose property is affected by the groundwater, including through the installation and operation of an extension of the City of El Campo water system using funds provided by Alcoa.

As previously reported, on September 26, 2003, EPA Region VI filed an Administrative Complaint, Compliance Order and Notice of Opportunity for Hearing against the Wichita Falls, Texas facility of Howmet Corporation

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

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

As previously reported, in 2001 and 2002, two companion lawsuits were filed in the Court of Lafayette County, Arkansas on behalf of nearly 400 current or former residents of the City of Stamps, Arkansas, the City of Stamps and former employees of Red River Aluminum, Inc. (RRA), a dross processor. The 2001 action was transferred to Miller County, Arkansas. The suits named 12 defendants (including Alcoa, Alumax Inc. (Alumax) and Reynolds) that sent dross to RRA for processing. Plaintiffs filed claims for personal injuries and property damage and alleged that the defendants violated Arkansas environmental statutes relating to the alleged contamination associated with RRA's operations in Stamps. The 2001 action was settled in May 2004. The cost of the settlement was previously reserved and was not material to Alcoa. The 2002 action was dismissed, without prejudice, at the request of plaintiffs in June 2004. In June 2004, the City of Stamps withdrew its claims, without prejudice. In June 2005, the City of Stamps filed a lawsuit in the U.S. District Court for the Western District of Arkansas (El Dorado Division). The suit is almost identical to its

2002 suit in state court that was withdrawn. The new suit names 16 defendants (including Alcoa, Alumax and Reynolds). The defendants in this case are aluminum manufacturers and processors who sent aluminum dross and scrap aluminum to RRA in order to recover aluminum within these materials. This secondary smelting process generates salt cake, which was left in 30-foot high mounds covering 8 to 10 acres of the RRA site. RRA was saving the salt cake with the belief that it could extract additional, usable aluminum from the material and sell it on the open market. In addition, the City of Stamps named the Arkansas Department of Environmental Quality, and the Arkansas Commissioner of State Lands, Arkansas State Land Office, as "Necessary Parties." The City of Stamps alleges that these entities are necessary parties because they hold title and control access to the RRA site, respectively. The City of Stamps is alleging violation of the Arkansas Solid Waste Management Act and other causes of action (negligence, nuisance and trespass). In addition, the City of Stamps is seeking injunctive relief for remediation of the site as well as compensatory and punitive damages. Alcoa responded to the City of Stamps complaint in August 2005. In October 2005, the City of Stamps filed an amended complaint that includes a count under the Resource Conservation and Recovery Act. Alcoa responded to the amended complaint in November 2005. Discovery conducted in the predecessor actions will be utilized in the City of Stamps matter. Any result of this suit is at this time neither estimable nor probable. No trial date has been set.

As previously reported, the issuance of an Environmental Operating Permit ("EOP") for the 346,000 mtpy Fjarðaál Project in Iceland was based upon a comparison study of the former Norsk Hydro 420,000 mtpy Reyðarál environmental impact assessment ("Comparison Study"). In early 2004, a third party challenged the Icelandic Planning Agency's procedures in that regard, maintaining that the Ministry of the Environment should have required a full environmental impact assessment (EIA) be undertaken for the Fjarðaál Project, rather than making a decision based upon the Comparison Study prior to issuance of the EOP. In January 2005, an Icelandic District Court found, in part, in favor of the plaintiff's position. The Icelandic government, the plaintiff and Fjarðaál all filed appeals from the ruling to the Icelandic Supreme Court. On June 9, 2005, the Icelandic Supreme Court upheld the decision of the Icelandic District Court, and found that a new EIA, rather than the Comparison Study, should have been conducted. At the same time, the Icelandic Supreme Court dismissed plaintiff's claims that the EOP should be invalidated. Alcoa is in the process of performing a new EIA. Alcoa is working with the Municipality and the Government to ensure the continued issuance of building permits to enable project construction to continue on the current schedule. Alcoa expects the new EIA process to be completed by mid-2006.

As previously reported, in May 2005**,** Alcoa World Alumina LLC and St. Croix Alumina LLC. were among the defendants listed in a lawsuit brought by the Commissioner of the Department of Planning and Natural Resources, Dean Plaskett, in his capacity as Trustee for Natural Resources of the Territory of the United States Virgin Islands in the District Court of the Virgin Islands, Division of St. Croix. The complaint seeks damages for alleged injuries to natural resources caused by alleged releases from an alumina refinery facility in St. Croix that was owned by St. Croix Alumina from 1995 to 2002. Also listed in the lawsuit are previous and subsequent owners of the alumina refinery and the owners of an adjacent oil refinery. Claims are brought under CERCLA, U.S. Virgin Islands law, and common law. The plaintiff has not specified in the complaint the amount it seeks in damages.

As previously reported, in August 2005, Dany Lavoie, a resident of Baie Comeau in the Canadian Province of Quebec, filed a Motion for Authorization to Institute a Class Action and for Designation of a Class Representative against Alcoa Canada Inc., Alcoa Limitee, Societe Canadienne de Metaux Reynolds Limitee and Canadian British Aluminum in the Superior Court of Quebec in the District of Baie Comeau. Plaintiff seeks to institute the class action on behalf of a putative class consisting of all past, present and future owners, tenants and residents of Baie Comeau's St. Georges neighborhood. He alleges that defendants, as the present and past owners and operators of an aluminum smelter in Baie Comeau, have negligently allowed the emission of certain contaminants from the smelter, specifically Polycyclic Aromatic Hydrocarbons or "PAHs", that have been deposited on the lands and houses of the St. Georges neighborhood and its environs causing damage to the property of the putative class and causing health concerns for those who inhabit that neighborhood. If allowed to proceed as a class action, plaintiff seeks to compel additional remediation to be conducted by the defendants beyond that already undertaken by them voluntarily, seeks an injunction against

further emissions in excess of a limit to be determined by the court in consultation with an independent expert, and seeks money damages on behalf of all class members. The company intends to defend this action vigorously.

On December 5, 2005, Alcoa received service of a lawsuit filed in the United States District Court for the Northern District of New York and styled as Margaret George, et al., v. General Motors Corporation and Alcoa Inc., Docket No. 05-CV-1482. The complaint alleges personal injury and damages arising from exposure to PCB released from the defendants' industrial facilities in Massena, New York, and seeks certification of a class of plaintiffs comprised of individual Mohawk Indians residing on the Akwesane Territory, a Mohawk Indian Reservation, situated along the St. Lawrence River in the United States and Canada. The suit alleges that approximately 12,000 individuals reside on the reservation. The company is investigating the allegations.

Other Matters

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

As previously reported, in 2002, Alcoa discovered that a former Reynolds distribution business sold approximately 750,000 pounds of aluminum plate made by unrelated companies for use in the Northwest maritime industry that is not suitable for that use. Reynolds notified the U.S. Coast Guard of the issue and worked cooperatively with it to identify and notify customers of the defective metal. An inspection process was employed to evaluate the identified metal and permit remedial efforts and settlements with affected boat builders and owners. All of the lawsuits previously filed by ship owners or operators have been resolved. As of the fourth quarter of 2005, all boats for which potential claims were anticipated have been identified and resolutions have been agreed to. During 2004, Alcoa reached resolution of a coverage suit with one of its carriers and used a portion of the proceeds to establish a reserve to cover the expected remaining claims. A suit has been filed against the manufacturers and sellers of the material.

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

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

**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 2005.

**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 17, 2006 are listed below.

**Alain J. P. Belda**, 62, 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, are brothers.

**Ricardo E. Belda**, 61, Executive Vice President – Alcoa and Group President, Global Extruded and End Products. Mr. Belda was named to his current position in May 2005. He was named Executive Vice President – European Region in October 2004. He was elected Executive Vice President – Alcoa and Group President, Alcoa Europe in November 2001. He 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 assumed responsibility for Extrusions and End Products for all of Europe in 1997.

**William F. Christopher**, 51, 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 and since September 2002, has been Group President for Alcoa's Aerospace and Commercial Transportation Group. He also led the customer and marketing initiatives for growth for the company until January 2006. In 2001, he assumed responsibility for the global deployment of the Alcoa Business System and the company's customer and quality initiatives. Mr. Christopher was elected a Vice President of Alcoa in 1999 and Executive Vice President in 2001. He was President of Alcoa Forged Products from 1996 to 2001.

**Ruth J. Mack**, 51, Vice President – Alcoa and Group President, Packaging and Consumer Products. Ms. Mack was elected to her current position in November 2004. She joined Alcoa in May 2000 as President of Alcoa Consumer Products following Alcoa's merger with Reynolds Metals Company. She was vice president and general manager of Reynolds Consumer Products from April 1999 to May 2000.

**Charles D. McLane**, **Jr.**, 52, Vice President and Corporate 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.

**Joseph C. Muscari**, 59, Executive Vice President and Chief Financial Officer. Mr. Muscari was elected to his current position effective January 2006. He previously served as Executive Vice President – Alcoa and Group President, Rigid Packaging, Foil and Asia since October 2004. He was elected an Alcoa Executive Vice President in 2002. He was named Group President of Asia and Latin America in 2001. In 1997, he was elected Vice President, Audit and subsequently added responsibility as Vice President of Environment, Health & Safety, Audit and Compliance.

**Lawrence R. Purtell**, 58, Executive Vice President and General Counsel; Chief Compliance Officer. Mr. Purtell joined Alcoa as Executive Vice President and General Counsel in November 1997. He became Chief Compliance Officer in April 2002.

**Bernt Reitan**, 57, Executive Vice President – Alcoa and Group President, Global Primary Products. Mr. Reitan was named Group President, Global Primary Products in October 2004 and was elected an Alcoa Executive Vice President in November 2004. He was named Group President, Alcoa Primary Products in January 2004. He was elected Vice President of Primary Metals in 2003. He was named President of Alcoa World Alumina and Chemicals and was elected a Vice President of Alcoa in July 2001. He joined Alcoa in 2000 as general manager of Alcoa World Alumina in Europe. Before joining Alcoa, Mr. Reitan held a series of positions with Elkem in Norway over a 20-year period, serving as Senior Vice President of Materials and Technology and managing director of Elkem Aluminium ANS from 1988 to June 2000.

**Paul D. Thomas**, 49, Executive Vice President – Alcoa, with responsibility for People, ABS and Culture. Mr. Thomas was named to the new position responsible for People, ABS and Culture in October 2004 and was elected an Alcoa Executive Vice President in November 2004. He was named Group President, North American Fabricated Products in January 2003. He was named President of Alcoa Mill Products in 2001 and President of Alcoa's Engineered Products business in January 1998. He was elected a Vice President of Alcoa in September 1998.

**Helmut Wieser**, 52, Executive Vice President – Alcoa and Group President, Global Rolled Products, Hard Alloy Extrusions and Asia. Mr. Wieser was elected an Alcoa Executive Vice President in November 2005 and was named Group President, Global Rolled Products, Hard Alloy Extrusions and Asia at that time. Mr. Wieser was named Group President, Mill Products Europe/North America in October 2004 and was elected a Vice President of Alcoa in November 2004. He joined Alcoa in October 2000 as Vice President of Operations in Europe and in 2004 he became President of Alcoa's flat rolled products business in Europe. Before joining Alcoa, Mr. Wieser worked for Austria Metall Group, where he was an executive member of the board and chief operating officer from 1997 to 2000.

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

## PART II

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

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 72 of the Annual Report and are incorporated by reference.

c) Issuer Purchases of Equity Securities:

| Period | Total Number of Shares Purchased (a) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Repurchase Plans or Programs (b) | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (b) |
|---|---|---|---|---|
| January 1 - January 31, 2005 | 27,896 | $ 29.90 | — | 30,534,282 |
| February 1 - February 28, 2005 | 36,227 | 31.60 | — | 30,534,282 |
| March 1 - March 31, 2005 | — | — | — | 30,534,282 |
| Total for quarter ended March 31, 2005 | 64,123 | 30.86 | — | 30,534,282 |
| April 1 - April 30, 2005 | — | — | — | 30,534,282 |
| May 1 - May 31, 2005 | 10,952 | 27.18 | — | 30,534,282 |
| June 1 - June 30, 2005 | — | — | — | 30,534,282 |
| Total for quarter ended June 30, 2005 | 10,952 | 27.18 | — | 30,534,282 |
| July 1 - July 31, 2005 | — | | — | 30,534,282 |
| August 1 - August 31, 2005 | 11,977 | 28.50 | | 30,534,282 |
| September 1 - September 30, 2005 | — | — | — | 30,534,282 |
| Total for quarter ended September 30, 2005 | 11,977 | 28.50 | — | 30,534,282 |
| October 1 - October 31, 2005 | 2,556,328 | 22.66 | 2,554,000 | 27,980,282 |
| November 1 - November 30, 2005 | 3,136 | 25.89 | — | 27,980,282 |
| December 1 - December 31, 2005 | 1,800,562 | 28.33 | 1,780,000 | 26,200,282 |
| Total for quarter ended December 31, 2005 | 4,360,026 | 25.00 | 4,334,000 | 26,200,282 |

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

(b) Alcoa's share repurchase program was approved by Alcoa's Board of Directors and publicly announced on July 13, 2001. The program authorizes the repurchase of up to 50 million shares of Alcoa common stock from time to time, directly or through brokers or agents, and has no expiration date.

**Item 6. Selected Financial Data.**

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

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

Management's review and comments on the consolidated financial statements are on pages 25 through 39 of the Annual Report and are incorporated by reference.

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

The information regarding quantitative and qualitative disclosures about market risk is on pages 33 through 34 of the Annual Report and is incorporated by reference.

**Item 8. Financial Statements and Supplementary Data.**

The company's consolidated financial statements, the notes thereto, selected quarterly financial data and the report of the independent auditors are on pages 41 through 66 of the Annual Report and are incorporated by reference.

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

None.

**Item 9A. Controls and Procedures.**

(a) Evaluation of Disclosure Controls and Procedures

Alcoa's Chief Executive Officer and Chief Financial Officer have evaluated the company's disclosure controls and procedures as of the end of the period covered by this report and they have concluded that these controls and procedures are effective.

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

Management's Report on Internal Control over Financial Reporting is on page 40 of the Annual Report and is incorporated by reference.

(c) Attestation Report of the Registered Public Accounting Firm

Management's assessment of the effectiveness of Alcoa's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is on page 41 of the Annual Report and is incorporated by reference.

(d) Changes in Internal Control over Financial Reporting

Except as otherwise discussed herein, there have been no significant changes in internal control over financial reporting that occurred during the fourth quarter of 2005, that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting. Alcoa is currently evaluating the impact on its internal control over financial reporting for the following matters.

Alcoa acquired two fabricating facilities located in the Russian Federation in January 2005.

Alcoa acquired the Alcoa Bohai Aluminum Industries Company Limited joint venture in October 2005.

**Item 9B. Other Information.**

On February 17, 2006, Alcoa's Board of Directors amended the company's by-laws to specify that the principal office of the company shall be in the City of New York, New York rather than Pittsburgh, Pennsylvania.

## PART III

### Item 10. Directors and Executive Officers of the Registrant.

The information required by Item 401 of Regulation S-K regarding directors is contained under the captions “Corporate Governance – Committees of the Board – Audit Committee”, “Nominating Candidates for Election to the Board” and “Item 1 – Election of Directors” and in note (6) to the Summary Compensation Table of the Proxy Statement and is incorporated by reference.

The information required by Item 401 of Regulation S-K regarding executive officers and family relationships 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 “Alcoa Stock Ownership and Performance – Section 16(a) Beneficial Ownership Reporting Compliance” of the Proxy Statement and is incorporated by reference.

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

### Item 11. Executive Compensation.

The information required by Item 402 of Regulation S-K is contained under the captions “Director Compensation”, “Executive Compensation”, and “Alcoa Stock Ownership and Performance – Stock Performance Graph” of the Proxy Statement. Such information (other than the Stock Performance Graph and the Compensation and Benefits Committee Report, which shall not be deemed to be “filed”) is incorporated by reference.

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

The following table gives information about Alcoa's common stock that could be issued under the company's equity compensation plans as of December 31, 2005.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders[1] | 91,217,353[1] | $ 33.50 | 41,736,171[2] |
| Equity compensation plans not approved by security holders[3, 4] | 0 | 0 | 0 |
| Total | 91,217,353[1] | $ 33.50 | 41,736,171[2] |

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

- 88,571,663 stock options
- 2,106,206 stock awards
- 539,484 performance share awards (470,616 granted at target)

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

- 32,412,361 stock options and stock appreciation rights
- 9,323,810 other awards

[3] In connection with its acquisitions of Alumax, Cordant Technologies Inc., Howmet and Reynolds, Alcoa assumed stock options outstanding under these companies' stock option plans. An aggregate of 6,275,641 shares of Alcoa common stock are to be issued upon exercise of the outstanding options. The options have a weighted average exercise price of $28.49. No grants of stock options under these plans have been made since the year of Alcoa's acquisition of the particular company, nor will any such grants be made in the future.

[4] The Alcoa Fee Continuation Plan for Non-Employee Directors, adopted in 1990, provided fee continuation payments for persons who met a minimum service requirement as a non-employee director. Each of the ten eligible participants receives (or will receive) such cash and stock payments for life upon retirement from the Board based upon the cash retainer fee for directors and an annual stock grant under the company's former Stock Plan for Non-Employee Directors. In 1995, the Board froze future annual payments to eligible directors at a maximum of $30,000 and 2,000 shares (or a lesser proportion based on service). 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 under the caption "Director Compensation" of the Proxy Statement.

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

**Item 13. Certain Relationships and Related Transactions.**

The information required by Item 404 of Regulation S-K is contained under the captions “Corporate Governance – Transactions with Directors’ Companies”, “Executive Compensation – Change in Control Plan” and “Executive Compensation – Severance Agreements” of the Proxy Statement and is incorporated by reference.

**Item 14. Principal Accountant Fees and Services.**

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

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

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

(1) The company’s consolidated financial statements, the notes thereto and the report of the Independent Registered Public Accounting Firm are on pages 41 through 65 of the Annual Report and are incorporated by reference.

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

Report of PricewaterhouseCoopers LLP dated February 17, 2006 on the company’s financial statement schedule filed as a part hereof for the fiscal years ended December 31, 2005, 2004 and 2003.

Schedule II – Valuation and Qualifying Accounts For the Years Ended December 31, 2005, 2004 and 2003.

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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 (Commission file number 1-3610) for the quarter ended June 30, 2000. |
| 3(b). | By-Laws of the Registrant as amended. |
| 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). | Five-Year Revolving Credit Agreement, dated as of April 22, 2005, incorporated by reference to exhibit 10(a) to the company's Current Report on Form 8-K dated April 25, 2005. |
| 10(g). | Five-Year Revolving Credit Agreement, dated as of April 23, 2004, incorporated by reference to exhibit 10(b) to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004. |
| 10(g)(1). | Amendment Agreement dated as of April 22, 2005 in respect of the Five-Year Revolving Credit Agreement dated as of April 23, 2004, incorporated by reference to exhibit 10(b) to the company's Current Report on Form 8-K dated April 25, 2005. |
| 10(h). | Revolving Credit Agreement (Five-Year), dated as of April 25, 2003, incorporated by reference to exhibit 10(b) to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003. |

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| 10(h)(1). | Amendment Agreement dated as of April 22, 2005 in respect of the Revolving Credit Agreement (Five-Year) dated as of April 25, 2003, incorporated by reference to exhibit 10(c) to the company's Current Report on Form 8-K dated April 25, 2005. |
| 10(i). | Alcoa Stock Acquisition Plan, effective January 1, 1999, incorporated by reference to exhibit 10(a) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1999. |
| 10(i)(1). | Amendments to Alcoa Stock Acquisition Plan, effective September 1, 2000, incorporated by reference to exhibit 10(a)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2000. |
| 10(i)(2). | Amendments to Alcoa Stock Acquisition Plan, effective January 1, 2005. |
| 10(j). | Employees' Excess Benefit Plan, Plan A, incorporated by reference to exhibit 10(b) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1980. |
| 10(j)(1). | Amendments to Employees' Excess Benefit Plan, Plan A, effective January 1, 2000, incorporated by reference to exhibit 10(b)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2000. |
| 10(j)(2). | Amendments to Employees' Excess Benefit Plan, Plan A, effective January 1, 2002, incorporated by reference to exhibit 10(j)(2) to the company's Annual Report on Form 10-K for the year ended December 31, 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(k)(1). | 2004 Summary Description of the Alcoa Incentive Compensation Plan, incorporated by reference to exhibit 10(g) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004. |
| 10(l). | 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 (Commission file number 1-3610) for the year ended December 31, 2000. |
| 10(l)(2). | Amendments to Employees' Excess Benefit Plan, Plan C, effective January 1, 2002, incorporated by reference to exhibit 10(l)(2) to the company's Annual Report on Form 10-K for the year ended December 31, 2002. |
| 10(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(m)(1). | Amendments to Employees' Excess Benefit Plan, Plan D, effective January 1, 2005. |

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| 10(n). | Deferred Fee Plan for Directors, as amended effective July 9, 1999, incorporated by reference to exhibit 10(g)(1) to the company's Quarterly Report on Form 10-Q (Commission file number 1-3610) for the quarter ended June 30, 1999. |
| 10(o). | Restricted Stock Plan for Non-Employee Directors, as amended effective March 10, 1995, incorporated by reference to exhibit 10(h) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1994. |
| 10(o)(1). | Amendment to Restricted Stock Plan for Non-Employee Directors, effective November 10, 1995, incorporated by reference to exhibit 10(h)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1995. |
| 10(p). | Fee Continuation Plan for Non-Employee Directors, incorporated by reference to exhibit 10(k) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1989. |
| 10(p)(1). | Amendment to Fee Continuation Plan for Non-Employee Directors, effective November 10, 1995, incorporated by reference to exhibit 10(i)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1995. |
| 10(q). | Deferred Compensation Plan, as amended effective October 30, 1992, incorporated by reference to exhibit 10(k) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1992. |
| 10(q)(1). | Amendments to Deferred Compensation Plan, effective January 1, 1993, February 1, 1994 and January 1, 1995, incorporated by reference to exhibit 10(j)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1994. |
| 10(q)(2). | Amendment to Deferred Compensation Plan, effective June 1, 1995, incorporated by reference to exhibit 10(j)(2) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1995. |
| 10(q)(3). | Amendment to Deferred Compensation Plan, effective November 1, 1998, incorporated by reference to exhibit 10(j)(3) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1999. |
| 10(q)(4). | Amendments to Deferred Compensation Plan, effective January 1, 1999, incorporated by reference to exhibit 10(j)(4) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1999. |
| 10(q)(5). | Amendments to Deferred Compensation Plan, effective January 1, 2000, incorporated by reference to exhibit 10(j)(5) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2000. |
| 10(q)(6). | Amendments to Deferred Compensation Plan, effective January 1, 2005. |
| 10(r). | Summary of the Executive Split Dollar Life Insurance Plan, dated November 1990, incorporated by reference to exhibit 10(m) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1990. |
| 10(s). | Amended and Restated Dividend Equivalent Compensation Plan, effective January 1, 1997, incorporated by reference to exhibit 10(h) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004. |

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| 10(t). | Form of Indemnity Agreement between the company and individual directors or officers, incorporated by reference to exhibit 10(j) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1987. |
| 10(u). | 2004 Alcoa Stock Incentive Plan, as amended through November 11, 2005, incorporated by reference to exhibit 10.1 to the company's Current Report on Form 8-K dated November 16, 2005. |
| 10(v). | Alcoa Supplemental Pension Plan for Senior Executives, effective January 1, 1999, incorporated by reference to exhibit 10(q) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1998. |
| 10(v)(1). | Amendments to Alcoa Supplemental Pension Plan for Senior Executives, effective January 1, 2000, incorporated by reference to exhibit 10(q)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2000. |
| 10(w). | Deferred Fee Estate Enhancement Plan for Directors, effective July 10, 1998, incorporated by reference to exhibit 10(r) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1998. |
| 10(x). | Alcoa Deferred Compensation Estate Enhancement Plan, effective July 10, 1998, incorporated by reference to exhibit 10(s) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1998. |
| 10(x)(1). | Amendments to Alcoa Deferred Compensation Estate Enhancement Plan, effective January 1, 2000, incorporated by reference to exhibit 10(s)(1) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 1999. |
| 10(x)(2). | Amendments to Alcoa Deferred Compensation Estate Enhancement Plan, effective January 1, 2000, incorporated by reference to exhibit 10(s)(2) to the company's Annual Report on Form 10-K (Commission file number 1-3610) for the year ended December 31, 2000. |
| 10(x)(3). | Amendments to Alcoa Deferred Compensation Estate Enhancement Plan, effective January 1, 2005. |
| 10(y). | Alcoa Inc. Change in Control Severance Plan, incorporated by reference to exhibit 10(z) to the company's Annual Report on Form 10-K for the year ended December 31, 2001. |
| 10(z). | Form of Agreement for Stock Option Awards, effective January 1, 2004, incorporated by reference to exhibit 10(a) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004. |
| 10(aa). | Form of Agreement for Stock Awards, effective January 1, 2004, incorporated by reference to exhibit 10(b) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004. |
| 10(bb). | Form of Agreement for Performance Share Awards, effective January 1, 2004, incorporated by reference to exhibit 10(c) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004. |
| 10(cc). | Stock Option Award Rules Revised January 1, 2004, incorporated by reference to exhibit 10(d) to the company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004. |

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

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| 10(qq). | Summary Description of Equity Choice Program for Performance Equity Award Participants, dated November 2005, incorporated by reference to exhibit 10.6 to the company's Current Report on Form 8-K dated November 16, 2005. |
| 10(rr). | Reynolds Metals Company Benefit Restoration Plan for New Retirement Program, as amended through December 31, 2005. |
| 10(ss). | Summary of Expatriate Benefit Arrangements. |
| 10(tt). | Alcoa Non-Qualified Pension Plan for Senior Management, as amended through December 31, 2005. |
| 10(uu). | Global Expatriate Employee Policy (pre-January 1, 2003). |
| 12. | Computation of Ratio of Earnings to Fixed Charges. |
| 13. | Portions of Alcoa's 2005 Annual Report to Shareholders. |
| 21. | Subsidiaries and Equity Entities of the Registrant. |
| 23. | Consent of Independent Registered Public Accounting Firm. |
| 24. | Power of Attorney for certain directors. |
| 31. | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32. | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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

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

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

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors
of Alcoa Inc.:

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated February 17, 2006 appearing in the 2005 Annual Report to Shareholders of Alcoa Inc. and its subsidiaries (which report, consolidated financial statements and assessment are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
February 17, 2006

**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: | | | | | |
| 2005 | $ 86 | $ 13 | $ (2)(A) | $ 17(B) | $ 80 |
| 2004 | $ 101 | $ 13 | $ (0)(A) | $ 28(B) | $ 86 |
| 2003 | $ 119 | $ 10 | $ (3)(A) | $ 25(B) | $ 101 |
| Income tax valuation allowance: | | | | | |
| 2005 | $ 120 | $ (3) | $ 20(A) | $ 10(C) | $ 127 |
| 2004 | $ 147 | $ 0 | $ (1)(A) | $ 26(C) | $ 120 |
| 2003 | $ 171 | $ 1 | $ 15(A) | $ 40(C) | $ 147 |

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.

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 17, 2006

By /s/ Charles D. McLane, Jr.

Charles D. McLane, Jr.
Vice President and Corporate Controller
(Also signing as Principal Accounting Officer)

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

| Signature | Title | Date |
|---|---|---|
| /s/ Alain J. P. Belda<br>Alain J. P. Belda | Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Director) | February 17, 2006 |
| /s/ Joseph C. Muscari<br>Joseph C. Muscari | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | February 17, 2006 |

Kathryn S. Fuller, Carlos Ghosn, Joseph T. Gorman, Judith M. Gueron, Klaus Kleinfeld, James W. Owens, Henry B. Schacht, Franklin A. Thomas and Ernesto Zedillo, each as a Director, on February 17, 2006, by Donna C. Dabney, their Attorney-in-Fact.*

* By /s/ Donna C. Dabney

Donna C. Dabney
Attorney-in-Fact

**Exhibit 3(b)**

# BY-LAWS
# OF
# ALCOA INC.

ARTICLE I

## IDENTIFICATION

Section 1. *Principal Office*. The principal office of the Company shall be in the City of New York, New York.

Section 2. *Seal*. The Company shall have a corporate seal in such form as the board of directors shall by resolution from time to time prescribe.

Section 3. *Fiscal Year*. The fiscal year of the Company shall end on the 31st day of December.

ARTICLE II

## SHAREHOLDERS' MEETINGS

Section 1. *Place of Meetings*. Meetings of the shareholders of the Company shall be held at such place within or without the Commonwealth of Pennsylvania as may be fixed by the board of directors pursuant to authority hereby granted.

Section 2. *Annual Meeting*. The annual meeting of the shareholders shall be held on the Friday next following the first Monday in May of each year at nine thirty o'clock A.M., local time in effect at the place of the meeting, or on such other day or at such other time as may be fixed by the board of directors pursuant to authority hereby granted.

Section 3. *Chairman of the Meeting*. All meetings of the shareholders shall be called to order and presided over by the chairman of the board, or in the absence of the chairman of the board, by a vice chairman of the board, the president or another director, in the order designated by the chairman of the board, or if none of these be present, by a chairman elected by a majority of the votes which all shareholders present are entitled to cast on any matter coming before the meeting.

ARTICLE III

**BOARD OF DIRECTORS**

Section 1. *Number*. Until the board of directors has increased or decreased the number of the directors as hereinafter provided, the number of the directors shall be eleven. The board is hereby authorized to increase or decrease the number of the directors from time to time without a vote of the shareholders, provided, however, that such number shall not be less than seven nor more than fifteen.

Section 2. *General Powers*. The board of directors shall have power in general to manage the business and affairs of the Company consistent with the law, the Articles of the Company and these By-laws, and may from time to time adopt such regulations regarding the powers and duties of the respective officers, assistant officers and agents and the conduct of the Company's business as the board may deem proper and expedient.

Section 3. *Election and Nomination of Directors*. Candidates for election as directors at any annual meeting of shareholders shall be nominated and elected for terms to expire not later than the third annual meeting following their election, in accordance with the Articles of the Company and applicable law.

Section 4. *Annual Meeting*. The board of directors shall without notice meet each year upon adjournment of the annual meeting of the shareholders at the principal office of the Company, or at such other time or place as shall be designated in a notice given to all nominees for director, for the purposes of organization, election of officers and consideration of any other business that may properly be brought before the meeting.

Section 5. *Regular Meetings.* Regular meetings of the board of directors shall be held at such times and places as shall be fixed by the board at any time in advance of the meeting date or designated in a notice of the meeting.

Section 6. *Special Meetings*. Special meetings of the board of directors may be called by the chairman of the board, a vice chairman of the board, the president or any two directors.

Section 7. *Notice of Regular and Special Meetings.* No notice of a regular meeting of the board of directors shall be necessary if the meeting is held at the time and place fixed by the board in advance of the meeting date. Notice of any regular meeting to be held at another time or place and of all special meetings of the board, setting forth the time and place of the meeting, shall be given by letter or other writing deposited in the United States mail or with an express mail or private courier service not later than during the second day immediately preceding the day for such meeting, or by word of mouth, telephone, facsimile or other oral or written means received not later than during the day immediately preceding the day for such meeting.

Section 8. *Quorum*. A majority of the directors in office shall be necessary to constitute a quorum for the transaction of business at a meeting of the board of directors, but if at any meeting a quorum shall not be present the meeting may adjourn from time to time until a quorum shall be present.

Section 9. *Executive Committee*. The board of directors may, by resolution adopted by a majority of the whole board, designate three or more of the directors to constitute an executive committee which to the extent provided in a resolution adopted by a majority of the whole board shall have and exercise the authority of the board in the management of the business and affairs of the Company except as otherwise limited by law.

Section 10. *Audit Committee.* The board of directors shall, by resolution adopted by a majority of the whole board, designate three or more of the directors to constitute an audit committee. Audit committee members shall not be officers or full time employees of the Company or its subsidiaries. The audit committee shall have such authority and shall perform such duties as shall be provided from time to time in accordance with resolutions of the board.

Section 11. *Compensation and Benefits Committee.* The board of directors may, by resolution adopted by a majority of the whole board, designate three or more of the directors to constitute a compensation committee which to the extent provided in such resolution or other action by the board shall have and exercise the authority (a) to fix and determine, and change from time to time, the compensation of all officers of the Company elected by the board, including, but not restricted to, monthly or other periodic compensation and incentive or other additional compensation, (b) to authorize or approve all contracts of the Company with any officer for remuneration (whether in the form of a pension, deferred compensation or otherwise) to be paid from the general funds of the Company after the termination of regular

employment of such officer, and (c) to administer or perform specified functions under any one or more of the stock option or other incentive, pension or benefit plans of the Company; provided that the said committee shall not exercise any of its said authority with respect to any of its members.

Section 12. *Compensation of Assistant Officers and Agents*. Unless otherwise determined by the board of directors, the chief executive officer of the Company shall have the authority to fix and determine, and change from time to time, the compensation of all assistant officers and agents of the Company elected or appointed by the board or by the chief executive officer, including, but not restricted to, monthly or other periodic compensation and incentive or other additional compensation.

Section 13. *Limitation Regarding Incentive Plans*. Nothing contained in the foregoing two sections of this Article III shall be construed to vest, or to authorize vesting, in the chief executive officer of the Company any authority with respect to stock options or other incentives under plans which provide for administration by the board of directors or a committee thereof.

Section 14. *Other Committees*. In addition to the committees described in this Article III, the board of directors may, by resolution adopted by a majority of the whole board, designate one or more other committees of the board, each of which shall consist of one or more of the directors. Each such other committee shall have such authority and shall perform such other duties as may be provided from time to time in resolutions of the board.

Section 15. *Substitute Committee Members*. In the absence or disqualification of any member of any committee of the board of directors, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another director to act at the meeting in the place of any such absent or disqualified member.

Section 16. *Participation by Conference Telephone*. One or more directors may participate in a meeting of the board of directors or of a committee thereof by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other.

Section 17. *Personal Liability of Directors*. To the fullest extent that the laws of the Commonwealth of Pennsylvania, as in effect on May 15, 1987 or as thereafter amended, permit elimination or limitation of the liability of directors, no director of the Company shall be personally liable for monetary damages for any action taken, or any failure to take any action. This Section 17 shall not apply to any action filed prior to May 15, 1987, nor to any breach of performance of duty or any failure of performance of duty occurring prior to May 15, 1987. The provisions of this Section shall be deemed to be a contract with each director of the Company who serves as such at any time while such provisions are in effect, and each such director shall be deemed to be serving as such in reliance on the provisions of this Section. Any amendment or repeal of this Section or adoption of any other By-law or provision of the Articles of the Company which has the effect of increasing director liability shall operate prospectively only and shall not affect any action taken, or any failure to act, prior to such amendment, repeal or adoption. This Section 17 may be amended or repealed only with the affirmative vote of the holders of a majority of the outstanding shares of common stock of the Company.

## ARTICLE IV

## **OFFICERS**

Section 1. *Number and Election.* The board of directors at its annual meeting shall elect a president, a secretary and a treasurer, or persons who act as such, and may elect a chairman of the board, one or more vice presidents, a controller, a general counsel and such other officers and assistant officers as the board may deem appropriate. The board shall from time to time designate the chief executive officer who shall be either the chairman of the board or the president. The board may also from time to time elect such other officers and assistant officers and appoint such agents as it may deem appropriate. Assistant officers and agents also may be appointed by the chief executive officer.

Section 2. *Qualifications*. The chairman of the board shall be a member of the board of directors but the other officers need not be directors.

Section 3. *Term of Office*. Each officer and assistant officer shall hold office until the annual meeting of the board of directors next following the meeting of the board at which such officer or assistant officer is elected, except in the case of earlier death, resignation or removal.

Section 4. *Chairman of the Board*. The chairman of the board shall preside at all meetings of the board of directors at which such chairman is present. In the absence of the chairman of the board, a vice chairman of the board, the president or another director, in the order designated by the chairman of the board, shall preside at meetings of the board of directors. If the chairman of the board is not the chief executive officer, the chairman of the board shall have such powers and perform such other duties as the president may from time to time delegate to such chairman, except as otherwise determined by the board.

Section 5. *President*. If the president is not the chief executive officer, the president shall have such powers and perform such other duties as the chairman of the board may from time to time delegate to the president, except as otherwise determined by the board.

Section 6. *Vice Presidents*. Each vice president, including any vice president designated as executive, senior or otherwise, shall have such powers and perform such duties as the chairman of the board or the president may from time to time delegate to such vice president, except as otherwise determined by the board of directors.

Section 7. *Secretary*. The secretary shall attend meetings of the shareholders, the board of directors and the executive committee, shall keep minutes thereof in suitable books, and shall send out all notices of meetings as required by law or these By-laws. The secretary shall be ex officio an assistant treasurer. The secretary shall, in general, perform all duties incident to the office of secretary.

Section 8. *Treasurer*. The treasurer shall receive all money paid to the Company and keep or cause to be kept accurate accounts of all money received or payments made in books kept for that purpose. The treasurer shall deposit all money received by the treasurer in the name and to the credit of the Company in banks or other places of deposit. The treasurer shall disburse the money of the Company by checks or vouchers. The treasurer shall be ex officio an assistant secretary. The treasurer shall, in general, perform all duties incident to the office of treasurer.

Section 9. *Controller*. The controller shall be responsible for the implementation of accounting policies and procedures, the installation and supervision of all accounting records, including the preparation and interpretation of financial statements, the compilation of production costs and cost distributions and the taking and valuation of physical inventories. The controller shall also be responsible for the maintenance of adequate records of authorized

appropriations and the approval for payment of all checks and vouchers. The controller shall, in general, perform all duties incident to the office of controller.

Section 10. *General Counsel*. The general counsel shall advise the Company on legal matters affecting the Company and its activities and shall supervise and direct the handling of all such legal matters. The general counsel shall, in general, perform all duties incident to the office of general counsel.

Section 11. *Assistant Officers*. Each assistant officer shall have such powers and perform such duties as may be delegated to such assistant officer by the officer to whom such assistant officer is an assistant or, in the absence or inability to act of such officer, by the officer to whom such officer reports or by the chief executive officer.

## ARTICLE V

## INDEMNIFICATION

Section 1. *Indemnification Granted*. Every person who is or was a director, officer or employee of the Company or of any other corporation, partnership, joint venture, trust or other enterprise which such person serves or served as such at the request of the Company (hereinafter referred to as an “eligible person”) shall in accordance with this Article V, but not if prohibited by law, be indemnified by the Company as hereinafter provided against reasonable expense and any liability paid or incurred by such person in connection with or resulting from any claim in which such person may be involved, as a party or otherwise, by reason of such person’s being or having been a director, officer or employee of the Company or such other enterprise, whether or not such person continues to be such at the time such liability or expense shall have been paid or incurred.

Section 2. *Certain Definitions*. As used in this Article V, the term “claim” shall mean any threatened or actual claim, action, suit or proceeding (whether brought by or in the right of the Company or such other enterprise or otherwise), whether civil, criminal, administrative or investigative; the term “expense” shall mean counsel fees and disbursements and all other expenses (except any liability) incurred in connection with any claim; and the term “liability” shall mean amounts of judgments, fines or penalties against, and amounts paid in settlement by, an eligible person with respect to any claim.

Section 3. *Expense Reimbursement to the Extent Successful*. Any eligible person who has been wholly successful, on the merits or otherwise, with respect to any claim shall be reimbursed by the Company for such person's reasonable expense. Any eligible person who has been partially successful shall be proportionately reimbursed by the Company for such person's reasonable expense.

Section 4. *Indemnification Where Not Wholly Successful*. Any eligible person who has been partially unsuccessful and any other eligible person not described in Section 3 of this Article V shall be reimbursed by the Company for such person's reasonable expense and for any liability if a Referee shall deliver to the Company the written finding of such Referee that such person acted in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of the Company, and in addition with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct of such person was unlawful. Where such person is found by the Referee to have met the foregoing standards of conduct with respect to one or more but not all the claims made against such person, such person shall be entitled to indemnification for such expense and liability in such proportion as the Referee shall determine. The termination of any claim by judgment, order, settlement (whether with or without court approval), adverse decision, or conviction after trail or upon a plea of guilty or of nolo contendere or its equivalent, shall not of itself create a presumption that an eligible person did not meet the foregoing standards of conduct. The person claiming indemnification shall, at the request of the Referee, appear before the Referee and answer questions which the Referee deems relevant and shall be given ample opportunity to present to the Referee evidence upon which such person relies for indemnification; and the Company shall at the request of the Referee, make available to the Referee facts, opinions or other evidence in any way relevant for the Referee's finding which are within the possession or control of the Company. As used in this Article V, the term "Referee" shall mean independent legal counsel (who may be regular independent legal counsel of the Company), or other disinterested person or persons, selected to act as such hereunder by the board of directors of the Company, whether or not a disinterested quorum exists.

Section 5. *Advancement of Expenses*. Any expense incurred with respect to any claim may be advanced by the Company prior to the final disposition thereof upon receipt of an undertaking by or on behalf of the recipient to repay such amount if it is ultimately determined that such recipient is not to be indemnified under this Article V.

Section 6. *Article V Not Exclusive; Survival of Rights*. The rights of indemnification provided in this Article V shall be in addition to any rights to which any eligible person may otherwise be entitled by contract or as a matter of law; and in the event of such person's death, such rights shall extend to the heirs and legal representatives of such person.

## ARTICLE VI

## SHARE CERTIFICATES AND TRANSFERS

Section 1. *Share Certificates*. Share certificates shall be in such form as the board of directors may from time to time determine. Each certificate shall be signed by the chairman of the board, the president, the treasurer or the secretary of the Company, by manual or facsimile signature.

Section 2. *Transfer Agent and Registrar*. The board of directors may from time to time appoint one or more transfer agents and may appoint one or more registrars of transfer, each to act with respect to such preferred and common shares of the Company as the board of directors may designate. No share certificate of the Company shall be valid or binding unless countersigned, manually or by facsimile signature, by a transfer agent if one has been appointed to act with respect to the shares evidenced by such certificate, and registered before issue by a registrar if one has been appointed to act with respect to the shares evidenced by such certificate.

Section 3. *Signatures by Former Corporate Officers or Agents*. In case any officer of the Company, or any authorized signatory of any transfer agent or registrar, who has signed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer or authorized signatory because of death, resignation or otherwise, before the certificate is issued, it may be issued with the same effect as if the officer or authorized signatory had not ceased to be such at the date of its issue.

## ARTICLE VII

## AMENDMENTS

These By-laws may be altered, amended, added to or repealed by the board of directors at any meeting of the board duly convened with or without notice of that purpose, subject to the power of the shareholders to change such action.

ARTICLE VIII

**INDEMNIFICATION FOR DIRECTORS**

Section 1. *Right to Indemnification*. Except as prohibited by law, every director of the Company shall be entitled as of right to be indemnified by the Company against expenses and any liability paid or incurred by such person in connection with any actual or threatened claim, action, suit or proceeding, civil, criminal, administrative, investigative or other, whether brought by or in the right of the Company or otherwise, in which he or she may be involved, as a party or otherwise, by reason of such person being or having been a director of the Company or by reason of the fact that such person is or was serving at the request of the Company as a director, officer, employee, fiduciary or other representative of another corporation, partnership, joint venture, trust, employee benefit plan or other entity (such claim, action, suit or proceeding hereinafter being referred to as a "claim"); provided, that no such right of indemnification shall exist with respect to a claim brought by a director against the Company except as provided in the last sentence of this Section 1. Indemnification hereunder shall include the right to have expenses incurred by such person in connection with a claim paid in advance by the Company prior to final disposition of such claim, subject to any obligation which may be imposed by law, By-law, agreement or otherwise to reimburse the Company in certain events. As used herein, "expenses" shall include fees and expenses of counsel selected by any such director and "liability" shall include amounts of judgments, excise taxes, fines, penalties and amounts paid in settlement. With respect to any claim brought by a director or other person against the Company, the director or other person shall be entitled to be indemnified for expenses incurred in connection with such claim pursuant to this Section 1 only (i) if the claim is a suit brought as a claim for indemnity under Section 2 of this Article VIII or otherwise, (ii) if the director or other person is successful in whole or in part in the claim for which expenses are claimed or (iii) if the indemnification for expenses is included in a settlement of the claim or is awarded by a court.

Section 2. *Right of Claimant to Bring Suit*. If a claim under Section 1 of this Article VIII is not paid in full by the Company within thirty days after a written claim has been received by the Company, the claimant may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. It shall be a defense to any such suit to recover indemnification that the claimant's conduct was such that under

Pennsylvania law the Company is prohibited from indemnifying the claimant for the amount claimed, but the burden of proving such defense shall be on the Company. Neither the failure of the Company (including its board of directors, legal counsel and its shareholders) to have made a determination prior to the commencement of such suit that indemnification of the claimant is proper in the circumstances, nor an actual determination by the Company (including its board of directors, legal counsel or its shareholders) that the claimant's conduct was such that indemnification is prohibited by law, shall be a defense to the suit to recover indemnification or create a presumption that the claimant's conduct was such that indemnification is prohibited by law. The only defense to any such suit to receive payment of expenses in advance shall be failure to make an undertaking to reimburse if such an undertaking is required by law, By-law, agreement or otherwise.

Section 3. *Insurance and Funding*. The Company may purchase and maintain insurance to protect itself and any person eligible to be indemnified hereunder against any liability or expense asserted or incurred by such person in connection with any claim, whether or not the Company would have the power to indemnify such person against such liability or expense by law or under the provisions of this Article. The Company may create a trust fund, grant a security interest, cause a letter of credit to be issued or use other means (whether or not similar to the foregoing) to ensure the payment of such sums as may become necessary to effect indemnification as provided herein.

Section 4. *Non-Exclusivity; Nature and Extent of Rights*. The right of indemnification provided for in this Article VIII(i) shall not be deemed exclusive of any other rights, whether now existing or hereafter created, to which those seeking indemnification hereunder may be entitled under any provision of the Articles or By-laws, or any agreement, vote of shareholders or directors or otherwise, (ii) shall be deemed to create contractual rights in favor of persons entitled to indemnification hereunder, (iii) shall continue as to persons who have ceased to have the status pursuant to which they were entitled or were denominated as entitled to indemnification hereunder and shall inure to the benefit of the heirs and legal representatives of persons entitled to indemnification hereunder and (iv) shall be applicable to claims commenced after the adoption hereof, whether arising from acts or omissions occurring before or after the adoption hereof. The right of indemnification provided for herein may not be amended or repealed so as to limit in any way the indemnification provided for herein with respect to any acts or omissions occurring prior to any such amendment or repeal.

**Exhibit 10(i)(2)**

AMENDMENT TO THE
ALCOA STOCK ACQUISITION PLAN

The American Jobs Creation Act of 2004 requires certain changes to plan provisions effective January 1, 2005; therefore the plan is amended as follows:

1. The first paragraph is revised by adding the following:

   All Credits in Participants' accounts as of December 31, 2004, including any Earnings Credits thereon after December 31, 2004, shall continue to be subject to all Plan provisions in effect as of that date. Effective December 31, 2005, this Plan is frozen, and no new Participants will be permitted to participate and no new Credits will be added to this Plan after December 31, 2005.

2. The following definitions are added:

   "Key Employee" means a Key Employee as defined in Section 409A of the Internal Revenue Code, or pursuant to any regulations promulgated thereunder, for whom a distribution of Plan benefits is required to be delayed.

   "Post-2004 Credits" means Incentive Compensation Deferral Credits, and Matching Company Credits credited to a Participant's account on and after January 1, 2005, including any Earnings Credits on such amounts. Notwithstanding anything herein to the contrary, Post-2004 Credits also include all Credits of any Participant with less than three (3) years of Continuous Service as of January 1, 2005.

3. Section 8.2 is revised by adding the following:

   All distributions of Post-2004 Credits made pursuant to the termination of the Participant's Continuous Service by reason other than retirement, or to the extent such Post-2004 Credits are valued equal or less than $50,000, shall be paid to the Participant as soon as administratively practical in a lump sum.

4. Section 8.3 is revised by adding the following:

   All distributions of Post-2004 Credits made pursuant to the termination of the Participant's Continuous Service by reason of retirement and to the extent such Post-2004 Credits are valued more than $50,000, shall be paid to the Participant in ten (10) annual installments, unless the Participant made an irrevocable election for a different distribution option as of the later of: i. June 30, 2005 or ii. within 30 days after becoming a Participant.

5. A new Section 8.8 is added as follows:

   8.8 To the extent a Participant is a Key Employee, any distribution to the Participant, will be delayed until the first day of the seventh month following the date that the distribution would otherwise have begun. Other than Earnings Credits, no other Credits will be applied to the Participant's account during that time.

**Exhibit 10(m)(1)**

AMENDMENT TO THE
ALCOA EMPLOYEES' EXCESS BENEFITS PLAN D

The American Jobs Creation Act of 2004 requires certain changes to plan provisions effective January 1, 2005; therefore the plan is amended as follows:

1. The first paragraph is revised by adding the following:

   All Credits in Participants' accounts as of December 31, 2004, including any Earnings Credits thereon after December 31, 2004, shall continue to be subject to all Plan provisions in effect as of that date. Effective December 31, 2004, this Plan is frozen, and no new Participants will be permitted to participate and no new Credits will be added to this Plan after December 31, 2004.

   Effective January 1, 2006, this plan is merged into the Alcoa Deferred Compensation Plan. All Plan provisions pertaining to account balances as of December 31, 2004 and earnings thereon, will remain in full force and effect. All account balances (and earnings thereon) that were credited to the Plan after December 31, 2004, if any, including all account balances of any Participant with less than three (3) years of Continuous Service as of January 1, 2005, will be treated as Post-2004 Credits under the Alcoa Deferred Compensation Plan.

**Exhibit 10(q)(6)**

AMENDMENT TO THE
ALCOA DEFERRED COMPENSATION PLAN

The American Jobs Creation Act of 2004 requires certain changes to plan provisions effective January 1, 2005; therefore the plan is amended as follows:

1. The first paragraph is revised by adding the following:

   All Credits in Participants' accounts as of December 31, 2004, including any Earnings Credits thereon after December 31, 2004, shall continue to be subject to all Plan provisions in effect as of that date.

2. The following definitions are added:

   "Key Employee" means a Key Employee as defined in Section 409A of the Internal Revenue Code, or pursuant to any regulations promulgated thereunder, for whom a distribution of Plan benefits is required to be delayed.

   "Post-2004 Credits" means Salary Reduction Credits, Additional Salary Reduction Credits, Incentive Compensation Deferral Credits, and Matching Company Credits credited to a Participant's account on and after January 1, 2005, including any Earnings Credits on such amounts. Notwithstanding anything herein to the contrary, Post-2004 Credits also include all Credits of any Participant with less than three (3) years of Continuous Service as of January 1, 2005.

3. Section 8.2 is revised by adding the following:

   All distributions of Post-2004 Credits made pursuant to the termination of the Participant's Continuous Service by reason other than retirement, or to the extent such Post-2004 Credits are valued equal or less than $50,000, shall be paid to the Participant as soon as administratively practical in a lump sum.

4. Section 8.3 is revised by adding the following:

   All distributions of Post-2004 Credits made pursuant to the termination of the Participant's Continuous Service by reason of retirement and to the extent such Post-2004 Credits are valued more than $50,000, shall be paid to the Participant in ten (10) annual installments, unless the Participant made an irrevocable election for a different distribution option as of the later of: i. June 30, 2005 or ii. within 30 days after becoming a Participant.

5. A new Section 8.8 is added as follows:

   8.8 To the extent a Participant is a Key Employee, any distribution to the Participant, will be delayed until the first day of the seventh month following the date that the distribution would otherwise have begun. Other than Earnings Credits, no other Credits will be applied to the Participant's account during that time.

6. In all other respects, the Plan is ratified and confirmed.

AMENDMENT TO THE
ALCOA DEFERRED COMPENSATION ESTATE ENHANCEMENT PLAN

The American Jobs Creation Act of 2004 requires certain changes to plan provisions effective January 1, 2005; therefore the plan is amended as follows:

1. The first paragraph is revised by adding the following:

   Due to the American Jobs Creation Act of 2004, all Credits in Participants’ accounts as of December 31, 2004, including any Earnings Credits thereon after December 31, 2004, shall continue to be subject to all Plan provisions in effect as of that date. Effective December 31, 2004, this Plan is frozen, and there are no active Participants. No new Participants will be permitted to participate and no new Credits will be added to this Plan after December 31, 2004.

2. In all other respects, the Plan is ratified and confirmed.

**Exhibit 10(gg)(2)**

**AMENDMENTS TO THE**
**GLOBAL PENSION PLAN**

Pursuant to Section 6.4 of the Global Pension Plan ("Plan"), which provides that the Plan may be amended in whole or in part at any time by Alcoa, the Plan is revised as follows:

1. **Section 1.3, Continuous Service, is amended to delete the second sentence and replace it with the following, effective as of January 1, 2005:**

   Continuous Service terminates upon any quit, dismissal, discharge, Retirement, or any other termination of employment with the Company; any determination by the Manager that employment with these entities has terminated is conclusive, final, and binding.

2. **A new Section 1.5 is added to Article I to read as follows, effective as of January 1, 2005:**

   1.5 Retirement Under the Plan. A Participant will retire under this Plan upon the termination of employment after attainment of age 60 and completion of 10 years of Vesting Service. For purposes of this Section 1.5, Vesting Service will be determined in the same manner as Vesting Service is provided in Section 4.1 of Alcoa Retirement Plan I.

3. **In all other respects, the Plan is ratified and confirmed.**

**Exhibit 10(gg)(3)**

AMENDMENTS TO THE
GLOBAL PENSION PLAN

1. Effective December 1, 2005, Section 4.1 is deleted in its entirety and restated as follows:

> 4.1 The amount of Benefit Credits and Earnings Credits in a Participant's account will be distributed to the Participant as soon as administratively practicable following the date the Participant's Continuous Service terminates. Notwithstanding the foregoing, to the extent a Participant is a Key Employee, any distribution to the Participant, will be delayed until the first day of the seventh month following the date that the distribution would otherwise have begun. Other than Earnings Credits, no other Credits will be applied to the Participant's account during that time. "Key Employee" means a Key Employee as defined in Section 409A of the Internal Revenue Code, or pursuant to any regulations promulgated thereunder, for whom a distribution of Plan benefits is required to be delayed.

2. In all other respects, the Plan is ratified and confirmed.

**Exhibit 10(rr)**

# REYNOLDS METALS COMPANY

# BENEFIT RESTORATION PLAN

# FOR NEW RETIREMENT PROGRAM

As Amended and Restated

Effective April 16, 1999

ARTICLE I

PURPOSE OF THE PLAN

The purpose of the Plan is to assist the Company in attracting and retaining key employees by restoring the benefit to which an Eligible Employee would be entitled under the provisions of the New Retirement Program except for any limitation imposed from time to time by the Code on benefits payable under a defined benefit plan qualified under Section 401(a) of the Code.

ARTICLE II

DEFINITIONS

2.01 “Board” shall mean the Board of Directors of the Company.

2.02 “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time. Any reference to a specific section of the Code shall include that section and any comparable section or sections of future legislation amending, modifying, supplementing, or superseding the referenced section.

2.03 “Company” shall mean Reynolds Metals Company, a Delaware corporation.

2.04 “Disability” shall mean total and permanent disability as defined under the applicable provisions of the New Retirement Program.

2.05 “Eligible Employee” shall mean any regular salaried employee of an Employer whose benefit under the New Retirement Program is adversely affected by a Statutory Limitation.

2.06 “Employer” shall mean the Company and any other corporation whose salaried employees are covered by the New Retirement Program.

2.07 “New Retirement Program” shall mean the Company’s New Retirement Program for Salaried Employees, as amended from time to time.

2.08 “Participant” shall mean an Eligible Employee who is receiving benefits under the Plan or who is entitled to receive such benefits pursuant to Article III.

2.09 “Plan” shall mean the Reynolds Metals Company Benefit Restoration Plan for New Retirement Program, as amended from time to time.

2.10 “Plan Committee” shall mean the committee appointed by the Chief Executive Officer of the Company to administer the Plan.

2.11 “Reduction in Force” or “Reduced in Force” shall mean either (a) that term as used for purposes of the Company’s Termination Allowance Policy, as amended from time to time, or (b) an Eligible Employee’s termination as a result of the Company’s sale of the business unit in which he or she is employed, if he or she is immediately employed by the purchaser.

2.12 “Retirement” shall mean an Eligible Employee’s early, normal, or deferred retirement pursuant to the provisions of the New Retirement Program.

2.13 “Statutory Limitation” shall mean any limitation imposed from time to time by the Code on benefits payable under a defined benefit plan qualified under Section 401(a) of the Code.

2.14 “Surviving Spouse” shall mean that term as defined under the applicable provisions of the New Retirement Program.

ARTICLE III

PLAN BENEFITS

3.01 Eligibility for Benefit. If an Eligible Employee terminates employment with an Employer because of (1) Retirement, Disability or death at a time when such Eligible Employee (or his or her Surviving Spouse, in case of death) is eligible to begin receiving an immediate benefit under the New Retirement Program, or (2) a Reduction in Force, then the retired, disabled, or Reduced in Force Eligible Employee, or the Surviving Spouse, as the case may be, shall become eligible to receive a benefit under this Plan computed under Section 3.02 and paid pursuant to Article IV.

3.02 Amount of Benefit. The monthly benefit payable under this Plan on any given date shall be an amount equal to the excess of (a) over (b) as follows:

(a) The monthly benefit to which the Eligible Employee (or Surviving Spouse) would be entitled on such date under the applicable provisions of the New Retirement Program without regard to any Statutory Limitations imposed by the Code; less

(b) The monthly benefit to which such Eligible Employee (or Surviving Spouse) actually is entitled on such date under the applicable provisions of the New Retirement Program, taking into consideration any Statutory Limitations imposed by the Code.

Benefits under this Section 3.02 shall be computed using the same actuarial assumptions and factors as those used on the date of determination for purposes of computing benefits under the New Retirement Program.

3.03 Limitation. No benefit shall be payable under this Plan on behalf of any individual whose employment with the Employer is terminated for any reason other than Reduction in Force, Retirement, Disability, or death as provided herein and in the New Retirement Program.

3.04 Special Retirement Window. (a) In addition to any other benefit payable under the terms of this Plan from time to time, if a participant in the New Retirement Program would be eligible to receive the special retirement benefit calculated in accordance with Section 3.10(b) of the New Retirement Program (as well as the temporary supplemental benefit described in Section 3.10(c) thereof, if applicable) except that the application of the provisions of Section 3.10(e)(2) of the New Retirement Program will operate to exclude such participant from receiving any such special retirement benefit (and temporary supplemental benefit, if applicable), then each such participant who elects to retire in accordance with Section 3.10(d) of the New Retirement Program shall become eligible to receive a benefit under this Plan calculated as set forth in subsection (b) below.

(b) The monthly benefit payable under this Plan to any Eligible Employee as a result of subsection (a) above shall equal (i) the monthly benefit that would have been payable to the Eligible Employee in accordance with the applicable provisions of Section 3.10 of the New Retirement Program without regard to the limitations of subsection (e)(2) thereof, less (ii) the monthly benefit payable to the Eligible Employee under the New Retirement Program, taking into

consideration the limitations of Section 3.10(e)(2) thereof but without regard to any limitations imposed by Sections 401(a)(17) and 415 of the Code.

(c) If an Eligible Employee receiving payments under subsection (b) above dies at a time when such Eligible Employee's Surviving Spouse would have been entitled to continue receiving part or all of the special retirement benefit calculated in accordance with Section 3.10(b) of the New Retirement Program had the benefit been paid under the New Retirement Program rather than this Plan, then such Surviving Spouse shall be eligible to receive from this Plan the monthly payments that would have been payable from the New Retirement Program but for the application of the provisions of Section 3.10(e)(2) thereof.

(d) Nothing in this Section 3.04 is intended to pay an Eligible Employee (or a Surviving Spouse) a benefit under this Plan that, when added (i) to the benefit, if any, paid hereunder as a result of the limitations imposed by Sections 401(a)(17) and 415 of the Code and (ii) to the benefit paid under the New Retirement Program, would in the aggregate exceed the benefit that would have been payable under the applicable provisions of the New Retirement Program without regard to the limitations imposed by Sections 401(a)(17) and 415 of the Code and by Section 3.10(e)(2) of the New Retirement Program.

## ARTICLE IV

## PAYMENT OF BENEFITS

4.01 Retirement, Disability or Reduction in Force. If a benefit becomes payable under the Plan pursuant to Section 3.01 because of the Retirement, Disability or Reduction in Force of an Eligible Employee, then the Company shall pay such Eligible Employee

the benefit to which such Eligible Employee is entitled pursuant to Section 3.02 at the same time and in the same manner as the benefit is paid to such Eligible Employee from the New Retirement Program. If the Participant dies after beginning to receive payments under the Plan, any further payments from the Plan will depend upon the form of payment made pursuant to the New Retirement Program.

4.02 Death. If a benefit becomes payable under the Plan pursuant to Section 3.01 because of the death of an Eligible Employee while still employed by an Employer, or if an Eligible Employee dies after being Reduced in Force but before beginning to receive a benefit under the Plan, then the Company shall pay to the Eligible Employee's Surviving Spouse, if any, the benefit to which such spouse is entitled pursuant to Section 3.02, if any, at the same time and in the same manner as the benefit is paid to the Surviving Spouse from the New Retirement Program.

4.03 Lump Sum Payments. (a) Anything herein to the contrary notwithstanding, the provisions of this Section 4.03 shall apply to benefits payable under the Plan with regard to Eligible Employees who retire on or after December 1, 1994. Any benefit payable with regard to an Eligible Employee who retired before December 1, 1994, shall continue to be paid in accordance with the provisions of the Plan in effect before that date.

(b) If the benefit payable under the Plan to an Eligible Employee in accordance with Article III is less than or equal to Two Hundred Fifty Dollars ($250) a month, then instead of paying such benefit monthly in accordance with Section 4.01, the Company shall pay such Eligible Employee the lump sum present value of such benefit in accordance with Section 4.03(e) below. This lump sum shall represent the Company's entire obligation to or on

behalf of such Eligible Employee under this Plan, including any obligation to such Eligible Employee's Surviving Spouse.

(c) If a benefit becomes payable under the Plan to an Eligible Employee's Surviving Spouse because of the death of the Eligible Employee either (i) while still employed by an Employer or (ii) while receiving monthly payments under the Plan as a result of retirement on or after December 1, 1994, and if such benefit is less than or equal to Two Hundred Fifty Dollars ($250) a month, then instead of paying such benefit monthly, the Company shall pay such Surviving Spouse the lump sum present value of such benefit in accordance with Section 4.03(e) below. This lump sum shall represent the Company's entire obligation to such Surviving Spouse under this Plan.

(d) If the benefit payable under the Plan to an Eligible Employee in accordance with Article III is greater than Two Hundred Fifty Dollars ($250) a month, then such benefit shall be paid monthly in accordance with Section 4.01; provided, however, that if the benefit is payable to the Eligible Employee because of Retirement or Disability (but not Reduction in Force), then such Eligible Employee may make an election to receive his or her benefits hereunder in accordance with this Section 4.03(d). At any time on or after the time at which an Eligible Employee is within one year of first becoming eligible to retire under the terms of the New Retirement Program, such Eligible Employee shall have the right to file with the Company an election whereby such Eligible Employee's benefit under the Plan (if greater than Two Hundred Fifty Dollars ($250) a month) shall be paid in the form of a lump sum in accordance with Section 4.03(e) below. Any such election shall become effective on the first day of the month following twelve full calendar months after it is filed with the Company and shall remain in effect unless the

Eligible Employee subsequently revokes the election, which revocation shall become effective on the first day of the month following twelve full calendar months after it is filed with the Company. If the Eligible Employee retires or dies before an election or revocation becomes effective, then the election or revocation is invalid. If the Eligible Employee retires or dies while a lump sum election is effective, then the lump sum shall represent the Company's entire obligation to or on behalf of such Eligible Employee under this Plan, including any obligation to such Eligible Employee's Surviving Spouse. An Eligible Employee who is still employed may make or revoke an election at any time and from time to time in accordance with this Section 4.03(d). No election or revocation may be made after the Eligible Employee's retirement or death. For purposes of this Section 4.03(d), an Eligible Employee whose last day of employment is the last day of a month shall be considered to retire on the first day of the following month.

(e) (i) The benefit amount used to determine the lump sum payment shall be calculated pursuant to Section 3.02 based on a straight life annuity, without taking into account any optional form of benefit. The determination of the present value of any benefit payable under the Plan in accordance with this Section 4.03 shall be based on the actuarial assumptions set forth in this Section 4.03(e). The mortality rate shall be equal to the 1983 Group Annuity Mortality Table with the ages of females set back six (6) years. The interest rate used for Eligible Employees whose last day of employment or whose death occurs at any time during the first six calendar months of a year shall be equal to the interest rate that would be used as of January 1 of that year by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump sum distribution on plan termination (the "PBGC Rate"). The interest rate used for Eligible Employees whose last day of employment or whose death occurs at any time during

the last six calendar months of a year shall be equal to the PBGC rate that would be used as of July 1 of that year.

(ii) Except as provided in Section 4.03(e)(iii) below, the lump sum payable to an Eligible Employee or a Surviving Spouse shall be computed as of the last day of the month in which occurs such Eligible Employee's last day of employment or death, as applicable, and shall be paid as soon as practicable following such month.

(iii) If an Eligible Employee was an Officer at any time during the year in which occurs such Eligible Employee's last day of employment or death, as applicable, then the provisions of this Section 4.03(e)(iii) shall apply to any lump sum to be paid to the Eligible Employee or to the Eligible Employee's Surviving Spouse, as applicable. For purposes of this Section 4.03(e)(iii), the term "Officer" shall mean any individual who is elected to serve as an officer (other than an assistant officer) of the Company. The lump sum payment to or on account of an Eligible Employee who was an Officer shall be paid as soon as practicable in the January following the year in which occurs the Eligible Employee's last day of employment or death, as applicable; the payment shall equal the amount computed in accordance with Section 4.03(e)(ii), but increased to reflect interest through December 31 at the rate specified in Section 4.03(e)(i).

## ARTICLE V

## ADMINISTRATION

The Plan Committee shall have full responsibility and authority to interpret and administer the Plan, including the power to promulgate rules of Plan administration, the power to settle any disputes as to rights or benefits arising from the Plan, the power to appoint agents and delegate its duties, and the power to make such decisions or take such actions as the Plan Committee, in its sole discretion, deems necessary or advisable to aid in the proper administration of the Plan. Actions and determinations by the Plan Committee shall be final, binding and conclusive for all purposes of this Plan.

## ARTICLE VI

## AMENDMENT, SUSPENSION AND TERMINATION OF THE PLAN

The Company by action of the Board or its delegate shall have the right to amend, suspend or terminate this Plan, in whole or in part, at any time and from time to time to the extent that it may deem advisable. While it is the expectation of the Company that it will continue this Plan indefinitely, the continuance of the Plan is not assumed as an obligation of the Company, and the Company reserves the right to amend, suspend or terminate the Plan at any time by action of the Board or its delegate. No such amendment, suspension or termination, however, shall affect the payment of benefits to Eligible Employees and their Surviving Spouses if such benefit payments had already begun before the amendment, suspension or termination of the Plan.

## ARTICLE VII

## FUNDING

No promises under this Plan shall be secured by any specific assets of the Company, nor shall any assets of the Company be designated as attributable or allocated to the satisfaction of such promises. Benefit payments under the Plan shall be made from the general assets of the Company as benefits become payable. To the extent that any Participant or Surviving Spouse acquires a right to receive payments from the Company pursuant to the Plan, such right shall be no greater than the right of any unsecured creditor of the Company.

ARTICLE VIII

GENERAL PROVISIONS

8.01 No Employment Rights. Neither the establishment of the Plan nor the payment of any benefits hereunder nor any action of the Company, including its Board, in connection therewith shall be held or construed to confer upon any individual any legal right to remain an officer or an employee of the Company or any of its subsidiaries.

8.02 Nontransferability. No benefit payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, garnishment, encumbrance or charge, and any attempt thereat shall be void. No such benefit shall, prior to receipt thereof, be in any manner liable for or subject to the recipient’s debts, contracts, liabilities, engagements, or torts.

8.03 Alternate Payments. If the Plan Committee shall find that any person to whom any payment is made under this Plan is unable to care for his or her affairs because of illness or accident, or is a minor, any payment due (unless a prior claim therefor shall have been made by a duly appointed guardian, committee or other legal representative) may be paid to the spouse, a child, a parent, or a brother or sister, or to any person deemed by the Plan Committee to have incurred expense for such person otherwise entitled to payment, in such manner and in such proportion as the Plan Committee may determine. Any such payment shall be a complete discharge of the liabilities of the Company under the Plan.

8.04 Successors and Assigns. This Plan shall inure to the benefit of, and be binding upon, the Company and each Eligible Employee and Participant, and upon the successors and assigns of the Company and of each Eligible Employee and Participant.

8.05 Withholding Taxes. The Company shall deduct from the amount of any payments hereunder all taxes required to be withheld by applicable laws.

8.06 Headings and Subheadings. The headings and subheadings in this Plan have been inserted for convenience of reference only, and are to be ignored in any construction of the provisions hereof.

8.07 Construction. This Plan shall be governed by, and construed in accordance with, the laws of the Commonwealth of Virginia to the extent not inconsistent with controlling federal law.

Executed and adopted this ____ day of ____________, 1999, pursuant to action taken by the Board of Directors of Reynolds Metals Company at its meeting on April 16, 1999.

REYNOLDS METALS COMPANY

By: ______________________________

Title: Senior Vice President and General Counsel

AMENDMENTS TO THE
REYNOLDS METALS COMPANY BENEFIT RESTORATION PLAN
FOR NEW RETIREMENT PROGRAM

1. Article I is amended by adding the following paragraph:

   Effective May 3, 2000, the Company was acquired by Alcoa Inc., therefore any Eligible Employee who was accruing a benefit under the New Retirement Program on May 3, 2000 and who subsequently transfers to employment covered by the Alcoa Retirement Plan I, or a plan of a subsidiary of Alcoa Inc., will continue to be covered by this Plan. Effective January 1, 2002, the New Retirement Program was merged into the Alcoa Retirement Plan I, and this Plan will continue to cover those Eligible Employees who had an accrued benefit under the New Retirement Program as of January 1, 2002.

2. Section 2.05 “Eligible Employee” is amended by adding the following paragraph:

   Effective May 3, 2000, Eligible Employee includes any salaried employee of an Employer who was accruing a benefit under the New Retirement Program on May 3, 2000 and who subsequently transfers to employment covered by the Alcoa Retirement Plan I, or a plan of a subsidiary of Alcoa Inc. Effective January 1, 2002, salaried employees of an Employer who was accruing a benefit under the New Retirement Program on December 31, 2001 will continue to be Eligible Employees under this Plan, but no new Eligible Employees will be added to the Plan on and after January 1, 2002.

3. Section 2.06 “Employer” is amended by adding the following sentence:

   Effective May 3, 2000, Alcoa Inc. and its subsidiaries are a participating employers as to any employees who participated in the New Retirement Program as of that date.

4. Section 2.07 “New Retirement Program” is amended by adding the following sentence:

   Effective January 1, 2002 the Company’s New Retirement Program was merged into the Alcoa Retirement Plan I, with the Alcoa Retirement Plan I being the surviving plan. For purposes of this Plan, “New Retirement Program,” shall include the Alcoa Retirement Plan I, only for those Eligible Employees who on an after May 3, 2000 were accruing a benefit under the Company’s New Retirement Program on and after May 3, 2000.

5. Section 2.10 “Plan Committee” is restated as follows:

   “Plan Committee” shall mean the Benefits Management Committee of Alcoa Inc.

6. Section 2.11(b) “Reduction in Force” or “Reduced in Force” is deleted in its entirety and restated as follows:

(b) a permanent separation from employment as that term is used in the Alcoa Involuntary Separation Plan.

7. Effective January 1, 2002, Section 3.04 is deleted in its entirety.

8. In all other respects, the Plan is ratified and confirmed.

2. Effective July 1, 2004, Section 4.03(e)(i) is deleted in its entirety and restated as follows:

The benefit amount used to determine the lump sum payment is calculated pursuant to Section 3.02 based on a straight life annuity, without taking into account any optional form of benefit. The determination of the present value of any benefit payable under the Plan in accordance with this Section 4.03 is based on the actuarial assumptions set forth in this Section 4.03(e). The mortality rate is the mortality table as is used by the Alcoa Retirement Plan I for determining cash out amounts, which is currently the modified 1994 Group Annuity Reserving Table as prescribed in Revenue Ruling 2001-62. The annual rate of interest will be fixed for each Plan Year, and is the interest rate used by the Alcoa Retirement Plan I for determining cash out amounts, which is currently the rate of interest on 30-year Treasury securities established by the Board of Governors of the Federal Reserve System for November of the preceding Plan Year.

2. In all other respects, the Plan is ratified and confirmed.

**Exhibit 10(ss)**

Summary of expatriate benefit arrangements for Mr. Ricardo Belda
Date: February 17, 2006

1. Benefits provided to expatriate employees under the Global Expatriate Employee Policy (pre-January 1, 2003).

2. Pension benefits equivalent to those a U.S. employee would receive under Alcoa's tax qualified pension plan, Employees Retirement Plan of Aluminum Company of America, Plan I for salaried employees, and in the non tax qualified excess plans.

**Exhibit 10(tt)**

ALCOA NON-QUALIFIED PENSION PLAN FOR SENIOR MANAGEMENT
ADOPTED BY
ALUMINUM COMPANY OF AMERICA

Pursuant to due authorization by the Board of Directors, Aluminum Company of America has adopted the following Alcoa Non-Qualified Pension Plan for Senior Management for the exclusive benefit of select management and highly compensated employees (1) who are actively at work for the Company or a subsidiary on or after July 1, 1986, (2) who are participants in the IC Rules adopted under the Employees' Retirement Plan of Aluminum Company of America, Plan I and/or in Employees' Excess Benefits Plan B of Aluminum Company of America, (3) who meet the requirements for participation hereunder, and (4) whose monthly retirement benefits under said plan or plans are less than the monthly retirement benefits calculated under this Plan.

ARTICLE I — DEFINITIONS

1.1 The following terms have the specified meanings.

A. "Company" means Aluminum Company of America.

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

C. "Plan" means the Alcoa Non-Qualified Pension Plan for Senior Management adopted by the Company as described herein or as from time to time hereafter amended.

D. “Excess Plan B” means the Employees’ Excess Benefits Plan B of Aluminum Company of America as now in effect and as from time to time amended hereafter.

E. “IC Rules” means the IC Rules adopted under Employees’ Retirement Plan of Aluminum Company of America, Plan I as now in effect and as from time to time amended hereafter.

F. “Participant” means any employee or former employee (1) who on or after July 1, 1986 is actively at work for the Company or a Subsidiary, (2) who is a participant in the IC Rules or Excess Plan B and (3) who has a job grade of 25 or higher, as determined by the Company.

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

H. “Other Plan or Plans” means the IC Rules, any other defined benefit retirement plan of the Company or any Subsidiary, Employees’ Excess Benefits Plan A of the Company, Excess Plan B and Employees’ Excess, Plan C, Benefits of the Company.

I. “Pension Benefits” means any and all retirement benefits provided under the Other Plan or Plans, excluding the Special Retirement Pension or Supplemental Pension provided under the IC Rules or (the equivalent thereof provided) under Excess Plan B.

J. “Retirement Board” means the Retirement Board created pursuant to Employees’ Retirement Plan of Aluminum Company of America, Plan I.

K. “Average Final Compensation” means the average Annual Compensation received during the five consecutive calendar 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. For a Participant whose Pension Service terminates on or after December 31, 1986, the five highest years during such ten years will be used whether or not consecutive.

L. “Annual Compensation” means the total payments made by the Company and by any Subsidiaries during a calendar year for services rendered either as a salaried employee or as an hourly rated 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 shall include any amounts by which the Participant has elected to reduce his or her salary under the Alcoa Savings Plan for Salaried Employees or under any cash or deferred arrangement established under Section 401(k) of the Internal Revenue Code of 1954 as amended, other than said Savings Plan, any amount by which the Participant has elected to reduce his or her salary under Employees’ Excess Benefits Plan D of the Company and any amount the Participant has elected to defer under the Incentive Compensation Plan of Aluminum Company of America. Notwithstanding the foregoing, only one-half of the amount, if any, received by a Participant

from the Incentive Compensation Plan of Aluminum Company of America during any calendar year shall be includable in said Participant's Annual Compensation for said calendar year.

M. "Pension Service" means the service used to calculate the Participant's monthly retirement benefit under Excess Plan B, or if such Plan is inapplicable, the service used to calculate such benefit under the IC Rules.

N. "Plan Benefits" means the monthly benefits payable under this Plan at such time as the Participant's monthly pension benefits, other than deferred vested benefits, are determinable under the IC Rules or under Excess Plan B. The Plan Benefits shall be calculated in the following manner:

(1) Using the Participant's Pension Service, his or her monthly pension benefit shall be calculated, based on Average Final Compensation determined under this Plan, in accordance with the following formula: one-twelfth of

(a) 1.7% of Average Final Compensation for each year of pension service up to 30 years, plus

(b) 1.3% of Average Final Compensation for each year of pension service in excess of 30, less

(c) the Social Security offset as defined in the IC Rules.

(2) The Plan Benefits for the Participant shall be the monthly pension benefit calculated under paragraph (1) above, reduced by any and all applicable reductions and offsets in accordance with the provisions of the IC Rules and/or of Excess Plan B, i.e. actuarial reductions and any other percentage reduction made in order to create a joint and survivor annuity, offsets for social security benefits, offsets for other pensions, etc.

(3) For Participants who retire prior to attaining age 62 on any type of pension provided under the IC rules or pension equivalent under Excess Plan B other than a 55/10 pension or pension equivalent, the Plan Benefits calculated as described above shall be reduced by 1% for each year, prorated monthly for a partial year, said retirement precedes age 62.

The Plan Benefits for the Participant's Surviving Spouse shall equal 50% of the Participant's Plan Benefits, determined in accordance with the Surviving Spouse Pension provisions in the IC Rules but based on Average Final Compensation as defined in the formula specified in this Plan. The Participant's Plan Benefits, for the purpose of determining the Plan Benefits for said Surviving Spouse, shall not be reduced by 1% for each year, or prorated monthly for a partial year, that the Participant's death occurs while accruing Pension Service under the IC Rules or Excess Plan B prior to his or her attaining age 62.

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

## ARTICLE II — BENEFITS

2.1 The Plan Benefits payable under this Plan for any month shall be the excess, if any, of (1) the Plan Benefits calculated for the month for the Participant or Surviving Spouse over (2) the aggregate amount of Pension Benefits in pay status and payable for the month to the Participant or Surviving Spouse under all Other Plan or Plans.

Where the Pension Benefits under the Other Plan or Plans are not payable solely in the form of monthly Pension Benefits over the same time periods (for example, where a small benefit is paid out in a lump sum) the Retirement Board shall, if necessary, adjust the benefits payable under this Plan so that the Participant or Surviving Spouse is neither advantaged nor disadvantaged for pension purposes.

2.2 Benefits shall be payable to a Participant or Surviving Spouse under this Plan only in conjunction with monthly benefits, other than deferred vested benefits, payable under the IC Rules or Excess Plan B and shall commence concurrently with monthly benefits payable to said Participant or Surviving Spouse under such Rules or Plan. Upon the cessation of payment of monthly benefits to a Participant or Surviving Spouse under such Rules or Plan, benefits payable under this Plan shall concurrently cease.

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

2.4 No benefit under this Plan may be assigned, transferred, pledged or encumbered or be subject in any manner to alienation or anticipation.

## ARTICLE III — CONTRIBUTIONS

3.1 Benefits payable hereunder shall be payable out of the general assets of the Company, no segregation of assets for such benefits shall be made, and the right of a Participant, Surviving Spouse and/or beneficiary to receive benefits under this Plan shall be an unsecured claim against said assets, except as the Company in its sole discretion shall otherwise provide.

## ARTICLE IV — ADMINISTRATION OF EXCESS PLAN

4.1 The general administration of this Plan shall be by the Retirement Board. The Retirement Board’s resolution of any matter concerning this Plan shall be final and binding upon the Company and any Participant, Surviving Spouse and/or beneficiary affected thereby.

ARTICLE V — AMENDMENT AND TERMINATION

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

ARTICLE VI — CONSTRUCTION

6.1 This Plan shall be construed, regulated and administered under the laws (except the law of conflicts) of the Commonwealth of Pennsylvania except as modified by any applicable law.

AMENDMENT TO THE
ALCOA NON-QUALIFIED PENSION PLAN FOR SENIOR MANAGEMENT

Pursuant to Article V, the plan is amended as follows:

1. The first paragraph is revised by adding the following:

Effective December 31, 2004, this Plan is frozen, and no new Participants will be permitted to participate and no new Plan Benefits will be added to this Plan after December 31, 2004.

Effective January 1, 2006, this plan is merged into the Alcoa Excess Benefits Plan C. All Plan provisions pertaining to Plan Benefits as of December 31, 2004 will remain in full force and effect and be subject to the provisions of Alcoa Excess Benefits Plan C.

# EXPATRIATE ORIENTATION MANUAL

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***This book is the property of***

**Alcoa Inc.**

The information contained herein
is confidential and is not to be
disclosed or copied without the
express written permission of the
Expatriate Administration Group, Alcoa Inc.

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**Alcoa Inc.**
**201 Isabella Street**
**Pittsburgh, PA 15212-5858**

**EXPATRIATE ORIENTATION MANUAL**
**OVERSEAS ASSIGNMENT**

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## FOREWORD

The policies contained in this manual are the only official statements of policies and practices governing expatriate personnel administration and shall be the only governing authority in questions of policy interpretation and policy application.

> **We feel the policies outlined in this manual are those we have found effective and necessary in meeting competitive practices, in ensuring uniform treatment of employees, and in facilitating transfers between home and host locations. Transfers within a region will fall under specific regional policies.**

For the purposes of this manual, a Global Expatriate is any employee, regardless of nationality, who at the volition of the Company, is transferred for an indefinite period of time from a work assignment in one country to a work assignment in another country, and paid from a U.S. payroll.

If there are any questions concerning the policies outlined in this manual, please contact your Prudential International Assignment Manager (IAM).

**PRUDENTIAL RELOCATION INTERNATIONAL**
**Attn: Sako Nishida**
**16260 North 71st Street, Suite 350**
**Scottsdale, Arizona 85254**

**Phone 480-778-6596**
**Fax 480-778-7096**

## ALCOA IS A VALUES BASED GLOBAL COMPANY

**INTEGRITY** Alcoa's foundation is our integrity. We are open, honest and trustworthy in dealing with customers, suppliers, coworkers, shareholders and the communities where we have an impact.

**EHS** We work safely in a manner that protects and promotes the health and well being of the individual and the environment.

**CUSTOMER** We support our customers success by creating exceptional value through innovative product and service solutions.

**EXCELLENCE** We relentlessly pursue excellence in everything we do, every day.

**PEOPLE** We work in an inclusive environment that embraces change, new ideas, respect for the individual and equal opportunity to succeed.

**PROFITABILITY** We earn sustainable financial results that enable profitable growth and superior shareholder value.

**ACCOUNTABILITY** We are accountable – individually and in teams – for our behaviors, actions and results

## WE LIVE OUR VALUES & MEASURE OUR SUCCESS BY THE PEOPLE

- We treat each other with dignity and respect at all times
- We seek to understand each others ideas and suggestions
- We value diversity and our individual differences
- We create and seize opportunities for growth and development
- We seek and accelerate change
- We continuously re-design our work to eliminate waste and improve the value of our work
- We provide appreciative and constructive feedback to each other to improve our individual and team performance
- We create the appropriate balance in our work and family lives
- We create value in the community in which we live and work, through our presence and leadership

## ORIENTATION

When an employee has been selected as a possible candidate for an overseas assignment, an International Assignment Manager from Prudential Relocation will contact both the employee and spouse to complete an orientation process that includes an in-depth needs assessment, review of the international compensation package, relocation process and timeline.

In addition to the orientation program, in order to make a joint commitment to the relocation of the family, Alcoa strongly endorses the practice of the expatriate and spouse visiting the host location they are considering to relocate. On this trip the expatriate & spouse will SELECT A SCHOOL (IF APPLICABLE) AND HOUSING. Only one such trip will be allowed for the expatriate and spouse.

Each candidate is made to understand that the job offer and assignment location visit is contingent upon the successful passing of a medical examination TO DETERMINE FITNESS FOR DUTY/RELOCATION prior to THE ACTUAL TRANSFER.

Prior to actual transfer, each additional dependent who transfers SHOULD also complete a medical examination. ARRANGEMENTS FOR DEPENDENT PHYSICAL EXAMS SHOULD BE MADE THROUGH THE CHILDRENS OR FAMILY PHYSICIAN IN THE HOME COUNTRY. The Company will reimburse the employee for all expenses incurred for these medical examinations and necessary vaccinations or inoculations.

In addition to the medical examination, an informal interview will be conducted by a Counselor from SAIC, the Company's Overseas Assistance provider. The purpose of this interview is to further explore the employee and spouse's feelings about the assignment, IDENTIFY ANY ISSUES/CONCERNS AND PROVIDE ON-GOING ASSISTANCE THROUGH THEIR PROVIDERS AT THE HOST LOCATION. Employees living outside the U.S. being considered for a GLOBAL ASSIGNMENT for transfer from one global location to another will be scheduled through the interview process.

The International Assignment Manager from Prudential Relocation International in Scottsdale, Arizona is responsible for planning and coordinating the orientation and entire relocation process.

## INTERNATIONAL ASSIGNMENT CONTACT LIST

Below is a list of resources available to you throughout your assignment.

**Employee Benefits InfoLine** — **1-800-433-9906 or 412-544-0169**
**(9:00a.m. - 9:00p.m. Mon. through Sat. - Eastern Time) – Representative is available**
**(8:00 a.m – 2:00 a.m. Mon. through Sat. - Eastern Time) – Automated Service available**

**SAIC (Overseas Assistance Program)** — **Phone: 703-676-2314**
**Carol Lepere** — **carol.a.lepere@cpmx.saic.com**

| PRUDENTIAL GROUP/SERVICE CONTACTS | CONTACT NAME | CONTACT DETAILS |
|---|---|---|
| Prudential Relocation, Int'l Assignment Manager (IAM). Main point of coordination for all assignment-related processes | Sako Nishida | Phone: 480-778-6595<br>sako.nishida@prudential.com<br>vmx no. 211-6595 |
| | Susan Barlow | Phone: 480-778-6594<br>susan.barlow@prudential.com<br>vmx no. 211-6594<br>***Mailing Address (for both):***<br>Prudential Relocation International<br>16260 N. 71st Street, Suite 350<br>Scottsdale, Arizona 85254<br>Fax: 480-778-7096 |
| Prudential Relocation, Cost Management (For submission of relocation expenses only, please direct all related correspondence to your Int'l Assignment Manager) | Alcoa Cost Management Team | Fax: 480-778-7027<br>***Mailing Address:***<br>Prudential Relocation International<br>Attn: Michelle Matteson<br>c/o of Alcoa Corporate Center<br>Pittsburgh |

| ALCOA CONTACTS | CONTACT NAME | CONTACT DETAILS |
|---|---|---|
| Alcoa, Expatriate Administration | Linda Hepp | Phone: 412-553-4825<br>Fax: 412-553-4929<br>linda.hepp@alcoa.com |
| | Lynn Nelson | Phone: 412-553-2248<br>Fax: 412-553-4929<br>lynn.nelson@alcoa.com |
| Alcoa, Employee Benefits | Karen Collette | Phone: 412-553-3451<br>Fax: 412-553-4916 |
| | Main Office | Phone: 412-553-4545 |
| Alcoa Medical Dept., Pittsburgh Headquarters | | Phone: 412-553-4520 |
| Alcoa, Corporate Security | Jay Zelezniak | Phone: 412-553-4166<br>Fax: 412-553-3133<br>jay.zelezniak@alcoa.com |
| Alcoa, Pittsburgh Federal Credit Union (Banking) | Lisa Balcer | Phone: 412-553-2842<br>Fax: 412-553-2464<br>Four North Shore Center<br>106 Isabella Street, 5th Floor<br>Pittsburgh, Pennsylvania 15212 |
| Alcoa Mail Service Center, Pittsburgh Headquarters | Marshall McKeag | Phone: 412-553-4699 |

# AUTOMOBILE

AUTOMOBILE POLICY

Our policy offers one of three options to those expatriates on long-term assignment (18 months or more) for up to two (2) personal automobiles:

- A four-year, interest-free loan arrangement.
- Equity agreement for automobiles purchased in the host country.
- Equity agreement for automobiles shipped from the home country.

In addition to the above options, the expatriate will be eligible for reimbursement of the forced sale loss at the beginning and termination of the host assignment on up to two personally owned (2) automobiles.

Where transportation is necessary for a combination of business and personal reasons, the host location manager may consider renting, leasing or purchasing an automobile for the expatriate. The circumstances to support this departure from policy must be reviewed with the business unit president before any commitment is made to the expatriate or any action is taken.

## REIMBURSEMENT FOR LOSS ON SALE OF AUTOMOBILE (FORCED SALE)

If an expatriate disposes of his/her automobile(s) prior to departure, Alcoa will reimburse the difference, up to a specified maximum, between the average retail value and the amount for which the automobile(s) was sold.

1. The average retail value will be the one published in the National Automobile Dealers Association (N.A.D.A.) “Official Used Automobile Guide,” for the region in which the automobile(s) was sold in the U.S., or the official used automobile guide in the home country. The maximum payment shall be limited to 20% of the total retail value. These are the sole publications used for pricing automobiles. If there is no official used automobile price publication available, you should work with the local HR management to establish the fair market value of the automobile.
2. Current year model automobiles will be depreciated at 1% per month of the original purchase price for up to the first 12 months of the automobile’s life.
3. For automobile(s) sold at the termination of a host assignment, the average retail value will be determined in the same manner as No. 1 above with the exception that the retail value will be determined by using information available at the host location.
4. The forced sale payment arrangement will apply to a maximum of two (2) automobiles prior to, and at the completion of, a host assignment. Forced sale

reimbursement will not be approved for any other type of automobiles such as motorcycles, trailers or campers.

5. Reimbursement will be made the month following receipt of "Automobile Forced Sale Reimbursement" (Sample Exhibit 1) and included in the regular monthly paycheck. Please complete the forms included in this section for a forced sale reimbursement. Please submit the U.S. dollar equivalent as of the date of sale. All pertinent information relating to the value of the automobile should have an English translation to be processed by the Prudential Relocation International in Scottsdale, Arizona.

**LEASE AUTOMOBILE BUY-OUT**

If at the time of acceptance of a transfer to an global location, the Expatriate is in possession of a personally-leased automobile, the Company will provide lease buy-out assistance as follows: Expatriate should obtain the penalty amount for early termination of the lease agreement **and** the lease buy-out amount in writing from the automobile dealership. Alcoa will then determine the most economical approach for the company to assist in the disposition of that automobile and advise the Expatriate.

If it is determined that a lease buy-out is the most economical way to dispose of the automobile, Alcoa will advance a short-term loan to the Expatriate to buy out the lease on the automobile. Expatriate will be required to sign a promissory note in the amount of the buy-out. The signed and dated note must be in our possession before funds can be advanced. Once all paperwork is in place, Prudential Relocation International will request an electronic funds transfer to your U.S. bank account.

When the buy-out transaction is complete and the Expatriate obtains title to the automobile, the Expatriate can then sell the automobile for up to 20% less than the retail value and obtain the Reimbursement for Loss on Sale of Automobile (Forced Sale) as outlined beginning on page 1.1 of this section. The retail value will be either the established buy-out amount or the retail value as provided by the current NADA Guide, or the source most commonly used in your home country, whichever is less.

If there is a shortfall between the selling price, and the forced sale loss combined, then the remaining short-term loan balance will be considered closed.

At the time of the sale of the automobile, the advance for the buy-out will become due and payable to the Company. Expatriate should write his/her check to Alcoa, Inc. in the amount of the short-term loan and forward to your Prudential International Assignment Manager (IAM) in Scottsdale, Arizona.

Payment for forced sale reimbursement will be made the month following receipt of "Automobile Forced Sale Reimbursement" (Sample Exhibit 1) forms and documentation and included in the regular monthly paycheck. Please complete the forms included in

this section for a forced sale reimbursement. Also, please submit the U.S. dollar equivalent as of the date of sale. All pertinent information will be processed by the Prudential Relocation International in Scottsdale, Arizona.

If it is determined that paying a penalty for early termination is the most economical method of disposing of the leased automobile, the Expatriate will submit a Moving Expense Statement Form detailing the early termination penalty fee. A letter from the automobile dealership (on their letterhead) must be attached as proof of the penalty fee. This documentation must be sent to Prudential Expense Analyst, Michelle Matteson care of Alcoa Corporate Center, Pittsburgh for processing.

**EXCHANGE RATE LOSS CALCULATION**

As stated above, upon repatriation or termination, the Company will assist with the sale of up to two personally owned automobiles in the form of a forced sale loss. Sometimes the expatriate will experience a loss due to an exchange rate difference. That is, the exchange rate at the time of purchase was more favorable than the exchange rate at the time of sale of the automobile. In those instances where there has been a significant fluctuation in the exchange rate, the following formula will be used to calculate the exchange rate loss.

**To calculate an exchange rate loss:**

1) Take the value received from the sale of the automobile plus the forced sale loss in the host currency. Convert this amount to U.S. dollars, using the exchange rate in effect at the time of **purchase.**

Subtract:

2) Take the value received on the sale of the automobile plus the forced sale loss in the host currency (same value as no. 1 above). Convert this amount to U.S. dollars, using the exchange rate in effect at the time of **sale.**

Difference:

3) The difference between these two numbers will give you the Exchange Rate Loss. This is what will be paid to the expatriate as an exchange rate loss. You should claim this amount through a moving expense statement. Please attach all appropriate back up.

**EXAMPLE:**

| | | |
|---|---|---|
| Selling price of automobile | J$ | 200,000 |
| Plus forced sale loss | J$ | +60,000 |
| | =J$ | 260,000 |
| FX at time of purchase 36.0 | =US$ | 7,222 |
| Selling price of automobile | J$ | 200,000 |
| Plus forced sale loss | J$ | +60,000 |
| | J$ | 260,000 |
| FX at time of sale 40.0 | =US$ | 6,500 |
| **DIFFERENCE** | | 7,222 |
| | | - 6,500 |
| | **=US$** | **722** |

Your expense statement should be submitted for **$722** as an exchange rate loss.

Conversely, if the situation is reversed and the exchange rate at the time of sale is more favorable than at the time of purchase, then there would be no payment made, nor would we collect the difference.

## AUTOMOBILE FORCED SALE REIMBURSEMENT

Participation in the Alcoa Personal Automobile Policy guarantees up to a 20% protection against a loss due to forced sale of an automobile. The N.A.D.A. "Official Used Car Guide" or the official publication used in the home country will be referenced in determining the retail value. Only options listed in the guide will be used in calculating the retail value. For current year models not listed in the N.A.D.A., the retail value will be calculated by using the original purchase price less 1% per month. Please attach a copy of the original bill of sale, title registration, or other suitable documentation to verify ownership and options listed. Attach the bill of sale dated and signed by purchaser describing this automobile and purchase price.

____________________________________________
(Print Name)

____________________________________________
(Signature) (Date)

**SALE DATA**

Date of Sale: ____________________________ Selling Price: $____________________
Exchange Rate: (if applicable) _________________

Odometer Reading at Date of Sale: __________________

Description:
Year: __________________ No. of Doors: __________________
Make: __________________ Body Type: ☐ Sedan
Model No. __________________ ☐ Hard Top
Model Type: __________________ ☐ Station Wagon
No. of Cylinders: __________________ ☐ Convertible
Transmission: ☐ Automatic ☐ Coupe
☐ Manual ☐ Other

Options (check factory installed options):

| Option | Office Use Only |
|---|---|
| ☐ Air Bags | ________ |
| ☐ Theft Deterrent System | ________ |
| ☐ Power Windows | ________ |
| ☐ AM/FM Stereo | ________ |
| ☐ AM/FM Stereo w/Tape | ________ |
| ☐ Cruise Control | ________ |
| ☐ Rear Window Defogger | ________ |
| ☐ Tilt Steering Wheel | ________ |
| ☐ Power Brakes | ________ |
| ☐ Power Door Locks | ________ |
| ☐ Power Seats | ________ |
| ☐ Power Steering | ________ |
| ☐ ABS Brakes | ________ |
| ☐ Power Sunroof | ________ |
| ☐ Four Wheel Drive | ________ |
| ☐ Air Conditioning | ________ |
| ☐ Aluminum Alloy Wheels | ________ |
| ☐ Leather Seats | ________ |
| ☐ Compact Disk Player | ________ |
| ____ ____________________ | ________ |
| ____ ____________________ | ________ |
| ____ ____________________ | ________ |
| **Total Options** ___________ | ________ |

**DO NOT COMPLETE THIS SECTION**
**(FOR OFFICE USE ONLY)**

High/Low Mileage (Category) ________________________
Base Value ________________________
Plus Options ________________________
Total Retail Value ________________________
Actual Selling Price ________________________
Difference ________________________
20% of Total Retail Value ________________________
**Forced Sale Payment*** ________________________

***** Difference between Total Retail Value less Actual Selling Price, or limited to 20% of Total Retail Value, whichever is less.

PLEASE SEND COMPLETED FORM AND DOCUMENTATION TO EITHER OF THE FOLLOWING:

**INTER-OFFICE MAIL**
Alcoa, Inc.
Expatriate Administration
201 Isabella Street
Pittsburgh, PA 15212-5858
Attention: Lynn Nelson

**POSTAL SERVICE**
Prudential Relocation International
Attn: Sako Nishida
16261 N. 71st Street, Suite 350
Scottsdale, AZ 85254

**PLEASE SEND COMPLETED FORM AND DOCUMENTATION TO:**

**Prudential Relocation International**
**ATTENTION: Sako Nishida**
**16260 N. 71st Street, Suite 350**
**Scottsdale, Arizona 85254**

**OPTION I – INTEREST FREE LOAN**

The Company will provide an interest-free loan(s) in U.S. dollars for the purpose of purchasing up to two (2) personal automobiles at the host location. The loan will be based on reasonable and customary type automobiles, and should be related to the difference in the equity of the individual's present automobile(s) sold as the result of the transfer, plus any forced sale loss received from the Company and the cost of a new automobile(s), minus sales tax, registration, and license plate fees, which are T&R expenses to be claimed via a Moving Expense Statement. Such a loan must have the approval and signature of the host location manager and your Prudential International Assignment Manager.

**In those locations where a Company-provided automobile is used by the expatriate, only one interest-free loan will be granted.**

The interest-free loan will be repaid through a monthly payroll deduction, the amount of which will vary depending upon the amount of the loan. The loan must be repaid within 48 months.

Upon the sale of an automobile(s) for which the Company has extended an interest-free loan, or upon repatriation, termination, etc., the expatriate must pay immediately the remaining balance of the loan in full.

Instructions for securing the interest-free loan are as follows:

1. The automobile loan request form should be completed by the expatriate requesting that the full amount of the loan to be deposited by electronic transfer to his/her U.S. bank account. It is important that the individual list in the loan request form, the exact name and address of the individual's bank and give the complete name or names in which the bank account is listed. The bank account number and the bank routing number must also be given. The loan request should state the amount of payroll deduction per month, rounded up to the nearest whole dollar, which will be deducted from the expatriate's salary in repayment of the loan.
2. The loan of request must be signed by the expatriate and must also be approved by the host location manager prior to sending your request to your Prudential International Assignment Manager in Scottsdale, Arizona, USA.
3. A copy of the documentation, which supports the purchase price, must be attached.
4. The original loan request and documentation supporting the purchase price should be forwarded, under confidential cover, directly to your Prudential IAM in Scottsdale, Arizona.

5. Prudential IAM will request an electronic transfer to your U.S. bank account. Prudential Expense Analyst, Michelle Matteson will fax EFT Request form to Alcoa A/P Shared Services for payment to Expatriate. Prudential Expense Analyst, Michelle Matteson notifies Expatriate that request for payment has been forwarded to Alcoa A/P Shared Services.
6. If an electronic transfer has been initiated to a U.S. bank, Prudential IAM will send an e-mail to the expatriate advising date funds will be available and when monthly payroll deductions will begin.
7. If you have requested a wire transfer to your U.S. bank account, we will transfer U.S. dollars. If you convert the U.S. dollars to the host country currency and you experience an exchange rate loss, please submit your claim for the loss on a Moving Expense Statement with supporting documentation for reimbursement. Send the expense statement to Prudential Expense Analyst, Michelle Matteson care of Alcoa Corporate Center, Pittsburgh for processing. Any claim for exchange rate loss concerning this transaction must be submitted within 45 days of the purchase of the automobile. Exchange rate loss reimbursements will not be processed after the 45 day time period.

**Note**: Although automobile loans, under this policy, are issued as interest free loans, by law, the government requires companies to impute as income an interest rate designated by the Internal Revenue Service. (This will appear on your December pay stub as “MKT INT LOAN”). Please be aware that when your tax equalization is prepared by PwC, this imputed interest income will be considered a host adder and the expatriate will not bear the burden of additional taxes due to this interest income.

Re-Establishing An Interest-Free Loan

Ordinarily, an expatriate on a long-term assignment will be permitted a maximum of two (2) interest-free automobile loans during the global assignment. This option is intended for use by the expatriate and spouse. In those locations where a company-provided automobile is used by the expatriate, only one interest-free loan will be granted. The time limitation will be waived under the following conditions:

1. After four years at the same location, an expatriate may participate in a new interest-free loan(s), if it can be reasonably expected that the global assignment will continue for an additional two years.
2. Upon transfer from one global location to another (other than a transfer within a region), an expatriate will be eligible to participate in a new interest-free loan(s).

**EXHIBIT 2**

**AUTOMOBILE LOAN REQUEST FORM**
**Confidential**

____________________________________________
Date

Prudential Relocation International
ATTENTION: Sako Nishida
16260 N. 71st Street, Suite 350
Scottsdale, Arizona 85254

To Whom It May Concern:

Below is my request for an automobile loan under the Alcoa Expatriate Automobile Policy. Please deposit the proceeds as follows:

| | |
|---|---|
| Bank Name: | Mellon Bank |
| Bank Address: | 999 Liberty Avenue<br>Attn: Customer Service |
| Account Number: | 00000000 |
| Bank Routing Number: | 1234 5678 9 |

This amount, calculated as follows, is to be used for the purchase of a personally owned automobile:

| | |
|---|---|
| Purchase price of automobile in | $ 22,000 U.S. dollars |
| Less equity from sale of one (1)automobile (including Alcoa Forced Sale payment on the automobile sold) | ($8,000) |
| Total Loan Requested | $ 14,000 |

Alcoa is hereby authorized to make a payroll deduction of $292 per month until this loan is paid in full. (Please round up to the next whole dollar.) Also, automobile loans should not exceed forty-eight (48) monthly payments.

Page Two

Intending to be legally bound, I agree to repay this loan to Alcoa as provided in this request and I further agree that upon the earlier of my repatriation, termination or death, the outstanding balance shall immediately become due and payable to Alcoa.

Submitted by,

| ______________________________ | John Expatriate |
| --- | --- |
| Expatriate Signature | Print Expatriate Name |
| Date: ________________ | ______________________________ |
| | Expatriate Social Security Number |

Approvals: ______________________________

______________________________

______________________________

Attachment: Documentation to Support Purchase Price

## OPTION II - EQUITY ASSISTANCE: AUTOMOBILE(s) PURCHASED IN THE HOST COUNTRY

For those employees who do not wish to utilize the interest free loan for the purchase of their automobile at the host location, but instead prefer to have the company advance the portion of equity beyond a cost of a comparable automobile in the home country, the following qualifications and instructions for this option will apply:

1. An approved automobile(s), whether of U.S. or host origin, insofar as it is possible to do so, will be chosen as customary and reasonable type automobile(s). The approved automobile(s) will be one, which is considered to be in most common use in the host location. Each host location manager will be responsible for identifying the approved automobile(s) for that location.
2. Where financial assistance is requested and approved, Alcoa will maintain a continuing equity per the sample calculation described in Exhibit 3 and a blank form has been included for your use. "Equity" is used to describe an ownership interest in the automobile, which is secured through the Company. Do not include sales tax, registration, and license plate fees as part of the loan. These fees are considered T&R expenses and should be claimed via a Moving Expense Statement and not included in the equity calculation.
3. If the expatriate wishes to purchase a larger or more costly automobile(s), the expatriate will only be granted the financial assistance that would have been paid up to a Company-approved model and the balance will be for the expatriate's personal financial responsibility.
4. The expatriate will be personally responsible for the cost of all operational expenses such as fuel, maintenance, repairs, storage, insurance, etc.
5. The expatriate will be personally responsible for the cost of title registration, license plates and inspection of the automobile(s) following the initial reimbursement of these expenses.
6. Alcoa's minimum participation in any equity situation shall not be less than 1% of the expatriate's equity.
7. When the employee elects to take advantage of the Equity Assistance, they are not eligible for any other automobile loans.

### Re-Establishing An Equity Agreement

Ordinarily, an expatriate on long-term assignment will be permitted a maximum of two (2) automobile equity agreements during the global assignment (one for the employee and another can be offered for the spouse). This limitation will be waived under the following conditions:

1. After four years at the same location, an expatriate may participate in a new automobile equity agreement(s), if it can be reasonably expected that the global assignment will continue for an additional two years.

2. Upon transfer from one global location to another (other than a transfer within a region), an expatriate will be eligible to participate in a new automobile equity agreement(s).

   Under either of the above, Alcoa will authorize a new equity agreement(s) and the expatriate will be responsible for selling the original automobile(s) and making pro rata reimbursement to Alcoa for its share of the equity. The same guidelines as stated in the original equity agreement(s) also apply in the cost of re-established equity agreements.

   If the equity automobile(s) can be imported to the new country of assignment and costs involved clearly support this approach as the most economical, then the costs to transport and import will be considered as a normal moving expense, and the equity relationship between the expatriate and Alcoa will remain unchanged.

**Repayment of Equity**

Upon the sale of an automobile(s) or before departure from the host location, whichever comes first, in which Alcoa has an equity interest, and the expatriate will be responsible for making pro rata reimbursement to Alcoa. In no event, however, shall Alcoa recover on such sale a greater amount of money than it initially contributed to the purchase.

If an expatriate elects to retain an automobile(s) global or ships an automobile(s) to the home country upon retirement, termination of employment or return to the home country for reassignment, the expatriate will make pro rata reimbursement to Alcoa for its equity. This amount is determined by using the current market value in the host country of assignment as the sale price for calculating the pro rata reimbursement. Pro-rata payments should be made via personal check, made payable to Alcoa, and forwarded to your Prudential IAM in Scottsdale Arizona to clear this obligation.

Below, please find an example of how repayment of equity shares (expatriate and company) are determined and what must be paid to the Company to clear an auto equity arrangement.

**STEP ONE**: Obtain the retail value of the automobile in the host country using the official used automobile guide of that country. If there is no official used automobile guide, please work with your local HR management to establish the retail value of the automobile. You will need this in order to complete Step Two.

**STEP TWO**: Forced Sale Reimbursement

You are entitled to a forced sale loss reimbursement on the automobile. You should complete the form "Automobile Forced Sale Reimbursement' provided to you by your Prudential IAM. Submit the completed form along with documentation supporting the retail value and the selling price of the automobile. You must include a receipt indicating the date of sale and the amount for which the automobile was sold.

**STEP THREE**: Clearing the Auto Equity Arrangement

To determine the 33% equity that must be repaid to the Company (per the example on Page 22), please use the formula below:

**EXAMPLE**

| | | | |
|---|---|---|---|
| | Proceeds from the sale of automobile | $5,000 | |
| + | Forced Sale Reimbursement | +1,000 | |
| | Total x .33 | $6,000 | x .33 |
| = | amount you should pay to Alcoa to clear equity arrangement | = **$1980** | |

Using the above example you would need to write your check to Alcoa in the amount of **$1980** and send to your Prudential IAM in Scottsdale, Arizona. This would clear your auto equity obligation with the Company.

All completed forms and supporting documentation must be submitted to your Prudential IAM in Scottsdale, Arizona for processing.

All questions regarding this policy should be addressed to your Prudential IAM in Scottsdale, Arizona.

The Company does not reimburse the expatriate for the cost of shipping an automobile(s) back to the home country upon completion of the assignment. All such costs are the expatriate's personal financial responsibility.

## ALCOA AUTOMOTIVE EQUITY* AGREEMENT
**(For Approved Automobile Purchased in the Host Country)**

NAME: John Expatriate
LOCATION: Sao Paulo, Brazil

Year: 2000 Make: Mazda Model: Hatch 323
Cyl : 4 Doors: 2

Optional Equipment: Air Conditioning, Power Sunroof, Power Steering

| | |
|---|---|
| Purchase Price - Country of Assignment **(Do not include Sales Tax, Registration, License Plate Fee)** | $30,000 |
| Less: | |
| Purchase Price of Identical or Comparable Automobile in the Home Country (Expatriate Equity) | 20,000 |
| Difference (Company Equity) | $10,000 |

EQUITY FORMULA

| | Amount | Percent |
|---|---|---|
| **Expatriate Equity** | **$20,000** | **67%** |
| Company Equity (not less than 1% of Expatriate Equity) | 10,000 | 33% |
| Purchase Price - Country of Assignment | $30,000 | 100% |

Upon the sale of the above automobile, my return to my home country at the conclusion of this assignment or termination of my employment, I agree to reimburse Alcoa for its proportionate equity, which in no event shall exceed in monetary value the amount of equity, which Alcoa initially loaned for the automobile.

Expatriate Signature ____________________________________________ Date______________

Approved By _________________________________________________ Date______________

* Equity is used to describe an ownership interest in the automobile, which is secured through the Company.

## OPTION III - EQUITY ASSISTANCE: SHIPMENT OF AN AUTOMOBILE(s) FROM HOME COUNTRY

In those instances where a review of available supporting data clearly indicates that it is in Alcoa's best interest for either political, commercial and/or economic reasons to do so, the Company will ship a personally-owned automobile(s) for expatriates on long-term assignment. The Company will absorb the cost of ocean freight, insurance, import duty, conversion, landing and port clearance charges and retain a continuing equity in the automobile(s) per the sample calculation described in Exhibit 4. (A blank form has also been included for your use.)

1. If the automobile(s) is new and unused, the expatriate's equity will be represented by the purchase price. Do not include sales tax, registration, or license plate fee as part of expatriate's equity. These expenses should be claimed via a Moving Expense Statement form and not included in the equity calculation.
2. If the expatriate's automobile(s) is used, the expatriate's equity will be the retail value as of the date of shipment as published in the N.A.D.A. Guide or the official publication in the home country for the region in which the automobile(s) is registered.
3. For an automobile(s) shipped from the home country, the expatriate will be personally responsible for the cost of the registration, inspection, and license plates following the initial reimbursement of these expenses. The expatriate is also personally responsible for insurance and for operational expenses such as fuel, maintenance, repairs and storage.

Prior to transfer, expatriates wishing to ship an automobile should discuss the particulars of the automobile with the host location management to ensure the automobile being shipped complies with the country's insurance requirements and operating regulations.

4. The expatriate will be responsible for all expenses in connection with the return shipment and importation of an automobile(s) back to the home country.

### Re-establishing an Equity Agreement

Ordinarily, an expatriate on long-term assignment will be permitted a maximum of two (2) automobile equity agreements during the assignment. This limitation will be waived under the following conditions:

1. After four years at the same location, an expatriate may participate in a new automobile equity agreement(s), if it can be reasonably expected that the assignment will continue for an additional two years.

2. Upon transfer from one location to another (other than transfer within a region), an expatriate will be eligible to participate in a new automobile equity agreement(s).

Under either of the above, Alcoa will authorize a new equity agreement(s), and the expatriate will be responsible for selling the original automobile(s) and making pro rata reimbursement to Alcoa for its share of the equity. The same guidelines as stated in the original equity agreement(s) also apply in the cost of re-established equity agreements.

If the automobile(s) can be imported to the new country of assignment and costs involved clearly support this approach as the most economical, then the costs to transport and import will be considered as a normal moving expense, and the equity relationship between the expatriate and Alcoa will remain unchanged.

**Repayment of Equity**

Upon the sale of an automobile(s) or before departure from the host location, whichever comes first, in which Alcoa has an equity interest, and the expatriate will be responsible for making pro rata reimbursement to Alcoa. In no event, however, shall Alcoa recover on such sale a greater amount of money than it initially contributed to the purchase.

If an expatriate elects to retain an automobile(s) global or ships an automobile(s) to the home country upon retirement, termination of employment or return to the home country for reassignment, the expatriate will make pro rata reimbursement to Alcoa for its equity. This amount is determined by using the current retail value in the home country as the sale price for calculating the pro rata reimbursement. Pro-rata payments should be made by personal check, made payable to Alcoa, and forwarded to your Prudential IAM in Scottsdale, Arizona to clear this obligation.

The Company does not reimburse the expatriate for the cost of shipping an automobile(s) back to the home country upon completion of the assignment. All such costs are the expatriate's personal financial responsibility.

Below, please find an example of how repayment of equity shares (expatriate and company) are determined and what must be paid to the Company to clear an auto equity arrangement.

**STEP ONE**: Obtain the retail value of the automobile in the home country using the official used automobile guide of that country. If there is no official used automobile guide, please work with your local HR management to establish the fair market value of the automobile. You will need the fair market value of the automobile to complete Step Two.

**STEP TWO**: Forced Sale Reimbursement

You are entitled to a forced sale loss reimbursement on the automobile. You should complete the form "Automobile Forced Sale Reimbursement' provided to you by your Prudential IAM. Submit the completed form along with documentation supporting the retail value and the selling price of the automobile. You must include a receipt indicating the date of sale and the amount for which the automobile was sold.

**STEP THREE**: Clearing the Automobile Equity Arrangement

To determine the 40% equity that must be repaid to the Company (per the example on Page 1.21), please use the formula below:

Example

| | | |
|---|---|---|
| | Proceeds from the sale of automobile | $5,000 |
| + | Forced Sale Reimbursement | +1,000 |
| = | Total x .40 | =$6,000 x .40 |
| = | amount you should pay to Alcoa to clear equity arrangement | **=$2400** |

Using the above example you would need to write your check to Alcoa in the amount of **$2400** and send to your Prudential IAM in Scottsdale, Arizona. This would clear your automobile equity obligation with the Company.

All completed forms and supporting documentation must be submitted to your Prudential IAM in Scottsdale, Arizona for processing.

All questions regarding this policy should be addressed to your Prudential IAM in Scottsdale, Arizona.

The Company does not reimburse the expatriate for the cost of shipping an automobile(s) back to the home country upon completion of the assignment. All such costs are to the expatriate's personal financial responsibility.

**EXHIBIT 4**

## ALCOA AUTOMOBILE EQUITY* AGREEMENT
### (For Approved Automobile Shipped from the Home Country)

NAME: John Expatriate
LOCATION: Jamaica

| Year: | 2000 | Make: | Honda | Model: | Accord |
|---|---|---|---|---|---|
| Cyl : | 6 | Doors: | 4 | | |

Optional Equipment: Air Conditioning, Automatic Transmission

| | |
|---|---|
| Purchase Price (new automobile) - All others - Current Retail Value<br>(Do not include Sales Tax, Registration, License Plate Fee)<br>(Expatriate Equity or Current Retail Value) | $18,000 |
| Plus: | |
| Ocean Freight, Insurance, Import Duty, Conversion, Landing & Port Clearance Charges (Company Equity) | 12,000 |
| Total Landed Value | $30,000 |

EQUITY FORMULA

| | Amount | Percent |
|---|---|---|
| **Expatriate Equity** | **$18,000** | **60%** |
| Company Equity (not less than 1% of Expatriate Equity) | 12,000 | 40% |
| Total Landed Value | $30,000 | 100% |

Upon the sale of the above automobile, my return to my home country at the conclusion of this assignment or termination of my employment, I agree to reimburse Alcoa for its proportionate equity, which in no event shall exceed in monetary value the amount of equity, which Alcoa initially loaned for the automobile.

Expatriate Signature ____________________________________________ Date_______________

Approved By ________________________________________________ Date_______________

* Equity is used to describe an ownership interest in the automobile, which is secured through the Company.

## EXCEPTIONS TO AUTOMOBILE POLICY

### Note to Expatriates Assigned to Brazil

An interest-free automobile loan(s) is issued locally in Brazil in Reais. The expatriate should not complete the paperwork in this section for a loan. Contact your local HR Representative at the specific location for instructions to secure an interest-free automobile loan(s) in Brazil. The loan(s) will be given to the expatriate in Reais and will be converted at that day's exchange rate to U.S. dollars. A monthly deduction will be made in U.S. dollars from the expatriate's U.S. paycheck. This monthly deduction will be based on a repayment plan of 48 months.

### Note to Expatriates Assigned to Jamaica

The Company will provide one automobile. The Company will pay all operating and maintenance costs. For the second automobile, the expatriate can ship a currently owned automobile to the location. If the automobile currently owned does not meet the standards for shipping a automobile to this location or replacement parts would be unavailable, Alcoa will offer the interest-free automobile loan to the expatriate in order to purchase a suitable automobile in the U.S. or home country for shipment to Jamaica. In addition, Alcoa will extend the automobile equity arrangement where the Company pays the initial shipping costs to transport the automobile including import duty, taxes, etc. and the Company will retain a continuing equity in the automobile as outlined in the automobile equity agreement.

### Note to Expatriates Assigned to Suriname

In Suriname, it is not practical to purchase an automobile. The Company will provide one automobile. The Company will pay all operating and maintenance costs. The type of automobile that will be provided is currently a Nissan Sentra.

For the second automobile, the expatriate can ship a currently owned automobile to the location. If the automobile currently owned does not meet the standards for shipping a automobile to this location or replacement parts would be unavailable, Alcoa will offer the interest-free automobile loan to the expatriate in order to purchase a suitable automobile either in the U.S. or home country for shipment to Suriname. The Company will pay all costs associated with shipping the automobile to Suriname. This includes freight, import duty, consent fee, etc. All operating costs will be the expatriate's responsibility. At the end of the assignment in Suriname, the expatriate will sell the automobile to Suralco and receive payment in U.S. dollars based on the N.A.D.A. "Official Used Automobile Guide" or official used automobile value publication in the country of origin.

### Rental of Automobile

Where possible, expatriates are requested to limit automobile rental to 4 weeks prior to departure from the home location and an additional four weeks at the host location. Reimbursement will be limited to customary and reasonably priced automobile(s). The approved automobile(s) will be one, which is considered to be in most common use in the home location.

Rental automobiles will not be provided prior to departure for those expatriates who have stored their automobiles.

Upon return to an active assignment in the home country, where possible, expatriates are requested to limit automobile rental, prior to purchase of an automobile to 4 weeks prior to departure from the host location. Reimbursement will be limited to customary and reasonably priced automobile(s). Each expatriate's manager will be responsible for identifying the approved automobile(s) for that location.

### Short-Term Assignments

Expatriates on short-term assignments (less than 18 months) will be provided a Company-owned or leased automobile(s) with prior approval from the host location manager and your Prudential International Assignment Manager.

The expatriate is responsible for oil changes, and gasoline. Any necessary repairs should be reported to the host location expatriate administrator prior to work being done.

Insurance is normally included in the leasing price. If not, the Company will arrange for insurance coverage.

Expatriates on short-term assignments who have stored their automobiles will not be provided automobile rentals prior to departure.

### Storage of Automobiles

The Company will not assume the cost of storing automobiles except in the case of short-term assignments of 18 months or less. Prior approval for the storage of an automobile must be obtained from Prudential IAM in Scottsdale, Arizona.

**International Driver's License**

Before departure to your global assignment, we suggest you check the expiration date of your home country driver's license and ensure that you renew it at the appropriate time. The fee for this renewal is the expatriate's personal financial responsibility.

Anyone accepting a global assignment **should secure an International Driver's License.** Contact your local automobile club. The fee incurred for the license only (not the auto club membership fee) may be claimed via a Moving Expense Statement.

It is important that you understand the requirements for obtaining and retaining a driver's license in the host location. The Company will reimburse the costs for the host location driver's license.

In most countries, there is a limitation on the time frame within which you must obtain a valid host country driver's license. Wherever we could, we have provided country-specific information but we recommend that you check with your host location administrator regarding requirements or suggestions that may minimize your costs and to obtain the particulars of the host country driving system.

We also suggest that you or any family members who wish to drive while on global assignment, secure a letter from your insurance carrier or local motor automobile department stating how long the driver has held a driver's license and a history of their driving record.

**Driver Safety** – In a host country where the driving conditions and procedures are unfamiliar to you (e.g., driving on the opposite side of the road, different/dangerous driving conditions) it is recommended that you enroll in a driver's education course. This will prepare you for a more safe driving experience. The expense for enrollment for you and your spouse will be borne by the Company.

## BENEFIT PLANS

This informal summary overviews the features of Alcoa's benefits for full-time, active, salaried Alcoa expatriate employees. Please note that long-term expatriates are considered headquartered out of Pittsburgh. To keep descriptions simple, not every plan detail is included. Statements in this summary are subject to the provision of each plan's legal document.

Alcoa reserves the right at any time to amend, modify, suspend, or terminate all or any of these plans.

### QUALIFICATION – DEPENDENTS

Alcoa clearly defines what dependents may be included for coverage under Alcoa benefit plans.

For Alcoa Medical Benefit Plans purposes the following qualify as dependents.

1. spouse;
2. unmarried children under the age of 19 who reside with the expatriate;
3. full-time students, age 25 or under, in a recognized course of study or training

For other expatriate benefits and as outlined in various sections of this manual, the following may qualify for various additional allowances and benefits:

- Expatriates on married or single status with custody of dependents
- The mother or father of the employee or spouse, if they are a permanent member of the household at the time of transfer.
- The mother, father, brother or sister of the employee or spouse during the time of exercising the Family Exchange Option of the Vacation Policy.

There may be special circumstances under which others will be allowed as dependents. Approval must be obtained from Prudential IAM who will coordinate application with Alcoa Expatriate Administration in Pittsburgh.

## ALCOA FOUNDATION SONS & DAUGHTERS SCHOLARSHIP PROGRAM–SECTION M

Scholarships are awarded each year to children (including stepchildren who are living with the parent employee) of permanent, full-time employees of Alcoa or one of its wholly-owned, domestic subsidiaries. The standard regulations concerning eligibility apply.

Eligible expatriates are notified each year of the procedure to be followed.

Questions regarding this program should be directed to the Alcoa Foundation in Pittsburgh.

## ALCOA SAVINGS PLAN FOR SALARIED EMPLOYEES

### Non-U.S. Citizen

For legal reasons it is not possible for non-U.S. citizen expatriates to participate in the Alcoa Savings Plan. In lieu of this benefit, they are paid a cash sum each month savings plan differential equivalent to the Company’s contribution based on an assumed maximum savings on the part of the expatriate. This payment is guaranteed through a contract letter (Exhibit 1).

### Citizen

The Alcoa Savings Plan currently in effect is available to eligible Alcoa U.S. citizen expatriates and Alcoa U.S. permanent resident alien expatriates. Contributions are calculated on base salary only.

For Savings Plan assistance call InfoLine Monday through Saturday from 6:00 a.m. to 2:00 a.m. eastern time. An InfoLine Representative is available from 9:00 a.m. to 9:00 p.m. eastern time, Monday through Friday. The toll-free number is 1-888-ALCOA123 or (1-888-252-6212). If you are unable to use the toll free numbers, dial 1-847-883-0420. When you call, you will be asked for:

- Your Social Security Number
- Your Personal Identification Number
- WARNING: if you lose your PIN, you will not have access to your account until you receive a new PIN in the mail.
- To receive a new PIN # call InfoLine at 1-888-252-6212 or 1-847-883-0420

Through InfoLine, you can change the level of your contributions, change investments ,transfer investments, make loans and withdrawals, etc.

**EXHIBIT 1**

xxxx, 2002

XXX

Dear:

This letter will confirm our mutual understanding concerning certain employee benefits, more particularly described hereafter, which Alcoa Inc. has agreed to extend to you in consideration for your continuing service for the Alcoa group (which comprises Alcoa, its subsidiaries and affiliates) while assigned to ___________ . For purposes of determining continuous service, your original employment date of ___________ , will apply. Your home country for purposes of this letter is ___________.

1. A Foreign Service Premium of ____% will be added to your base salary (up to a maximum of $______.00 per month).
2. Participation in the Alcoa Employees Group Benefits Plan as governed by that Plan.

OR

Participation in the ATC Employees Group Benefits Plan as governed by the Plan.

3. The total household operation expenses (rent and utilities) you are obligated to pay during your assignment in ___________ is $______.00 per month. Alcoa will pay any cost over and above this figure, excluding telephone.
4. For vacation purposes, your point of origin will be considered ___________.
5. Except as commented on above, you are entitled to all other benefits outlined in the Expatriate Administrative Manual.
6. When you are transferred to another location or when your service with the Alcoa group terminates, the terms of this contract are null and void from the beginning of its application to you, as if it had never existed, except for those benefits that were actually paid to you during the contract term.

The benefits under this agreement are extended to you during the term of this agreement subject to all the same conditions as those contained in the benefit plans mentioned above as those plans may be amended from time to time.

Please sign both copies of the contract letter, retaining one for your personal file and returning one to the attention of Linda M. Hepp, Pittsburgh Corporate Center, at your earliest possible convenience.

Sincerely yours,

**INSERT COMPANY NAME**

BY: ______________________________________________
Insert Name / Insert Title

Agreed to and accepted this __________ day of __________, 2002.

______________________________________________
(Signature of Expatriate: )

| cc: | Karen Collette – | Alcoa Corporate Center |
|---|---|---|
| | M.E. Lammel – | Alcoa Corporate Center |
| | Rachel Gilmore – | Buck Consultants<br>One Mellon Bank Center<br>500 Grant Street, Suite 2900<br>Pittsburgh, PA 15219 |

7. You will not participate in the Alcoa Savings Plan for Salaried Employees. In lieu of the Savings Plan benefit, we will pay you in cash each month an amount equivalent to the Company's contribution, based on an assumed maximum savings on your part (6% under present plan).
8. You will not participate the Alcoa Retirement Plan. If you retire, become disabled, or die while this contract is in effect, benefits will be paid in your home country currency under this contract which, when totaled with other benefits received from other programs which have covered you during your service with the Alcoa group, will equal a benefit you and/or your family would have received had you continued employment in your home country for that period of service.
9. Since you will not receive any social security benefit in the U.S., we will reimburse you for the cost of this payroll tax monthly.

**AUSTRALIA**

You will continue in the Alcoa of Australia Pension Program for the duration of your ___________ assignment and will not be entitled to any other retirement benefits form Alcoa. An appropriate deduction will be made from your salary each month to cover your contribution to this Plan.

Or

You will continue in the KAAL Alcoa Superannuation Fund for the duration of your U.S. assignment and will not be entitled to any other retirement benefits from Alcoa. An appropriate deduction will be made from you salary each month to cover your contribution to this plan.

**CANADA**

You will continue to participate in the Canadian Social Security scheme during your assignment in Italy.

You will continue to participate in the Canadian Pension Plan during your assignment in Italy.

**GERMANY**

You will continue to participate in the Alcoa Chemie GmbH Pension Plan for the duration of your assignment and the company will continue to make contributions to that plan on your behalf.

**HUNGARY**

You will continue to participate in the Hungarian Pension Plan and will continue your contributions in that plan during this assignment.

**JAMALCO**

You will continue to participate in Jamalco's Pension/Savings Plans and will continue your contributions in those Plans during this assignment

**SURINAME**

You will continue in the employees' retirement plan of Suriname Aluminum Company during this assignment.

You will continue to participate in the Suralco Savings Plan.

**SWITZERLAND**

You will continue in the Swiss Pension and Social Security Plans.

**UNITED KINGDOM**

A. You will continue to participate in the Alcoa Extruded Products (UK) LTD Pension Plan for the duration of your assignment and will not be entitled to any other retirement benefits from Alcoa.

B. You will remain in the Social Security Plan in the UK so no payments will be withheld from your U.S. paycheck for U.S. social security contributions.

**UNITED STATES**

**Highmark Blue Cross Blue Shield** is the medical and behavioral health claims administrator for expatriates.

## CLAIMS OUTSIDE THE UNITED STATES

All eligible medical and behavioral health claims will be paid at the **in-network** level for services performed outside the United states. The claims will be paid at the in-network level up to the amount charged.

Claims must be submitted in English. Please indicate on the claim form the Rate of Exchange in effect on the date services were rendered.

Your health care claims for services outside the U.S. should be submitted to the following Highmark Blue Cross Blue Shield representative:

Kevin Dumas
Phone: 412-544-0169 Fax: 412-544-5186
E-mail: Kevin.dumas@highmark.com
Address: Highmark Blue Cross Blue Shield, 120 Fifth Avenue Place,
Suite 2028, Pittsburgh, PA 15222 USA

### Claims in the United States

Expatriates that have health care services in the United states **must use a Highmark Blue Cross Blue Shield provider in order to receive benefits at the in-network level.** If you go out-of-network for services, you will receive a lower level of benefits and you may have to file claims and pre-certify any hospital admissions yourself. Also, your benefits are based on reasonable and customary limits. You are responsible for paying any charges above the reasonable and customary limits if they are billed by an out-of-network provider.

For information about Highmark's PPO network providers:

Go to their Internet address: www.bcbs.com/healthtravel/finder.html

**Highmark Blue Card World Wide Program** is available to expatriates. This is an international network of hospitals and physicians. If an expatriate uses a provider that participates in this program, claims will be paid at the in-network level based on the *negotiated contracted* rate.

The difference between hospital care versus professional worldwide care is as follows:

Inpatient hospital care – the provider files the claim. You are not required to pay up front costs. You are responsible for any applicable deductibles, copays, coinsurances, and non-covered services.

Outpatient hospital care and professional services – You pay the provider and file the claim with Highmark representative Kevin Dumas.

For information about Highmark's Blue Card World Wide network:

For hospital providers go to Highmark's Internet address:

http://www.bluecares.com/healthtravel/worldwide hospitals.html

For hospital and local participating physicians call the Blue Card World Wide Service Center *collect* at 8-804-673-1177.

The Highmark claim form can be found on Alcoa's InfoLink Intranet site:

http://intranet.alcoa.com/hr.horms

**International SOS – Worldwide Emergency Assistance Services** is available to expatriates. Alcoa has contracted with International SOS to assist global expatriates and US-based employees with medical needs when on business travel outside of one's home country. For assistance in the United States you can call 1-800-523-6586. For services outside of United States you should call the SOS Philadelphia Office *collect* at 215-245-4707.

Alcoa encourages you to contact International SOS for identifying the best service providers in-country for your particular needs.

**Retail Prescription Drug Plan – Outside the United States:**

PCS is the prescription drug administrator for expatriates. PCS does not have a pharmacy network outside the United States. Covered prescription drugs purchased in another country are eligible for reimbursement. You will pay for the prescriptions purchased outside the U.S. and submit the prescription drug expenses to PCS. To receive reimbursement, you need to submit a PCS Foreign Claim Form with copies of your prescription drug receipts. Claims will be paid based on the prescription drug option that you elected fir 2002.

Expatriates with Intranet access can find the PCS Foreign Claims Form on the Alcoa InfoLink web site.

Intranet address: http://intranet.alcoa.com/hr/forms

Submit the claim to the address on the form.

**Retail Prescription Drug Plan**

You should purchase your prescriptions at PCS network pharmacies to receive in-network benefits for prescriptions purchased in the United States. You can call PCS at 1-800-966-5772 to find the network pharmacy closest to you. This number appears on your prescription drug ID card. You and your eligible dependents must always be prepared to present this card to network pharmacists.

If you use an out-of-network pharmacy you pay the full cost of the prescription and then submit a claim form and receipt to PCS. You will be reimbursed at the in-network retail level for covered prescriptions less the applicable deductible and co-payment. You also must pay any difference between the PCS negotiated rate and the pharmacy's actual charge.

**Mail Order Prescription Drugs – 90 Day Supply**

PCS cannot mail prescription drugs to non-U.S.A. addresses. If you wish to take advantage of this cost-effective program for maintenance drugs, you need to have your prescription mailed to someone in the U.S. and make arrangements to pick it up.

In order to receive authorization for a one-year supply of medication you must do the following:

- Prescriptions should be written for a one-year supply of medication **with no refills**.
- Your prescription should be written by a U.S. doctor.
- Send the prescription plus check or credit card number to Karen Collette for the authorization. Generic and brand name drug cost will be based on the prescription drug option that you selected.
- Mail your mail order prescription requests to Karen Collette, Alcoa, Room 4B14, Pittsburgh, PA 15212.

## DENTAL

The dental option you elected in 2001 will continue in 2002. The next opportunity to chose a new dental option will be during FlexChoice 2003 enrollment.

Employees new to Alcoa’s Dental Plan will have two dental options, or you can elect no dental coverage at all. The dental election you make now will be in place for all of 2002. Future dental enrollments will be offered on a two-year cycle. This means that your 2003 FlexChoice dental election will be in place for all of 2003 and 2004.

The dental claims administrator is United Concordia (subsidiary of Highmark Blue Cross Blue Shield).

### Outside the United States

You can see any licensed dentist outside the United States. Claim payments will be based on your elected dental option. Claims will be paid up to charge based on the provisions of the Dental Plan.

### In the United States

You can see any licensed dentist. United Concordia has an extensive network of participating dentists who accept negotiated rates and file claims for you. If you use a non-participating dentist, you will pay any difference between the reasonable and customary charges and the dentist’s charge.

United Concordia’s Web site has information on participating providers.

Internet address: www.ucci.com

Click on “Client Corner” then Alcoa.

The United Concordia claim form can be found on Alcoa’s InfoLink Intranet site:

http://intranet.alcoa.com/hr.forms

## VISION

The vision option you elected in 2001 will continue in 2002. The next opportunity to chose a new vision option will be during FlexChoice 2003 enrollment.

Employees new to Alcoa's Vision Plan will have the option to elect vision coverage during 2002 FlexChoice enrollment. You will have the option of choosing single or family coverage, or no coverage at all. The vision election you make now will be in place for all of 2002. Future vision enrollments will be offered on a two-year cycle. This means that your 2003 FlexChoice dental election will be in place for all of 2003 and 2004.

Routine eye exams are covered under the Vision Plan. (Any eye exam with a diagnosis will processed under the Medical Plan.) The Vision Plan is administered through Clarity Vision (subsidiary of Highmark).

The vision benefit provides coverage for a routine eye exam, and benefits for frames and standard lenses, or contacts. You can have a routine eye exam, and purchase standard lenses and contacts once per year. You cannot purchase standard lenses and contact in the same year. Frames are covered once every two calendar years.

**Outside of the United States:**

Routine eye exams performed outside the U.S. and eyeglasses purchased outside the U.S. will be paid at the **out-of-network** level.

**Inside the United States:**

Vision benefits in the U.S. must be with an in-network provider in order to receive the higher benefit. If you do not use a network provider, your claims will be paid at the out-of-network level.

Clarity Vision's Web site has information on participating providers:

Internet address: www.clarityvision.com

Click on "Preferred Network"

The vision claim form can be found on Alcoa's InfoLink Intranet site:

http://intranet.alcoa.com/hr.forms

## LONG-TERM CARE

Long-Term Care is a fully insured plan with MetLife that covers nursing home and home care for patients who are unable to perform certain activities of daily living. Expatriates will have the option during FlexChoice to receive info about the Long Term Care Plan. MetLife is the administrator of the Long Term Care Plan.

**Expatriates that are not U.S. citizens cannot participate in this plan.**

There is no guaranteed participation in the LTC Plan if you were given the option to enroll in 2001 and declined enrollment. Medical evidence will be required if you enroll in 2002.

Under the Long Term Care Plan, you may cover self, spouse, parents or parents-In-law, as long as they are U.S. residents. Coverage is available in “daily benefit” amounts of $100, $150, or $200 in long term care facilities. All of the options include an optional inflation increase in daily benefit amount every three years.

Some of the features of the plan are:

- Home care services (even if provided by a family member) are covered at 75% of daily benefit amount.
- Eligibility for receiving benefits are based on “activities of daily living” (ADL); unable to perform at least 2 of the 6 ADL for a period of at least 90 days due to a loss of functional capacity.
- Employees that enroll during their first initial enrollment are guaranteed participation in the LTC Plan; medical evidence required for all others. (U.S. citizens are eligible).
- Premiums are waived once benefits begin.
- Coverage is portable if you leave Alcoa.

You cannot use your FlexCredits to pay for Long Term Care coverage. Payroll deductions are available for the employee and spouse. All others are direct billed.

Employees can call 1-800 GETMET-8 (1-800-438-6388) for information on the new Long Term Care Insurance Plan. Representatives can answer questions and take requests for enrollment kits. Active employees (but not spouses) can enroll via this number during the initial enrollment period.

Alternatively, active employees can view plan and rate information on the MetLife Web site at http://alcoa.metlife.com Active employees can enroll on-line (except in Kentucky and Montana) and request an enrollment kit for their spouse or other eligible family members.

## COMPENSATION OVERVIEW

Alcoa's compensation package for expatriates is based on one salary system to insure that all expatriates regardless of home or host location will all be paid on the same basis. Additionally any deductions for such items as housing and taxes and any payments for allowances such as cost-of-living, foreign service pay, etc., all of which are explained in the following pages, would be comparable to all other global expatriates.

Based on cost analysis of different country's salary structures, tax basis, housing costs, etc., the Company believes one compensation system should be used for all expatriates regardless of the home country or host location to maintain equity among all employees on a global assignment as an expatriate. Therefore, all global transferees will be maintained on a U.S. dollar basis regardless of their home or host location.

To the extent possible, the Company will maintain you in your home country social and pension plans while on assignment. In those cases where you are required to make a compulsory contribution to remain in your home country plans, your Prudential IAM will coordinate any such payments with your home country Human Resource/Payroll Administrator. These payments would result in a deduction from your U.S. pay and that deduction would then be credited to your home location to continue to maintain you in your home country pension or social plans.

## EXPLANATION OF ALCOA'S EXPATRIATE MONTHLY ALLOWANCES/DEDUCTIONS

### Dependent Status

It is important that you keep your Prudential IAM advised any changes in the number of dependents living with you at the host location as well as changes in your tax dependents. This information is necessary for the purpose of calculating the allowable tax deductions and allowances paid to you in the form of a cost-of-living allowance. Dependents for expatriate tax compensation are based on the following criteria:

> The claimed dependent must have less than $2750 of gross income for the calendar year. This income restriction does not apply if the dependent is a child of the expatriate and either is under age 19 at the close of the calendar year or is a full-time student under age 24 at the end of the calendar year.
>
> Over half of the dependent's total support for that calendar year must have been furnished by the expatriate.
>
> A dependent may also be a relative of the expatriate who qualifies as a tax dependent under the definition of U.S. tax laws. Personal situations may be discussed with the Company's tax consultant at the time of the orientation.

For those expatriates that do not have a U.S. government assigned social security number, an internal Alcoa number will be assigned by Alcoa which is only to be used for internal Alcoa purposes. This number is not valid for any other purpose other than internal Alcoa business.

Each month the Prudential IAM will prepare a compensation analysis sheet and forward to each expatriate. This compensation analysis sheet outlines key payments/deductions to be included in that month's paycheck.

Below is an explanation of the various components of expatriate compensation:

### Base Salary

The expatriate's monthly Alcoa salary paid in U.S. dollars.

### 401K

Employee pre-tax contribution to the Company's U.S. savings plan. For those employees ineligible to contribute to the U.S. savings plan, a cash payment equal to 6% of the monthly base salary will be paid in cash each month in lieu of the contributions into the U.S. savings plan. This payment is taxable income to the employee.

### Savings Differential Allowance

For legal reasons it is not possible for non-U.S. citizen expatriates to participate in the Alcoa Savings Plan (401K) described above. In lieu of this benefit, these expatriates

are paid a cash sum each month equivalent to the Company's contribution (Savings Differential) based on an assumed maximum savings on the part of the expatriate.

**Deferred Compensation Deduction**

Eligible employees may elect to defer a percentage of their annual incentive compensation and therefore postpone taxation until a future date. Eligible employees may continue to elect this option as expatriates which will impact the monthly hypothetical tax deduction.

**Incentive Compensation Allowance**

Eligible employees may receive this benefit by achieving key individual performance targets and the Business Unit reaches its performance goals.

**Foreign Service Premium (FSP) Allowance**

This payment is distinguished from those related to the environmental conditions that may or may not justify a hardship allowance. FSP is an incentive payment designed to acknowledge that the employee/family is leaving familiar working and living conditions. It offers tangible recognition of the difficulties inherent in expatriate service, such as the necessity for conducting business under unfamiliar laws and customs and in a language other than the employees native one, and separation from home country support staff. The premiums cover expanded duties and responsibilities – for example, training and developing national employees who may have work habits different from those to which the expatriate was accustomed, or the increased public relations responsibility involved in representing the Company at the host location. It is also designed to compensate for different work schedules, longer working hours, and separation from home country relatives, friends, business and professional associates. Finally, the premium recognizes that the employee, spouse, and family will have to adjust to different living patterns, cultural and social environments, and recreation and leisure time activities – that they will become "foreigners" living under unfamiliar political and social institutions. This is calculated as a fixed percent of the monthly base salary, capped at a maximum dollar amount, and is a tax-free incentive pay to the expatriate. The FSP starts on the day of arrival at the Host Location for assignment and is discontinued on the last scheduled work day at the Host Location.

**Hardship Pay Allowance**

This payment is made to expatriates assigned to posts where it has been determined through the use of consulting companies and management input that the living conditions are extraordinarily difficult or notably unhealthy or there may be excessive physical hardship. The degree of hardship is determined by evaluating such elements as inadequate housing accommodations; lack of cultural and recreation facilities; geographical isolation; inadequate transportation facilities; lack of food and consumer services; adverse effects of climate or altitude; conditions dangerous to life, physical well-being, or mental health; incidence of disease and epidemics; lack of public sanitation; inadequate health control measures; and inadequate medical and hospital facilities. This is calculated as a fixed percent of the monthly base salary, capped at a maximum dollar amount and is tax-free to the expatriate. The Hardship Pay Allowance

starts on the day of arrival at the Host Location for assignment and is discontinued on the last scheduled work day at the Host Location.

**Hypothetical U.S. Tax Deduction**

Since Alcoa expatriates are all paid via a U.S. salary base, the Company maintains a tax equalization program (see TAX section of this manual) whereby the expatriate neither bears the burden of any additional taxation nor reaps any windfalls as a consequence of expatriation. To implement this system, the Company deducts a hypothetical U.S. federal income tax monthly from the expatriate. This hypothetical tax deduction is provided by our consultants, Organization Resources Counselors, Inc. (ORC) and is based on average U.S. federal income tax rates at your salary level and takes into consideration the number of actual tax dependents allowed by the government. Included in this number is a reduction for taxes based on the average deduction an individual normally can claim for charitable contributions, medical expenses, etc. This reduction is based on the national average of allowable deductions. Expatriates will have a hypothetical tax deducted monthly from their normal salary. This deduction will be credited to the expatriate's host location through the inter-company accounting system as an offset against the total cost charged to that location on behalf of the expatriate. The hypothetical tax deduction will increase or decrease from time to time based on changes to salary, changes in number of dependents, changes in savings plan or deferred compensation contributions or changes in US tax laws. Actual host country tax costs will be paid by the Company. Refer to the "TAXES" section of this manual for additional information on the Company's tax program for expatriates.

**Calculated U.S. Housing Obligation Deduction**

Since Alcoa expatriates are all paid via a U.S. salary base, the Company maintains a housing policy whereby the employee contributes to their housing cost at the host location an average amount that would have been made if living in the U.S. A hypothetical U.S. housing obligation will be deducted each month from the expatriate's salary. This deduction will be based on our consultant's current housing table in effect in the year of transfer. The expatriate will then continue to be held to this same obligation (unless there is a change in marital status or the assignment is to another location outside the current region). The housing deduction starts the day the expatriate moves into permanent living quarters at the host location and is prorated for the first and last months of the expatriate's assignment. This deduction will be credited to the expatriate's host location through the inter-company accounting system as an offset against the total costs charged to that location on behalf of the expatriate. This housing data is provided by consultants considered among the best in the industry for providing data of this nature to global corporations.

The expatriate generally will rent housing in the host country of assignment of a standard reasonable for an expatriate at his/her salary level. The purpose is not to provide housing equivalent to that left behind in the home country. For example, the employee leaving behind a large country home and land, of course, will not find a comparable accommodation in many host locations nor is the intent of the policy to find comparable housing to home but based on customary and reasonable housing costs for

expatriates at the host location. Refer to the “Housing” section of this manual for additional information on the Company’s housing programs for expatriates.

**Cost-of-Living Allowance**

The primary purpose of a cost-of-living allowance is to enable an employee paid on a U.S. base salary to maintain the purchasing power of peers in the U.S. and to provide assistance in covering added costs in the host location. A cost-of-living index is provided by our outside consultant, ORC and is based on current pricing surveys between the U.S. and the host location for goods and services as well as adjustments for exchange rates. The U.S. spendable income is the portion of the U.S. base salary that a typical family or individual spends on goods and services in the U.S. The U.S. spendable income (day-to-day living costs) increases as US base salary and/or family size increases or decreases when a member of the host location family leaves the assignment location. Any gap between the U.S. spendable income and assignment-location spendable income is filled by a cost-of-living allowance which can either be positive (because costs in the assignment location are higher than the U.S.) or negative (because costs are lower than in the U.S.). Our consultant, outlines a market basket which represents a sample of approximately 175 individual goods and services purchased by typical consumers which include the following categories:

Food at Home
Clothing
Recreation
Furnishings & Household Operation
Tobacco and Alcohol
Food away from Home
Transportation
Personal Care
Medical Care
Domestic Service

Each category is further broken down into subcategories, each of which represents a proportion of total spendable income (i.e. , a weight). **Example**: Ten percent of income may be spent on clothing, but the subcategory women’s dresses might represent 20 percent of the total clothing category.

ORC tracks price differences of the market basket items between the U.S. and assignment location through periodic surveys and follows these steps:

For each item priced, ORC calculates an assigned weight that represents a proportion of spendable income according to typical spending patterns.

ORC compares prices in the U.S. and assignment location, calculating a price ratio for each item (the assignment-location price expressed in U.S. currency divided by the U.S. price).

The price ratio for each item is multiplied by its assigned weight to represent that item’s contribution to the overall index.

An overall index (the total of all category indexes) is calculated at the exchange rate in effect at the time of the publication comparison.

The overall index is compared with a base of 100, which represents the U.S. costs. An index greater than 100 indicates that costs of goods and services in the assignment location are more expensive than in the U.S. Likewise, an index of less than 100 indicates that assignment location costs are less expensive than costs in the U.S.

The method used to arrive at the cost-of-living allowance is to multiply the U.S. spendable income by that portion of the goods and services index greater than 100, expressed as a decimal. Even though in most countries the difference in costs vary little from month to month, the cost-of-living index is adjusted monthly, by Alcoa, for any update in exchange rate variances.

**Obtaining Host Location Currency**

Since expatriates monthly paychecks are deposited in a U.S. bank account, the expatriate must have a current U.S. bank account. There are several options for obtaining local currency to use at their host assignment location.

(1) Open a bank account at the host location and make arrangements with your U.S. bank to wire transfer a certain dollar amount monthly to the host location bank account. The fee incurred by each bank for this once per month wire transfer may be reimbursed by submitting the expense, say quarterly, to the Prudential Expense Analyst, Michelle Matteson in Scottsdale, Arizona using the Moving Expense Statement.

For expatriates paid in U.S. dollars where the U.S. is not your home country, you may claim the cost of two wire transfers each month – one to your home country and one to the host country.

(2) Use a U.S. banking machine card to access funds from a compatible banking machine at the host location. Generally, there is a daily limit on the amount of funds one can withdraw.

(3) Write a check against your U.S. bank account and deposit into your host location bank. This generally takes about one week for the host location bank to clear the check and guarantee the funds are available in your U.S. bank account. Once cleared, you can withdraw the equivalent funds deposited in local currency.

(4) Take a U.S. direct debit bank card and present it to the host location bank and ask to take a cash advance against the card. The local bank treats the debit card as if it were a charge card and charges the funds to the debit card and the funds are coming directly from your U.S. checking account. The funds are immediately deposited into your host location bank account.

## CULTURAL ORIENTATION PROGRAM

Alcoa has contracted with Prudential Relocation International to provide cross-cultural training to expatriates and their spouse as an introduction to their new host country. Prudential's program also includes information on living in the new host country, communicating across cultures, culture shock, adaptation, and doing business in the host country, etc.

Prudential's IAM will schedule this training session at a time that is convenient to your schedule and prior to you departing on assignment. This two-day briefing is a Company requirement for accepting a global assignment.

## EDUCATION ALLOWANCE FOR DEPENDENTS

### ALLOWABLE EXPENSES

The dependent education allowances referred to in this section are intended to give reasonable assistance to the Expatriate when it is recognized and approved in advance by management at the host location & Prudential IAM that the educational facilities at a given host location do not provide for an education normally received in the public schools in the employee's home country. Realizing that the employee would normally experience some expenses in his/her home country such as school tax, clothing/uniforms, food, and some miscellaneous expenses, the allowances stated in this section are not intended to cover total costs.

Those costs that are reimbursable are tuition for required courses, necessary transportation, books and charges for course materials (lab fees, etc.) that are required by the school. Language training is reimbursable only for a child attending a local school where the curriculum is not conducted in his/her native language. The costs of field trips, elective sports, optional activities or items, etc. are not reimbursable.

Reimbursement of approved costs will be made as indicated in the last paragraph of this section entitled, "Reimbursement of Expenses."

### QUALIFICATION—DEPENDENTS

For expatriates on married or single status with legal custody of dependents, the following family members will qualify for specific dependent education allowances as outlined below:

- Unmarried children under the age of 21 who reside with the expatriate.
- Full-time students under the age of 25 who will be enrolled in a recognized course of study or training for at least one full academic year. The course of study must lead to a career in that field.

### EDUCATION ALLOWANCES

#### Pre-Schooling

The Company will share the cost for this schooling provided it is a structured pre-school education program for the two years prior to entering Kindergarten.

The Company will establish a reasonable subsidy to assist in tuition expense. The expatriate will be held to a hypothetical cost established by the Prudential IAM in Scottsdale, Arizona, each year based on the average cost of pre-schools for each age group. (Since expatriates are paid via the US payroll, the hypothetical costs will be

based on US costs.) The subsidy will be based on the age of the child and number of hours per week the school is attended. For schools approved by the host location manager, the Company will pay any reasonable additional costs beyond the hypothetical US costs. Families that elect this option should request the current hypothetical pre-school cost from the Prudential IAM.

Any transportation costs will not be reimbursed.

### Kindergarten/Grammar/High School—Host Location

Where an International School is available, the Company will reimburse tuition and the other reimbursable expenses outlined in the above paragraph entitled, “Allowable Expenses.”

In those locations where an International School is not available, the Company will establish a reasonable subsidy to assist with the tuition for another school that will provide an education that is on par with the education provided by the International Schools System.

When the Expatriate chooses not to send the student to a local public school that has been deemed adequate, the maximum allowance received will be the approved local public school allowance for the specific grade applicable as though the student were attending a local public school, and no transportation allowance will be given.

**FOR THE FOLLOWING SITUATIONS, THE BASIC TEST OF A SCHOOL’S ADEQUACY IS THAT A CHILD WHO POSSESSES NORMAL, STANDARD LEARNING SKILLS, AND COMPLETES A GRADE IN THE OVERSEAS ELEMENTARY OR SECONDARY SCHOOL, WILL BE ABLE TO ENTER THE NEXT HIGHER GRADE IN A PUBLIC SCHOOL IN THE HOME COUNTRY.**

### Grammar/High School—Home Country Location

Only in those host locations where public schools and private schools (or certain grades) have been determined to be inadequate by local management and Prudential IAM in Scottsdale, Arizona a dependent education allowance will be given to assist in the expenses incurred when the student remains in the expatriate’s home country for grammar school or high school studies. The Company will establish a maximum subsidy to assist in covering actual tuition, room, board and certain required expenses.

Should the student remain in the expatriate’s home country to attend a public school and live independently or with a family member or guardian, certain expenses are reimbursable.

For those students who are currently attending a private school of their choice in the expatriate's home country, the parent will continue to be responsible for the tuition and school fees.

Whether a public or private school is attended, the Company will reimburse expenses which would normally occur if the student were living with parents in the home country and should include ordinary and reasonable costs for meals, necessary transportation and an equitable amount that will recognize the responsibilities of a family member or temporary guardian(s) that are inherent in this situation. All of this information must be submitted in advance to your Prudential IAM.

In addition, the student is entitled to two round trips, most direct route, business class from the school to the expatriate's host country plus a Travel Expense Allowance of $75 per round trip.

### Grammar High School—Other than Host/Home Location

In those host locations where local management have determined that the local schools (or certain grades) are inadequate according to home country public school standards, either at the grammar school or high school levels, it might be necessary for the student to attend a school in a location other than the host or home location.

When the parents elect not to keep the child in the home country school and choose to utilize a school closer to their host location, the maximum allowance will be based on the amount of reasonable and customary boarding and related costs established for the home country.

However, consideration may be given to a boarding facility that is significantly closer to the employee's host country location even though the costs might be slightly higher.

In addition, round trip, most direct route, coach class air transportation costs will be reimbursed once per year as follows:

- One trip per year from the school to the employee's point of origin
- One trip per year from the school to the employee's host location

In addition, a Travel Expense Allowance of $75 for each of the above trips is reimbursable.

### TUTORING/ADDITIONAL COURSES

In certain cases, the host country school may advise the need for special/additional tutoring in order to bridge any shortfalls between the home country school's and the

new host country school's requirements or to allow expatriates' children to integrate into the next assignment's educational system. For reimbursement of these expenses, the expatriate will need to do the following.

- Obtain a letter from the host or home country school's administration evidencing the need for tutoring/additional courses; and
- Submit the costs with receipts on Moving Expense Statement specifying the need and anticipated amount of tutoring, hours, etc. required for the child to the Prudential Expense Analyst, Michelle Matteson care of Alcoa Corporate Center, Pittsburgh for processing.

Additionally, language lessons are provided in those instances where courses are taught in a language unfamiliar to the child. Alcoa will reimburse costs associated with some necessary language tutoring if it takes place at the child's school. These costs are also reimbursable by submitting the costs with receipts on Moving Expense Statement.

**COLLEGE STUDENTS**

Alcoa Does Not provide an allowance to assist the Expatriate with the expense of educating a student at the college or university level. Alcoa will, however, pay a maximum of one round trip, business class airfare each school year using the most direct route from the school attended to the parents' host location plus $75 per round trip as a Travel Expense Allowance. The number of round trips is limited to four (one per year for the normal four-year course) and shall be taken in lieu of the dependent student's Vacation Transportation and Travel Expense Allowance due when residing with parents in the host location. One of the student's parents may use this round trip transportation once per year in substitution of the student. If a parent uses the ticket, they are not entitled to the $75 Travel Expense Allowance. If the dependent student is married, the allowances referred to in this section do not apply to the student's spouse or children.

In addition to the one round trip each school year, Alcoa will pay a maximum of $350 or the actual transportation cost, whichever is less, of a second trip within or outside the home country or continental United States. This trip must be taken during the academic school year. The Travel Expense Allowance for this trip is $75.00.

**REIMBURSEMENT OF EXPENSES**

An original Moving Expense Statement covering any expense allowed under this Education Allowance for Dependents must be sent to the Prudential Expense Analyst, Michelle Matteson care of Alcoa Corporate Center, Pittsburgh for processing.

Original receipts for expenses claimed must be attached to the Expense Statement. The receipts should include the student's name, school attended, location of school, grade attended, a breakdown of the charges and the period of time covered. The appropriate charges and the student's name and period of time covered should be indicated on the Expense Statement. All charges should be converted to U.S. dollars and all receipts should be translated into English.

## EMERGENCY PLANNING

In the unlikely event that you and your family encounter some unforeseen emergency, the following guidelines have been established to assist you during those times.

Listed below is the 24-hour/day telephone number you may use if you need to contact Alcoa in case of emergency. Alcoa Corporate Center Guards will answer and direct your concerns to appropriate personnel.

**412/553-4001**

This telephone number may also be given to relatives with the understanding that it is to be used by them **only** for emergencies or to ascertain an expatriate's safe status when they are otherwise unable to reach the expatriate. The caller should provide the operator with:

- The caller's name, location and telephone number
- The nature of the problem
- The expatriate's name and location (when relatives call in)

### Emergency Planning At Overseas Location

1. Learn about any local emergency evacuation plans and discuss with family members.
2. If you have children in local schools, check on their emergency evacuation plan. If there is none, suggest to the school that they develop a plan.
3. Plan for pets if evacuation is declared—either preparing them for travel with up-to-date inoculation records and veterinary examinations or finding a suitable home for them if it is necessary to leave them behind.
4. Keep abreast of your local security situation.
5. Review your inventory/check list periodically and update.
6. Learn at least some of the local language to help you in any emergency. In the local language, post a list of instructions and essential phone numbers for household employees.
7. Learn the location of the closest hospital, police station, and embassy with which your home country has diplomatic relations.
8. Prepare a supply of identification tags for luggage and personal effects to be used for sudden evacuation.

9. We suggest you consider identifying a "surrogate parent" at your location with whom you may leave a power of attorney for medical or other emergencies when you might be separated from your children.
10. Maintain a separate first aid kit for emergency situations. Keep immunizations up-to-date and recorded on your yellow "shot card."
11. After checking on the overseas location's particular problems—frequent loss of electricity, water, food shortages, etc.—keep necessary items stored for emergencies.
12. Give some thought to necessary items to take with you in the event of evacuation and items to be air freighted later.

**Evacuation Or Emergency Phasedown**

In the event of an evacuation or emergency phasedown, consideration should be given to the following:

1. Pack luggage with suitable clothing and other necessities.
2. Pack some toys, snacks, games, and books for children to use when traveling.
3. Pack up those important papers and records to carry with you, as well as emergency medication.
4. Take traveler's checks, personal checks, and some U.S. and local currency with you. Also, take your home country driver's license, passport(s) and credit cards.
5. Wear practical traveling clothes, suitable for climate of destination, and, when traveling with small children, carry one or more changes of clothing for them.

For additional information on Emergency Planning see enclosed U.S. Department of State booklet entitled Security Guidelines for American Families Living Abroad and Personal Security Guidelines for the American Business Traveler Overseas.

## PERSONAL EMERGENCIES

### Death Of Expatriate Or Dependent Overseas

Should an expatriate or dependent die while residing in their host location, the Company will pay the expatriate's estate any applicable differentials, allowances, value of accrued leave or legally required payments, if any, through date of death deducting outstanding charges in his/her personal account.

1. If buried overseas, the Company will pay for embalming and preparing the body for burial to satisfy government requirements.
2. If burial is to be at the point of origin or other approved location in the home country, the Company will pay for:
   a) preparing body for burial;
   b) cost of required shipping container;
   c) required documentation;
   d) transportation to undertaking establishment that is no further distant than the point of origin.

The cost of the disposition of the remains such as casket, funeral, burial plot and marker will be the responsibility of the expatriate or family.

### Reporting A Death Abroad

We suggest your country's nearest embassy or consulate be notified as soon as possible when a death occurs. Upon notification, the consular officer may do the following:

- Request proof of the decedent's citizenship (for example, U.S. passport, birth certificate, or naturalization certificate);
- Report the death to the next of kin or legal representative;
- Obtain instructions and funds from the family to make arrangements for local burial or return the body to the home country;
- Obtain the local death certificate and prepare a "Report of Death" for forwarding to the next of kin or legal representative (in the U.S. courts, this document may be used to settle estate matters);
- Serve as provisional conservator of the deceased's estate and arrange for disposition of those effects.

**Death Or Illness Of Family Member**

1. Paid Leave:

   Limited time off will be permitted in case of serious illness or death of expatriate's spouse, child, parent, sister or brother. In the event of a death, normal time off will be up to 15 days plus travel; for serious illness, up to 7 days plus travel time. Additional days would be charged against vacation accrued.

2. Transportation (round-trip air fare) only will be reimbursed by the Company from the host location to the employee's home country location. All other expenses are the employee's personal financial responsibility.

   a) for employee in the event of death or serious illness of spouse, mother or father, brother or sister;

   b) for employee's spouse in the event of death or serious illness of mother, father, brother or sister;

   c) for employee or spouse in the event of serious illness of a child not residing at the foreign location;

   d) for employee, spouse and children in the event of death of a child not residing at the foreign location.

At the discretion of the host location manager, round trip transportation may be allowed for expatriate and spouse in the event of death of either of their immediate family.

## SECURITY PLANNING

We are accountable—individually and in teams—for our actions and results. This is a basic Alcoa value—and it especially holds true when we think about our own safety and security as we travel or live in other countries.

To help you remember some basic security concepts, the Corporate Security Department has created a word association:

### AL-CO-A B-A-S-I-C-S

**AL** ALERT to your surroundings. Watch for unusual events. Be aware of potential problems.

**CO** COMMUNICATIONS - Know how to communicate with your family, your business associates, and emergency assistance services. Try to have a back-up communication capability.

**A** ALTERNATIVES - Plan different courses of action, routes or methods of travel. Vary your route to work.

**B** BLEND into your country, its culture, the normal routines.

**A** ASK for help. Assuming you know what is right or correct or acceptable might cause you to unknowingly violate a law of a country.

**S** SAFETY - Practice defensive driving; as a pedestrian, be alert to local driving customs. Avoid injury caused by inattentiveness, improper lifting, climbing, or carrying. Emergency medical service may not be as available or capable as in your own country.

**I** INFORMED - Stay informed about the weather, politics, holidays, and crime. Keep trusted friends informed about your plans.

**C** CAREFUL AND CONFIDENT - Be careful in your activities, but confident in your ability to handle yourself in an emergency because you have planned and practiced these security concepts.

**S** SECURITY is mostly common sense, planning, staying calm and reacting logically. Control access to your home, your cars, your place of business. Use detectors to alert you to intrusion or fire. Have an escape route.

The Alcoa Corporate Security Department works closely with the Prudential IAM to assure that those employees and their families who accept assignments at locations outside their home country have access to information and assistance for their personal safety and security.

Through the U.S. State Department, the Overseas Advisory Council, and Control Risks, Ltd., we are able to regularly monitor changing conditions throughout the world. For extremely uncertain situations, such as the 1991 Gulf War, Alcoa will develop positions on travel and residence in the country which reflect our values and the potential for increased danger.

While the host country location has a primary responsibility to assist expatriates in recognizing and dealing with security problems which are reflective of the local political and cultural conditions, the Corporate Security Department is available to provide additional guidance or suggest other alternatives. We will also assist you with concerns you have about traveling to other countries on business or vacation.

The emergency telephone number listed in this manual is monitored 24-hours per day by Alcoa Corporate Center security guards. They are instructed to locate Corporate Security personnel and others who may be able to provide assistance.

For other information concerning security planning tips, see the section under “Information on Living Abroad” and the enclosed U.S. Department of State booklet entitled Security Guidelines for American Families Living Abroad and Personal Security Guidelines for the American Business Traveler Overseas.

**WHERE TO GO FOR HELP IN ALCOA**

The following are some additional Alcoa telephone contact numbers in the U.S. you may find useful in an emergency:

Medical Department 412/553-4520 (No VMX - 7:30 a.m. - 4:30 p.m.)
412/553-2317 (VMX - after 4:30 p.m.)

Psychological/Psychiatric- SAIC Phone: 703-676-2314
Carol Lepere
carol.a.lepere@cpmx.saic.com

Security/Travel Conditions Phone: 412/553-4166
Fax: 412/553-3313

Corporate Security Contact
Jay Zelezniak Phone: 412/553-4166

Prudential Relocation International
Sako Nishida Phone: 480/778-6595
Susan Barlow Phone: 480/778-6594

**Double Click Icon Below to view Security Guidelines For American Families Living Abroad-Last Revised Nov 1994**

## HOUSING

The objective of the housing policy is that the expatriate should pay no more than what would be normal for a U.S. counterpart with the same base salary and family size. A hypothetical U.S. housing obligation will be deducted each month from the expatriate's salary. These housing figures represent the average U.S. housing cost (including basic utilities). The hypothetical housing deduction is based on the Company's current consultant's data (Organization Resources Counselors, Inc.) in effect at the time of the transfer and will remain constant during the assignment unless there is a change in marital status or assignment to another host location outside the expatriate's current region.

The housing obligation will be credited back to the host location to partially off set the total host housing costs. Each host location together with information provided by consultants will determine the actual housing cost level/type of housing that the expatriate should rent based on customary and reasonable costs for housing at the host location. Host housing costs are the Company's responsibility and in most cases will be paid directly by the host location.

### EMPLOYEE LEASED HOUSING

In those locations where there are no Company-owned or leased houses, employees must work with the host location management and their agents to rent property. The Company will assist the employee by providing transportation for househunting, referring the employee to reliable real estate agents and making loans available to cover rental deposits, "key money" and advance payments based on customary and reasonable housing costs at that host location. Employee leased housing is subject to advance approval by the location manager before any commitments are made to rent the property.

### COMPANY-OWNED HOUSING

If Company-owned housing is made available to an employee at the host location, the employee will be responsible to properly maintain its present condition and will be held responsible for damages beyond normal wear and tear of day-to-day living, i.e., damages caused by the employee's neglect or misuse. At the end of an employee's use of Company-owned housing, the employee will be asked to reimburse Alcoa for damages caused to the Company-owned housing in excess of normal wear and tear.

**SALE OF PRINCIPAL RESIDENCE**

An employee may elect to sell their principle residence on their own and the Company will reimburse the customary closing costs under the Direct Reimbursement Option. Your Prudential International Assignment Manager will discuss other options with you during the orientation process.

**EMPLOYEE-OWNED HOUSING**

The Company discourages home ownership for expatriates at their host location. However, each business unit can decide if the Company will purchase (and lease to the employee) a home or give assistance for an employee to purchase at the host location when the expatriate is unable to find suitable rental accommodations and there is a stable market at the host location.

The standard of housing as well as buying/selling a house is left to the discretion of the business unit. With approval from the business unit, the expatriate will be given Company assistance to purchase a property and assume all day-to-day costs including the mortgage and utilities on the property and will no longer contribute a hypothetical housing deduction to the Company.

**LEASE MANAGEMENT PROGRAM**

The expatriate may sign a power of attorney authorizing the Company's agent to make arrangements for the rental of their principal residence. Under this plan the expatriate receives the rental income from their property but is guaranteed the income will be no less than their hypothetical housing obligation deducted by the Company as outlined on the Compensation Analysis Sheet.

**OPTIONAL HOME RENTAL PLAN**

The following sample formula is available for those expatriates who do not place their home under the Lease Management Program but wish to maintain their home and personally make all arrangements for rental to another party (relative, friend, etc.)

| | |
|---|---|
| U.S. Hypothetical Housing Obligation deducted from Expatriate's monthly paycheck while at the host location | $ 1400.00 |
| Less Monthly Fair Rental value of expatriate's principal residence in their home country. Alcoa to engage agent to determine the fair rental value or the amount of rent that could be expected from a tenant had the Company rented the house on the expatriate's behalf | -1200.00 |
| If the expatriate rents their home including household goods and places nothing in storage the Company will give the expatriate credit for the savings of no storage costs but the Company will not bear any additional cost for furnishings at the host location as a result of the employee not shipping or storing their household goods | + 200.00 |
| Total monthly payment to employee | +400.00 |

## DUAL-HOUSING EXCEPTION

The Company may, under certain conditions, request an employee to maintain their present home while on an expatriate assignment. In these special cases, the expatriate will be provided Company-paid accommodations at the host location or assume certain costs to maintain the home country residence. In these cases, there will be no housing offset.

## UTILITIES/MAINTENANCE COSTS ON HOST PROPERTY

The intent is not to cover all utility expenses incurred at the host location–only those that would not normally be incurred in the home country.

As indicated in Paragraph 1 of this section, a hypothetical U.S. housing cost (including basic utilities) will be deducted each month from the expatriate's salary. Therefore, the basic intention of the utilities/maintenance cost reimbursement is to likewise reimburse basic utilities costs at the host location. Basic utility costs are considered to be:

**Telephone** – Basic telephone equipment purchase/rental costs plus installation charges are reimbursable. Optional equipment and services such as call waiting, caller I.D. voice mail, which are generally considered extra services at home are the employee's personal financial responsibility. All other telephone costs are the expatriate's responsibility including local and long distance calls. Only the initial installation charge is reimbursable. All other telephone charges are the expatriate's personal financial responsibility. Additionally the company will reimburse the installation and basic monthly dial-up fee only for the internet service provider.

**Cell Phones**: Cell phones are optional equipment and are the employee's personal financial responsibility unless the location manager or the security manager at the Alcoa Corporate Center or host location has advised the need for a cell phone for security reasons. In those instances, the Company will only pay for the basic equipment costs.

**Cable, Satellite, etc**.—Only the initial installation charge and basic monthly charges are reimbursable. Any premium channels: Showtime, HBO (or their international

counterparts), special sports channels, or any other type of pay-per-view channels are the expatriate's personal financial responsibility.

**Gas, Electricity, Water, Sewage and Garbage Removal** – Costs are reimbursable, and generally paid by the host location administration.

**Lawn Care/Gardeners** – Costs are **not** reimbursable and are the expatriate's personal financial responsibility. The Company will however reimburse the expatriate for basic lawn care equipment based on customary and reasonable cost.

Generally the expatriate will work with the host location administrator to have these invoices paid directly by the Company; however, in those instances where these expenses are not paid by the location, expenses can be submitted by the expatriate on a Moving Expense Statement along with the supporting documentation for reimbursement.

## DOMESTIC HELP

Chauffeurs, domestic help, (maids, cooks, babysitters) or any service providers of this nature are the expatriate's personal financial responsibility.

## HOUSEHOLD PACKING, SHIPPING AND STORAGE

Alcoa has engaged Prudential Relocation International to manage the shipment of your personal effects and household goods. Prudential will provide all the shipping requirements for expatriates.

Within a few days of your initial briefing by the Prudential IAM, you will receive a call from one of Prudential's International Transportation Coordinator (ITC) who is based regionally and is assigned to handle moves originating from your location. You should work directly with your assigned ITC on the details of your move as it relates to the shipment and storage of your household goods. However, any questions relating to the interpretation of the guidelines outlined in this section of the Orientation Manual should be directed to your Prudential IAM.

Please refer to the International Assignment Contact List for the name of your specific International Transportation Coordinator.

### BAGGAGE ALLOWANCE

In as much as allowances for both checked and carry-on baggage vary from airline to airline and from point of origin to point of destination, we strongly recommend that you obtain the exact baggage allowances with your travel agent when you make the reservations for your trip. Any charges for excess baggage will be to your personal financial responsibility.

**OR**

The Company will pay the fee of excess baggage in lieu of air shipment, provided the cost does not exceed the fee/charge of the allowable air shipment.

### DEFINITION OF TERMS

In order to avoid confusion, the following terms are used as defined below:

- **Personal Effects** - Items of clothing, children's toys and other items of personal use which are usually shipped as accompanied or unaccompanied baggage.
- **Basic Furniture** - Items of the type that are used in living, dining, and bed rooms such as sofas, chairs, tables, beds, dressers, etc.
- **Household Furnishings** - Such items as towels, sheet sets, blankets, bedspreads, pillows, glassware, china, kitchenware, curtains, pictures, infant cribs and other nursery items.

- **Appliances/Electronics** - Washers, dryers, refrigerators, stoves, dishwashers, microwaves, vacuum cleaners, TV's, VCR's, stereos, radios, computers, lamps, etc.

Expatriates are expected to ship at Company expense all necessary basic furniture, appliances/electronics, household furnishings and personal effects as indicated above to their host location to establish comfortable living arrangements. However, the Company realizes that it usually is not possible to duplicate the home country living situation and this fact is taken into consideration in the Foreign Service Premium.

Those appliances/electronics that can be adapted for use in the host country should be shipped at Company expense. In those countries where the expatriate's home country appliances/electronics are not electronically compatible with the voltage/current of that of the host country, the Company will reimburse the expatriate for the cost of adapters/converters. The Company will not reimburse the cost of appliances/electronics unless they cannot be adequately converted by the use of adapters/converters. If it is necessary to replace appliances/electronics, the Company will reimburse only customary and reasonable replacement costs and only those appliances/electronics which the employee owned prior to the move as indicated by the Valued Inventory List.

When window treatments and area carpets are not provided at the host location rental accommodations, the expatriate may purchase these items based on reasonable and customary costs.

The costs of converters, adapters, appliances, electronics (when necessary), window treatments, area carpets, etc. are usually reimbursed via the Moving Expense Statement.

All items purchased by the Company for the expatriate's use are considered the Company's property and it is expected they will be maintained in good condition. Upon the repatriation of the employee, these items will then become part of the Company's inventory.

**PRELIMINARY SURVEY**

A survey will be made by a representative of the moving company in advance of your move to determine packing material and container requirements. At this time, you should indicate which items will be shipped to the host location and which items will be placed in storage for the duration of your assignment. Please point out any items that you believe will require special handling or packing. The Prudential ITC will advise you of your home and host country agent contacts who will assist you with your move.

## LIMITATIONS ON ITEMS SHIPPED

### Personal Effects Shipment

The expatriate should make special arrangements to transport or store and insure items such as jewelry, personal papers, stamp or coin collections, trading stamps, and any other valuables.

The **Company will neither arrange for nor pay the cost of their shipment, storage or insurance. Such items are not insurable by the Company or the Company's insurance carrier.** Options might be to place such valuable items in a safe-deposit box, etc. **Any arrangement costs or other fees associated with these items are the expatriate's personal financial responsibility.**

The Company will provide one airfreight shipment per family of personal effects which may be required while waiting for the ocean shipment to arrive. An employee and his/her spouse are entitled to a maximum total air shipment of 300 pounds plus 75 pounds for each qualified dependent who will be residing at the host location. This air shipment must be limited to clothing, special medical needs, baby needs, and toys for young children, unless special approval is received from the Prudential IAM. The airfreight shipment is provided to allow the expatriate and family to stay within personal luggage limitations. However, the Company will pay the cost of excess baggage in lieu of an air shipment.

The remaining personal effects will be shipped with household furnishings and furniture via ocean freight or where appropriate, land transport.

Note: Furs can be shipped and insured if the original bill of sale and/or an appraisal from a bona fide furrier are provided to the Company.

### Basic Furniture and Household Furnishings Shipment

The Company will ship your basic furniture needs based on the size of the rental property at the host location. The Company will ship those items which will make the host location residence comfortable provided such items will fit into a 40-foot shipping container.

For information regarding arrangements for automobiles, please see the AUTOMOBILE section of this Manual. Items for which the Company will not assume the cost of shipment or insurance or arrange for their shipment are items which include, but are not limited to, the following: recreational vehicles, mobile homes, trailers, airplanes, boats (other than small watercraft), bulky hobby or other equipment, etc. in addition to those excluded items mentioned under Personal Effects Shipment (above). Any employee who wishes to ship any of these items must sign a waiver assuming all responsibility and make all the arrangements for shipping, insurance, damage to the rest of the

shipment caused by these items, and any duties, taxes or fines which may be levied against these items.

We strongly recommend you discuss the shipment of pianos, organs, pool tables, etc. with our carrier to determine the feasibility of shipment as it relates to weather conditions, possible damage, etc.

Note: Antiques can be shipped and are insurable if it is accompanied by an appraisal from a certified antique dealer and a copy is provided to the Prudential International Transportation Coordinator.

If paintings, crystal, etc. of unusually high value are shipped, for insurance purposes, some documentation of their value must be sent to the Prudential ITC.

**The shipment of firearms, case lots of food, wine, liquor and tobacco is strictly prohibited since these items can jeopardize the importation of all personal effects and household items.**

Any employee who wishes to ship any of these items must sign a waiver assuming all responsibility and make all the arrangements for and assume the cost of shipping, insurance, damage to the rest of the shipment caused by these items and any duties, taxes or fines which may be levied against these items.

It is expected that the expatriate will exercise good judgment in selecting the items to be shipped to the host location such as a small amount of books, decorative items, etc., as it is impossible to replicate your home environment during this temporary period.

### Appliances/Electronics Shipment

Those appliances/electronics that can be adapted for use in the host country at a cost lower than a replacement cost should be shipped at Company expense. The cost of adapters/converters is reimbursable.

## STORAGE

Prudential Relocation International will make all arrangements involved with the packing, hauling, and movement into and, at the end of the assignment, out of storage of those items approved for storage by the Company.

The Company will pay the monthly storage costs for those items approved for storage as outlined in this section. The employee should store all items not essential for the day-to-day living at the host location.

Items that the Company will not store include, but are not limited to, the following: all items excluded in the Personal Effects Shipment (above), automobiles, recreational vehicles, mobile homes, trailers, airplanes, food, tobacco or alcoholic beverages. If an

employee owns a piano or organ and it is not necessary to ship either of these items to the host location, the employee should first attempt to have the piano or organ stored with family or friends. The Company will pay the cost to ship, if reasonable, but the Company will not pay any costs involved with the insurance of these items.

The Company will pay the cost to store antiques. However, it is necessary to have an appraisal made of these items prior to storage. The appraisal is the only valid document which the insurance company will accept for settlement of a loss and/or damage claim involving antiques. The cost of the appraisal is the employee's personal financial responsibility.

Also, please note that photographs may be shipped or stored; however, in the event of loss and damage, insurance covers only the price of film and the developing costs. Upon repatriation, household items that are already in storage or placed into storage must be removed from storage and accepted as the employee's responsibility within 12 months of the expatriate's return date. Storage for up to a maximum of 90 days only will be to the Company's expense. Any storage costs after the 90-day period is the employee's personal financial responsibility. If required, the Company will pay for access to the expatriate's storage lot once during the course of the assignment. However any charges associated with withdrawing items from storage and all moving charges are the expatriate's financial responsibility.

**VALUED INVENTORY LIST**

The "Valued Inventory List" (VIL) is to be completed by the expatriate for their effects which are being either relocated or placed in storage. This VIL is the basis for remunerative settlement of any claim for loss or damage. For your own protection, we urge you to be as detailed and accurate as possible. It is imperative that this list be received by Prudential Relocation International **prior t**o the release of your goods by Prudential for shipment or storage. **Company authorization will not be given for shipment or storage until your VIL has been reviewed and approved by your Prudential IAM, consistent with the policies in this section. Your VIL must be in the hands of your Prudential IAM at least one week before the first day of packing. This requirement is for your protection since our insurance carrier will NOT insure any items that do not appear on a VIL submitted prior to the shipment of household goods. Anyone who is not in compliance with this one week "lead time" will be required to sign a waiver that Alcoa will not insure the shipment and/or will not insure those items placed in storage.**

**PLEASE NOTE THAT PACKING WILL NOT TAKE PLACE IF THE VIL HAS NOT BEEN RECEIVED BY PRUDENTIAL RELOCATION INTERNATIONAL.**

Your Prudential IAM will provide you with a blank VIL form.

**A copy of this VIL should be retained in your host country files as you will need this for any loss/damage claims.**

## INSURANCE

Alcoa will pay for the cost of their insurance carrier. This insurance carrier will reimburse for loss and/or damage on all items (as outlined in this section) that are approved for shipment and storage and which appear on the VIL form. This insurance program is based on replacement cost.

## CLAIMS FOR LOSS/DAMAGE TO HOUSEHOLD GOODS

In the event of a loss and/or damage claim, it is imperative that you notify your Prudential IAM immediately. Any delays could jeopardize your claim. She will forward instructions as to how you should proceed to file your claim and notify our insurance carrier who may appoint a surveyor to contact you and survey the damage. Damaged item(s) may not be disposed of until authorization is granted by Alcoa's insurance carrier. You must also have available a copy of the VIL.

Should you elect to purchase separate insurance, the cost of such insurance is not reimbursable, and Alcoa's claim settlement will take into account the duplicate insurance for settlement.

## REPATRIATION OF HOUSEHOLD GOODS

Upon the completion of the expatriate assignment, Alcoa will assume the cost of returning those household goods originally shipped overseas, plus an additional 3,000 pounds net. Should the additional weight exceed this 3,000-pound limit, the employee will be responsible for the payment of all packing, transportation and delivery charges over the allowed limit.

As soon as Employees learn they are scheduled for repatriation, they should notify Linda Hepp, Expatriate Administration. Linda Hepp will then send an initiation for repatriation to the Prudential International Assignment Manager.

Expatriates must update their original VIL prior to the return shipment of their household goods and the VIL should be marked with any additions or deletions from the original list.

Expatriates will receive a package of current instructions and forms from Prudential IAM/ITC. Items which have been purchased overseas within the last 12 months might be required to be reported on an appropriate form forwarded to you by Prudential Relocation International. Sometimes these special forms are required to release your shipment. Duty and any other special charges on these personal purchases are the expatriate's personal financial responsibility. Alcoa will not assume these charges.

If you need forms or should any problems be encountered at any time during your move, please contact your Prudential IAM/ for assistance.

Please ask your ITC for a list of any items which may be restricted from shipment into the country of your destination.

All items in storage must be removed and accepted as the employee's responsibility within 12 months of the employee's return date. Storage for up to a maximum of 90 days only will be to the Company's expense. Any storage costs after the 90-day period is the employee's personal financial responsibility.

**RETIREMENT FROM OVERSEAS ASSIGNMENT**

The employee's personal effects, basic furniture and household furnishings as previously authorized in this section (and provided the total weight does not exceed the restrictions outlined in this section) will be returned to the point of origin in the home country, or to the home country location where the balance of their household effects are in storage. At the employee's option, this shipment may be placed in interim storage for a maximum of 90 days at Company expense. Any storage costs after the 90 day period is the employees personal financial responsibility. Out charges and delivery costs to your originally designated retirement location will be the responsibility of the Company to a maximum of 12 months following retirement.

The Company will move your goods from the host location and any stored goods in the home location to a retirement destination other than the last point of origin. The Company will only pay the amount that would have been paid for all goods (shipment and storage) to be moved from the host location to the original point of origin via the most direct route.

## INSURANCE

**PERSONAL PROPERTY AND PERSONAL EFFECTS**

An expatriate's personal property and personal effects should be insured by the expatriate in the same manner as the expatriate would insure them while residing in the home country. In most cases, the home country homeowner's policy will not insure belongings that are moved from one country to another.

Alcoa has found that the enclosed Chubb Plan offers personal property and personal effects coverage, as well as comprehensive personal liability and personal catastrophe liability coverage.

Your insurance coverage is an individual and personal matter, but Alcoa strongly recommends that you choose some carrier to meet your needs since this type of insurance is not provided by Alcoa. For your convenience, should you elect to use the

Chubb Plan, we have enclosed information on this Plan, the Prudential IAM will forward you an enrollment form, which should be completed and sent with your application directly to Chubb.

Please note that it is your responsibility to review Alcoa's policy regarding Household Packing, Shipping and Storage to determine which personal property and personal effects are insured in transport by the Company in order to protect yourself on any other items that will be your personal responsibility. For example, jewelry (in addition to certain other property) is not insured by Alcoa at any time prior to, during or after the expatriate assignment. Arrangements for insurance on items not insurable by Alcoa must be made by the expatriate and all charges are the expatriate's personal financial responsibility.

**TRAVEL INSURANCE**

Travel insurance is provided by Alcoa while the expatriate is traveling on Company business. However, arrangements for insurance during any other type of travel (for example, Home Leave, Education, etc.) must be made by the expatriate and all charges are the expatriate's personal financial responsibility.

**Consolidate Insurance Center Inc.**

**Contact Person**
**David M. Reeve, VP & General Manger**

**11403 Cronridge Dr., Suite 270**
**P.O. Box 0664**
**Owings Mills, MD 21117-0664**

**Phone: 410-356-9500**
**Fax: 410-363-3520**

**E-mail: dmr@cicinc.com**

**Web Site: hrrp//www.cicinc.com**

**Consolidated Insurance Center Inc.**

Consolidated Insurance Center (CIC) is a privately held professional, independent insurance agency and brokerage firm specializing in insurance plans for businesses. Consolidated has roots dating back to 1938. Today, the Center has grown to rank in the top 3% of 41,000 agencies nationwide, based on premium volume.

Consolidated offers a full complement of insurance products, services, and solutions for their clients to protect their assets and help them plan for the future.

**Contact Information**
**Telephone** 410-356-9500 **FAX** 410-363-3520

**Postal address**
Suite 270
Owings Mills Md. 21117

**Electronic mail**
General Information: info@cicinc.com
Customer Support: Service@cicinc.com

Webmaster: dmr@cicinc.com

**International Property**

“Although insurance often takes low priority as an employee prepares to go overseas, it is one of the most important things an expatriate must do.”

**(Mobility Magazine March 1991)**

**Why Buy International Personal Insurance ?**

The choice to buy the insurance you need, and not just what is available.

Underwritten by a company with a century old reputation for providing Broad Coverage and prompt, equitable claims handling ALL OVER THE WORLD.

**Broad Coverage + Excellent Service + Credible Reputation**

**Chubb International Personal Insurance**

**Important Coverage Advantages**

**Seldom Matched by any of our Competitors**

**Replacement cost of Personal Property with “Like Kind and Quality”, including** if necessary, **the cost to ship** the item to the U.S. , Canada, or any other country where the insured purchased it, and any **tariffs or duties** that may be incurred upon entrance to the country of residence. Note , in certain countries these tariffs and duties may be as much as 100 to 200% !. Our competitors only offer replacement limited to a similar item for the same use.

Coverage for **breakage is automatically provided** for your valuable articles.

Coverage for household goods and personal belongings left behind in the U.S. in commercial storage is provided.

As respects Personal Liability and Personal Excess Liability coverage , We will **“pay on behalf”** of the insured, where allowed legally to do so; our competitors will indemnify. For the U.S. or Canadian Expatriate who

has to advance a settlement of say $50,000., our coverage offers a significant benefit, the least of which is peace of mind.

We provide **Neighbors & Tenants Liability**, a coverage required in countries whose legal system is based on the Napoleonic Code i.e. France. Note, this coverage is required in some countries as a condition of your lease.

Our **Personal Liability** coverage is **worldwide**, including the U.S. and Canada.

Automatic coverage is also provided while on "home leave"

We provide **$25,000. in medical payments** coverage for a period of up to three years from the date of the accident. Our Competitors offer $1,500. for up to one year.

**Service.** We use the latest laser print technology to issue customize individual policies on an overnight basis to each and every United States or Canadian Expatriate / Third Country Nation who signs up for the program. Service. We use the latest laser print technology to issue customize individual policies on an overnight basis to each and every United States or Canadian Expatriate / Third Country Nation who signs up for the program.

Underwritten By:

Chubb Insurance Company

## International Property

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**Important Coverage Advantages**

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Underwritten By:

Chubb Insurance Company

## International Rates

Please read these guidelines before completing your application for personal insurance abroad. This information will help you select the coverages you need and determine the corresponding premium.

### Coverage Options

Five personal insurance coverages are available to you while you are residing abroad.

- Personal Property at your residence and in storage (US$200 deductible)
- Valuable Articles (no deductible)
- Personal Liability (no deductible)
- Personal Excess Liability (no deductible)
- Political Risk (US$200 deductible)

Coverage is applicable anywhere in the world during the policy term. Your policy is effective on the date you indicate on the application. This date will be shown on the Coverage Summary of your policy. Your policy is canceled when you complete your overseas assignment and return permanently to the United States or Canada.

***Coverage Selection Guidelines***

***Personal Property***

Personal Property coverage is available for property at your premises outside the United States and Canada, and separately for property placed in storage. You must purchase a minimum of US$10,000 Personal Property coverage. When selecting a limit for Personal Property coverage, you should estimate an amount that accurately reflects the total cost to replace your household goods and personal property at today's prices. For both Personal Property and Valuable Articles (see below), we recommend that you utilize the Chubb International Personal Property Inventory as an organizational tool.

***Valuable Articles***

There are two types of Valuable Articles coverage: "jewelry" and "all other". Write a complete description of each item to be insured and its value on the Valuable Articles schedule included in this kit. Attach the schedule to your application. Enter the total value, rounded to the nearest US$100, on the application as well. Please enclose appraisals for items worth more than US$5,000.

***Personal Liability***

You may elect to purchase one of three limits of Personal Liability coverage: US$100,000, US$250,000, or US$500,000. Please note the International Personal Insurance program does not provide primary automobile or watercraft insurance; however, coverage may be obtained from a local carrier abroad.

### *Personal Excess Liability*

Additional liability coverage is available in limits of US $1, $3, or $5 million. If you wish to purchase Personal Excess Liability coverage, you must purchase a limit of US$500,00 for Personal Liability. If you plan to own or operate an automobile or boat while abroad, you must have in effect primary liability limits that are the foreign currency equivalent of: US$25,000 combined single limit or US$15,000/25,000/10,000 for automobile; US$100,000 combined single limit for watercraft.

### *Political Risk*

Political Risk covers perils of war or civil war and insurrection, or acts of sabotage or terrorism. If you wish to purchase Political Risk coverage, the limit is established automatically as the sum of Personal Property (including property in storage, only if desired) and Valuable Articles coverage amounts, multiplied by the rate per US$100 in the appropriate zone in which you reside.

### *Rating Information*

This section will help you determine your total premium for each of the coverages you choose to purchase. Please bear in mind that the minimum premium for this policy is US$250

Coverage limits for the household goods, valuable articles and political risk are available in US$100 increments. The rates for these coverages are based on your foreign locations as noted the Country Classification list. Using the zone in which your foreign residence is located, you can calculate your premium for these coverages (see Premium Calculation). Please note that coverage is only available for residences located outside the United States and Canada.

| *Country Classification* | Zone A | Zone B | Zone C | Zone D |
|---|---|---|---|---|
| | Australia<br>Austria<br>Belgium<br>Denmark<br>Finland<br>France<br>Germany<br>Iceland<br>Ireland<br>Italy<br>Japan<br>Luxembourg<br>Monaco<br>Netherlands<br>New Zealand<br>Norway<br>Singapore<br>Spain<br>Sweden<br>Switzerland<br>Taiwan<br>United Kingdom | Argentina<br>Bahamas<br>Bahrain<br>Barbados<br>Bermuda<br>Brazil<br>Chile<br>Costa Rica<br>Dominican Rep.<br>Ecuador<br>Fiji<br>Gabon<br>Greece<br>Hong Kong<br>Hungary<br>Indonesia<br>Israel<br>Ivory Coast<br>Kenya<br>Malaysia<br>Malta<br>Mexico<br>Morocco<br>Portugal<br>Qatar<br>Saudi Arabia<br>South Korea<br>Thailand<br>Trinidad & Tobago<br>Uruguay<br>Venezuela<br>United Arab Emirates<br>Czech Republic<br>Slovenia | Any country not listed in zones A, B, or D | Algeria<br>Bosnia<br>Iran<br>Iraq<br>Libya<br>Serbia<br>Syria |

Country classifications subject to change.

***Rates***

Household Goods/
Valuable Articles
Select the corresponding rate per US$100 of coverage. Multiply it by the amount you choose for each coverage; e.g. US$1000 of coverage x .86 = US$8.60 of premium.

| | **Personal Property** | | **Valuable Articles** | |
|---|---|---|---|---|
| | *At Premises* | *Commercial Storage* | *Jewelry* | *All Other* |
| **Zone A** | $ .86 | $ .80 | $ 2.25 | $ .73 |
| **Zone B** | $ 1.12 | $ .80 | $ 2.70 | $ 1.20 |
| **Zone C** | $ 1.35 | $ .80 | $ 3.15 | $ 1.48 |
| **Zone D** | $ 1.90 | $ .80 | $ 3.95 | $ 2.11 |

Liability

Select the appropriate premium based on the amounts of insurance you wish to purchase.

| **Personal Liability** | | **Personal Excess Liability*** | |
|---|---|---|---|
| *Limit* | *Premium* | *Limit* | *Premium* |
| US$ 100,000 | $ 50 | US$1 Million | $ 45 |
| 250,000 | 108 | 3 Million | 130 |
| 500,000 | 158 | 5 Million | 245 |

* US $500,000 personal liability limit must be chosen before excess liability may be purchased.

Political Risk

Select the zone where you reside and the corresponding rate per US$100 of coverage, and multiply it by the total limit you have chosen for personal property, optional property in storage, jewelry and other valuable articles.

| | | | |
|---|---|---|---|
| **Zone A** | $ .05 | **Zone C** | $ .25 |
| **Zone B** | $ .16 | **Zone D** | $ .40 |

*Premium Calculation*

You may use this section to calculate the premium for each of the coverages you have chosen to purchase. To complete the application on the next page, you need only enter the appropriate coverage limits in the spaces provided under Coverage Options.

| | Coverage | Amount of Coverage | | Rate per $100 | | Premium |
|---|---|---|---|---|---|---|
| Household Goods/ Valuable Articles | Property at premises | ________ | X | ________ | = | ________ |
| | Property in storage | ________ | X | ________ | = | ________ |
| | Jewelry | ________ | X | ________ | = | ________ |
| | Other Valuable Articles | ________ | X | ________ | = | ________ |
| Liability | Personal Liability | ________ | X | ________ | = | ________ |
| | Personal Liability | ________ | X | ________ | = | ________ |
| Political Risk | Property at Premises/ Valuable Articles | ________ | X | ________ | = | ________ |
| | Property in storage | ________ | X | ________ | = | ________ |
| | | | | Total Premium | = | ________ |

**Complete Application**

## LANGUAGE TRAINING / CULTURAL BRIEFING

### LANGUAGE LESSON

The Company will arrange and pay reasonable costs for the expatriate and spouse to take intensive language lessons when transferring to a country where their native language is not spoken. These language lessons are intended for expatriate and spouse to learn the host country language.

Language lessons are not provided for children.

It is recommended that language classes be taken for an initial period of two (2) weeks prior to/ or immediately upon arrival at the host location. Your Prudential International Assignment Manager will provide assistance in arranging for your language lessons through their service provider, Langua Tutor.

We encourage ongoing language instruction at the host location that would be at the Company's expense. Arrangements should be made through your Prudential International Assignment Manager.

## MAIL SERVICE

The Pittsburgh Corporate Mail Center forwards personal and business correspondence only via “pouches” to the Company’s worldwide locations on a regularly scheduled basis.

Mail is scheduled to leave the Corporate Mail Center every Monday, Wednesday and Friday. DHL is Alcoa’s preferred international courier.* Generally mail sent via DHL takes 3-5 working days to arrive at the various international locations. Depending upon the country customs, the mail could be held an additional two working days in customs.

Unless advised otherwise most expatriates should change their mailing address on personal and business correspondence to reflect the Pittsburgh Corporate Center address (sample address below) who will forward the mail to you at your host location:

> Mr. John C. Smith
> Lausanne, Switzerland (use host location)
> C/o of Alcoa Inc
> 201 Isabella Street
> Pittsburgh, Pennsylvania 15212

The Company will not forward personal packages.

***Note for mail forwarded to Suralco:** Mail is forwarded by the Pittsburgh Mail Center early each week to arrive at a designated P.O. Box in Miami by Thursday morning. Suralco has an arrangement with a courier service in Miami to ensure the weekly mail is picked up by the courier then delivered to a cargo plane each Saturday going to Suriname.

***Note for mail going to Jamaica:**

Use the following address:
Mr. John C. Smith
Clarendon Jamaica
C/o P.O. Box 028528
Miami, Florida 33152-9617

***Note for mail going to Guinea:**

Use the following address:
Mr. John C. Smith
C/o of HALCO Mining Inc.
National City Center
20 Stanwix Street
10th Floor
Pittsburgh, Pa. 15222-4801

## MEDICAL/PSYCHOLOGICAL DATA

### MEDICAL

**Expatriate and Spouse**: The expatriate's job offer and assignment location visit is contingent upon the successful passing of a medical examination to determine FITNESS FOR DUTY/Relocation prior to the actual transfer. The expatriate is responsible for making arrangements for their spouse (if applicable) and themselves to be examined by the Alcoa plant physician (or Alcoa designated physician) prior to transfer. The purpose of the examination and medical tests are to identify any health risks and any course of treatment before taking up residence in the expatriate's new country of assignment.

The expatriate should schedule their appointments as soon as possible with the company's plant physician or clinic. The medical examination should be conducted no earlier than ninety days prior to transfer. The Prudential International Assignment Manager will provide a letter of instructions to the expatriate and the letter and forms that he/she will give to the attending physician. The letter to the physician summarizes the minimum requirements of the medical evaluation and provides instructions for disposition of the results.

The physician should complete the attached medical forms. The Health Status form should be signed by the physician and retained in the employee's and spouse's medical records at the host location along with the physical examination and test results. The physician is also required to complete, sign and fax the Alcoa Global Medical Clearance form to the Prudential International Assignment Manager. A copy should also be retained in the employee's and spouse's medical records file.

The expatriate is responsible for ensuring that a copy of the signed Alcoa Global Medical Clearance form is faxed to the Prudential International Assignment Manager as follows:

Prudential Relocation International
Attn: Sako Nishida
Fax No. 480-778-7096

Additionally, the physician is to provide a copy of the physical examination and test results to the employee and spouse so they may carry with them to their new assignment location.

**Dependents Children:** Dependent children who will reside at the host location should also have a medical examination prior to the move. Arrangements for dependents' physicals should be made through the family physician in the home country. Employees should take copies of the children's medical report (s) with them to their new assignment location.

**Annual & End of Assignment Medical Examinations:** The Company's policy encourages and provides reimbursement for the costs incurred for a yearly medical examination for the expatriate and family residing at the host location as well as immediately after the final return to the home country at the conclusion of the expatriate assignment.

Expatriates should ensure that copies of the yearly medical examination reports for themselves and their spouse are sent to the physician who conducted the original medical clearance examination.

Upon completion of the expatriate assignment, it is strongly encouraged that the expatriate and family have a complete medical checkup within sixty (60) days of the repatriation.

The Company will reimburse these medical examination costs as well as required immunizations through the expense account process. The Company will not reimburse medical, surgical or dental treatment, eye refraction, or special medical examinations unless specifically requested by Alcoa's Medical Department. The expatriate should first submit the cost of the medical examinations to the Company's insurance carrier for reimbursement. Expenses not reimbursed through the Company's medical insurance carrier for a routine examination should be expensed on the Moving Expense Statement attaching a copy of the insurance carrier's decision on the non-reimbursed portion of the claim.

## INTERNATIONAL SOS MEMBERSHIP

International SOS is the leading global health care and assistance company. One phone call connects you to the International SOS network of more than 2000 professionals in alarm centers, available 24 hours per day, 7 days per week. This service also includes access to international clinics and remote site medical facilities across five continents. Medical and technical support services are available in more than 30 languages. Your Prudential International Assignment Manager will provide you with an International SOS access card. This access card replaces any previously issued cards.

International SOS provides a variety of programs. Alcoa has contracted their services primarily to address the following for international business travelers and expatriates:

- Referrals to Primary Care Physicians, Physician Specialist, Hospitals and Dentists

- Emergency and routine medical advice by a physician
- Travel-related information including immunization recommendations, U.S. State Department travel advisories and locations of embassies, consulates, etc.
- Advise if specific prescription medication is available locally
- Arrangement of medical evacuation when necessary and guarantee of payments to providers

Expenses for services incurred will be billed to the employee's sponsoring B.U. However, Alcoa's annual access fee covers certain limited services such as travel-related information, including immunization recommendations, U.S. State Department travel advisories, and locations of embassies, consulates, etc.

**Process for Expatriates**

In those situations where an expatriate believes they are unable to identify a satisfactory resource in their host location to address health concerns, please call International SOS. They will evaluate your situation by assessing the medical capabilities at your location and discussing your case with your host location physician (where applicable) and/or your home country/treating physician. SOS will then recommend the resource for treatment. In those instances where SOS advises the expatriate or family member to have treatment or evacuation to a location different from your host location, they will notify Alcoa. Expatriates should follow this process to ensure they have adequately assessed their need to receive medical treatment outside their host location. The expatriate can then submit the approved travel expense via an expense statement to the Prudential Expense Analyst, Michelle Matteson, care of Alcoa Corporate Center, Pittsburgh. Additionally, this process must be followed in order for Alcoa to authorize reimbursements. A small service fee will be charged to your business unit for this service.

**Contact Information**

International SOS can be reached by calling the following numbers:

- Within the United States call 1-800-523-6586.
- Outside of the United States, call the SOS Philadelphia Alarm Center at (215) 245-4707. Collect calls are accepted. Alternatively, you may call the London or Singapore Alarm Centers. These telephone numbers are listed on the attached wallet-sized SOS card.

Identify yourself as an Alcoa employee, including your business unit's name. You will be asked a series of questions to better understand your situation. From that point on, your case will be in professional hands and every effort will be made to ensure that the most appropriate action is taken to assure your comfort and well-being.

**On-line Country Guides**

Prior to departure, you may wish to access the International SOS Country Guides, which contain travel health information. Go to: www.internationalsos.com. Select "Members Login" and enter Alcoa's membership number (11BCMA000010), which is listed on the back of the SOS Membership card. Select "Country Guides". Enter the name of the country.

**Double Click on Icon for SOS Program Brochure**

## PSYCHOLOGICAL

Prior to transfer, the Prudential International Assignment Manager will arrange for a Counselor from SAIC to conduct an informal interview with the expatriate and spouse. The purpose of the interview is to provide the expatriate and spouse an opportunity to explore their feelings about the assignment and identify any issues or concerns. Based on the needs of the expatriate and their family, the SAIC Counselor can also arrange for on-going assistance at the new assignment location.

Should the expatriate and/or family ever need to consult with an SAIC Counselor while overseas, they should refer to the International Assignment Contact List in the front of this manual. Also, refer to "**Employee Assistance Program for Expatriates**" at the end of this section.

## EMPLOYEE ASSISTANCE PROGRAM FOR EXPATRIATES

In an attempt to provide a smooth transition to the expatriate's host location but also provide the tools to help embrace the different experience of living abroad, an overseas assistance program (OAP) has been established to provide EAP services for expatriates in most of Alcoa's worldwide operating locations. The Company is able to provide this service by forming a consortium with several other global companies and contracting with a provider, Science Applications International Corporation (SAIC), with extensive experience in international support service programs.

SAIC service providers are professional counselors who understand the challenges of managing change in an international environment. SAIC assigns counselors/providers who have experience in adapting to other cultures, understands expatriate issues and has training in employee assistance issues. Your service provider's name, location and telephone number is listed on the attached brochure that you should keep as a reference. You may contact that counselor any time you feel it is indicated. In some instances, the best provider match is in a nearby country.

The service providers/counselors have been instructed to contact all new expatriates within the first 45 days of arrival in your new host country; again within three months; and at six month intervals thereafter; and finally at the time they are notified of your repatriation. From time to time you will receive a satisfaction survey to complete to help us continually improve services.

These counselors have been contracted to provide the following services:

- Orientation to their services
- Counseling for employee or family members at the host location in areas such as health and safety, aging parents, work-related issues, substance abuse, stress, adjustment, adolescent/child problems, marital problems, etc.
- Response to crises at home and in the workplace, and
- Repatriation assistance

In general, they are available to talk with the expatriate and family at any time to discuss the above issues.

Discussions between the counselor and the expatriates are held in strictest confidence. No names will be reported to Alcoa. If at any time the expatriate prefers their assigned counselor not make additional follow-up calls, that request will be honored; or if more frequent calls are requested, the counselors will respond to that request. Each family member should feel free to contact his or her individual counselor at any time. The program is voluntary, but all expatriates and their families are encouraged to participate. The OAP is committed to helping make the most of the overseas experience. Alcoa and SAIC are committed to making your assignment a success. If there are language barriers or the expatriate prefers to work with a counselor from the home country, these requests can be made through your Prudential IAM in Scottsdale, Arizona.

**Double Click on Icon for SAIC Program Brochure**

# PASSPORTS/VISAS

## PASSPORT

A passport is a legal identification document issued to a citizen of a country.

The employee and each family member need a passport prior to entering the assigned host country. For entry to the host country, it is necessary that each traveler satisfy the assigned country's terms and conditions for passports. Employees should follow the normal process within their home country to renew a passport or obtain a new one. Please allow adequate renewal time for expiring passports.

## WORK PERMIT

A work permit is work authorization granted by the host country. The process for obtaining the work permit is unique to its respective country. In most instances, the work permit application is filed with the authorities in country. Requirements for obtaining a work permit vary by country. Processing times vary for obtaining a work permit and can range from one (1) month to twelve (12) months.

## VISA

An endorsement stamp inside the passport is commonly known as a VISA. It is common for authorities to require the traveler to receive an endorsement stamp inside the passport. In most instances, you must temporarily release your original passport for visa stamp to be placed inside the passport. Kindly be mindful of your overseas travels when releasing your passport. Cost and processing times vary.

The Company will reimburse you for passport and visa expenses you incur through the Moving Expense Statement Process.

Please contact your Prudential IAM in Scottsdale, Arizona for further information on passports/visas.

# PET POLICY

## SHIPMENT OF HOUSEHOLD PETS

The Company will pay the full cost of shipping up to two (2) household pets to or from the host location provided that the pets are members of the household at the time of acceptance of transfer.

For the purposes of this policy, household pets are limited to domesticated dogs, cats, birds, snakes, turtles, hamsters, and guinea pigs.

The expatriate family will have full responsibility for properly preparing pets for shipment; e.g., immunizations, health certificates, import license, container, etc. The Company will reimburse these costs incurred as well as the shipping. The expatriate must submit a Moving Expense Statement to receive reimbursement.

Costs incurred for shipping and any required quarantine will be reimbursed by the Company. Pet shipment arrangements must be made through the Prudential Relocation International.

**The Company strongly discourages shipping pets** to countries that require a quarantine period. Alcoa will pay the full cost if they are shipped but will bear no responsibility for the health of the pets while in quarantine.

**NOTE**: Each country has its own regulations/restrictions regarding the entry of animals. For more detail, please contact your Prudential IAM.

## RELOCATION EXPENSES

For your convenience and reference, the following are expenses which might be incurred by you (and the appropriate members of your family) and reimbursed by the Company during your expatriate assignment:

Expenses in the home location while packing and preparing for the overseas assignment

Expenses incurred enroute to the host location

Expenses incurred upon arrival at the host location

Expenses incurred prior to departure from the host location and enroute to the home location

Keeping in mind that the average expatriate assignment is three years or less, all reimbursements by the Company will be based on customary and reasonable expenses incurred by the expatriate for items that will ordinarily only be used for three years by the expatriate. **The Company will not approve excessive or expensive items not considered customary and reasonable.** Because of the relatively short duration of most expatriate assignments, the Company will not reimburse the cost of service/maintenance agreements. Any such agreements purchased, are the expatriate's personal financial responsibility**.** Please see Exhibit 1 at the end of this section for a list of certain items considered non-reimbursable.

Whether the item was charged on a credit card or paid for by cash, in order to have payment/reimbursement, all costs associated with the following expenses must be **submitted on the Moving Expense Statement**. **Since the procedure for completing the expense statements for your expatriate assignment differs from the procedure you have been using for normal business expenses, please see the "Moving Expense Statement" section of this Manual for detailed instructions.**

### EXPENSES - PRIOR TO DEPARTURE TO THE HOST LOCATION

**Required Interim Living Expenses**—Necessary customary and reasonable meals, lodging and transportation at the home location from the time of packing of household goods until the goods are available for delivery to you at the host location. However, these charges are not reimbursable for any period of time you are on vacation.

**Car Rental**—If your personal car(s) is/are sold prior to departure from the home country, a special car rental allowance may be provided with prior approval of your Prudential International Assignment. Charges are reimbursed for customary and reasonable (non-luxury) cars only. If you owned two cars prior to the transfer, **the maximum allowance will be one month if two cars are rented or two months if one car is rented. If you owned one car at the time of transfer, the maximum allowance will be one car for one month.** However, these charges are not reimbursable for any period of time you are on vacation.

**Passport Fees, etc**.—Passports, passport pictures, special fast service fees, expenses and transportation costs to nearest passport office and to consulate (if required) to secure visa and work permits.

**Immunization Expenses**—As recommended by the Corporate Medical Department and/or required by the host country.

**Physical Examinations**—For expatriate and spouse as required by the Company to be medically cleared prior to the transfer. Routine physical exam for all other members of family who will be relocating to the host location. (Dental and vision examinations are not included.) These expenses are to be submitted to your Company insurance carrier first. You can then claim any non-reimbursed charges for these examinations by submitting a Moving Expense Statement with a copy of the insurance carrier's explanation of benefits.

**Host Location Language Lessons**—Prior to and after departure from home country for employee and spouse. Unless there is some special circumstance, the language will be that most commonly used at the host location. Children are not covered as most receive language training as part of their school curriculum at the host location. Should some special need outlined by the school arise, you should ask the school administrator to state the necessity of language lessons in a letter to you and then forward this document to your Prudential IAM.

**Attorney's Fee for UPDATING Will.**—This fee is limited to an update only and not for personal estate planning or other related expenses that would normally be incurred whether or not an overseas transfer is involved. Maximum reimbursement $1,000.

**Two-Month's Rental Cost**—If required to break lease on permanent residence.

**Relocation Allowance**—A one-time relocation allowance of $250 per family ($125 for unmarried status) may be claimed prior to departure. This allowance is for the benefit of buying extra supplies such as medicines, sundries and items not available at the host location. This allowance will also apply to any subsequent expatriate assignments in a different country provided one year has expired in each assignment. (No supporting receipts are required.)

**Climate Clothing Allowance**—This is a one-time only allowance provided to the expatriate, spouse and qualified dependents accompanying the expatriate to a host location which results in moving from a warm-climate location to a cold-climate location. This Allowance is $2,000 for each adult and $1,000 for each child up to age 18. Short Term Assignments are eligible for half of the allowance.

The warm-climate locations are designated as:

| | |
|---|---|
| Australia | Mexico |
| Brazil | Surname |
| Guinea | Trinidad |
| Hong Kong | Venezuela |
| Jamaica | |

The cold-climate locations are designated as:

| | |
|---|---|
| Belgium | Japan |
| Canada | The Netherlands |
| France | Switzerland |
| Germany | United Kingdom |
| Hungary | United States EXCEPT Alabama, Arizona, California (Southern only), Florida, Georgia, Louisiana, Mississippi, New Mexico, North Carolina, Oklahoma, South Carolina, and Texas |

(No supporting receipts are required.)

## EXPENSES - ENROUTE TO THE HOST LOCATION

**Transportation Expenses**—Taxi fares and Business Class air fare, most direct route, for expatriate and all qualified dependents from the home country to the host country. EXCEPTION: Coach air fare must be utilized for travel to/from the U.S. and the Caribbean or Canada. (Reference: "Home Leave" section)

**Other Enroute Expenses**—Airport taxes, departure taxes, snacks, etc. For excessively long trips, one night stop-over expenses for meals and lodging en route to and from certain countries such as Australia, Japan, Hong Kong, China, Africa, etc. This, of course would depend upon the home and host countries involved.

## EXPENSES - UPON ARRIVAL AT THE HOST LOCATION

**Required Interim Living Expenses**—Necessary customary and reasonable meals, lodging and transportation at the host location from the time of your arrival at the host country until the household goods are available for delivery to you at the host location. However, these charges are not reimbursable for any period of time you are on vacation.

**Car Rental**—If your personal car(s) is/are sold prior to departure from the home country, you are requested to limit automobile rental prior to departure to no more than 4 weeks. A special automobile rental allowance may be provided at the host location with prior approval of your Prudential IAM, Scottsdale, Arizona. Charges are reimbursed for customary and reasonable (non-luxury) cars only. If you owned two cars prior to the transfer, **the maximum allowance will be one month if two cars are rented or two months if one car is rented. If you owned one car at the time of transfer, the maximum allowance will be one car for one month.** However, these charges are not reimbursable for any period of time you are on vacation.

**Appliances, Electronics and Miscellaneous Items**—With regard to washers, dryers, refrigerators, TV's, VCR's, stereos, vacuum cleaners, microwaves, etc.; necessary window treatments and an occasional area rug (if required), lawn mowers, snow blowers, etc., the purchase of these items will be reimbursable only if:

1. They are not provided in workable/good condition at the host country residence

   **OR**

2. The home country appliances/electronics cannot be adequately converted for host country use by the installation of adapters/converters.
3. The items were owned by the employee in the home country prior to the move and stored by documentation on the Valued Inventory List.
4. The items were not owned by the Expatriate in the home country prior to the move and are deemed are necessary in the host location (air conditioner etc.)

**If it is absolutely necessary to replace appliances/electronics, the Company will reimburse only customary and reasonable replacement costs.**

All items purchased by the Company for the expatriate's use are considered the Company's property and it is expected they will be maintained in good condition. Upon the repatriation of the employee, these items will then become part of the Company's inventory. If, however, the host location does not require these items, it may sell them to the expatriate at a depreciated cost of 10% (this rate is **subject to change)** per year of the original purchase price.

The cost of adapters, converters, appliances, electronics, window treatments, area carpets, etc. are usually reimbursed via the Moving Expense Statement.

**Automobile Purchase Expenses**—Although the purchase of automobiles is discussed in detail in the AUTOMOBILE section of this Manual, the cost of registration fees, sales tax, documentation fees, initial license plates for the host country, etc. for up to two automobiles is reimbursable. It should be noted that the **cost of home country license, etc., continues to be the expatriate's personal financial responsibility.**

**Physical Examination**—Once each year the expatriate and all qualified dependents living at the host location should obtain a general physical examination. (Dental and vision examinations are not included.) These expenses are to be submitted to your Company insurance carrier first. You can then claim any non-reimbursed portion of the routine examination costs by submitting a Moving Expense Statement with a copy of the insurance carrier's statement of covered services.

**Annual Education Allowance for Qualified Dependents**—Please see the EDUCATION ALLOWANCE section of this Manual for details.

### EXPENSES—PRIOR TO DEPARTURE FROM HOST LOCATION

**Required Interim Living Expenses**—Necessary customary and reasonable meals, lodging and transportation at the host location from the time of packing of household goods until departure from the host location. However, these charges are not reimbursable for any period of time you are on vacation.

**Car Rental**—If your personal car(s) is/are sold prior to departure from the host country, a special car rental allowance may be provided with prior approval of your Prudential IAM, Scottsdale, Arizona. Charges are reimbursed for customary and reasonable (non-luxury) cars only. These charges are not reimbursable for any period of time you are on vacation

**Transportation costs** associated with return to the home or new location.

### EXPENSES ENROUTE TO AND AFTER ARRIVAL IN HOME COUNTRY

**Upon arrival at the home country location, all expenses (except the physical examination outlined below) must be handled according to home country location procedures. These expenses should not be sent to the Prudential Expense Analyst, Michelle Matteson.**

Upon arrival in the home country/new assignment, the expatriate and all qualified dependents who had lived at the former host location should obtain a general physical examination. (Dental and vision examinations are not included.) These expenses are to be submitted to your Company insurance carrier first. You can then claim any non-reimbursed portion of the physical examination costs by submitting a Moving Expense Statement with a copy of the insurance carrier's statement of covered benefits attached. This Statement should be sent to the Prudential Expense Analyst, care of Alcoa Corporate Center, Pittsburgh.

**It should be noted that household and personal effects which are stored in the home country must be removed from storage and accepted as the employee's responsibility within 12 months of the expatriate's return date. Storage for up to a maximum of 90 days only will be to the Company's expense. Any storage costs after the 90-day period is the employee's personal financial responsibility.**

**Retirement from an Overseas Assignment**

The retired employee and his/her family will be returned from the host location to the point of origin in the home country providing they so request within the twelve-month period immediately following retirement.

In addition, since the provisions of the Transfer and Relocation Plan are not applicable to retired employees, a payment in the amount of $5,000 will be made in lieu of Transfer and Relocation benefits. Therefore, this amount of $5,000 will be included in the last regular paycheck prior to the date of retirement in lieu of any interim living expenses such as meals, lodging, registration of cars and sales tax, reconnecting appliances in the home country, etc. This payment can be considered compensation for service rendered during the global assignment

**It should be noted that household and personal effects which are stored in the home country must be removed from storage and accepted as the employee's responsibility within 12 months of the expatriate's return date. Storage for up to a maximum of 90 days only will be to the Company's expense. Any storage costs after the 90-day period is the employee's personal financial responsibility.**

**NON-REIMBURSABLE EXPENSES**
(This list is not intended to be all-inclusive)

- **ENTERTAINMENT:**

  Clubs and Activities (fitness/health, social, etc) unless approved as a business expense in which case the cost should be submitted on a white T&E Express Business Expense Statement

  Magazine
  Movies
  Newspapers
  Videos—whether rented or purchased. Check hotel bills for these & delete the cost if Expatriate has expensed it.

- **EXCESS BAGGAGE:**

  Allowances for both checked and carry-on baggage vary from airline to airline and from point of origin to point of destination. Any charges for excess baggage will be the Expatriates personal financial responsibility.

  **OR**

  The Company will pay the fee of excess baggage in lieu of air shipment, provided the cost does not exceed the fee/charge of the allowable air shipment.

- **EXCESSIVE MEAL, HOTEL, ETC. CHARGES**
- **INTERIM LIVING EXPENSES:**

  If Expatriates grocery shops instead of eating meals at restaurants—however, they cannot expense both for the same period of time

  Do not cover Cigarettes, Tobacco Product, Liquor, Diapers

- **INSURANCE ON PERSONAL PROPERTY**
- **LAWN CARE FOR NON ALCOA HOUSING:**

  Additions of flowers, shrubs, trees etc.
  Lawn Maintenance (grass cutting, pruning, etc.)
  Removal of leaves
  Removal of snow

- **MOVING BILLS:**

  Expatriate should not be expensing any moving/storage bills since those charges flow from Prudential to Alcoa via the invoice route

- **RENTAL CARS:**

  Beyond the period of time specified in the Orientation Manuals

- **SERVICE/MAINTENANCE AGREEMENTS FOR APPLIANCES AND ELECTRONICS**
- **TRAVEL INSURANCE**

**EXPENSES - PROCEDURES FOR COMPLETING MOVING EXPENSE STATEMENT**

Prior to, during and immediately upon completion of the expatriate assignment, certain expenses listed in the “Relocation Expenses” and certain other sections of this Manual are reimbursable. However, they are only reimbursable to the extent outlined in the section of this Manual where they are described. Therefore, the expatriate should carefully review the section involved prior to making any expenditures. Since this Manual specifies that only “customary and reasonable” expenses are reimbursable, any expenditures outside this range will have to be brought to the attention of your business unit.

All expenditures for which there is to be a reimbursement, whether they were paid for by cash, corporate credit card or personal credit card must be expensed through the Moving Expense Statement (SP3848). There **cannot** be any reimbursement of relocation expenses (this includes airline tickets) that do not appear on this Expense Statement.

**It should be noted, however, that any or all business expenses should not be submitted on the Moving Expense Statement but should, instead, be processed in accordance with the host country location procedures. Any Statements associated with Business Expenses should not be sent to this office. Additionally, any forms issued by Prudential Relocation should be returned to them.**

Now that Shared Services reimburses cash expenses twice a month and MASTERCARD charges once a month, (Schedule of Shared Services closing dates appears as an attachment to this letter), to insure timely reimbursements of your expenses, all Moving Expense Statements should be submitted in accordance with the following procedures. When we receive Statements that are not in accordance with procedures, it takes additional time on your part and ours in getting the issues resolved. This can result in delays in your cash reimbursements and MasterCard late charges, penalties, etc. for you. As you know, these charges are not reimbursable. If we submit Statements to Shared Services that are not correct in every way these Statements are returned to us. Also all Statements are subject to the Expatriate Administration Group’s review and/or by Alcoa’s Audit Department.

The following procedure pertains to expenses associated with your expatriate assignment only:

1. All requested information must be completed (Social Security Number, number of dependents for whom expenses are being reported on the form, etc.)

2. A clear, brief explanation **in English** for each entry is required to establish the exact purpose of the expense.
3. An **original receipt for all entries of $25** or more must be attached to the Statement. All Statements expensing airline fares associated with the expatriate assignment must be accompanied by the **original airline ticket receipt**—except in the case of Advanced Purchases. When an Advanced Purchase of an airline ticket is made, it is the one time Shared Services will accept a copy of the airline ticket; however please write "ADVANCED PURCHASE" next to the entry of the airline expense. Then, at the completion of the trip, when the original receipts are available, please send them DIRECTLY to Shared Services with a note referencing the Statement on which the ticket was expensed.
4. For tax reasons and other requirements all amounts in the **"Total"** columns and **"Grand Total"** box must be in US Dollars.

   Note: If entries are not in US Dollars and in English the Statement will be returned to the expatriate with an additional request that this be done.
5. If a number of receipts were involved, it would be helpful if the receipts are numbered and the corresponding entries on the Statement indicate these numbers.
6. The "Charge Code" section at the bottom of the Statement should be completed with your UEC Code. If you do not know this code, it will be written on the Statement by this Department for your future reference.
7. Please sign all Statements and indicate by checking the appropriate box, whether you want any cash reimbursements credited to your bank account.
8. Please mail original Moving Expense Statement along with **two copies** of moving expense statement and **two copies** of receipts. This will greatly expedite processing especially when received close to T&E Shared Services cut off dates.

Assuming the Statement is in accordance with the above, it will be approved by the Prudential Expense Analyst, Michelle Matteson, care of Alcoa Corporate Center, Pittsburgh and sent to Pittsburgh Accounting (Shared Services) for processing. A copy of the approved Statement will be sent to you.

In those rare instances where the Moving Expense Statement should be returned to the expatriate for local processing, "**RETURN FOR LOCAL PROCESSING**" should be written across the top of the Statement in bold letters.

In those rare instances where a Moving Expense Statement has already been processed at the expatriate's local office, for tax purposes, a copy should be sent to this office with "**INFORMATION COPY**" written in bold letters across the Statement.

If/when expenditures are for a long period of time and/or the amount of money involved is substantial, you may want to submit a Statement every two weeks, instead of accumulating expenses for longer intervals and run the risk of problems with payment of your MasterCard charges.

PLEASE DO NOT FAX STATEMENTS OR **SEND** THEM ELECTRONICALLY. Many expatriates are now preparing their Statement on their computers, which is fine, provided they are sent through the mail with the original receipts and original signature. Since Shared Services and our auditors require original receipts, faxed or electronically sent copies will not expedite reimbursements but, instead, only delay reimbursements since we will have to contact you and request that you send original receipts.

## T&E SHARED SERVICES CLOSING DATES 2002

| Shared Services Cutoff Date for Cash Reimbursements* | Cash Pay Date | Shared Services Cutoff Date for MASTERCARD Payments** |
|---|---|---|
| **January 10** | **January 15** | |
| **January 25** | **January 30** | **January 30** |
| **February 12** | **February 15** | |
| **February 22** | **February 27** | **February 27** |
| **March 12** | **March 15** | |
| **March 22** | **March 27** | **March 27** |
| **April 10** | **April 15** | |
| **April 24** | **April 29** | **April 29** |
| **May 10** | **May 15** | |
| **May 24** | **May 30** | **May 30** |
| **June 11** | **June 14** | |
| **June 24** | **June 27** | **June 27** |
| **July 10** | **July 15** | |
| **July 25** | **July 30** | **July 30** |
| **August 12** | **August 15** | |
| **August 26** | **August 29** | **August 29** |
| **September 10** | **September 13** | |
| **September 24** | **September 27** | **September 27** |
| **October 9** | **October 15** | |
| **October 25** | **October 30** | **October 30** |
| **November 12** | **November 15** | |
| **November 21** | **November 26** | **November 26** |
| **December 10** | **December 13** | |
| **December 23** | **December 30** | **December 31** |
| **January 10 2003** | **January 15 2003** | |

* The Shared Services cutoff date for cash reimbursements is the last day shared services will accept Expense Statements for the Cash Pay Date indicated. (This type of reimbursement also includes payment to use when you have used personal credit cards for company

** The MasterCard cutoff date is the last date Shared Services will process MasterCard receipts. Their payments to MasterCard will go out the following working day.

As in the past and as indicated above, Shared Services will continue to make MasterCard payments at the end of the month only. Because the MasterCard penalties and late charges are not reimbursable to any employee, we encourage you to submit expenses as they occur.

Unfortunately, there are times when although we have submitted Statements to Shared Services prior to cutoff date, they could not be processed due to Shared Services' high work volume. We have no control over this. Therefore, to avoid missing the cutoff dates your moving expense statements should be received by the Prudential Expense Analyst, Michelle Matteson, **5** working days prior to Shared Services cutoff dates. This will allow adequate time for review and any queries related to your statement to be resolved timely.

## TAXES

### PERSONAL INCOME TAX

Liability for income taxes is one of the most important factors affecting expatriate compensation. Because home country and foreign tax rulings are complex and change frequently, Alcoa will pay for the services of PricewaterhouseCoopers, L.L.P. (PwC), to prepare the expatriate's actual U.S. and host country tax returns and/or hypothetical U.S. tax calculation while the expatriate is overseas, the year of repatriation, plus one additional year. If the expatriate is transferred and arrives overseas between January 1$^{st}$ and February 28$^{th}$ of a given year, Alcoa will pay the fees to prepare the previous year's U.S. tax return. If an expatriate is transferred and arrives March 1$^{st}$ or later in a given year, Alcoa expects the employee has had ample time to complete the previous year's tax return. Since this return will have no foreign complications, costs for tax preparation will be to the employee's own personal account.

### TAX RETURN PREPARATION (U.S. and HOST COUNTRY)

For those expatriates returning to the U.S. on the active payroll, Alcoa will provide tax return preparation for the U.S. federal and state tax returns for the year of repatriation plus on additional year. In those instances where an expatriate has returned to the U.S. on the active payroll early in a given year and all anticipated foreign adders due to the foreign assignment have been included in the W-2 for that year of repatriation, the Company may elect to exclude the expatriate from the Alcoa Tax Equalization and tax return preparation programs for the additional year. This determination of the Company will be based on the availability of foreign tax credits. Alcoa will also provide host country tax preparation for all years required. For those expatriates returning to the U.S. on inactive status or retirement, Alcoa will provide host country and U.S. federal and state tax return preparation for the last year of expatriate status, whether a full or split year, plus one additional year. The expatriate on inactive status or retirement may, however, elect out of the Alcoa Tax Equalization Program for this one additional year. If this election is made, the Company will not provide tax preparation service.

However, the company retains the option to require employees who fall under the active, inactive, and/or retirement statuses to remain in the Equalization and tax preparation programs under the following scenarios: 1). If company-paid foreign tax credits are available and can be utilized, 2). If there is a tax adjustment payback in the preceding tax year. Under option two, Alcoa may be due a refund of foreign taxes caused by a reduction in the proceedings year's income. Such a situation is likely to occur when the assessment of foreign taxes is delayed (i.e Germany). As such, under these scenarios, Alcoa may be inclined to keep an individual in the program as long as the benefit exceeds the associated cost. Alcoa, through consultation with PricewaterhouseCoopers, will make this decision on a case-by-case basis.

**TAX EQUALIZATION**

Expatriates compensated via the Alcoa U.S. dollar payroll are covered under a tax equalization policy. In simple terms, this policy obligates the expatriate employee to pay the approximate level of U.S. federal taxes as if the expatriate were a U.S. citizen employed and resident in the U.S. The policy obligates Alcoa to reimburse the expatriate employee for any U.S. federal or host country tax liability in excess of the hypothetical tax. If however, the actual worldwide tax is lower than the tax the expatriate would have paid in the U.S., the expatriate will be held to the hypothetical tax.

Those expatriates who are neither U.S. citizens nor U.S. permanent resident aliens (green card holders) will be responsible for paying to Alcoa a "hypothetical" federal, state and local (if applicable) tax obligation as though they were U.S. citizen employees. U.S. taxes in excess of the hypothetical tax will be reimbursed by Alcoa.

The method of implementing this policy is to calculate a "hypothetical" U.S. federal tax liability, excluding taxable income resulting solely from the foreign assignment. An individual will also be permitted hypothetical itemized deductions, computed as the greater of:

a) standard bracket amount;

b) 14% of hypothetical gross earned income;

c) actual itemized deductions adjusted for Alcoa reimbursed deductions such as moving expenses, loan origination fee, etc.

d) in the case of part-year expatriates, the actual deductions as in (c) above incurred during the period of U.S. residency plus a percentage, as in (b) above, of hypothetical gross earned income prorated for the period of foreign residency.

e) in the case of an expatriate's last year in the tax program when the expatriate has been back in the U.S. for the full year, only actual itemized deductions will be allowed as in (c) above.

Personal exemptions and child tax credits will also be allowed in the hypothetical tax calculation based on the hypothetical income.

To the extent actual worldwide tax liabilities exceed the "hypothetical" calculation, reimbursement adjustments or payments will be made to the employee. However, depending on the host location involved and the expatriate's level of income and filing positions, a situation may return where the actual U.S. federal tax liability is less than the calculated "hypothetical" tax liability. In this event, the expatriate will be required to pay to the Company the difference between the two amounts within 60 days.

At the close of each tax year when the actual U.S. and foreign taxes have been determined, a comparison is made between the hypothetical tax the expatriate would have paid in the U.S. on wages and investments and the actual out-of-pocket tax costs incurred. This calculation is the "Alcoa Tax Adjustment." The expatriate's out-of-pocket

tax cost is comprised of the hypothetical tax withheld monthly, estimated payments deemed necessary by PwC and paid by the expatriate and taxes paid directly to the IRS. If the actual expense is greater than the hypothetical tax, a payment is due the expatriate, less any gross-ups previously paid by the Company and loans advanced during the tax year.

In the employee's final year in the expatriate program, any Alcoa tax adjustment payment due the employee will be grossed-up to compensate the individual for the additional federal and state taxes resulting from the payment being included in the current year's income.

If the actual tax expense is less than the hypothetical tax, the expatriate must pay back or reimburse the Company the difference between the actual and the hypothetical taxes. Should an expatriate be in a tax payback position, the expatriate will be required to sign a Tax Payback/Promissory Note. (See Exhibit 1 for an example.) The full payment of the tax payback will become due within 60 days of receipt of the final tax equalization prepared by PwC establishing the expatriate's tax liability, less any expected IRS refund. Upon receipt of the IRS check, the refunded amount including IRS interest paid, must be paid to the Company. The employee will be notified of the exact due date of the payback by letter from Prudential IAM.

**EXPATRIATE EXPENSES**

Expatriate expenses are defined as any reportable Company-paid expenses directly attributable to an expatriate assignment. These may include such items as reimbursements on the sale or purchase of a home, meals and interim living expenses associated with the expatriate's relocation, passport and visa fees for the spouse and children, driver's license expenses, annual physical examinations (after they have been submitted to the insurance company), language lessons for the spouse, student tuition, home leave expenses and travel allowances, personal use of a Company-provided automobile, and various location expenses, such as Company-paid housing costs, housing taxes, utilities, telephone expenses, security services, and location income taxes, less the expatriate's hypothetical housing and tax deductions. The previous month's figures should be reported to your Prudential IAM by the 10th day of the following month by the location Expatriate Administrator. Alcoa Payroll in Pittsburgh will impute the monthly expenses into the expatriate's W-2 wages. These expenses will be treated as foreign adders when PwC prepares the annual tax adjustment and the expatriate will, therefore, not bear the additional taxes as a result of these expenses running through the W-2. However, FICA (U.S. Social Security) will be withheld on these amounts each month. As a result, the expatriate will reach the maximum FICA contribution earlier in the year. The smaller percentage for FICA-Medicare, with no wage ceiling, will be tax equalized by PwC at the time the tax adjustment is prepared. The Medicare tax the employee is held responsible for will not include foreign adder income.

## U.S. STATE TAX TREATMENT

State tax laws vary greatly. During the foreign assignment, the assignees generally break the state residency, and accordingly, the expatriate typically saves state and local tax on the hypothetical income. Generally wages and tax equalizations paid to the expatriate while overseas is, therefore, free of state and local taxes.

As previously stated, Alcoa will authorize the preparation of federal and state tax returns for the years of foreign residency, the year of repatriation plus one additional year. In addition, payments made after reestablishing state residency that are generally considered to be "foreign adders" such as relocation payments, FSP, cost of living, foreign taxes, etc., may run through the employee's payroll. These payments may be subject to state income tax. Alcoa will gross-up and pay the state tax on the foreign adder income at the time of payment.

## CAPITAL GAINS TAX
## FROM SALE OF PRINCIPAL RESIDENCE

Under the terms of the current capital gains tax provisions, where the expatriate decides to sell their principal residence, they may not incur any capital gain tax up to $500,000 of gain for married person filing jointly and $250,000 for single or married person filing separately. To qualify for this provision, the expatriate must have owned and lived in the principal residence for two out of the last five years from the date of sale. Even if the expatriate does not meet this condition, it is still possible for qualify for a pro rated exclusion amount. For example, if assignee owned and lived in the house only for twelve months, they would still get 50% of the gain exclusion (twelve months out of twenty four months). That is, $250,000 of gain (married person filing jointly) and $125,000 (single or married person filing separately). Accordingly, it is expected that no capital gain tax would arise from the sale of the principal residence.

If the expatriate chooses to keep the house, and later sell it during the assignment period, they may disqualify the conditions under the gain exclusion provision. Accordingly, the expatriate should consult with Alcoa prior to their decision to sell the house if they initially choose to keep the house.

## TAX SERVICE

The intent of Alcoa's policy to provide tax preparation service is to relieve the expatriate of the time-consuming and burdensome task of preparing returns that are often in an unfamiliar language and dealing with tax laws in both the U.S. and the host location that are more complex than ever before.

Expatriates are provided with the opportunity to use a PwC tax consultant for the preparation of foreign, U.S. federal and state income tax returns and the tax equalization calculation. U.S. returns will be prepared by PwC Pittsburgh. The information necessary for preparation of the U.S. returns should be mailed to their office

in Pittsburgh. Information not received by PwC from the expatriate in a timely fashion to allow them to prepare the return and equalization, and thereby resulting in penalties and interest will be to the account of the expatriate. PwC Pittsburgh, will also prepare the tax adjustment calculation. Host country returns will be prepared by the PwC office at the host location.

The Company will only pay PwC for **tax advice relating to the treatment of expenses directly attributable to the expatriate and will not pay for personal tax advice, estate planning, advice on investments, etc.** These are considered personal investment decisions and the expatriate should hire a personal tax advisor if this advice is required.

**COST OF TAX PREPARATION SERVICE**

The Company will assume the annual cost of preparing one host country, one U.S. federal and one state (if required) tax return and the tax equalization calculation. In accordance with IRS regulations, income will be imputed in the expatriate's W-2 equal to the estimated fringe benefit received for the personal portion of the tax preparation services. A like amount will be taken as a deduction if deductions are itemized and are not limited on the tax return. Any additional tax that results from this imputed income will be assumed by the Company through the tax equalization program.

**PERSONAL INVESTMENTS**

In the event that an expatriate or spouse dies while on a US assignment, Alcoa will have PwC determine what the estate taxes would have been had the employee died while in their home country. The amount of difference would be grossed up and paid to the estate to a maximum of US $1,000,000.

**TAX FORMS CLAIMING FOREIGN RESIDENCY**

Please complete the statement claiming bona fide residence **or** physical presence (Form 673) upon your arrival overseas and return the form to your Prudential International Assignment Manager in Scottsdale, Arizona, USA. Please complete **only** that section which describes the condition under which you are claiming foreign residency (as described below). This document is for the Company's files and will be sent to the expatriate yearly for completion. The purpose of this form is to allow Alcoa to discontinue your U.S. federal tax withholding deduction from your Alcoa paycheck.

**Bona Fide Residence Test**

Residence in a foreign country for an uninterrupted period that includes a full taxable year (January 1 through December 31) is required to meet this test.

An individual qualifies for a partial year only after establishing bona fide residence status for a full calendar year in the following year. For example, the latter qualification relates back to the initial establishment of residence in a foreign country on November 10, 2001, after the expatriate subsequently qualifies as a bona fide resident for the calendar year of 2002. The expatriate is then considered a bona fide resident for the period from November 10 through December 31, 2002. The individual would qualify as a bona fide resident for the full year or any portion of 2003 or subsequent years spent in a foreign country until residency in that country ends.

The determination of an expatriate's residence is based on the facts of each case:

- Intentions about length and purpose of presence in host location are important.
- Payment of income tax to the host country in which an individual is employed is a positive factor. The fact that no foreign income tax is paid should not be a negative factor, unless the expatriate submitted a statement of non-residence to avoid foreign tax.
- The decision not to sell the U.S. home nor move the family abroad is not, in itself, sufficient to deny the expatriate foreign resident status.

An expatriate who qualifies as a bona fide resident of a foreign country retains the status, regardless of time spent on business or vacation in the U.S.

**Physical Presence Test**

An expatriate's presence in a host country or countries for 330 days during any consecutive 12-month period is required. For this purpose, a day is defined as a full 24-hour period. For example, if you are traveling and any part of a day is spent in the U.S., that day will not qualify as a foreign day. If you are merely passing through the U.S. on a trip between foreign countries, that day will be considered a foreign day.

Physical presence in a host country need not be solely for employment purposes; foreign vacations are included in the 330-day period.

Because the requirements of the physical presence test are rigid, detailed records of travel to and from the U.S. are necessary to prevent unintentional disqualification. These detailed records are also necessary in case of an IRS examination.

**Double Click Icon to view Alcoa Expatriate Tax Guide Booklet**

**EXHIBIT I**

**TAX PAYBACK PROMISSORY NOTE**

$__________________________________________ ______________________ _____, _____

FOR VALUE RECEIVED, the undersigned promises to pay Aluminium Company of America (the “Company”), at its offices at 201 Isabella Street, Pittsburgh, Commonwealth of Pennsylvania, or such other place as the holder hereof may direct in writing, the principal sum of __________ Dollars in lawful money of the United States of America. Payment of this note satisfies the undersigned employee’s reimbursement for his/her 2001 “hypothetical tax” under Alcoa’s tax equalization policy as computed on the above date by a representative of PwC. Such payment is due and payable in full, within 60 days of receipt by the undersigned employee of the final tax equalization computation by PwC establishing tax liability for 2001 unless you have claimed an IRS refund. In that event, the refund portion of the payback is due upon receipt of the refund. However, in the event that any of the following occur prior to receipt of the refund: 1) the termination of the undersigned employee’s employment with the Company, 2) the retirement of the undersigned employee from the Company or 3) the death of the undersigned employee, the note is due and payable immediately. Any remaining balance of the payback beyond the refund portion is due within 60 days.

In the event that full payment of the principal sum stated above is not repaid within the 60-day period as described herein, interest shall be charged on the remaining balance of the debt at the current maximum rate allowable under Pennsylvania law. The undersigned employee hereby authorizes three (3) equal monthly payroll deductions to repay, in full, the remaining debt.

The undersigned hereby authorizes the holder of this note to enter an appearance in his behalf and as his attorney to confess judgment against him after default in any court of record for any amount due on this note, together with costs of the suit and reasonable attorneys’ fees.

This tax payback promissory note supersedes any and all prior 2001 tax payback promissory notes.

______________________________
Employee Signature

______________________________
Spouse Signature

## VACATION HOME LEAVE ALLOWANCE

### ALLOWANCE

The Company provides a tax-free cash benefit to expatriates annually. This payment is referred to as the Vacation Home Leave Lump Sum Allowance and is equal to the amount required for the expatriate, spouse and other eligible dependents living at the host location to travel from that location to the Point of Origin and return, once a year. **It is <u>not</u> necessary to submit an expense statement for this payment; The expatriates and qualified dependents may travel wherever they wish with their payment.**

For those expatriates who are being transferred to and are physically located at the host location anytime during the period January 1 through July 1 of a given year, the Allowance will be included in the salary check of the first month of transfer or the following month.

Thereafter, each year the Allowance will be paid every January unless we have been advised that the expatriate's assignment will be concluded prior to July 1 of that year.

This travel allowance is based on 85% of coach class airfare via the most direct route except as follows: the allowance for travel to/from the U. S. and the Caribbean or Canada is based on coach class air fare. The allowance is based on information we obtain from Alcoa's current travel agent, since it would not be possible for us to contact the various airlines throughout the world. Because this is a lump sum, tax-free payment, it has been modestly discounted from full fare. However, should your actual ticket fare from your host city to your point of origin and return, most direct route, business class (coach where applicable) be higher than the amount reported to us by the Alcoa travel agent, the difference can be expensed on the Moving Expense Statement provided the original airline ticket receipts are attached.

Children under the age of two qualify for "infant's fare" (if any); children ages two through eleven qualify for "children's fare" and children twelve and over qualify for "adult's fare."

Included in the Vacation Home Leave Lump Sum Allowance is a modest travel allowance for miscellaneous expenses enroute.

### POINT OF ORIGIN

The Point of Origin used for this calculation is the approved location designated by the Expatriate on the "Checklist Form". Other locations, that <u>may</u> be acceptable as the Point of Origin, are:

1. The community where immediate members of the family reside; or
2. The community where the expatriate or expatriate's family has a vacation home

## OTHER INFORMATION

When PwC prepares the annual tax equalization, the total Vacation Home Leave Allowance will be included; and if any additional taxes are required, they will be paid by Alcoa.

It should be noted that the Company’s Travel and Accident Insurance is only extended to employees while traveling on business for the Company and is not applicable to any type of vacation home leave travel.

**All qualified expenses resulting from trips made by dependent school/college children not living at the host location must be submitted on the Moving Expense Statement with accompanying original airline ticket receipts.** (Please see the “Education” section of this Manual.)

## VACATION TIME

Vacation time will be twenty workdays during each calendar year of an expatriate assignment.

Although employees are encouraged to take vacation during the calendar year in which the vacation is earned, employees may carry over a maximum of one week (five work days) of their vacation from one year to the next if they obtain their manager’s approval. If an employee decides to carry over any vacation time and apply it to the next year, the employee should notify the manager in writing as soon as possible but prior to December 1 of the applicable year. There is to be no accruing or build up of vacation time beyond the one week maximum in any given year.

## REMINDERS

The Reminder List was developed to help prompt expatriates, especially those moving to their first global assignment, at what point the expatriate might want to initiate aspects of the transfer as well as to trigger those items that one might want to accomplish when arriving at the new host location and ongoing issues.

Your Prudential International Assignment Manager will conduct a review/ orientation with you and your spouse for the purpose of providing details regarding the various expatriate policies/programs. You will most likely travel to the host location for the purpose of discussing the position, visiting schools and selecting a place to live. After you have visited the host location and accepted the transfer, you will probably want to start on these various aspects of the transfer. The following are guideline suggestions.

**PREPARING FOR YOUR MOVE**

1. Make sure you have a valid passport for yourself and all family members who will accompany you on the assignment. Passports should have at least one remaining year, preferably two, before you leave your home country. If not, apply for renewals. Refer to PASSPORT/VISA section of your orientation manual.
2. Complete and return work visa documents as outlined in the instructions given by your new host location administrator or your Prudential Assignment Manager or in some cases both, if required.
3. Make sure you and your spouse (if applicable) have completed your medical exam and required tests as outlined in the documents sent to you by your Prudential International Assignment Manager. Additionally ensure that a copy of the Alcoa Global Medical Clearance Form is completed and signed by Alcoa plant physician (or designated physician) then faxed to your Prudential International Assignment Manager.
4. Do any necessary follow up with the host location school for any required.
5. documents they requested and to ensure a space for your children in that school.
6. Decide what you will do with your personal residence in your home country and follow up on any details to ensure a timely transition.
7. Contact your Prudential IAM to make tentative plans for the move. Refer to the HOUSEHOLD PACKING, SHIPPING AND STORAGE section of your orientation manual.
8. Make a plan for selling your personal automobile(s).
9. Make sure you have met with your PricewaterhouseCoopers contact person in your home country for any tax planning initiatives.
10. Ensure you and your family have updated immunizations.
11. If you plan to purchase a personal automobile at the host location, you should obtain a copy of a good driving record from your current automobile insurance company.
12. Update your family will.
13. Make sure you have an adequate supply of any current prescription medications for you and your family.
14. Apply for a personal credit card that you can dedicate to expatriate-related

expenses (or check Shared Services to determine if you can continue to use your current Corporate Card). The Company will reimburse the annual fee for basic membership of a personal credit card.

15. Submit expense on the Moving Expense Statements for any interim living expenses, automobile rental prior to departure from home, one-time expatriate allowance, etc. (as outlined in the Expatriate Orientation Manual) to Michelle Matteson, Prudential Relocation International, c/o Alcoa Corporate Center.
16. Complete the Personal Data Form in the Orientation Manual including your Point-of-Origin for vacation benefits. Refer to the FORMS section of your orientation manual.
17. Complete the Valued Inventory List for all personal effects and household goods being stored at home or shipped to the host location.
18. Complete all applicable documents in the "FORMS" section of your Orientation Manual.
19. Make airline reservations to the host location and any required temporary accommodations for you and your family.
20. Return all Company-provided credit cards issued from your current location.

**ON ARRIVAL AT THE HOST LOCATION**

1. Advise your Prudential International Assignment Manager in Scottsdale, Arizona of your new home address, phone (work and home) numbers, VMX, and fax including country and city codes
2. Check with your local destination service provider assigned by Prudential at the host location for: :
   - driving laws
   - obtaining a host country drivers license and required automobile insurance
   - advice on leases/appliance purchase
3. Check with your local Expatriate Administration regarding any company credit cards that are used at your host location and obtain application and or process for applying.

**ONGOING**

1. Advise your Prudential International Assignment Manager of any changes in:
   - dependents residing with you at the host location
   - changes in your emergency contact names/numbers
   - host country address and phone numbers
   - changes in your U.S. bank account details
2. If you are a U.S. citizen or U.S. permanent resident alien shareholder in Alcoa and intend to use an address other than the Alcoa Building, you must so advise First Chicago Trust Company of New York and provide them with the address for stockholder and dividend information. First Chicago's address is as follows:

   First Chicago Trust Company of New York
   Attention: Stockholder Relations
   P.O. Box 30981, Church Street Station
   New York, NY 10008-3981

3. If you are a **U.S. citizen or U.S. permanent resident alien**, have you completed a Statement Claiming Bona Fide Residence or Physical Presence Exemption (Form 673) for United States tax purposes? ___________

   It is required by United States law that one of these two statements be completed if you are claiming United States tax exemption on your earned income. The statement must be submitted to the Company, **not** the United States Internal Revenue Service. Please **send this form** to your Prudential IAM and, if the exact date of arrival at the overseas location is known, the form can be completed before you depart from the U.S. (A blank form will be provided to you by your Prudential International Assignment Manager).

4. Please understand that regardless of what payroll you are on, the currency you receive as pay or where your salary is charged, each individual must comply with **both** home and host country income tax laws as a personal responsibility.

5. Have you received an explanation and have an understanding of the Company's expatriate policies for salaried employees on global assignments which include a discussion of your monthly Compensation Analysis? ___________

6. If you are a current holder of a company telephone credit card, please notify Carol Churchill (e-mail: Carol.Churchill@alcoa.com or telephone: (412) 553-3013 of your new charge and division code.

Exhibit 12

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

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Earnings: | | | | | |
| Income from continuing operations before taxes on income and before accounting change | $1,933 | $2,165 | $1,670 | $ 971 | $1,598 |
| Minority interests' share of earnings of majority-owned subsidiaries without fixed charges | — | — | — | — | — |
| Less equity earnings | (26) | (145) | (138) | (72) | (118) |
| Fixed charges added to earnings | 389 | 314 | 347 | 380 | 420 |
| Distributed income of less than 50% owned persons | 40 | 59 | 35 | 21 | 23 |
| Amortization of capitalized interest: | | | | | |
| Consolidated | 25 | 25 | 21 | 14 | 13 |
| Proportionate share of 50% owned persons | — | — | — | — | — |
| Total earnings | $2,361 | $2,418 | $1,935 | $1,314 | $1,936 |
| Fixed Charges: | | | | | |
| Interest expense: | | | | | |
| Consolidated | $ 339 | $ 271 | $ 314 | $ 350 | $ 371 |
| Proportionate share of 50% owned persons | 3 | 3 | 4 | 4 | 6 |
| | 342 | 274 | 318 | 354 | 377 |
| Amount representative of the interest factor in rents: | | | | | |
| Consolidated | 45 | 38 | 28 | 25 | 41 |
| Proportionate share of 50% owned persons | 2 | 2 | 1 | 1 | 2 |
| | 47 | 40 | 29 | 26 | 43 |
| Fixed charges added to earnings | 389 | 314 | 347 | 380 | 420 |
| Interest capitalized: | | | | | |
| Consolidated | 58 | 27 | 21 | 22 | 22 |
| Proportionate share of 50% owned persons | — | — | — | — | — |
| | 58 | 27 | 21 | 22 | 22 |
| Total fixed charges | $ 447 | $ 341 | $ 368 | $ 402 | $ 442 |
| Ratio of earnings to fixed charges | 5.3 | 7.1 | 5.3 | 3.3 | 4.4 |

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

# Selected Financial Data

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

| For the year ended December 31 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Sales | $26,159 | $23,236 | $20,871 | $19,728 | $21,750 |
| Income from continuing operations | 1,233 | 1,377 | 1,027 | 493 | 886 |
| Income (loss) from discontinued operations | 2 | (67) | (42) | (107) | 22 |
| Cumulative effect of accounting changes | (2) | — | (47) | 34 | — |
| Net income | 1,233 | 1,310 | 938 | 420 | 908 |
| Earnings (loss) per share: | | | | | |
| Basic: | | | | | |
| Income from continuing operations | 1.41 | 1.58 | 1.20 | .58 | 1.03 |
| (Loss) income from discontinued operations | — | (.08) | (.05) | (.13) | .03 |
| Cumulative effect of accounting changes | — | — | (.06) | .04 | — |
| Net income | 1.41 | 1.50 | 1.09 | .49 | 1.06 |
| Diluted: | | | | | |
| Income from continuing operations | 1.40 | 1.57 | 1.19 | .58 | 1.02 |
| (Loss) income from discontinued operations | — | (.08) | (.05) | (.13) | .03 |
| Cumulative effect of accounting changes | — | — | (.06) | .04 | — |
| Net income | 1.40 | 1.49 | 1.08 | .49 | 1.05 |
| Alcoa’s average realized price per metric ton of aluminum ingot | 2,044 | 1,867 | 1,543 | 1,455 | 1,587 |
| LME average 3-month price per metric ton of aluminum ingot | 1,900 | 1,721 | 1,428 | 1,365 | 1,454 |
| Cash dividends paid per common share | .60 | .60 | .60 | .60 | .60 |
| Total assets | 33,696 | 32,609 | 31,711 | 29,810 | 28,355 |
| Short-term borrowings | 300 | 267 | 50 | 34 | 163 |
| Commercial paper | 912 | 630 | — | 665 | 220 |
| Long-term debt | 5,337 | 5,402 | 7,216 | 7,784 | 6,264 |

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

In addition to the operational results presented in Management’s Discussion and Analysis of Financial Condition and Results of Operations, other significant items that impacted results included, but were not limited to, the following:

2005: Acquisitions and dispositions of businesses, restructuring and other charges, the sale of investments, and a tax benefit resulting from the finalization of certain tax reviews and audits
2004: Disposition of businesses, restructuring and other charges, changes in the provision for income taxes, the restructuring of debt and associated settlement of interest rate swaps, the effects of the Bécancour strike, the sale of a portion of Alcoa’s interest in the Juruti bauxite project, environmental charges, the termination of an alumina tolling arrangement, and discontinued operations
2003: Acquisitions and dispositions of businesses, restructuring and other charges, insurance settlements related to environmental matters, changes in the provision for income taxes, discontinued operations, and the adoption of a new accounting standard
2002: Restructuring and other charges, the adoption of new accounting standards, goodwill impairment, and discontinued operations
2001: Restructuring and other charges, dispositions of businesses, and various charges to cost of goods sold and selling, general administrative, and other expenses

The data presented in the Selected Financial Data table should be read in conjunction with the information provided in Management’s Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Consolidated Financial Statements.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

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

## Overview

### Our Business

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

Alcoa is a global company operating in 42 countries. North America is the largest market with 61% of Alcoa's revenues. Europe is also a significant market with 23% of the company's revenues. In addition, Alcoa has investments and activities in Australia, Brazil, China, Iceland, Jamaica, Russia, and Trinidad, which present opportunities for substantial growth. Governmental policies and other economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates, affect the results of operations in these countries.

### Management Review of 2005 and Outlook for the Future

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

In 2005, Alcoa focused on long-term value creation through living our values, executing our growth strategy, controlling costs and capital, and strategically managing our portfolio of businesses. These actions contributed to the following achievements:

- Highest annual sales in company history of $26,159, reflecting revenue growth of $2,923, or 13%, over 2004;
- Income from continuing operations of $1,233, despite the challenge of significantly higher expenses for raw materials, energy, and other cost inflation;
- Cash from operations of $1,676, including a $300 discretionary pension contribution;
- Continued execution of our growth strategy, with significant investments in refinery expansions, smelter expansions and modernizations, as well as new smelter construction in Iceland; and
- Debt-to-capital ratio of 30.8%, well within our target range of 25% to 35%, considering $2,138 in capital expenditures.

In 2005, the company's results were positively impacted by the following: higher realized prices for aluminum and alumina; higher demand in downstream markets, particularly in higher value-added markets such as aerospace and commercial transportation; the sale of Alcoa's stake in Elkem ASA; an income tax benefit resulting from the finalization of certain tax reviews and audits; and the sale of railroad assets. In 2005, Alcoa's revenues rose to the highest level in company history while the company continued to significantly expand and plan future growth. During 2005, the company was also faced with a number of challenges, including higher than expected costs for energy and raw materials, restructuring costs driven by a new global business structure designed to optimize operations, integration of the acquired Russian facilities, the impact of Gulf Coast hurricanes, and business interruptions due to unplanned outages and labor strikes in Europe.

As we look to 2006 and beyond, we will work toward the following goals:

- Managing our portfolio of businesses by monitoring the progress of underperforming assets and making appropriate adjustments to strengthen the portfolio;
- Capitalizing on strong markets, using technology as an advantage, and continuing to fully integrate investments in Russia and China;
- Expanding our global reach to better serve customers, to improve competitiveness, and to grow our businesses. Alcoa is taking the following actions to achieve these goals: purchasing fabricating facilities in Russia and a rolling mill in China; expanding rolling capacity in the U.S. and England; and positioning our primary businesses lower on the cost curve by (i) opening a bauxite mine in Brazil, (ii) expanding alumina refinery capacity in Australia, Jamaica, and Brazil, (iii) expanding smelting capacity in Brazil, and (iv) constructing a smelter in Iceland and an anode facility in Norway. Capital expenditures for these major growth projects and other sustaining projects are projected to be in the range of $2,500 to $3,000 in 2006. These projects are outlined in more detail under Segment Information, Liquidity and Capital Resources, and Contractual Obligations and Off-Balance Sheet Arrangements; and
- Continuing to drive operational excellence through deployment of the Alcoa Business System (ABS), while focusing on cost savings to offset increased energy and input costs for raw materials.

### Forward-Looking Statements

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

Derivative Activities. For additional information on forward-looking statements and risk factors, see Alcoa's Form 10-K, Part I, Item 1A. Alcoa disclaims any intention or obligation (other than as required by law) to update or revise any forward-looking statements.

## Results of Operations

### Earnings Summary

Alcoa's income from continuing operations for 2005 was $1,233, or $1.40 per diluted share, compared with $1,377, or $1.57 per share in 2004. The highlights for 2005 include: higher realized prices for alumina and aluminum as LME prices increased by 10% over 2004 levels; increased sales across all segments; higher demand in upstream businesses and in downstream businesses serving the aerospace, commercial transportation, industrial products, distribution, packaging, and building and construction markets; a $180 net gain related to the sale of Alcoa's stake in Elkem ASA; a $120 tax benefit related to the finalization of certain tax reviews and audits during the second quarter of 2005; and a $37 gain on the sale of railroad assets.

These positive contributions were more than offset in 2005 by the following: significant cost increases for energy and raw materials; the impact of a weakened U.S. dollar against other currencies, primarily the Canadian dollar and the Euro; restructuring charges of $221 associated with the global realignment of Alcoa's organization structure designed to streamline operations; operating losses of $69 related to the acquired facilities in Russia; a $58 charge for the closure of the Hamburger Aluminium-Werk facility in Germany; an increase in environmental reserves, principally related to the closed East St. Louis, IL facility; an increase in legal reserves, primarily due to litigation involving a closed Howmet facility; and higher costs associated with hurricanes and business interruptions.

Net income for 2005 was $1,233, or $1.40 per diluted share, compared with $1,310, or $1.49 per share, in 2004. Net income of $1,233 in 2005 included income from discontinued operations of $2, comprised of $17 in net operating income, mostly offset by $15 related to net losses on businesses impaired or sold in 2005.

Alcoa's income from continuing operations for 2004 was $1,377, or $1.57 per diluted share, compared with $1,027, or $1.19 per share, in 2003. The increase in income from continuing operations was primarily due to higher realized prices for alumina and aluminum; improved profitability across five of six segments; a $38 gain related to the retirement of debt and associated interest rate swap settlement; a $37 gain on the sale of a portion of Alcoa's interest in the Juruti bauxite project to Alumina Limited; continued focus on completion of divestitures, which included a $61 gain on the sale of the specialty chemicals business; and a $15 gain from the termination of an alumina tolling arrangement. Partially offsetting these increases were higher energy and raw materials costs, the unfavorable impact of the U.S. dollar against foreign currencies, the impact of a strike at the Bécancour smelter; a $41 increase in environmental and legal reserves, principally related to the Grasse River site and El Campo, and the absence of $79 in insurance settlements that occurred in 2003.

Net income for 2004 was $1,310, or $1.49 per diluted share, compared with $938, or $1.08 per share, in 2003. Net income of $1,310 in 2004 included a loss of $67 in discontinued operations, comprised of $89 in impairment charges to reflect the estimated fair values of the protective packaging business, the telecommunications business, and a small casting business, somewhat offset by net operating income of $17 and a net gain of $5 on divested businesses.

**Sales—**Sales for 2005 were $26,159 compared with sales of $23,236 in 2004, an increase of $2,923, or 13%. The 9% increase in the realized price of aluminum and the 14% increase in the realized price of alumina contributed to the increase in sales over the prior year, as approximately one-half of the increase in sales was due to higher realized prices. Demand increased in upstream businesses and in downstream businesses serving the aerospace, commercial transportation, industrial products, distribution, packaging, and building and construction markets. The acquisition of two Russian fabricating facilities provided $449 in additional revenue in 2005. In addition, higher sales related to metal purchased and subsequently resold and favorable foreign currency exchange movements positively impacted 2005. These positive contributions more than offset the sales decreases from the divestitures in 2004 of Alcoa's specialty chemicals business, the Russellville, AR and St. Louis, MO foil facilities, and the European and Brazilian extrusion facilities.

Sales in 2004 were $23,236 compared with sales of $20,871 in 2003, an increase of $2,365, or 11%. The 21% increase in the realized price of aluminum and 23% increase in the realized price of alumina contributed significantly to the increase in sales over the prior year, as two-thirds of the increase in sales was due to higher realized prices. Demand increased in downstream businesses serving the commercial transportation, building and construction, aerospace, and packaging markets. In addition, the acquisition of the remaining 50% of KAAL Australia in October 2003 provided $370 in additional revenue in 2004. Partly offsetting these increases were sales decreases due to the divestitures noted above.

**Cost of Goods Sold—**COGS as a percentage of sales was 81.1% in 2005 compared with 79.5% in 2004. Increased realized prices for alumina and aluminum and higher volumes were more than offset by increased costs for raw materials and energy, Russian operating costs, unfavorable foreign currency exchange movements, costs associated with hurricanes and business interruptions, and an increase in environmental and legal reserves.

COGS as a percentage of sales was 79.5% in 2004 compared with 79.6% in 2003. Increased realized prices for alumina and aluminum, higher volumes, and cost savings were mostly offset by higher costs associated with energy and raw materials, the

Bécancour strike, an increase of $42 in environmental reserves, and unfavorable foreign currency exchange movements.

**Selling, General Administrative, and Other Expenses**—SG&A expenses were $1,352, or 5.2% of sales, in 2005 compared with $1,252, or 5.4% of sales, in 2004. Expenses increased by $100 primarily due to the acquisition of two Russian facilities.

SG&A expenses were $1,252, or 5.4% of sales, in 2004 compared with $1,221, or 5.9% of sales, in 2003. Expenses increased by $31 due to unfavorable foreign currency exchange movements, increased bad debt expense, and stock awards granted in 2004, somewhat offset by lower deferred compensation costs.

**Research and Development Expenses**—R&D expenses were $194 in 2005 compared with $182 in 2004 and $190 in 2003. The increase in 2005 was principally due to increased spending in the Primary Metals segment related to inert anode technology. The decrease in 2004 compared with 2003 was primarily driven by Alcoa's continued focus to reduce spending and control costs.

**Provision for Depreciation, Depletion, and Amortization**—The provision for depreciation, depletion, and amortization was $1,265 in 2005 compared with $1,189 in 2004. The increase of $76, or 6%, was primarily caused by a higher asset base due to the acquisition of two Russian fabricating facilities and unfavorable foreign currency exchange movements.

The provision for depreciation, depletion, and amortization was $1,189 in 2004 compared with $1,159 in 2003. The increase of $30, or 3%, was primarily caused by unfavorable foreign currency exchange movements.

**Restructuring and Other Charges**—Restructuring and other charges for each of the three years in the period ended December 31, 2005, were comprised of:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Asset impairments | $131 | $ 6 | $ — |
| Layoff costs | 240 | 41 | 44 |
| Other costs | 16 | — | — |
| Gain on sale of specialty chemicals business | — | (53) | — |
| Net reversals of previously recorded layoff and other costs* | (48) | (15) | (38) |
| Net reversals of previously recorded gains/losses on assets held for sale | — | — | (33) |
| Restructuring and other charges | $339 | $(21) | $(27) |

*Reversals of previously recorded layoff and other costs resulted from changes in facts and circumstances that led to changes in estimated costs.

**2005 Restructuring Program**—As a result of the global realignment of Alcoa's organization structure, designed to optimize operations in order to better serve customers, a restructuring plan was developed to identify opportunities to streamline operations on a global basis. The restructuring program consisted of the elimination of jobs across all segments of the company, various plant closings and consolidations, and asset disposals. Restructuring charges of $339 ($221 after tax and minority interests) were recorded in 2005 and were comprised of the following components: $240 of charges for employee termination and severance costs associated with approximately 8,600 salaried and hourly employees, spread globally across the company; $131 related to asset impairments for structures, machinery, and equipment; and $16 for exit costs, consisting primarily of accelerated depreciation associated with assets for which the useful life has been changed due to plans to close certain facilities in the near term. Reversals of previously recorded layoff and other costs were primarily due to Alcoa's decision to sell certain locations that it previously planned to shut down in 2005. Alcoa expects the implementation of this restructuring plan to eliminate approximately $200 (pretax) from its cost base when completed.

Alcoa does not include restructuring and other charges in the segment results. The pretax impact of allocating restructuring and other charges to the segment results would have been:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Alumina | $ 6 | $(48) | $ (1) |
| Primary Metals | 36 | (1) | 4 |
| Flat-Rolled Products | 15 | 1 | 13 |
| Extruded and End Products | 73 | 9 | 7 |
| Engineered Solutions | 153 | 9 | (11) |
| Packaging and Consumer | 39 | 10 | (44) |
| Segment total | 322 | (20) | (32) |
| Corporate | 17 | (1) | 5 |
| Total restructuring and other charges | $339 | $(21) | $(27) |

The following discussion details the significant components of the 2005 restructuring program:

– In December 2005, the company temporarily curtailed production at its Eastalco, MD smelter because it was not able to secure a new, competitive power supply for the facility. A

charge of $14 was recorded for the termination of approximately 550 people.

– The automotive operations, included in the Engineered Solutions segment, were restructured to improve efficiencies and included the following actions:

- The closure of the Hawesville, KY automotive casting facility was announced on May 19, 2005. This closure, originally scheduled to occur by year-end, will occur in the first quarter of 2006 in order to fulfill certain extended customer commitments. The closure is a result of excess capacity in Alcoa's automotive castings manufacturing system. A charge of $44 was recorded, $1 for the termination of 158 employees and $43 for the impairment of assets.
- A restructuring of the cast auto wheels business occurred, which ultimately included the sale of the wheels facility in Italy. Total charges recorded in 2005 were $71, consisting of $15 for severance costs associated with approximately 450 employees, $46 for asset impairments, and $10 loss on sale of the facility in Italy.
- Headcount reductions in the AFL automotive business resulted in a charge of $27 for the termination of approximately 3,900 employees, primarily in Mexico.

– The global extruded and end products businesses were restructured to optimize operations and increase productivity and included the following actions:

- Headcount reductions across various businesses resulted in a charge of $51 for the termination of 1,050 employees in the U.S., Europe, and Latin America.
- Charges of $15 were recorded for asset disposals at various U.S. and European extrusion plants related to certain assets which the businesses have ceased to operate.

– The restructuring associated with the packaging and consumer businesses consisted of plant consolidations and closures designed to strengthen the operations, resulting in charges of $39, comprised of $23 for the termination of 1,620 employees primarily in the U.S., $8 for asset disposals, and $8 for other exit costs. Other exit costs primarily consisted of accelerated depreciation.

Employee termination and severance costs were recorded based on approved detailed action plans submitted by the operating locations that specified positions to be eliminated, benefits to be paid under existing severance plans, union contracts or statutory requirements, and the expected timetable for completion of the plans. These terminations are expected to be completed in the next twelve months. As of December 31, 2005, 3,550 of the approximately 8,600 employees had been terminated. Approximately $69 of cash payments were made against the 2005 program reserves in 2005.

**2004 Restructuring Program**—During 2004, Alcoa recorded income of $21 ($41 after tax and minority interests) for restructuring and other items. The income recognized was comprised of the following components: a gain of $53 ($61 after tax and minority interests) on the sale of Alcoa's specialty chemicals business and $15 resulting from adjustments to prior year reserves; offset by charges of $41 related to additional layoff reserves associated with approximately 4,100 hourly and salaried employees (located primarily in Mexico and the U.S.), as the company continued to focus on reducing costs; and $6 of asset impairments. The 2004 restructuring program is essentially complete. Approximately $16 of cash payments were made in 2005 related to prior year restructuring programs.

**2003 Restructuring Program**—During 2003, Alcoa recorded income of $27 ($25 after tax and minority interests) for restructuring and other charges. The income recognized was comprised of the following components: $44 of charges for employee termination and severance costs associated with approximately 1,600 hourly and salaried employees (located primarily in Europe, the U.S., and Brazil), as the company continued to focus on cost reductions in businesses that continued to be impacted by market declines; $33 of net favorable adjustments on assets held for sale; and $38 of income resulting from adjustments to prior year layoff reserves due to changes in facts and circumstances that led to changes in estimated costs. The 2003 restructuring program is essentially complete.

**Interest Expense—**Interest expense was $339 in 2005 compared with $271 in 2004, resulting in an increase of $68, or 25%. This increase was principally caused by higher average effective interest rates and increased borrowings, somewhat offset by an increase in interest capitalized.

Interest expense was $271 in 2004 compared with $314 in 2003, resulting in a decrease of $43, or 14%. This decrease was principally caused by lower average debt levels.

**Other Income—**Other income was $480 in 2005 compared with $271 in 2004. The increase of $209, or 77%, was primarily due to the gain of $345 on the sale of Alcoa's stake in Elkem ASA and the $67 gain on the sale of railroad assets, partially offset by the $90 charge for impairment, layoff, and other costs related to the closure of the Hamburger Aluminium-Werk facility in Germany and the absence of the $58 gain on the early retirement of debt that occurred in 2004.

Other income of $271 in 2004 was relatively flat compared with $274 in 2003. In 2004, a $58 gain recognized on the early retirement of debt, a $53 change in favorable foreign currency exchange movements, and a $35 gain on the termination of an alumina tolling arrangement were mostly offset by the $105 gain in 2003 from insurance settlements of a series of historical environmental matters in the U.S., as well as a decrease in the cash surrender value of employee life insurance, among other smaller items.

**Income Taxes—**Alcoa's effective tax rate was 22.8% in 2005 compared with the statutory rate of 35% and Alcoa's effective tax rates of 25.1% in 2004 and 24.2% in 2003. The effective tax rate in 2005 reflects two significant discrete tax items:

- A $43 tax impact of recognizing the previously undistributed equity earnings related to Alcoa's stake in Elkem ASA increased the rate by approximately 2.2 percentage points.
- The finalization of certain tax reviews and audits decreased the rate by approximately 6.2 percentage points.

Management anticipates that the tax rate in 2006 will be similar to the tax rates for 2005 and 2004 excluding the impact of discrete tax items.

In October of 2004, the American Job Creation Act of 2004 (AJCA) was signed into law. Alcoa did not utilize the AJCA provision that allows companies to repatriate earnings from foreign subsidiaries at a reduced U.S. tax rate.

**Minority Interests—**Minority interests' share of income from operations was $259 in 2005 compared with $245 in 2004. The $14 increase was primarily due to higher earnings at Alcoa World Alumina and Chemicals (AWAC), attributed primarily to higher realized prices.

Minority interests' share of income from operations was $245 in 2004 compared with $238 in 2003. The $7 increase in 2004 was due to higher earnings at AWAC, attributed to higher realized prices, increased volumes, and the gain associated with the termination of an alumina tolling arrangement. This increase was partially offset by Alcoa's acquisition of the minority interest in Alcoa Alumínio in August 2003 and the sale of the specialty chemicals business in 2004.

**Income (Loss) From Discontinued Operations—**Income from discontinued operations was $2 in 2005 compared with losses of $67 in 2004 and $42 in 2003. The income of $2 in 2005 was comprised of $17 in net operating income, mostly offset by $15 of net losses associated with businesses impaired or sold in 2005. The loss of $67 in 2004 was comprised of $89 in impairment charges to reflect the estimated fair values of the protective packaging business, the telecommunications business, and a small casting business, somewhat offset by $17 in net operating income and a net gain of $5 on divested businesses. The loss of $42 in 2003 was comprised of an impairment of $45 related to a reduction in the estimated fair value of the automotive fasteners business, slightly offset by $3 of operating income. See Note B to the Consolidated Financial Statements for further information.

In the third quarter of 2005, Alcoa reclassified the imaging and graphic communications business of Southern Graphic Systems, Inc. (SGS) to discontinued operations based on the decision to sell the business. The results of the Packaging and Consumer segment have been reclassified to reflect the movement of this business into discontinued operations. In December 2005, Alcoa completed the sale of SGS to Citigroup Venture Capital Equity Partners, LP for $408 in cash and recognized an after-tax gain of $9.

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

**Cumulative Effect of Accounting Changes—**Effective December 31, 2005, Alcoa adopted Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47) and recorded a cumulative effect adjustment of $2, consisting primarily of costs for regulated waste materials related to the demolition of certain power facilities.

In 2003, Alcoa adopted Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" and recorded a cumulative effect adjustment of $47, consisting primarily of costs to establish assets and liabilities related to spent pot lining disposal for pots currently in operation. See Note C to the Consolidated Financial Statements for further information.

## Segment Information

Alcoa's operations consist of six worldwide segments: Alumina, Primary Metals, Flat-Rolled Products, Extruded and End Products, Engineered Solutions, and Packaging and Consumer. Alcoa's management reporting system measures the after-tax operating income (ATOI) of each segment. Certain items, such as interest income, interest expense, foreign currency translation gains/losses, certain effects of LIFO inventory accounting, minority interests, restructuring and other charges, discontinued operations, and accounting changes are excluded from segment ATOI. In addition, certain expenses, such as corporate general administrative expenses and depreciation and amortization on corporate assets, are not included in segment ATOI. Segment assets exclude cash, cash equivalents, short-term investments, and all deferred taxes. Segment assets also exclude items such as corporate fixed assets, LIFO reserves, goodwill allocated to corporate, assets held for sale, and other amounts.

ATOI for all segments totaled $2,143 in 2005, $2,111 in 2004, and $1,721 in 2003. See Note Q to the Consolidated Financial Statements for additional information. The following discussion provides shipments, sales, and ATOI data of each segment for each of the three years in the period ended December 31, 2005. The financial information and data on shipments for all prior periods have been reclassified for discontinued operations.

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

### Alumina

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Alumina production (mt) | 14,598 | 14,343 | 13,841 |
| Third-party alumina shipments (mt)* | 7,857 | 8,062 | 8,101 |
| Third-party sales | $2,130 | $1,975 | $2,002 |
| Intersegment sales | 1,707 | 1,418 | 1,021 |
| Total sales | $3,837 | $3,393 | $3,023 |
| ATOI | $ 682 | $ 632 | $ 415 |

* Alumina shipments have been restated to reflect total alumina shipments rather than only smelter-grade alumina shipments.

This segment consists of Alcoa's worldwide alumina system that includes the mining of bauxite, which is then refined into alumina. Alumina is sold directly to internal and external smelter customers worldwide or is processed into industrial chemical products. Alcoa's alumina operations in Australia are a significant component of this segment. Slightly more than half of Alcoa's alumina production is sold under supply contracts to third parties worldwide, while the remainder is used internally. Alcoa's specialty chemicals business was sold in the first quarter of 2004.

In 2005, alumina production increased by 255,000 mt, resulting primarily from increased production in the Poços de Caldas refinery in Brazil (13% increase in production) and the Kwinana, Australia refinery (10% increase in production) and the capacity expansion in Jamaica (5% increase in production). In 2004, alumina production increased by 502,000 mt, resulting primarily from the capacity expansion in Jamaica (14% increase in production) and the restart of capacity at Point Comfort, TX (13% increase in production), as well as an 11% increase in production at the San Ciprián, Spain refinery.

Third-party sales for the Alumina segment increased $155, or 8%, in 2005 compared with 2004, primarily due to a 14% increase in realized price influenced by higher LME prices, which was somewhat offset by lower third-party volumes. Third-party sales remained relatively flat in 2004 compared with 2003. The increase in realized prices of 23% in 2004 was more than offset by lower third-party volumes due to the expiration of an alumina purchase agreement in 2003, which resulted in higher intersegment sales in 2004. Also, the sale of the specialty chemicals business in 2004 negatively impacted sales by $287.

ATOI for this segment rose 8% in 2005 compared with 2004, primarily due to higher realized prices and increased total volumes. These positive contributions were somewhat offset by higher raw materials, energy, and maintenance costs; unfavorable foreign currency exchange movements; the absence of a $37 gain on the sale of a portion of Alcoa's interest in a Brazil bauxite project that occurred in 2004; and the absence of a $15 gain on the termination of an alumina tolling arrangement that occurred in 2004. ATOI for this segment rose 52% in 2004 compared with 2003, primarily due to higher realized prices, increased total volumes, and gains totaling $52 as previously mentioned. These positive contributions were somewhat offset by unfavorable foreign currency exchange movements, higher raw material costs, and the loss of profit associated with the sale of the specialty chemicals business.

In 2006, Alcoa will continue its brownfield projects at refineries in Brazil (addition of 2,100,000 mt—1,134,000 mt is Alcoa's share); Pinjarra, Western Australia (657,000 mt addition); and Jamaica (addition of 1,500,000 mt). Higher raw material costs are anticipated in 2006, and energy costs will be dependent on the cost of natural gas and fuel oil.

## Primary Metals

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Aluminum production (mt) | 3,554 | 3,376 | 3,508 |
| Third-party aluminum shipments (mt) | 2,154 | 1,882 | 1,952 |
| Alcoa's average realized price per metric ton of aluminum ingot | $2,044 | $1,867 | $1,543 |
| Third-party sales | $4,698 | $3,806 | $3,229 |
| Intersegment sales | 4,808 | 4,335 | 3,098 |
| Total sales | $9,506 | $8,141 | $6,327 |
| ATOI | $ 822 | $ 808 | $ 657 |

This segment consists of Alcoa's worldwide smelter system. Primary Metals receives alumina primarily from the Alumina 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. In 2005, aluminum production increased by 178,000 mt, principally due to the restart of the Massena, NY and Bécancour, Canada smelters, as well as the partial restart of the Wenatchee, WA smelter. In 2004, aluminum production decreased by 132,000 mt, principally due to the strike at the Bécancour facility.

Third-party sales for the Primary Metals segment increased 23% in 2005 compared with 2004, primarily due to an increase in realized prices of 9% and increased third-party shipments. Third-party sales increased 18% in 2004 compared with 2003, primarily due to an increase in realized prices of 21%, which more than offset lower third-party shipments. An electrical outage at the Alumar smelter in Brazil also had a negative impact on third-party sales in 2003. Intersegment sales increased 11% in 2005 and 40% in 2004 compared with previous periods due to higher realized prices and higher internal demand.

ATOI for this segment increased 2% in 2005 compared with 2004 as higher realized prices and increased volumes were mostly offset by increased raw materials and energy costs, unfavorable foreign currency exchange movements, and outages and restart costs. ATOI for this segment increased 23% in 2004 compared with 2003 as higher realized prices and higher total shipments were somewhat offset by the impact of unfavorable

foreign currency exchange movements, higher costs for energy and purchased metal, and the effects of a strike at Bécancour in 2004.

Alcoa currently has 509,000 metric tons per year (mtpy) of idle capacity on a base capacity of 4,004,000 mtpy. Idle capacity includes the temporary curtailment of the Eastalco smelter in Maryland. The Iceland smelter, which will add 346,000 mtpy of capacity, is expected to be completed in 2007. The completion of the expansion at the Alumar smelter in Brazil will also add approximately 63,000 mtpy of capacity. In 2005, the company continued construction on a new anode plant in Norway and began modernization of two Spanish smelters and the Poços de Caldas smelter in Brazil. In 2006, the additional capacity from restarts and growth projects will more than offset the reduction of capacity due to the temporary curtailment of the Eastalco smelter.

### Flat-Rolled Products

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Third-party aluminum shipments (mt) | 2,156 | 2,046 | 1,819 |
| Third-party sales | $6,836 | $5,962 | $4,815 |
| Intersegment sales | 128 | 89 | 66 |
| Total sales | $6,964 | $6,051 | $4,881 |
| ATOI | $ 288 | $ 246 | $ 221 |

This segment's principal business is the production and sale of aluminum plate, sheet, and foil. This segment includes rigid container sheet (RCS), which is sold directly to customers in the packaging and consumer market and is used to produce aluminum beverage cans. Seasonal increases in RCS sales are generally experienced in the second and third quarters of the year. This segment also includes sheet and plate used in the transportation, building and construction, and distributor markets (mainly used in the production of machinery and equipment and consumer durables), of which approximately two-thirds is sold directly to customers, while the remainder is sold through distributors. Approximately two-thirds of the third-party sales in this segment are derived from sheet and plate, and foil used in industrial markets, while the remaining one-third of third-party sales consists of RCS. While the customer base for flat-rolled products is large, a significant amount of sales of RCS, sheet, and plate is to a relatively small number of customers.

Third-party sales for the Flat-Rolled Products segment increased 15% in 2005 compared with 2004. The increase was primarily due to higher prices, higher volumes resulting from the acquisition of two Russian facilities, favorable mix for sheet and plate in the aerospace market, and increased volumes for RCS, as well as favorable foreign currency exchange movements. Third-party sales for the Flat-Rolled Products segment increased 24% in 2004 compared with 2003. The increase was due to the acquisition of the remaining 50% interest in KAAL Australia (can sheet rolling mills) in October of 2003, higher prices, the favorable impact of foreign currency exchange movements in Europe, and increased volumes for sheet and plate. Increased volumes for these products resulted from improved performance in businesses serving the commercial transportation, aerospace, and distribution markets.

ATOI for this segment increased 17% in 2005 compared with 2004, principally due to higher volumes, favorable mix for sheet and plate, higher prices, and increased productivity. These positive contributions were somewhat offset by increased raw material, energy, and transportation costs, as well as operating losses of $52 at the acquired Russian facilities. ATOI for this segment increased 11% in 2004 compared with 2003, principally due to higher volumes, higher prices, improved productivity, and favorable mix for sheet and plate; favorable foreign currency exchange movements in Europe; and the contribution of KAAL Australia. These positive contributions were somewhat offset by a hot mill interruption at the Kitts Green facility in the U.K. and temporary throughput issues at the Tennessee can sheet facility. These issues were resolved in 2004.

In 2006, operating costs at the Russian facilities are expected to decrease, and price pressure is expected in common alloy sheet.

### Extruded and End Products

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Third-party aluminum shipments (mt) | 894 | 895 | 851 |
| Third-party sales | $4,304 | $3,974 | $3,529 |
| Intersegment sales | 64 | 54 | 34 |
| Total sales | $4,368 | $4,028 | $3,563 |
| ATOI | $ 50 | $ 73 | $ 58 |

This segment consists of extruded products, some of which are further fabricated into a variety of end products, and includes hard- and soft-alloy extrusions, architectural extrusions, and vinyl siding. These products primarily serve the building and construction, distribution, aerospace, automotive, and commercial transportation markets. These products are sold directly to customers and through distributors.

Third-party sales for the Extruded and End Products segment increased 8% in 2005 compared with 2004, principally due to higher prices. The increase in volumes from the Russian facilities and the strength of the businesses serving the commercial building and construction market were somewhat offset by lower volumes in the residential building products business and lower volumes and prices in Europe. Third-party sales increased 13% in 2004 compared with 2003, principally due to increased volumes in the building and construction market, higher prices, and favorable foreign currency exchange movements.

ATOI for this segment decreased 32% in 2005 compared with 2004, as higher prices and increased volumes in the businesses serving the commercial building and construction market were more than offset by higher raw materials and energy costs and lower volumes in Europe and in the residential building products business. In addition, this segment was negatively impacted by operating losses of $7 associated with integration

costs for Russian extruded products. ATOI for this segment increased 26% in 2004 compared with 2003, principally resulting from increased volumes due to improved market conditions as noted previously, higher prices, and strong productivity gains.

### Engineered Solutions

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Third-party aluminum shipments (mt) | 148 | 133 | 115 |
| Third-party sales | $5,048 | $4,603 | $4,385 |
| ATOI | $ 196 | $ 211 | $ 182 |

This segment includes titanium, aluminum, and super-alloy investment castings; forgings and fasteners; electrical distribution systems; aluminum wheels; and integrated aluminum structural systems used in the aerospace, automotive, commercial transportation, and power generation markets. These products are sold directly to customers and through distributors.

Third-party sales for the Engineered Solutions segment increased 10% in 2005 compared with 2004. The increase was due primarily to increased volumes in the businesses serving the commercial transportation, aerospace, and industrial gas turbine markets. These positive contributions were somewhat offset by pricing pressures. Third-party sales increased 5% in 2004 compared with 2003, primarily due to higher prices and favorable foreign currency exchange movements.

ATOI for this segment decreased 7% in 2005 compared with 2004, as increased volumes and favorable mix in the businesses serving the aerospace market positively impacted results. This positive contribution was more than offset by increased raw materials costs, operating losses of $3 related to the acquired Russian facilities, increased litigation expenses related to a closed Howmet facility, the resolution of a local tax audit, and the adverse impact of a fire and business interruption at Howmet's Dover, NJ facility. ATOI increased 16% in 2004 compared with 2003, primarily due to productivity improvements in the automotive parts business and cost savings, which were slightly offset by decreased volumes and higher raw materials costs.

In 2006, the aerospace market is expected to remain strong, and automotive volumes are projected to increase, including AFL automotive.

### Packaging and Consumer

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Third-party aluminum shipments (mt) | 151 | 164 | 167 |
| Third-party sales | $3,139 | $2,923 | $2,894 |
| ATOI | $ 105 | $ 141 | $ 188 |

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

Third-party sales for the Packaging and Consumer segment increased 7% in 2005 compared with 2004, principally due to higher prices, as Alcoa was able to pass through a significant amount of the increased resin costs. Increased volumes in the closures and consumer products businesses also positively impacted 2005 and were somewhat offset by a decrease in volumes in the plastic sheet and film business. Third-party sales for the Packaging and Consumer segment remained relatively flat in 2004 compared with 2003, as increased volumes in the closures and plastic sheet and film businesses and higher prices were offset by the impact of the sale of Alcoa's Latin America PET business.

ATOI for this segment decreased 26% in 2005 compared with 2004, as the increases in prices and volumes noted previously, along with productivity gains, were more than offset by higher raw materials costs and unfavorable mix in the consumer products and flexible packaging businesses. ATOI for this segment in 2004 decreased 25% compared with 2003, primarily due to significantly higher resin and metal costs, unfavorable foreign currency exchange movements, and the divestitures of the Latin America PET business and Latasa, which were somewhat offset by increased volumes as noted above.

In 2006, higher input costs are anticipated for resin and metal.

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

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| ATOI | $2,143 | $2,111 | $1,721 |
| Impact of intersegment profit adjustments | 37 | 52 | 9 |
| Unallocated amounts (net of tax): | | | |
| Interest income | 42 | 26 | 24 |
| Interest expense | (220) | (176) | (204) |
| Minority interests | (259) | (245) | (238) |
| Corporate expense | (312) | (283) | (287) |
| Restructuring and other charges | (226) | 23 | 26 |
| Discontinued operations | 2 | (67) | (42) |
| Accounting changes | (2) | — | (47) |
| Other | 28 | (131) | (24) |
| Consolidated net income | $1,233 | $1,310 | $ 938 |

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;
- Restructuring and other charges (excluding minority interests);
- Discontinued operations;
- Accounting changes for conditional asset retirement obligations in 2005 and asset retirement obligations in 2003; and
- Other, which consists of 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 currency translation gains/losses.

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

- An increase in interest expense, primarily due to higher average effective interest rates and increased borrowings, somewhat offset by an increase in interest capitalized;
- A $249 increase in restructuring and other charges due to the company's 2005 global restructuring plan;
- A change in discontinued operations due to significant impairment losses recognized in 2004 on the protective packaging and telecommunications businesses; and
- An increase in Other, primarily due to the $180 net gain on the sale of Alcoa's stake in Elkem ASA and a $120 tax benefit related to the finalization of certain tax reviews and audits during the second quarter of 2005, slightly offset by the $58 charge related to the closure of the Hamburger Aluminium-Werk facility in Germany and an increase in LIFO inventory adjustments due to the increase in raw materials and energy costs.

The significant changes in the reconciling items between ATOI and consolidated net income for 2004 compared with 2003 consisted of:

- A decrease in interest expense, primarily due to lower average debt levels;
- An increase in the loss from discontinued operations due to the reclassification of the protective packaging business, the telecommunications business, and a small casting business to discontinued operations, which resulted in an $89 impairment loss in 2004 to reflect the estimated fair values of these businesses; and
- An increase in Other, principally caused by an increase in LIFO inventory adjustments due to the increase in the price of aluminum, as well as $79 lower proceeds from insurance settlements compared with 2003. Partially offsetting the increase are $49 in favorable foreign currency exchange movements and a $38 gain recognized on the restructuring of debt in 2004. See Note K to the Consolidated Financial Statements for additional information on this transaction.

## Market Risks and Derivative Activities

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

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

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

**Commodity Price Risks—**Alcoa is a leading global producer of 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 higher aluminum prices between the time the order is committed and the time that the order is shipped. Alcoa also sells aluminum products to third parties at then-current market prices and is exposed to the risk of lower market prices at the time of shipment. Alcoa uses futures and options contracts, totaling approximately 560,000 mt at December 31, 2005, to reduce the aluminum price risk associated with a portion of these fixed-price firm commitments. The effects of this hedging activity will be recognized in earnings over the designated hedge periods, generally within three years.

Alcoa has also entered into options contracts, totaling approximately 150,000 mt at December 31, 2005, to hedge a portion of future production. The effect of this hedging activity will be recognized in earnings over the designated hedge periods in 2007 and 2008.

Alcoa has also entered into futures contracts to minimize its price risk related to other customer sales and pricing arrangements. Alcoa has not qualified these contracts for hedge accounting treatment, and therefore, the fair value gains and losses on these contracts are recorded in earnings. These contracts totaled 23,000 mt at December 31, 2005.

In addition, Alcoa has power supply contracts that contain pricing provisions related to the LME aluminum price. The LME-linked pricing features are considered embedded derivatives. A majority of these embedded derivatives have been designated as hedges of future sales of aluminum. Gains and losses on the remainder of these embedded derivatives are recognized in earnings.

The mark-to-market earnings impact from aluminum derivative and hedging activities was a loss of $11 in 2005. The loss was principally due to a loss of $21 for an embedded derivative in a power contract that was offset by gains of $11 for the ineffective portion of aluminum hedge contracts.

Alcoa purchases natural gas, fuel oil, and electricity to meet its production requirements and believes it is highly likely that

such purchases will continue in the future. These purchases expose the company to the risk of higher prices. To hedge a portion of these risks, Alcoa uses futures and forward contracts. The effects of this hedging activity will be recognized in earnings over the designated hedge periods, generally within three years.

### Financial Risk

**Interest Rates—**Alcoa uses interest rate swaps to help maintain a strategic balance between fixed- and floating-rate debt and to manage overall financing costs. For a portion of its fixed-rate debt, the company has entered into pay floating, receive fixed interest rate swaps to effectively change the fixed interest rates to floating interest rates.

**Currencies—**Alcoa is subject to exposure from fluctuations in foreign currency exchange rates. Foreign currency exchange contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. These contracts cover periods consistent with known or expected exposures, generally within three years.

**Fair Values and Sensitivity Analysis—**The following table shows the fair values of outstanding derivative contracts at December 31, 2005 and the effect on fair values of a hypothetical change (increase or decrease of 10%) in the market prices or rates that existed at December 31, 2005.

| | Fair value gain/(loss) | Index change of + / - 10% |
|---|---|---|
| Aluminum | $ 4 | $ 119 |
| Interest rates | (100) | 65 |
| Other commodities, principally natural gas | 201 | 80 |
| Currencies | 83 | 4 |

Aluminum consists of hedge contracts with gains of $245. This is mostly offset by losses on embedded derivatives in power contracts in Iceland and Brazil and our share of losses on hedge contracts of Norwegian smelters that are accounted for under the equity method.

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

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

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

## Environmental Matters

Alcoa continues to participate in environmental assessments and cleanups at a number of locations. These include approximately 35 owned or operating facilities and adjoining properties, approximately 33 previously owned or operating facilities and adjoining properties, and approximately 61 waste sites, including Superfund sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. See Note A for additional information.

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

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

**Massena, NY—**Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa's Massena, NY plant site, under order from the U.S. Environmental Protection Agency (EPA) issued under the Comprehensive Environmental Response, Compensation and Liability Act, also known as Superfund. Sediments and fish in the river contain varying levels of polychlorinated biphenyl (PCB).

In 2002, Alcoa submitted an Analysis of Alternatives Report that detailed a variety of remedial alternatives with estimated costs ranging from $2 to $525. Because the selection of the $2 alternative (natural recovery) was considered remote, Alcoa adjusted the reserve for the Grasse River in 2002 to $30, representing the low end of the range of possible alternatives, as no single alternative could be identified as more probable than the others.

In June of 2003, based on river observations during the spring of 2003, the EPA requested that Alcoa gather additional field data to assess the potential for sediment erosion from winter river ice formation and breakup. The results of these additional studies, submitted in a report to the EPA in April of 2004, suggest that this phenomenon has the potential to occur approximately every 10 years and may impact sediments in certain portions of the river under all remedial scenarios. The EPA informed Alcoa that a final remedial decision for the river could not be made without substantially more information, including river pilot studies on the effects of ice formation and breakup on each of the remedial techniques. Alcoa submitted to EPA and EPA approved a Remedial Options Pilot Study (ROPS) to gather this information. The scope of this study includes sediment removal and capping, the installation of an ice control structure, and significant monitoring.

In May of 2004, Alcoa agreed to perform the study at an estimated cost of $35. Most of the construction work was completed in 2005 with monitoring proposed for 2006. The findings will be incorporated into a revised Analysis of Alternatives Report, which is expected to be submitted in 2007. This information will be used by the EPA to propose a remedy for the entire river.

Alcoa adjusted the reserves in the second quarter of 2004 to include the $35 for the ROPS. This was in addition to the $30 previously reserved. With the exception of the natural recovery remedy, none of the existing alternatives in the 2002 Analysis of Alternatives Report is more probable than the others, and the results of the ROPS are necessary to revise the scope and estimated cost of many of the current alternatives.

The EPA's ultimate selection of a remedy could result in additional liability. Alcoa may be required to record a subsequent reserve adjustment at the time the EPA's Record of Decision is issued, which is expected in 2008 or later.

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

**East St. Louis, IL**—In response to questions regarding environmental conditions at the former East St. Louis, IL operations, Alcoa entered into an administrative order with the EPA in December 2002 to perform a remedial investigation and feasibility study of an area used for the disposal of bauxite residue from historic alumina refining operations. A draft feasibility study was submitted to the EPA in April 2005. The feasibility study includes remedial alternatives that range from no further action at $0 to significant grading, stabilization, and water management of the bauxite residue disposal areas at $75. Because the selection of the $0 alternative was considered remote, Alcoa increased the environmental reserve for this location by $15 in the second quarter of 2005, representing the low end of the range of possible alternatives which meets the remedy selection criteria, as no alternative could be identified as more probable than the others. The EPA has not completed a final review of the feasibility study, and the EPA's selection of a remedy could result in additional liability. Alcoa may be required to record a subsequent reserve adjustment at the time the EPA's Record of Decision is issued.

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

Alcoa's remediation reserve balance at the end of 2005 and 2004 was $390 and $391 (of which $40 and $73 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. Remediation expenses charged to the reserve were approximately $53 in 2005, $46 in 2004, and $32 in 2003. These amounts include expenditures currently mandated, as well as those not required by any regulatory authority or third party. The reserve balance was increased by $52 in 2005, primarily due to the reserve recorded for the acquired Russian fabricating facilities in the first quarter and for the East St. Louis, IL facility which was recorded in the second quarter of 2005. In 2004, the reserve increased by $42, primarily for the additional reserve recorded for the Grasse River site.

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

Alcoa takes a disciplined approach to cash management and strengthening its balance sheet, as it undertook aggressive capital controls, management of working capital, continued monitoring of growth projects, and continued focus on divestitures in 2005. Capital spending increased 87%, as Alcoa made continued progress on brownfield expansions in refining and smelting and continued construction on the greenfield smelter project in Iceland.

Cash provided from operations and from financing activities is anticipated to be adequate to cover dividends, debt repayments, capital expenditures, and other business needs over the next 12 months.

### Cash from Operations

Cash from operations in 2005 was $1,676 compared with $2,199 in 2004. The decrease of $523, or 24%, was principally due to increases in receivables and inventories of $518 due to increased sales and higher prices; $282 increase in pension contributions in 2005; a reduction in tax liabilities of $206; and the payment of $93 associated with the long-term aluminum supply contract entered into as part of the acquisition of two Russian fabricating facilities. These items were partially offset by an increase in accounts payable and accrued expenses of $573 due to increased raw materials costs and increased payment terms.

Cash from operations in 2004 was $2,199 compared with $2,434 in 2003. The decrease of $235, or 10%, was principally due to increases in inventories due to higher metal prices and the absence of proceeds from a $440 advance payment against a long-term aluminum supply contract that occurred in 2003. Partially offsetting these items were stronger earnings in 2004 compared with 2003 and an increase in taxes payable and accounts payable. See the Results of Operations discussion for further details.

### Financing Activities

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

Cash used for financing activities was $1,525 in 2004 compared with $1,714 in 2003. The change of $189 was primarily due to an increase in short-term borrowings related to accounts payable arrangements.

Alcoa maintains $3,000 of revolving-credit agreements with varying expiration dates as backup to its commercial paper program. In April 2005, Alcoa refinanced its $1,000 revolving-credit agreement that was to expire in April 2005 into a new $1,000 revolving-credit agreement that will expire in April 2010. Alcoa also has a $1,000 revolving-credit agreement that will expire in April 2008 and a $1,000 revolving-credit agreement that will expire in April 2009. Under these agreements, a certain ratio of indebtedness to consolidated net worth must be maintained. There were no amounts outstanding under the revolving-credit agreements at December 31, 2005. The interest rate on the agreements expiring in 2008 and 2009, if drawn upon, is Libor plus 17 basis points, which is subject to adjustment if Alcoa's credit rating changes, to a maximum interest rate of Libor plus 83.5 basis points. The interest rate on the agreement expiring in 2010 is Libor plus 18 basis points, which is subject to adjustment if Alcoa's credit rating changes, to a maximum interest rate of Libor plus 60 basis points. Alcoa had $3,000 of available borrowings at December 31, 2005. Debt of $58 will mature in 2006.

Standard and Poor's Rating Services' (S&P) long-term debt rating of Alcoa is A- and its short-term rating is A-2. The current outlook, which was revised in January 2005, is negative, as S&P cited higher capital expenditures in 2005 and future years. Moody's Investors Service long-term debt rating of Alcoa and its rated subsidiaries is A2, and its short-term debt rating of Alcoa is Prime-1.

### Investing Activities

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

Cash used for investing activities was $802 in 2004 compared with $526 in 2003, resulting in a change of $276. The increase was caused primarily by an increase in capital spending of $273 as Alcoa invested in alumina and smelting expansions, as well as the greenfield smelter construction in Iceland in 2004. Cash proceeds from the sale of assets and businesses were $228 higher in 2004, due to the substantial completion of the company's 2002 divestiture plan, partially offset by a $129 decrease in cash received on the sale of investments.

Capital expenditures were $2,138 in 2005 compared with $1,143 and $870 in 2004 and 2003, respectively. Of the total capital expenditures in 2005, approximately 60% related to growth projects, including the construction of the Iceland smelter, the investment in the Mosjøen anode facility, the expansion of the Alumar smelter, and the alumina refinery expansions in Jamaica, Australia, and Brazil. Also included are costs related to environmental control in new and expanded facilities totaling $95 in 2005, $70 in 2004, and $37 in 2003. Total capital expenditures are anticipated to be in the range of $2,500 to $3,000 in 2006.

Alcoa added $30, $69, and $11 to its investments in 2005, 2004, and 2003, respectively. In 2005, Alcoa invested an additional $19 in the Dampier to Bunbury Natural Gas Pipeline in Western Australia. In 2004, Alcoa paid $32 to acquire approximately 44 million additional shares of Chalco to maintain its 8% ownership interest.

For a discussion of long-term liquidity, see the disclosure included in Contractual Obligations and Off-Balance Sheet Arrangements that follows.

## Critical Accounting Policies and Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make judgments, estimates, and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Areas that require significant judgments, estimates, and assumptions include the accounting for derivatives; environmental matters; asset retirement obligations; the testing of goodwill and other intangible assets for impairment; the impairment of properties, plants, and equipment; estimated proceeds on businesses to be divested; 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 Derivative Activities and the 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 consistent basis enables the company to provide the users of the financial statements with useful and reliable information about the company's operating results and financial condition.

Goodwill and indefinite-lived intangible assets are tested annually for impairment and whenever events or circumstances change, such as a significant adverse change in business climate or the decision to sell a business, that would make it more likely than not that an impairment may have occurred. The evaluation of impairment involves comparing the current fair value of each reporting unit to the recorded value, including goodwill. Alcoa uses a discounted cash flow model (DCF model) to determine the current fair value of its reporting units. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market share, sales volumes and prices, costs to produce, and working capital changes. Management considers historical experience and all available information at the time the fair values of its reporting units are estimated. However, fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill.

Properties, plants, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets (asset group) may not be recoverable. Recoverability of assets is determined by comparing the estimated undiscounted net cash flows of the operations to which the assets (asset group) related to their carrying amount. An impairment loss would be recognized when the carrying amount of the assets (asset group) exceeds the estimated undiscounted net cash flows. The amount of the impairment loss to be recorded is calculated as the excess of the carrying value of the assets (asset group) over their fair value, with fair value generally determined using a discounted cash flow analysis.

The fair values of all businesses to be divested are 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 other factors. Management considers historical experience and all available information at the time the estimates are made; however, the fair values that are ultimately realized upon the sale of the businesses to be divested may differ from the estimated fair values reflected in the financial statements.

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 $390 and a charge or credit of $19 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 $14 for 2006. The 10-year moving average of actual performance has consistently exceeded 9% over the past 20 years.

In 2003, a net charge of $39 was recorded in shareholders' equity as strong asset returns of 19.75% almost entirely offset higher accumulated benefit obligations resulting from a 50 basis point decline in the discount rate. A net charge of $21 in shareholders' equity in 2004 reflected asset returns of 12%, which were more than offset by higher accumulated benefit obligations caused by a 25 basis point decline in the discount rate. In 2005, a net charge of $148 was recorded in shareholders' equity as asset returns of 8% were more than offset by higher accumulated benefit obligations caused by a 30 basis point decline in the discount rate.

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

Management uses its best judgment in the determination of these amounts. However, the liabilities ultimately incurred and paid are dependent on various matters, including the resolution of tax audits in the various affected tax jurisdictions, and may differ from the amounts recorded. An adjustment to the estimated liability would be recorded through income in the period in which it becomes probable that the amount of the actual liability differs from the amount recorded. Alcoa has unamortized tax-deductible goodwill of $507 resulting from intercompany stock sales and reorganizations (generally at a 34% rate). Alcoa recognizes the tax benefits associated with this tax-deductible goodwill as it is being amortized for local income tax purposes from 2004 through 2009, rather than in the period in which the transaction was consummated.

## Related Party Transactions

Alcoa buys products from and sells products to various related companies, consisting of entities in which Alcoa retains a 50% or less equity interest, at negotiated arms-length prices between the two parties. These transactions were not material to the financial position or results of operations of Alcoa at December 31, 2005.

## Recently Adopted Accounting Standards

Alcoa adopted FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), effective December 31, 2005. See Note C to the Consolidated Financial Statements for additional information.

## Recently Issued Accounting Standards

In December 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payment." This standard requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Alcoa will begin expensing stock options in the first quarter of 2006, using the modified prospective application. In addition, the company is required to reflect compensation expense for these individuals using the non-substantive vesting period approach, in which the compensation expense is recognized ratably over the requisite service period following the date of grant.

SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3," was issued in June 2005. SFAS No. 154 requires retro spective application to financial statements of prior periods for changes in accounting principle that are not adopted prospectively. This statement is effective January 1, 2006. This standard has no impact on Alcoa's 2005 financial statements.

SFAS No. 153, "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29," was issued in December 2004. This standard eliminates the exception for nonmonetary exchanges of similar productive assets to be measured based on the fair value of the assets exchanged and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This standard is effective January 1, 2006. This standard has no impact on Alcoa's 2005 financial statements.

In 2005, the FASB issued Emerging Issues Task Force (EITF) Issue No. 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry." EITF 04-6 requires that stripping costs incurred during the production phase of a mine are to be accounted for as variable production costs that should be included in the costs of the inventory produced (that is, extracted) during the period that the stripping costs are incurred. EITF 04-6 is effective for the first reporting period in fiscal years beginning after December 15, 2005. Alcoa is currently evaluating the impact of this statement on the company.

## Contractual Obligations and Off-Balance Sheet Arrangements

The company is obligated to make future payments under various contracts such as long-term purchase obligations, debt agreements, lease agreements, and unconditional purchase obligations and has certain commitments such as debt guarantees. The company has grouped these contractual obligations and off-balance sheet arrangements into operating activities, financing activities, and investing activities in the same manner as they are classified in the Statement of Consolidated Cash Flows in order to provide a better understanding of the nature of the obligations and arrangements and to provide a basis for comparison to historical information. The table below provides a summary of contractual obligations and off-balance sheet arrangements as of December 31, 2005:

| Contractual obligations | Total | 2006 | 2007-2008 | 2009-2010 | Thereafter |
|---|---|---|---|---|---|
| Operating activities: | | | | | |
| Energy-related purchase obligations | $9,934 | $ 800 | $1,507 | $1,224 | $ 6,403 |
| Raw material and other purchase obligations | 2,340 | 1,509 | 634 | 102 | 95 |
| Operating leases [1] | 1,025 | 215 | 310 | 227 | 273 |
| Estimated minimum required pension funding | [2] | 154 | 800 | 250 | [2] |
| Postretirement benefit payments | [2] | 352 | 700 | 700 | [2] |
| Layoff and other restructuring payments [3] | 177 | 177 | — | — | — |
| Deferred revenue arrangements | 422 | 81 | 163 | 55 | 123 |
| Financing activities: | | | | | |
| Total debt [4] | 6,549 | 1,270 | 1,138 | 1,040 | 3,101 |
| Dividends to shareholders [5] | | | | | |
| Investing activities: | | | | | |
| Capital projects [6] | 4,410 | 2,750 | 1,590 | 70 | — |
| Payments related to acquisitions [7] | 142 | 115 | 27 | — | — |
| Other: | | | | | |
| Standby letters of credit [8] | 501 | 267 | 23 | 8 | 203 |
| Guarantees [8] | 431 | 1 | 15 | 19 | 396 |
| Total contractual obligations | | $7,691 | $6,907 | $3,695 | |

[1]See Note U to the Consolidated Financial Statements for further details on operating leases.
[2]Annual payments and funding are expected to continue into the foreseeable future at the amounts or ranges noted in the discussion that follows.
[3]See Note D to the Consolidated Financial Statements for further details on layoff and other restructuring payments.
[4]See Note K to the Consolidated Financial Statements for further details on debt and associated interest.
[5]See discussion that follows under Obligations for Financing Activities.
[6]See discussion that follows under Obligations for Investing Activities.
[7]See Note F to the Consolidated Financial Statements for further details on required payments related to acquisitions.
[8]See Note N to the Consolidated Financial Statements for further details on standby letters of credit and guarantees.

### Obligations for Operating Activities

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

Estimated minimum required pension funding and postretirement benefit payments are based on actuarial estimates using current assumptions for discount rates, expected return on long-term assets, rate of compensation increases, and health care cost trend rates. The minimum required cash outlays for pension funding are estimated to be $154 for 2006 and $350 for 2007. The increase in 2007 is a result of the depletion of prior pension-funding credits that are projected to be fully used during 2006, requiring additional funding in 2007. The funding estimate for 2008 is $450, and the estimate for 2009 and 2010 is $250. Postretirement benefit payments are expected to approximate $350 annually. Annual payments will vary based on actuarial estimates. See Note W to the Consolidated Financial Statements for additional information.

Deferred revenue arrangements require Alcoa to deliver aluminum and alumina over the specified contract period. While these obligations are not expected to result in cash payments, they represent contractual obligations for which the company would be obligated if the specified product deliveries could not be made.

### Obligations for Financing Activities

Cash outlays for financing activities consist primarily of debt and dividend payments to shareholders. The company has historically paid quarterly dividends to shareholders. Shareholder dividends are subject to quarterly approval by the company's Board of Directors and are currently at a rate of $524 annually.

### Obligations for Investing Activities

Alcoa has made announcements indicating its participation in several significant expansion projects. These projects include the construction of a smelter in Iceland; the construction of an anode facility in Mosjøen, Norway; the expansion of alumina refineries at São Luis, Brazil; Pinjarra, Australia; and Clarendon, Jamaica. In addition, Alcoa announced its intention to participate in the construction of a smelter in Trinidad; a smelter joint venture project in China; and the investment in several hydroelectric power construction projects in Brazil. These projects are in various stages of development and, depending on business and/or regulatory circumstances, may not be completed. The amounts included in the preceding table for capital projects represent the amounts which have been approved by management for these projects as of December 31, 2005. Funding levels vary in future years based on anticipated construction schedules of the projects.

It is anticipated that significant expansion projects will be funded through various sources, including cash provided from operations. Alcoa anticipates that financing required to execute all of these investments will be readily available over the time frame required.

# Management's Reports to Alcoa Shareholders

## Management's Report on Financial Statements and Practices

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

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

## Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in *Internal Control–Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has excluded two facilities in the Russian Federation (the "Russian Facilities") and the Alcoa Bohai Aluminum Industries Company Limited joint venture from its assessment of internal control over financial reporting as of December 31, 2005 because they were acquired by the Company in purchase business combinations in 2005. The Russian Facilities and Alcoa Bohai Aluminum Industries Company Limited joint venture are majority-owned subsidiaries of the Company that represent, on a combined basis, 2% of consolidated total assets and 2% of consolidated revenue as of and for the year ended December 31, 2005.

Based on the assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria in *Internal Control–Integrated Framework* issued by the COSO. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

## Management's Certifications

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required by the Sarbanes-Oxley Act have been included as Exhibits 31 and 32 in the Company's Form 10-K. In addition, in 2005, the Company's Chief Executive Officer provided to the New York Stock Exchange the annual CEO certification regarding the Company's compliance with the New York Stock Exchange's corporate governance listing standards.

/s/ Alain J. P. Belda
Alain J. P. Belda
Chairman and
Chief Executive Officer

/s/ Joseph C. Muscari
Joseph C. Muscari
Executive Vice President
and Chief Financial Officer

# Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Alcoa Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

### Consolidated financial statements

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Alcoa Inc. and its subsidiaries (Alcoa) at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Alcoa's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note C to the consolidated financial statements, Alcoa changed its methods of accounting for conditional asset retirement obligations in 2005 and asset retirement obligations in 2003.

### Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Alcoa maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, Alcoa maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control–Integrated Framework* issued by the COSO. Alcoa's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of Alcoa's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded two facilities in the Russian Federation (the "Russian Facilities") and the Alcoa Bohai Aluminum Industries Company Limited joint venture from its assessment of internal control over financial reporting as of December 31, 2005 because these entities were acquired by Alcoa in purchase business combinations in 2005. We have also excluded the Russian Facilities and Alcoa Bohai Aluminum Industries Company Limited joint venture from our audit of internal control over financial reporting. The Russian Facilities and Alcoa Bohai Aluminum Industries Company Limited joint venture are majority-owned subsidiaries that represent, on a combined basis, 2% of consolidated total assets and 2% of consolidated revenue as of and for the year ended December 31, 2005.

/s/ PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
February 17, 2006

## Statement of Consolidated Income

Alcoa and subsidiaries

(in millions, except per-share amounts)

| For the year ended December 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Sales (Q) | $26,159 | $23,236 | $20,871 |
| Cost of goods sold | 21,217 | 18,469 | 16,618 |
| Selling, general administrative, and other expenses | 1,352 | 1,252 | 1,221 |
| Research and development expenses | 194 | 182 | 190 |
| Provision for depreciation, depletion, and amortization | 1,265 | 1,189 | 1,159 |
| Restructuring and other charges (D) | 339 | (21) | (27) |
| Interest expense (V) | 339 | 271 | 314 |
| Other income, net (O) | (480) | (271) | (274) |
| | 24,226 | 21,071 | 19,201 |
| Income from continuing operations before taxes on income | 1,933 | 2,165 | 1,670 |
| Provision for taxes on income (T) | 441 | 543 | 405 |
| Income from continuing operations before minority interests' share | 1,492 | 1,622 | 1,265 |
| Less: Minority interests' share | 259 | 245 | 238 |
| Income from continuing operations | 1,233 | 1,377 | 1,027 |
| Income (loss) from discontinued operations (B) | 2 | (67) | (42) |
| Cumulative effect of accounting changes (C) | (2) | — | (47) |
| **Net Income** | $ 1,233 | $ 1,310 | $ 938 |
| **Earnings (loss) per Share** (S) | | | |
| Basic: | | | |
| Income from continuing operations | $ 1.41 | $ 1.58 | $ 1.20 |
| Loss from discontinued operations | — | (.08) | (.05) |
| Cumulative effect of accounting changes | — | — | (.06) |
| Net income | $ 1.41 | $ 1.50 | $ 1.09 |
| Diluted: | | | |
| Income from continuing operations | $ 1.40 | $ 1.57 | $ 1.19 |
| Loss from discontinued operations | — | (.08) | (.05) |
| Cumulative effect of accounting changes | — | — | (.06) |
| Net income | $ 1.40 | $ 1.49 | $ 1.08 |

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

# Consolidated Balance Sheet



(in millions)

| December 31 | 2005 | 2004 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (X) | $ 762 | $ 457 |
| Receivables from customers, less allowances: 2005—$80; 2004—$86 | 2,916 | 2,694 |
| Other receivables | 427 | 256 |
| Inventories (G) | 3,452 | 2,968 |
| Fair value of derivative contracts | 520 | 311 |
| Prepaid expenses and other current assets | 713 | 756 |
| Total current assets | 8,790 | 7,442 |
| Properties, plants, and equipment, net (H) | 13,163 | 12,325 |
| Goodwill (E and F) | 6,249 | 6,412 |
| Investments (I) | 1,370 | 2,066 |
| Other assets (J) | 4,090 | 3,822 |
| Assets held for sale (B) | 34 | 542 |
| **Total Assets** | $33,696 | $32,609 |
| **Liabilities** | | |
| Current liabilities: | | |
| Short-term borrowings (K and X) | $ 300 | $ 267 |
| Commercial paper (K and X) | 912 | 630 |
| Accounts payable, trade | 2,661 | 2,218 |
| Accrued compensation and retirement costs | 1,102 | 1,013 |
| Taxes, including taxes on income | 874 | 1,018 |
| Other current liabilities | 1,461 | 1,073 |
| Long-term debt due within one year (K and X) | 58 | 57 |
| Total current liabilities | 7,368 | 6,276 |
| Long-term debt, less amount due within one year (K and X) | 5,279 | 5,345 |
| Accrued pension benefits (W) | 1,500 | 1,513 |
| Accrued postretirement benefits (W) | 2,105 | 2,150 |
| Other noncurrent liabilities and deferred credits (L) | 1,823 | 1,727 |
| Deferred income taxes (T) | 875 | 789 |
| Liabilities of operations held for sale (B) | 8 | 93 |
| Total liabilities | 18,958 | 17,893 |
| Minority interests (M) | 1,365 | 1,416 |
| Commitments and contingencies (N) | | |
| **Shareholders' Equity** | | |
| Preferred stock (R) | 55 | 55 |
| Common stock (R) | 925 | 925 |
| Additional capital | 5,720 | 5,775 |
| Retained earnings | 9,345 | 8,636 |
| Treasury stock, at cost | (1,899) | (1,926) |
| Accumulated other comprehensive loss | (773) | (165) |
| Total shareholders' equity | 13,373 | 13,300 |
| **Total Liabilities and Equity** | $33,696 | $32,609 |

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

# Statement of Consolidated Cash Flows

(in millions)

Alcoa and subsidiaries

| For the year ended December 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| **Cash from Operations** | | | |
| Net income | $ 1,233 | $ 1,310 | $ 938 |
| Adjustments to reconcile net income to cash from operations: | | | |
| Depreciation, depletion, and amortization | 1,267 | 1,197 | 1,168 |
| Deferred income taxes | (16) | (95) | 128 |
| Equity loss (income), net of dividends | 35 | (54) | (94) |
| Restructuring and other charges (D) | 339 | (21) | (27) |
| Net gain on early retirement of debt and interest rate swap settlements (K and O) | — | (58) | — |
| Gains from investing activities—sale of assets and businesses (O) | (406) | (44) | (37) |
| Provision for doubtful accounts | 20 | 24 | 11 |
| (Income) loss from discontinued operations (B) | (2) | 67 | 42 |
| Accounting changes (C) | 2 | — | 47 |
| Minority interests | 259 | 245 | 238 |
| Other | 5 | 80 | 116 |
| Changes in assets and liabilities, excluding effects of acquisitions and divestitures: | | | |
| Increase in receivables | (483) | (94) | (136) |
| (Increase) reduction in inventories | (526) | (397) | 93 |
| (Increase) reduction in prepaid expenses and other current assets | (3) | (93) | 54 |
| Increase (reduction) in accounts payable and accrued expenses | 691 | 118 | (161) |
| (Reduction) increase in taxes, including taxes on income | (93) | 113 | (248) |
| Cash paid on early retirement of debt and interest rate swap settlements (K) | — | (52) | — |
| Cash (paid) received on long-term aluminum supply contract | (93) | — | 440 |
| Pension contributions | (383) | (101) | (87) |
| Net change in other noncurrent assets and liabilities | (169) | (137) | (169) |
| Reduction in net assets held for sale | — | 145 | 70 |
| **Cash provided from continuing operations** | 1,677 | 2,153 | 2,386 |
| **Cash (used for) provided from discontinued operations** | (1) | 46 | 48 |
| **Cash from operations** | 1,676 | 2,199 | 2,434 |
| **Financing Activities** | | | |
| Net changes to short-term borrowings | 5 | 213 | 12 |
| Common stock issued for stock compensation plans | 72 | 83 | 98 |
| Repurchase of common stock | (108) | (67) | — |
| Dividends paid to shareholders | (524) | (524) | (516) |
| Dividends paid to minority interests | (75) | (119) | (207) |
| Net change in commercial paper | 282 | 630 | (665) |
| Additions to long-term debt | 278 | 180 | 387 |
| Payments on long-term debt | (254) | (1,921) | (823) |
| **Cash used for financing activities** | (324) | (1,525) | (1,714) |
| **Investing Activities** | | | |
| Capital expenditures | (2,124) | (1,137) | (857) |
| Capital expenditures of discontinued operations | (14) | (6) | (13) |
| Acquisition of minority interests (F and P) | (199) | — | — |
| Acquisitions, net of cash acquired (F and P) | (262) | (2) | (9) |
| Proceeds from the sale of assets and businesses | 505 | 392 | 164 |
| Additions to investments | (30) | (69) | (11) |
| Sale of investments (F) | 1,081 | — | 129 |
| Changes in short-term investments | (8) | 30 | 19 |
| Other | 16 | (10) | 52 |
| **Cash used for investing activities** | (1,035) | (802) | (526) |
| **Effect of exchange rate changes on cash** | (12) | 9 | 38 |
| Net change in cash and cash equivalents | 305 | (119) | 232 |
| Cash and cash equivalents at beginning of year | 457 | 576 | 344 |
| **Cash and cash equivalents at end of year** | $ 762 | $ 457 | $ 576 |

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

# Statement of Shareholders' Equity

(in millions, except per-share amounts)

| December 31 | Comprehensive income | Preferred stock | Common stock | Additional capital | Retained earnings | Treasury stock | Accumulated other compre-hensive loss | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at end of 2002** | | $ 55 | $ 925 | $ 6,101† | $ 7,428 | $ (2,828) | $ (1,754) | $ 9,927 |
| Comprehensive income—2003: | | | | | | | | |
| Net income—2003 | $ 938 | | | | 938 | | | 938 |
| Other comprehensive income (loss): | | | | | | | | |
| Change in minimum pension liability, net of $21 tax benefit | (39) | | | | | | | |
| Currency translation adjustments | 818 | | | | | | | |
| Unrealized gains on available-for-sale securities, net of $183 tax expense | 340 | | | | | | | |
| Unrecognized gains/(losses) on derivatives, net of tax and minority interests of $(53): | | | | | | | | |
| Net change from periodic revaluations | 115 | | | | | | | |
| Net amount reclassified to income | (49) | | | | | | | |
| Net unrecognized gains on derivatives | 66 | | | | | | | |
| Comprehensive income | $ 2,123 | | | | | | 1,185 | 1,185 |
| Cash dividends: Preferred @ $3.75 per share | | | | | (2) | | | (2) |
| Common @ $.60 per share | | | | | (514) | | | (514) |
| Stock issued: Alcoa Alumínio minority interest acquisition (F) | | | | (193) | | 603 | | 410 |
| Stock issued: compensation plans | | | | (77) | | 208 | | 131 |
| **Balance at end of 2003** | | 55 | 925 | 5,831† | 7,850 | (2,017) | (569) | 12,075 |
| Comprehensive income—2004: | | | | | | | | |
| Net income—2004 | $ 1,310 | | | | 1,310 | | | 1,310 |
| Other comprehensive income (loss): | | | | | | | | |
| Change in minimum pension liability, net of $11 tax benefit | (21) | | | | | | | |
| Currency translation adjustments | 535 | | | | | | | |
| Unrealized losses on available-for-sale securities, net of $51 tax benefit (X) | (94) | | | | | | | |
| Unrecognized gains/(losses) on derivatives, net of tax and minority interests of $34 (X): | | | | | | | | |
| Net change from periodic revaluations | 120 | | | | | | | |
| Net amount reclassified to income | (136) | | | | | | | |
| Net unrecognized losses on derivatives | (16) | | | | | | | |
| Comprehensive income | $ 1,714 | | | | | | 404 | 404 |
| Cash dividends: Preferred @ $3.75 per share | | | | | (2) | | | (2) |
| Common @ $.60 per share | | | | | (522) | | | (522) |
| Stock issued: compensation plans | | | | (56) | | 91 | | 35 |
| **Balance at end of 2004** | | 55 | 925 | 5,775† | 8,636 | (1,926) | (165) | 13,300 |
| Comprehensive income—2005: | | | | | | | | |
| Net income—2005 | $ 1,233 | | | | 1,233 | | | 1,233 |
| Other comprehensive income (loss): | | | | | | | | |
| Change in minimum pension liability, net of $80 tax benefit | (148) | | | | | | | |
| Currency translation adjustments | (542) | | | | | | | |
| Unrealized gains on available-for-sale securities, net of $52 tax expense (X) | 96 | | | | | | | |
| Unrecognized gains/(losses) on derivatives, net of tax and minority interests of $87 (X): | | | | | | | | |
| Net change from periodic revaluations | 123 | | | | | | | |
| Net amount reclassified to income | (137) | | | | | | | |
| Net unrecognized losses on derivatives | (14) | | | | | | | |
| Comprehensive income | $ 625 | | | | | | (608) | (608) |
| Cash dividends: Preferred @ $3.75 per share | | | | | (2) | | | (2) |
| Common @ $.60 per share | | | | | (522) | | | (522) |
| Stock issued: compensation plans | | | | (55) | | 27 | | (28) |
| **Balance at end of 2005** | | $ 55 | $ 925 | $ 5,720† | $ 9,345 | $ (1,899) | $ (773)* | $ 13,373 |

* Comprised of unrealized translation adjustments of $(7), minimum pension liability of $(1,120), unrealized gains on available-for-sale securities of $317, and unrecognized gains/(losses) on derivatives of $37, net of tax

† Includes stock to be issued under options of $67 in 2005, $96 in 2004, $130 in 2003, and $130 in 2002

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

## Notes to the Consolidated Financial Statements

(dollars in millions, except per-share amounts)

### A. Summary of Significant Accounting Policies

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

**Principles of Consolidation.** The Consolidated Financial Statements include the accounts of Alcoa and companies in which Alcoa has a controlling interest. Intercompany transactions have been eliminated. The equity method of accounting is used for investments in affiliates and other joint ventures over which Alcoa has significant influence (ownership between twenty and fifty percent) but does not have effective control. Investments in affiliates in which Alcoa cannot exercise significant influence (ownership interest less than twenty percent) are accounted for on the cost method.

Alcoa also evaluates consolidation of entities under Financial Accounting Standards Board (FASB) Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 requires management to evaluate whether an entity or interest is a variable interest entity and whether Alcoa is the primary beneficiary. Consolidation is required if both of these criteria are met. Alcoa does not have any variable interest entities requiring consolidation.

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

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

**Properties, Plants, and Equipment.** Properties, plants, and equipment are recorded at cost. Depreciation is recorded principally on the straight-line method at rates based on the estimated useful lives of the assets, averaging 33 years for structures and approximately 16 years for machinery and equipment, as useful lives range between 5 and 25 years. Gains or losses from the sale of assets are generally recorded in other income (see policy that follows for assets classified as held for sale and discontinued operations). Repairs and maintenance are charged to expense as incurred. Interest related to the construction of qualifying assets is capitalized as part of the construction costs. Depletion related to mineral reserves is recorded using the units of production method. See Notes H and V for additional information.

Properties, plants, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets (asset group) may not be recoverable. Recoverability of assets is determined by comparing the estimated undiscounted net cash flows of the operations to which the assets (asset group) related to their carrying amount. An impairment loss would be recognized when the carrying amount of the assets (asset group) exceeds the estimated undiscounted net cash flows. The amount of the impairment loss to be recorded is calculated as the excess of the carrying value of the assets (asset group) over their fair value, with fair value generally determined using a discounted cash flow analysis.

**Goodwill and Other Intangible Assets.** Goodwill and intangibles with indefinite useful lives are not amortized. Intangible assets with finite useful lives are amortized generally on a straight-line basis over the periods benefited, with a weighted average useful life of 13 years.

Goodwill and indefinite-lived intangible assets are tested annually for impairment and whenever events or circumstances change, such as a significant adverse change in business climate or the decision to sell a business, that would make it more likely than not that an impairment may have occurred. If the carrying value of goodwill or an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized. The evaluation of impairment involves comparing the current fair value of each of the reporting units to the recorded value, including goodwill. Alcoa uses a discounted cash flow model (DCF model) to determine the current fair value of its reporting units. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market share, sales volumes and prices, costs to produce, and working capital changes. Management considers historical experience and all available information at the time the fair values of its reporting units are estimated. However, fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill. See Note E for additional information.

**Accounts Payable Arrangements.** Alcoa participates in computerized payable settlement arrangements with certain vendors and third-party intermediaries. The arrangements provide that, at the vendor's request, the third-party intermediary advances the amount of the scheduled payment to the vendor, less an appropriate discount, before the scheduled payment date. Alcoa makes payment to the third-party intermediary on the date stipulated in accordance with the commercial terms negotiated with its vendors. The amounts outstanding under these arrangements that will be paid through the third-party intermediaries are classified as short-term borrowings in the Consolidated Balance Sheet and as cash provided from financing activities in the Statement of Consolidated Cash Flows. Alcoa records imputed interest related to these arrangements as interest expense in the Statement of Consolidated Income. See Note K for additional information.

**Revenue Recognition.** Alcoa recognizes revenue when title, ownership, and risk of loss pass to the customer.

Alcoa periodically enters into long-term supply contracts with alumina and aluminum customers and receives advance payments for product to be delivered in future periods. These advance payments are recorded as deferred revenue, and revenue is recognized as shipments are made and title, ownership, and risk of loss pass to the customer during the term of the contracts.

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

**Asset Retirement Obligations.** Alcoa recognizes asset retirement obligations (AROs) related to legal obligations associated with the normal operation of Alcoa's bauxite mining, alumina refining, and aluminum smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure. Alcoa would also recognize an ARO for any significant lease restoration obligation if required by a lease agreement. The fair values of these AROs are recorded on a discounted basis, at the time the obligation is incurred, and accreted over time for the change in present value. Additionally, Alcoa capitalizes asset retirement costs by increasing the carrying amount of the related long-lived assets and depreciating these assets over the remaining useful life.

**Income Taxes.** The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax bases of Alcoa's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Alcoa also has unamortized tax-deductible goodwill resulting from intercompany stock sales and reorganizations. Alcoa recognizes the tax benefits associated with this tax-deductible goodwill as it is being amortized for local income tax purposes rather than in the period in which the transaction is consummated.

**Stock-Based Compensation.** Alcoa 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."

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Net income, as reported | $1,233 | $1,310 | $ 938 |
| Less: compensation cost determined under the fair value method, net of tax | 63 | 35 | 30 |
| Pro forma net income | $1,170 | $1,275 | $ 908 |
| Basic net income per share: | | | |
| As reported | $ 1.41 | $ 1.50 | $1.09 |
| Pro forma | 1.34 | 1.46 | 1.06 |
| Diluted net income per share: | | | |
| As reported | 1.40 | 1.49 | 1.08 |
| Pro forma | 1.33 | 1.45 | 1.06 |

Alcoa currently discloses the pro forma and actual compensation expense related to retiree-eligible employees using the nominal vesting approach, in which the compensation expense is recognized ratably over the original vesting period. Upon adoption of SFAS No. 123 (revised 2004) "Share-Based Payment" (SFAS No. 123(R)), the company is required to recognize compensation expense for these employees using the non-substantive vesting period approach, in which the compensation expense is recognized ratably over the requisite service period following the date of grant. The impact of this change on the attribution period would not have had a material impact on the results of operations for the periods presented herein.

On December 31, 2005, Alcoa accelerated the vesting of 11 million unvested stock options granted to employees in 2004 and on January 13, 2005. The 2004 and 2005 accelerated options have weighted average exercise prices of $35.60 and $29.54, respectively, and in the aggregate, represent approximately 12 percent of Alcoa's total outstanding options. The decision to accelerate the vesting of the 2004 and 2005 options was made primarily to avoid recognizing the related compensation cost in future financial statements upon the adoption of SFAS No. 123(R), which Alcoa will adopt on January 1, 2006. The accelerated vesting of the 2004 and 2005 stock options will reduce Alcoa's after-tax stock option compensation expense in 2006 by $21 and in 2007 by $7.

In addition to stock option awards described above, beginning in 2004 the company granted stock awards and performance share awards that vest in three years from the date of grant. Compensation expense is calculated based on the fair value at the grant dates, and the after-tax expense recognized on these awards in 2005 and 2004 was $16 and $9, respectively.

In anticipation of the adoption of SFAS No. 123(R), Alcoa switched from the Black-Scholes pricing model to a lattice model to estimate fair value at grant date for options granted in 2005. The financial impact of this change was not material. Alcoa will begin expensing options using the modified prospective application.

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

| December 31 | 2005 | 2004 | 2003 |
| --- | --- | --- | --- |
| Average risk-free interest rate | 2.65-4.2% | 2.1% | 2.2% |
| Expected dividend yield | 1.8 | 1.6 | 2.5 |
| Expected volatility | 27-35 | 32 | 38 |
| Expected life (years): | | | |
| New option grants | 3.8 | 3.0 | 3.0 |
| Reload option grants | — | 3.0 | 2.5 |
| Exercise behavior assumption | 32 | — | — |

The weighted average fair value per option granted was $6.18 in 2005, $7.72 in 2004, and $5.75 in 2003. See Note R for additional information.

**Derivatives and Hedging.** Derivatives are held as part of a formally documented risk management program. All derivatives are straightforward and are held for purposes other than trading. For derivatives designated as fair value hedges, Alcoa measures hedge effectiveness by formally assessing, at least quarterly, the historical high correlation of changes in the fair value of the hedged item and the derivative hedging instrument. For derivatives designated as cash flow hedges, Alcoa measures hedge effectiveness by formally assessing, at least quarterly, the probable high correlation of the expected future cash flows of the hedged item and the derivative hedging instrument. The ineffective portions of both types of hedges are recorded in revenues or other income or expense in the current period. A gain of $11 was recorded in 2005 (loss of $18 in 2004) for the ineffective portion of aluminum hedges. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, future gains or losses on the derivative are recorded in other income or expense. Two interest rate swaps ceased to qualify as hedges in 2004, due to the restructuring of debt, and were terminated. See Notes K and X for additional information. No other hedging transactions ceased to qualify as hedges in 2005 or 2004.

Alcoa accounts for interest rate swaps related to its existing long-term debt and hedges of firm customer commitments for aluminum as fair value hedges. As a result, the fair values of derivatives and changes in the fair values of the underlying hedged items are reported in other current and noncurrent assets and liabilities in the Consolidated Balance Sheet. Changes in the fair values of these derivatives and underlying hedged items generally offset and are recorded each period in sales or interest expense, consistent with the underlying hedged item.

Alcoa accounts for hedges of foreign currency exposures and certain forecasted transactions, principally purchases of natural gas, as cash flow hedges. The fair values of the derivatives are recorded in other current and noncurrent assets and liabilities in the Consolidated Balance Sheet. The effective portions of the changes in the fair values of these derivatives are recorded in other comprehensive income (a gain of $37 at December 31, 2005) and are reclassified to sales, cost of goods sold, or other income in the period in which earnings are impacted by the hedged items or in the period that the transaction no longer qualifies as a cash flow hedge. These contracts cover the same periods as known or expected exposures, generally within three years. Assuming market rates remain constant with the rates at December 31, 2005, a gain of $102 is expected to be recognized in earnings over the next 12 months.

If no hedging relationship is designated, the derivative is marked to market through earnings.

Cash flows from financial instruments are recognized in the Statement of Consolidated Cash Flows in a manner consistent with the underlying transactions. See Notes K and X for additional information.

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

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

**Discontinued Operations and Assets Held For Sale.** For those businesses where management has committed to a plan to divest, each business is valued at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. The fair values are estimated using accepted valuation techniques such as a DCF model, earnings multiples, or indicative bids, when available. A number of significant estimates and assumptions are involved in the application of these techniques, including the forecasting of markets and market share, sales volumes and prices, costs and expenses, and multiple other factors. Management considers historical experience and all available information at the time the estimates are made; however, the fair values that are ultimately realized upon the sale of the businesses to be divested may differ from the estimated fair values reflected in the financial statements.

Businesses to be divested are classified in the Consolidated Financial Statements as either discontinued operations or assets held for sale. For businesses classified as discontinued operations, the balance sheet amounts and income statement results are reclassified from their historical presentation to assets and liabilities of operations held for sale on the Consolidated Balance Sheet and to discontinued operations in the Statement of Consolidated Income for all periods presented. The gains or losses associated with these divested businesses are recorded in income (loss) from discontinued operations in the Statement of Consolidated Income. The Statement of Consolidated Cash Flows is also reclassified for assets held for sale and discontinued operations for all periods presented. Additionally, segment information does not include the results of businesses classified as discontinued operations. Management does not expect any continuing involvement with these businesses following the sales, and these businesses are expected to be disposed of within one year.

For businesses classified as assets held for sale that do not qualify for discontinued operations treatment, the balance sheet and cash flow amounts are reclassified from their historical presentation to assets and liabilities of operations held for sale. The income statement results continue to be reported in the historical income statement categories as income from continuing operations. The gains or losses associated with these divested

businesses are generally recorded in restructuring and other charges in the Statement of Consolidated Income. The segment results include the results of businesses classified as assets held for sale for all periods presented. Management expects that Alcoa will have continuing involvement with these businesses following the sale, primarily in the form of ongoing aluminum or other significant supply contracts.

**Recently Adopted Accounting Standards.** Alcoa adopted FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), effective December 31, 2005. See Note C for additional information.

**Recently Issued Accounting Standards.** SFAS No. 123 (revised 2004) "Share-Based Payment" was issued in December 2004. This standard requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Alcoa will begin expensing stock options in the first quarter of 2006, using the modified prospective application. In addition, the company is required to reflect compensation expense for these individuals using the non-substantive vesting period approach, in which the compensation expense is recognized ratably over the requisite service period following the date of grant.

SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3," was issued in June 2005. SFAS No. 154 requires retrospective application to financial statements of prior periods for changes in accounting principle that are not adopted prospectively. This statement is effective January 1, 2006. This standard has no impact on Alcoa's 2005 financial statements.

SFAS No. 153, "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29," was issued in December 2004. This standard eliminates the exception for nonmonetary exchanges of similar productive assets to be measured based on the fair value of the assets exchanged and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This standard is effective January 1, 2006. This standard has no impact on Alcoa's 2005 financial statements.

In 2005, the FASB issued Emerging Issues Task Force (EITF) Issue No. 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry." EITF 04-6 requires that stripping costs incurred during the production phase of a mine are to be accounted for as variable production costs that should be included in the costs of the inventory produced (that is, extracted) during the period that the stripping costs are incurred. EITF 04-6 is effective for the first reporting period in fiscal years beginning after December 15, 2005. Alcoa is currently evaluating the impact of this statement on the company.

**Reclassification.** Certain amounts in previously issued financial statements were reclassified to conform to 2005 presentations. See Note B for further information.

## B. Discontinued Operations and Assets Held for Sale

In the third quarter of 2005, Alcoa reclassified the imaging and graphic communications business of Southern Graphic Systems, Inc. to discontinued operations based on the decision to sell the business. The results of the Packaging and Consumer segment have been reclassified to reflect the movement of this business into discontinued operations. The sale was completed in the fourth quarter of 2005.

The divestitures of the following businesses were completed in 2005: the telecommunications business, the protective packaging business, and the imaging and graphic communications business. See Note F for additional details.

At the end of 2005, businesses classified as discontinued operations included the wireless component of the telecommunications business and a small automotive casting business in the U.K.

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

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Sales | $442 | $ 725 | $857 |
| Income (loss) from operations | $ 32 | $ 25 | $ (7) |
| Gain on sale of businesses | 50 | 8 | — |
| Loss from impairment | (12) | (153) | (69) |
| Pretax income (loss) | 70 | (120) | (76) |
| (Provision)/benefit for taxes | (70) | 10 | 27 |
| Minority interests | 2 | 43 | 7 |
| Income (loss) from discontinued operations | $ 2 | $ (67) | $ (42) |

The income of $2 in discontinued operations in 2005 was comprised of $17 in net operating income, mostly offset by $15 of net losses associated with businesses impaired or sold in 2005. The loss of $67 in discontinued operations in 2004 was comprised of impairment losses of $89 to reflect the estimated fair values of the protective packaging and telecommunications businesses, as well as the U.K. automotive casting business, somewhat offset by $17 of net operating income of these businesses and a net gain of $5 on businesses sold in 2004. The loss of $42 in discontinued operations in 2003 was comprised of an impairment loss of $45 related to a reduction in the estimated fair value of the automotive fasteners business, slightly offset by $3 of operating income.

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

| December 31 | 2005 | 2004 |
|---|---|---|
| Assets: | | |
| Receivables | $22 | $147 |
| Inventories | 1 | 44 |
| Properties, plants, and equipment, net | 8 | 84 |
| Other assets | 3 | 267 |
| Total assets held for sale | $34 | $542 |
| Liabilities: | | |
| Accounts payable, accrued expenses and other | $ 8 | $ 93 |
| Total liabilities of operations held for sale | $ 8 | $ 93 |

For all of the businesses to be divested, the fair values were estimated utilizing accepted valuation techniques. The fair values that are ultimately realized upon the sale of the businesses to be divested may differ from the estimated fair values reflected in the financial statements.

## C. Asset Retirement Obligations

Alcoa adopted FIN 47, effective December 31, 2005. FIN 47 clarifies the accounting for conditional asset retirement obligations (CAROs), as referenced in SFAS No. 143, "Accounting

for Asset Retirement Obligations." A CARO is a legal obligation to perform an asset retirement activity in which the obligation is unconditional, but uncertainty exists about the timing and/or method of settlement, which may or may not be under the control of Alcoa, and which prevents the reasonable estimation of the fair value of the CARO. Upon adoption, Alcoa recognized a cumulative effect adjustment of $2, consisting primarily of costs for regulated waste materials related to the demolition of certain power facilities. Pro forma amounts related to prior periods are not presented, as there is no impact on prior period financial statements.

Historically, Alcoa has either operated locations or sold them and, in certain circumstances, has curtailed them for possible future use while continuing with ongoing security, utility and other maintenance costs as deemed necessary. In the event of a decision to permanently shutdown and/or demolish a facility, Alcoa would record an ARO for the removal, treatment, transportation, storage and/or disposal of various regulated assets and hazardous materials such as asbestos, underground and aboveground storage tanks, PCBs, various process residuals, solid wastes, electronic equipment waste, and various other materials.

AROs have not been recorded in the financial statements for any Alcoa operating location—other than those with specific legal obligations for spent pot lining disposal, closure of bauxite residue areas, mine reclamation, landfill closure, and specific lease restoration requirements—because the fair value of such potential retirement obligations cannot be measured as the settlement dates for these operating locations cannot be estimated. Such amounts may be material to the financial statements in the period in which they are recorded.

Effective January 1, 2003, Alcoa adopted SFAS No. 143. The cumulative effect adjustment recognized upon adoption of this standard was $47, consisting primarily of costs to establish assets and liabilities related to spent pot lining disposal for pots currently in operation.

The following table details the changes in the carrying amount of AROs.

| December 31 | 2005 | 2004 |
|---|---|---|
| Balance at beginning of year | $233 | $217 |
| Accretion expense | 14 | 15 |
| Payments | (31) | (25) |
| Liabilities incurred | 46 | 30 |
| Translation and other | (4) | (4) |
| Balance at end of year | $258 | $233 |

### D. Restructuring and Other Charges

Restructuring and other charges for each of the three years in the period ended December 31, 2005, were comprised of:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Asset impairments | $131 | $ 6 | $ — |
| Layoff costs | 240 | 41 | 44 |
| Other costs | 16 | — | — |
| Gain on sale of specialty chemicals business | — | (53) | — |
| Net reversals of previously recorded layoff and other costs* | (48) | (15) | (38) |
| Net reversals of previously recorded gains/losses on assets held for sale | — | — | (33) |
| Restructuring and other charges | $339 | $(21) | $(27) |

*Reversals of previously recorded layoff and other costs resulted from changes in facts and circumstances that led to changes in estimated costs.

**2005 Restructuring Program.** As a result of the global realignment of Alcoa's organization structure, designed to optimize operations in order to better serve customers, a restructuring plan was developed to identify opportunities to streamline operations on a global basis. The restructuring program consisted of the elimination of jobs across all segments of the company, various plant closings and consolidations, and asset disposals. Restructuring charges of $339 ($221 after tax and minority interests) were recorded in 2005 and were comprised of the following components: $240 of charges for employee termination and severance costs associated with approximately 8,600 salaried and hourly employees, spread globally across the company; $131 related to asset impairments for structures, machinery, and equipment; and $16 for exit costs, consisting primarily of accelerated depreciation associated with assets for which the useful life has been changed due to plans to close certain facilities in the near term. Reversals of previously recorded layoff and other costs were primarily due to Alcoa's decision to sell certain locations that it previously planned to shut down in 2005.

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

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Alumina | $ 6 | $(48) | $ (1) |
| Primary Metals | 36 | (1) | 4 |
| Flat-Rolled Products | 15 | 1 | 13 |
| Extruded and End Products | 73 | 9 | 7 |
| Engineered Solutions | 153 | 9 | (11) |
| Packaging and Consumer | 39 | 10 | (44) |
| Segment total | 322 | (20) | (32) |
| Corporate | 17 | (1) | 5 |
| Total restructuring and other charges | $339 | $(21) | $(27) |

The following discussion details the significant components of the 2005 restructuring program:

– In December 2005, the company temporarily curtailed production at its Eastalco, MD smelter because it was not able to secure a new, competitive power supply for the facility. A charge of $14 was recorded for the termination of approximately 550 people.

– The automotive operations, included in the Engineered Solutions segment, were restructured to improve efficiencies and included the following actions:

- The closure of the Hawesville, KY automotive casting facility was announced on May 19, 2005. This closure, originally scheduled to occur by year-end, will occur in the first quarter of 2006 in order to fulfill certain extended customer commitments. The closure is a result of excess capacity in Alcoa's automotive castings manufacturing system. A charge of $44 was recorded, $1 for the termination of 158 employees and $43 for the impairment of assets.
- A restructuring of the cast auto wheels business occurred, which ultimately included the sale of the wheels facility in Italy. Total charges recorded in 2005 were $71, consisting of $15 for severance costs associated with approximately 450 employees, $46 for asset impairments, and $10 loss on sale of the facility in Italy.

- Headcount reductions in the AFL automotive business resulted in a charge of $27 for the termination of approximately 3,900 employees, primarily in Mexico.

– The global extruded and end products businesses were restructured to optimize operations and increase productivity and included the following actions:

- Headcount reductions across various businesses resulted in a charge of $51 for the termination of 1,050 employees in the U.S., Europe, and Latin America.
- Charges of $15 were recorded for asset disposals at various U.S. and European extrusion plants related to certain assets which the businesses have ceased to operate.

– The restructuring associated with the packaging and consumer businesses consisted of plant consolidations and closures designed to strengthen the operations, resulting in charges of $39, comprised of $23 for the termination of 1,620 employees primarily in the U.S., $8 for asset disposals, and $8 for other exit costs. Other exit costs primarily consisted of accelerated depreciation.

Employee termination and severance costs were recorded based on approved detailed action plans submitted by the operating locations that specified positions to be eliminated, benefits to be paid under existing severance plans, union contracts or statutory requirements, and the expected timetable for completion of the plans. These terminations are expected to be completed in the next twelve months. As of December 31, 2005, 3,550 of the approximately 8,600 employees had been terminated. Approximately $69 of cash payments were made against the 2005 program reserves in 2005.

**2004 Restructuring Program.** During 2004, Alcoa recorded income of $21 ($41 after tax and minority interests) for restructuring and other items. The income recognized was comprised of the following components: a gain of $53 ($61 after tax and minority interests) on the sale of Alcoa's specialty chemicals business and $15 resulting from adjustments to prior year reserves, offset by charges of $41 related to additional layoff reserves associated with approximately 4,100 hourly and salaried employees (located primarily in Mexico and the U.S.), as the company continued to focus on reducing costs, and $6 of asset impairments. The 2004 restructuring program is essentially complete. Approximately $16 of cash payments were made in 2005 related to prior year restructuring programs.

**2003 Restructuring Program.** During 2003, Alcoa recorded income of $27 ($25 after tax and minority interests) for restructuring and other charges. The income recognized was comprised of the following components: $44 of charges for employee termination and severance costs associated with approximately 1,600 hourly and salaried employees (located primarily in Europe, the U.S., and Brazil), as the company continued to focus on cost reductions in businesses that continued to be impacted by market declines; $33 of net favorable adjustments on assets held for sale; and $38 of income resulting from adjustments to prior year layoff reserves due to changes in facts and circumstances that led to changes in estimated costs. The 2003 restructuring program is essentially complete.

Activity and reserve balances for restructuring charges are as follows:

| | Employee termination and severance costs | Other exit costs | Total |
|---|---|---|---|
| Reserve balances at December 31, 2002 | $ 161 | $ 84 | $ 245 |
| **2003**: | | | |
| Cash payments | (120) | (27) | (147) |
| 2003 restructuring charges | 44 | — | 44 |
| Reversals of previously recorded restructuring charges | (38) | (9) | (47) |
| Reserve balances at December 31, 2003 | $ 47 | $ 48 | $ 95 |
| **2004**: | | | |
| Cash payments | (52) | (5) | (57) |
| 2004 restructuring charges | 41 | — | 41 |
| Reversals of previously recorded restructuring charges | (11) | (4) | (15) |
| Reserve balances at December 31, 2004 | $ 25 | $ 39 | $ 64 |
| **2005:** | | | |
| Cash payments | (78) | (7) | (85) |
| 2005 restructuring charges | 240 | 6 | 246 |
| Reversals of previously recorded restructuring charges | (48) | — | (48) |
| Reserve balances at December 31, 2005 | $ 139 | $ 38 | $ 177 |

## E. Goodwill and Other Intangible Assets

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

| December 31 | 2005 | 2004 |
|---|---|---|
| Balance at beginning of year | $6,412 | $6,314 |
| Divestiture of businesses | (16) | — |
| Translation and other adjustments | (147) | 98 |
| Balance at end of year | $6,249 | $6,412 |

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

The following tables detail other intangible assets.

| December 31, 2005 | Gross carrying amount | Accumulated amortization |
|---|---|---|
| Computer software | $ 771 | $ (258) |
| Patents and licenses | 155 | (72) |
| Other intangibles | 367 | (117) |
| Total amortizable intangible assets | 1,293 | (447) |
| Indefinite-lived trade names and trademarks | 166 | — |
| Total other intangible assets | $1,459 | $ (447) |

| December 31, 2004 | Gross carrying amount | Accumulated amortization |
|---|---|---|
| Computer software | $ 689 | $ (215) |
| Patents and licenses | 155 | (70) |
| Other intangibles | 373 | (118) |
| Total amortizable intangible assets | 1,217 | (403) |
| Indefinite-lived trade names and trademarks | 173 | — |
| Total other intangible assets | $1,390 | $ (403) |

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

Amortization expense for intangible assets for the years ended December 31, 2005, 2004, and 2003 was $84, $73, and $76, respectively. Amortization expense is expected to be in the range of approximately $60 to $90 annually from 2006 to 2010.

### F. Acquisitions and Divestitures

**2005 Acquisitions.** In December 2005, Alcoa purchased the remaining 30 percent minority interest in the Alcoa Closure Systems International (Tianjin) Co., Ltd. joint venture owned by its partner, China Suntrust Investment Group Co., Ltd., for $7 in cash. The joint venture, established in 1994 to produce plastic closures for beverages, is now a wholly-owned subsidiary.

In October 2005, Alcoa completed the formation of Alcoa Bohai Aluminum Industries Company Limited, a consolidated joint venture between Alcoa and the China International Trust & Investment (CITIC). Alcoa holds a 73% interest and will be the managing partner in the new venture, which will produce aluminum rolled products at the Bohai plant in Qinghuangdao, China. Alcoa is required to contribute an additional $115 in 2006 and $27 in 2007 to the new entity. The transaction resulted in $2 of goodwill.

In June 2005, Alcoa completed the purchase of the remaining 40 percent interest in the Alcoa (Shanghai) Aluminum Products Ltd. joint venture from its partner Shanghai Light Industrial Equipment (Group) Company, Ltd. for $16 in cash. Alcoa (Shanghai) Aluminum Products Ltd. is now a wholly-owned subsidiary and will continue to sell foil products to customers throughout Asia. The transaction resulted in $2 of goodwill.

On March 31, 2005, Alcoa finalized an agreement with Fujikura Ltd. of Japan in which Alcoa obtained complete ownership of the AFL automotive business and Fujikura obtained complete ownership of the AFL telecommunications business through a tax-free exchange. Fujikura exchanged all of its AFL shares for shares of a new telecommunications entity and $176 in cash. The transaction resulted in a reduction of goodwill for the AFL automotive business of $44, subject to adjustment based upon valuation and other studies that have not been completed. The agreement provides for a contingent payment to Fujikura in 2008 based upon the amount, if any, by which the average annual earnings from 2005 through 2007 for the automotive business exceed a targeted amount. This contingent payment, if paid, will be recorded as an adjustment to the transaction value. AFL automotive business results are recorded in the Engineered Solutions segment.

On January 31, 2005, Alcoa acquired two fabricating facilities located in the Russian Federation. The facilities, located in Belaya Kalitva and Samara, were purchased for $257 in cash. In connection with this transaction, Alcoa also made a $93 payment related to a long-term aluminum supply contract, which is recorded in other noncurrent assets in the accompanying financial statements. Based on the current purchase price allocation, no goodwill was recorded on this transaction. The final allocation of the purchase price will be based upon valuation and other studies, including environmental and other contingent liabilities, which will be completed in the first quarter of 2006. The purchase agreement also provides for contingent payments over the next five years based on the performance of the Russian facilities, with a potential carryforward period of an additional five years. The maximum amount of total contingent payments is $85. These contingent payments, if paid, will be recorded as an adjustment to purchase price. No contingent payments were made during 2005. The results of these facilities are recorded in the Flat-Rolled Products segment, the Extruded and End Products segment, and the Engineered Solutions segment.

**2005 Divestitures.** In December 2005, Alcoa completed the sale of its imaging and graphics communications business, Southern Graphic Systems, Inc. (SGS), to Citigroup Venture Capital Equity Partners, LP for $408 in cash and recognized a gain of $63 ($9 after tax). SGS was reflected in discontinued operations in the accompanying financial statements.

In September 2005, Alcoa sold its railroad assets to RailAmerica Transportation Corp., a subsidiary of RailAmerica Inc., for $78 in cash, resulting in a gain of $67 ($37 after tax). Alcoa and RailAmerica have entered into long-term service agreements under which RailAmerica will provide services to Alcoa facilities that utilize the railroads.

In September 2005, Alcoa completed the sale of its protective packaging business to Forest Resources LLC for $13 in cash and recorded a loss of $6 ($4 after tax). This business was reflected in discontinued operations in the accompanying financial statements.

In April 2005, Alcoa sold its stock in Elkem ASA (Elkem) to Orkla ASA for $869 in cash, resulting in a gain of $345 ($180 after tax), which was recorded in other income in the Statement of Consolidated Income.

In January 2005, Alcoa sold its interest in Integris Metals Inc., a metals distribution joint venture in which Alcoa owned a 50% interest, to Ryerson Tull. The investment was sold for $410 in cash and the assumption of Integris' debt, which was approximately $234. Alcoa received cash of $205, and no material gain or loss was recorded on the transaction.

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

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

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

project, Alumina Limited contributed $40 to AWAC, and Alcoa realized a gain of $37 ($37 after tax) on the transaction.

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

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

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

**2003 Acquisitions.** In October 2003, Alcoa expanded its aluminum alliance with Kobe Steel Ltd. (Kobe) in Japan on the joint development of aluminum products for the automotive market. As part of this arrangement and due to changes in the business environment, Alcoa and Kobe discontinued their association in three can sheet joint ventures: KAAL Australia, KAAL Japan, and KAAL Asia. Based on terms of the agreement, Alcoa acquired from Kobe the remaining 50% interest in KAAL Australia, as well as the remaining 20% interest in KAAL Asia. In turn, Kobe purchased a 47% interest in KAAL Japan from Alcoa. These transactions, which were recorded at fair value, resulted in net cash proceeds to Alcoa of $9 and recognition of a gain of $17 ($26 after tax). Also, Alcoa and Kobe amended an existing aluminum supply agreement related to the KAAL Japan operations, which resulted in an acceleration of the delivery term of the agreement to two years.

In August of 2003, Alcoa acquired the remaining 40.9% shareholding in Alcoa Alumínio (Alumínio) held by Camargo Côrrea Group (Camargo Group) since 1984. Alcoa issued to the Camargo Group 17.8 million shares of Alcoa common stock, with a fair value of approximately $410, in exchange for the Camargo Group's holdings. The agreement also provides for contingent payments through 2008, based on the performance of the South American operations. The maximum amount of contingent payments is $235. The contingent payments will be reduced by appreciation on the Alcoa shares issued in the transaction, as specified in the agreement. No contingent payments related to this agreement were required in 2004 or 2005. The purchase price allocation resulted in goodwill of approximately $56.

**2003 Divestitures.** In October of 2003, Alcoa completed the sale of its Latin America PET business to Amcor PET Packaging for $75, which resulted in an immaterial gain on the transaction. Alcoa also sold investments for approximately $129, comprised primarily of its interest in Latasa, a Latin America aluminum can business.

In connection with acquisitions made prior to 2003, Alcoa could be required to make additional payments of approximately $50 from 2006 through 2007 based upon the achievement of various financial and operating targets. During 2005, Alcoa made a contingent payment of approximately $13 related to the Fairchild acquisition, which was recorded as an adjustment to goodwill.

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

### G. Inventories

| December 31 | 2005 | 2004 |
|---|---|---|
| Finished goods | $ 987 | $ 913 |
| Work in process | 1,032 | 909 |
| Bauxite and alumina | 486 | 456 |
| Purchased raw materials | 714 | 472 |
| Operating supplies | 233 | 218 |
| | $3,452 | $2,968 |

Approximately 45% of total inventories at December 31, 2005 were valued on a LIFO basis. If valued on an average-cost basis, total inventories would have been $872 and $700 higher at the end of 2005 and 2004, respectively.

### H. Properties, Plants, and Equipment, at Cost

| December 31 | 2005 | 2004 |
|---|---|---|
| Land and land rights, including mines | $ 458 | $ 461 |
| Structures | 6,303 | 6,170 |
| Machinery and equipment | 18,190 | 17,947 |
| | 24,951 | 24,578 |
| Less: accumulated depreciation and depletion | 13,854 | 13,244 |
| | 11,097 | 11,334 |
| Construction work in progress | 2,066 | 991 |
| | $13,163 | $12,325 |

### I. Investments

| December 31 | 2005 | 2004 |
|---|---|---|
| Equity investments | $ 631 | $1,517 |
| Other investments | 739 | 549 |
| | $1,370 | $2,066 |

Equity investments are primarily comprised of a 50% investment in Elkem Aluminium ANS, a joint venture between Alcoa and Elkem that owns and operates two aluminum smelters in Norway, and investments in several hydroelectric power construction projects in Brazil. See Note N for additional information. In 2005, Alcoa sold its 46.5% investment in Elkem and its 50% interest in Integris Metals Inc. During 2005, Alcoa recorded an impairment charge of $90 related to the closure of the Hamburger Aluminium-Werk facility, which was recorded in equity income.

Other investments are primarily comprised of Alcoa's 8% interest in Aluminum Corporation of China (Chalco). The investment in Chalco is classified as an available-for-sale security and is carried at fair value, with unrealized gains/losses recorded in other comprehensive income. Cumulative unrealized gains, net of taxes, were $318 in 2005 and $221 in 2004.

## J. Other Assets

| December 31 | 2005 | 2004 |
|---|---|---|
| Intangibles, net (E) | $1,012 | $ 987 |
| Deferred income taxes | 1,600 | 1,604 |
| Prepaid pension benefit (W) | 144 | 83 |
| Deferred charges and other | 1,334 | 1,148 |
| | $4,090 | $3,822 |

## K. Debt

### Long-Term Debt.

| December 31 | 2005 | 2004 |
|---|---|---|
| 4.25% Notes, due 2007 | $ 792 | $ 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 | 600 |
| 6.5% Bonds, due 2018 | 250 | 250 |
| 6.75% Bonds, due 2028 | 300 | 300 |
| Medium-term notes, due 2006–2013 (8.1% and 8.2% average rates) | 110 | 142 |
| Alcoa Alumínio | | |
| 7.5% Export notes, due 2006–2008 | 58 | 74 |
| Fair value adjustments | (37) | 33 |
| Other | 114 | 53 |
| | 5,337 | 5,402 |
| Less: amount due within one year | 58 | 57 |
| | $5,279 | $5,345 |

The amount of long-term debt maturing in each of the next five years, including the effects of fair value adjustments, is $58 in 2006, $857 in 2007, $281 in 2008, $32 in 2009, and $1,007 in 2010.

Alcoa Alumínio's export notes are collateralized by receivables due under an export contract. Certain financial ratios must be maintained, including the maintenance of a minimum debt service ratio, as well as a certain level of tangible net worth of Alumínio and its subsidiaries. The tangible net worth calculation excludes the effects of foreign currency changes.

The fair value adjustments result from changes in the carrying amounts of certain fixed-rate borrowings that have been designated as being hedged. Of the $(37) in 2005, $(100) related to outstanding hedges and $63 related to hedges that were settled early. Of the $33 in 2004, $(42) related to outstanding hedges and $75 related to hedges that were settled early. The adjustments for hedges that were settled early are being recognized as reductions of interest expense over the remaining maturity of the related debt (through 2028). For additional information on interest rate swaps, see Note X.

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

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

**Commercial Paper.** Commercial paper was $912 at December 31, 2005 and $630 at December 31, 2004. Commercial paper matures at various times within one year and has an annual weighted average interest rate of 4.3%. Alcoa maintains $3,000 of revolving-credit agreements with varying expiration dates as backup to its commercial paper program. In April 2005, Alcoa refinanced its $1,000 revolving-credit agreement that was to expire in April 2005 into a new $1,000 revolving-credit agreement that will expire in April 2010. Alcoa also has a $1,000 revolving-credit agreement that will expire in April 2008 and a $1,000 revolving-credit agreement that will expire in April 2009. Under these agreements, a certain ratio of indebtedness to consolidated net worth must be maintained. There were no amounts outstanding under the revolving-credit agreements at December 31, 2005. The interest rate on the agreements expiring in 2008 and 2009, if drawn upon, is Libor plus 17 basis points, which is subject to adjustment if Alcoa's credit rating changes, to a maximum interest rate of Libor plus 83.5 basis points. The interest rate on the agreement expiring in 2010, if drawn upon, is Libor plus 18 basis points, which is subject to adjustment if Alcoa's credit rating changes, to a maximum interest rate of Libor plus 60 basis points.

**Short-Term Borrowings.** Short-term borrowings included $233 and $216 at December 31, 2005 and 2004, respectively, related to accounts payable settlement arrangements with certain vendors and third-party intermediaries.

## L. Other Noncurrent Liabilities and Deferred Credits

| December 31 | 2005 | 2004 |
|---|---|---|
| Deferred alumina sales revenue | $ 164 | $ 179 |
| Deferred aluminum sales revenue | 186 | 260 |
| Environmental remediation (Y) | 350 | 318 |
| Deferred credits | 88 | 96 |
| Asset retirement obligations | 238 | 204 |
| Other noncurrent liabilities | 797 | 670 |
| | $1,823 | $1,727 |

## M. Minority Interests

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

| December 31 | 2005 | 2004 |
|---|---|---|
| Alcoa of Australia | $ 888 | $ 798 |
| Alcoa World Alumina LLC | 236 | 200 |
| Alcoa Fujikura Ltd. (F) | — | 273 |
| Other | 241 | 145 |
| | $1,365 | $1,416 |

## N. Commitments and Contingencies

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

Alcoa Alumínio S.A. (Alumínio), a wholly-owned subsidiary of Alcoa, is a participant in several hydroelectric power construction projects in Brazil for purposes of increasing its energy self-sufficiency and providing a long-term, low-cost source of power for its facilities.

The Machadinho project was completed in 2002. Alumínio committed to taking a share of the output of the completed Machadinho 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, Alumínio may be required to fund a portion of the deficiency. In accordance with the agreement, if Alumínio funds any such deficiency, its participation and share of the output from the project will increase proportionately.

The Barra Grande project was completed in November 2005 and is expected to reach full capacity in May 2006. Alumínio accounts for the Machadinho and Barra Grande hydroelectric projects on the equity method. Its total investment in these projects was $152 and $124 at December 31, 2005 and 2004, respectively. Alcoa's maximum exposure to loss on these completed projects is $447, which represents Alcoa's investment and guarantees of debt.

In October of 2004, Alcoa agreed to acquire a 20% interest in a consortium formed to acquire the Dampier to Bunbury Natural Gas Pipeline (DBNGP) in Western Australia in exchange for an initial cash investment of $17, which was classified as an equity investment. Alcoa has made additional contributions of $19 and committed to invest an additional $53 to be paid as the pipeline expands through 2008. The investment in the DBNGP was made in order to secure a competitively priced long-term supply of power to Alcoa's refineries in Western Australia. In addition to its equity ownership, Alcoa has an agreement to purchase gas transmission services from the DBNGP with the ability to terminate the agreement at its discretion. Alcoa's maximum exposure to loss on the investment and the related contract is approximately $300.

Alcoa is party to unconditional purchase obligations that expire between 2006 and 2017. Commitments related to these contracts total $92 in 2006, $97 in 2007, $92 in 2008, $78 in 2009, $75 in 2010, and $306 thereafter. Expenditures under these contracts totaled $26 in 2005, $23 in 2004, and $21 in 2003. Additionally, Alcoa has entered into other purchase commitments for energy and raw materials which total $2,217 in 2006, $1,115 in 2007, $838 in 2008, $614 in 2009, $560 in 2010, and $6,192 thereafter.

Alcoa has standby letters of credit related to environmental, insurance, and other activities. The total amount committed under these letters of credit, which expire at various dates in 2006 through 2015, was $501 at December 31, 2005.

Alcoa has issued guarantees, primarily related to project financing for the Machadinho and Barra Grande hydroelectric power projects in Brazil. The total amount committed under these guarantees, which expire at various dates in 2006 through 2017, was $431 at December 31, 2005.

## O. Other Income, Net

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Equity income | $ 26 | $145 | $138 |
| Interest income | 65 | 41 | 38 |
| Foreign currency losses | (27) | (30) | (83) |
| Net gains on sales of assets | 406 | 44 | 37 |
| Net gain on early retirement of debt and interest rate swap settlements (K) | — | 58 | — |
| Other income | 10 | 13 | 144 |
| | $480 | $271 | $274 |

Equity income in 2005 included an impairment charge of $90 related to the closure of the Hamburger Aluminium-Werk facility in Hamburg, Germany. The charge is comprised of $65 for asset impairments and $25 for employee layoff costs and other shutdown costs. Net gains on sales of assets in 2005 included the $345 gain on the sale of Alcoa's stake in Elkem ASA and the $67 gain on the sale of railroad assets. Net gains on sales of assets in 2004 were primarily the result of the sale of Alcoa's 40% interest in the Juruti bauxite project in Brazil, which resulted in a $37 gain. Net gains on sales of assets in 2003 were primarily associated with dispositions of office space and other smaller noncore business assets. In 2004, Alcoa recognized a gain of $58 on the early retirement of long-term debt and the associated settlement of interest rate swaps. Other income in 2003 included a $105 gain from insurance settlements of a series of historical environmental matters in the United States.

## P. Cash Flow Information

Cash payments for interest and income taxes follow.

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Interest | $386 | $318 | $352 |
| Income taxes | 413 | 294 | 303 |

The details related to acquisitions follow.

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Fair value of assets acquired | $ 373 | $ 7 | $ 275 |
| Liabilities assumed | (102) | (5) | (80) |
| Minority interests | 190 | — | 224 |
| Stock issued | — | — | (410) |
| Cash paid | 461 | 2 | 9 |
| Less: cash acquired | — | — | — |
| Net cash paid | $ 461 | $ 2 | $ 9 |

## Q. Segment and Geographic Area Information

Alcoa is primarily a producer of aluminum products. Aluminum and alumina represent approximately three-fourths of Alcoa's revenues. Nonaluminum products include precision castings, industrial fasteners, vinyl siding, consumer products, food

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

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (Note A). Transactions among segments are established based on negotiation among the parties. Differences between segment totals and Alcoa's consolidated totals for line items not reconciled are primarily due to corporate allocations.

Alcoa's products are used worldwide in packaging, consumer products, transportation (including aerospace, automotive, truck trailer, rail, and shipping), building and construction, and industrial applications. Total exports from the U.S. from continuing operations were $2,021 in 2005, $1,825 in 2004, and $1,646 in 2003.

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

Alcoa's reportable segments are as follows.

**Alumina.** This segment consists of Alcoa's worldwide alumina system that includes the mining of bauxite, which is then refined into alumina. Alumina is sold directly to internal and external smelter customers worldwide or is processed into industrial chemical products. Alcoa's alumina operations in Australia are a significant component of this segment. Slightly more than half of Alcoa's alumina production is sold under supply contracts to third parties worldwide, while the remainder is used internally. In the first quarter of 2004, Alcoa sold its specialty chemicals business.

**Primary Metals.** This segment consists of Alcoa's worldwide smelter system. Primary Metals receives alumina primarily from the Alumina 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. 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.

**Flat-Rolled Products.** This segment's principal business is the production and sale of aluminum plate, sheet, and foil. This segment includes rigid container sheet (RCS), which is sold directly to customers in the packaging and consumer market and is used to produce aluminum beverage cans. Seasonal increases in RCS sales are generally experienced in the second and third quarters of the year. This segment also includes sheet and plate used in the transportation, building and construction, and distributor markets (mainly used in the production of machinery and equipment and consumer durables), of which approximately two-thirds is sold directly to customers, while the remainder is sold through distributors. Approximately two-thirds of the third-party sales in this segment are derived from sheet and plate, and foil used in industrial markets, while the remaining one-third of third-party sales consists of RCS. While the customer base for flat-rolled products is large, a significant amount of sales of RCS, sheet, and plate is to a relatively small number of customers.

**Extruded and End Products.** This segment consists of extruded products, some of which are further fabricated into a variety of end products, and includes hard- and soft-alloy extrusions, architectural extrusions, and vinyl siding. These products primarily serve the building and construction, distribution, aerospace, automotive, and commercial transportation markets. These products are sold directly to customers and through distributors.

**Engineered Solutions.** This segment includes titanium, aluminum, and super-alloy investment castings; forgings and fasteners; electrical distribution systems; aluminum wheels; and integrated aluminum structural systems used in the aerospace, automotive, commercial transportation, and power generation markets. These products are sold directly to customers and through distributors.

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

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

| Segment information | Alumina | Primary Metals | Flat-Rolled Products | Extruded and End Products | Engineered Solutions | Packaging and Consumer | Total |
|---|---|---|---|---|---|---|---|
| **2005** | | | | | | | |
| Sales: | | | | | | | |
| Third-party sales | $ 2,130 | $ 4,698 | $ 6,836 | $ 4,304 | $ 5,048 | $ 3,139 | $ 26,155 |
| Intersegment sales | 1,707 | 4,808 | 128 | 64 | — | — | 6,707 |
| Total sales | $ 3,837 | $ 9,506 | $ 6,964 | $ 4,368 | $ 5,048 | $ 3,139 | $ 32,862 |
| Profit and loss: | | | | | | | |
| Equity income (loss) | $ — | $ (12) | $ — | $ — | $ 1 | $ 1 | $ (10) |
| Depreciation, depletion, and amortization | 172 | 368 | 217 | 148 | 178 | 133 | 1,216 |
| Income taxes | 246 | 307 | 111 | 28 | 85 | 50 | 827 |
| ATOI | 682 | 822 | 288 | 50 | 196 | 105 | 2,143 |
| Assets: | | | | | | | |
| Capital expenditures | $ 608 | $ 869 | $ 185 | $ 121 | $ 133 | $ 100 | $ 2,016 |
| Equity investments | 215 | 384 | 4 | — | 8 | 3 | 614 |
| Goodwill | 15 | 923 | 158 | 224 | 2,503 | 814 | 4,637 |
| Total assets | 4,268 | 8,566 | 3,963 | 2,218 | 5,747 | 2,787 | 27,549 |
| **2004** | | | | | | | |
| Sales: | | | | | | | |
| Third-party sales | $ 1,975 | $ 3,806 | $ 5,962 | $ 3,974 | $ 4,603 | $ 2,923 | $ 23,243 |
| Intersegment sales | 1,418 | 4,335 | 89 | 54 | — | — | 5,896 |
| Total sales | $ 3,393 | $ 8,141 | $ 6,051 | $ 4,028 | $ 4,603 | $ 2,923 | $ 29,139 |
| Profit and loss: | | | | | | | |
| Equity income (loss) | $ 1 | $ 58 | $ (1) | $ — | $ — | $ 1 | $ 59 |
| Depreciation, depletion, and amortization | 153 | 326 | 198 | 120 | 193 | 126 | 1,116 |
| Income taxes | 240 | 314 | 75 | 30 | 93 | 72 | 824 |
| ATOI | 632 | 808 | 246 | 73 | 211 | 141 | 2,111 |
| Assets: | | | | | | | |
| Capital expenditures | $ 339 | $ 281 | $ 153 | $ 109 | $ 103 | $ 73 | $ 1,058 |
| Equity investments | 187 | 563 | 6 | — | 6 | 2 | 764 |
| Goodwill | 15 | 931 | 168 | 233 | 2,603 | 834 | 4,784 |
| Total assets | 3,605 | 8,121 | 3,672 | 2,224 | 5,761 | 2,805 | 26,188 |
| **2003** | | | | | | | |
| Sales: | | | | | | | |
| Third-party sales | $ 2,002 | $ 3,229 | $ 4,815 | $ 3,529 | $ 4,385 | $ 2,894 | $ 20,854 |
| Intersegment sales | 1,021 | 3,098 | 66 | 34 | — | — | 4,219 |
| Total sales | $ 3,023 | $ 6,327 | $ 4,881 | $ 3,563 | $ 4,385 | $ 2,894 | $ 25,073 |
| Profit and loss: | | | | | | | |
| Equity income (loss) | $ — | $ 55 | $ (1) | $ — | $ — | $ 3 | $ 57 |
| Depreciation, depletion, and amortization | 147 | 310 | 192 | 110 | 196 | 126 | 1,081 |
| Income taxes | 161 | 256 | 70 | 15 | 95 | 85 | 682 |
| ATOI | 415 | 657 | 221 | 58 | 182 | 188 | 1,721 |
| Assets: | | | | | | | |
| Capital expenditures | $ 173 | $ 169 | $ 149 | $ 87 | $ 80 | $ 76 | $ 734 |
| Equity investments | 163 | 489 | 13 | — | 6 | 2 | 673 |
| Goodwill | 17 | 918 | 165 | 233 | 2,552 | 822 | 4,707 |
| Total assets | 3,077 | 7,398 | 3,380 | 2,146 | 6,000 | 2,787 | 24,788 |

The difference between the segment totals and consolidated totals is in Corporate.

The following reconciles segment information to consolidated totals.

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Sales: | | | |
| Total sales | $32,862 | $29,139 | $25,073 |
| Elimination of intersegment sales | (6,707) | (5,896) | (4,219) |
| Corporate | 4 | (7) | 17 |
| Consolidated sales | $26,159 | $23,236 | $20,871 |
| Net income: | | | |
| ATOI | $ 2,143 | $ 2,111 | $ 1,721 |
| Impact of intersegment profit adjustments | 37 | 52 | 9 |
| Unallocated amounts (net of tax): | | | |
| Interest income | 42 | 26 | 24 |
| Interest expense | (220) | (176) | (204) |
| Minority interests | (259) | (245) | (238) |
| Corporate expense | (312) | (283) | (287) |
| Restructuring and other charges | (226) | 23 | 26 |
| Discontinued operations | 2 | (67) | (42) |
| Accounting changes | (2) | — | (47) |
| Other | 28 | (131) | (24) |
| Consolidated net income | $ 1,233 | $ 1,310 | $ 938 |
| Assets: | | | |
| Total segment assets | $27,549 | $26,188 | $24,788 |
| Elimination of intersegment receivables | (193) | (556) | (370) |
| Unallocated amounts: | | | |
| Cash, cash equivalents, and short-term investments | 769 | 463 | 606 |
| Deferred tax assets | 1,797 | 1,884 | 1,610 |
| Corporate goodwill | 1,612 | 1,628 | 1,607 |
| Corporate fixed assets | 753 | 595 | 810 |
| LIFO reserve | (872) | (700) | (558) |
| Assets held for sale | 34 | 542 | 1,116 |
| Other | 2,247 | 2,565 | 2,102 |
| Consolidated assets | $33,696 | $32,609 | $31,711 |

Geographic information for revenues and long-lived assets follows.

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Revenues: | | | |
| U.S. | $15,514 | $14,287 | $12,636 |
| Australia | 2,464 | 1,971 | 1,615 |
| Spain | 1,451 | 1,307 | 1,119 |
| United Kingdom | 887 | 830 | 714 |
| Hungary | 855 | 604 | 493 |
| Brazil | 787 | 603 | 617 |
| Germany | 779 | 770 | 785 |
| Other | 3,418 | 2,871 | 2,875 |
| | $26,155 | $23,243 | $20,854 |
| Long-lived assets:* | | | |
| U.S. | $11,404 | $11,834 | $12,227 |
| Canada | 2,508 | 2,537 | 2,604 |
| Australia | 2,703 | 2,262 | 2,050 |
| United Kingdom | 750 | 869 | 828 |
| Brazil | 1,116 | 797 | 708 |
| Iceland | 505 | 108 | 15 |
| Other | 2,659 | 2,528 | 2,311 |
| | $21,645 | $20,935 | $20,743 |

*Long-lived assets include intangible assets.

## R. Preferred and Common Stock

**Preferred Stock.** Alcoa has two classes of preferred stock. Serial preferred stock has 660,000 shares authorized 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, 2005, 133 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 granted, at not less than market prices on the dates of grant. Stock option features based on date of original grant are as follows:

| Date of original grant | Vesting | Term | Reload feature |
|---|---|---|---|
| 2002 and prior | One year | 10 years | One reload over option term |
| 2003 | 3 years (1/3 each year) | 10 years | One reload in 2004 for 1/3 vesting in 2004 |
| 2004 and forward | 3 years (1/3 each year) | 6 years | None |

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

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Outstanding, beginning of year: | | | |
| Number of options | 89.6 | 87.8 | 81.6 |
| Weighted average exercise price | $33.34 | $32.50 | $33.19 |
| Granted: | | | |
| Number of options | 7.0 | 8.8 | 16.8 |
| Weighted average exercise price | $29.48 | $35.63 | $24.93 |
| Exercised: | | | |
| Number of options | (3.7) | (5.6) | (8.0) |
| Weighted average exercise price | $20.14 | $23.34 | $23.29 |
| Expired or forfeited: | | | |
| Number of options | (4.3) | (1.4) | (2.6) |
| Weighted average exercise price | $35.34 | $37.87 | $32.58 |
| Outstanding, end of year: | | | |
| Number of options | 88.6 | 89.6 | 87.8 |
| Weighted average exercise price | $33.50 | $33.34 | $32.50 |
| Exercisable, end of year: | | | |
| Number of options | 84.4 | 73.5 | 71.6 |
| Weighted average exercise price | $34.03 | $34.39 | $34.22 |
| Shares available for future options | 32.4 | 35.1 | 13.1 |

The following tables summarize certain stock option information at December 31, 2005: (shares in millions)

**Options Outstanding**

| Range of exercise price | Number | Weighted average remaining life | Weighted average exercise price |
|---|---|---|---|
| $ 4.38 - $12.15 | 0.3 | 1.00 | $ 11.46 |
| $12.16 - $19.93 | 1.6 | 1.63 | 16.78 |
| $19.94 - $27.71 | 13.8 | 5.54 | 22.58 |
| $27.72 - $35.49 | 23.0 | 3.99 | 31.06 |
| $35.50 - $45.59 | 49.9 | 3.89 | 38.30 |
| Total | 88.6 | 4.12 | 33.50 |

**Options Exercisable**

| Range of exercise price | Number | Weighted average exercise price |
|---|---|---|
| $ 4.38 - $12.15 | 0.3 | $ 11.46 |
| $12.16 - $19.93 | 1.6 | 16.78 |
| $19.94 - $27.71 | 9.7 | 22.58 |
| $27.72 - $35.49 | 22.9 | 31.06 |
| $35.50 - $45.59 | 49.9 | 38.30 |
| Total | 84.4 | 34.03 |

Beginning in January of 2004, in addition to stock option awards, the company has granted stock awards and performance share awards. Both vest three years from the date of grant. Performance share awards are issued at target and the final award amount is determined at the end of the performance period.

The following table summarizes the non-vested stock and performance share awards: (shares in millions)

| | 2005 | 2004 |
|---|---|---|
| Outstanding, beginning of year | 1.5 | — |
| Granted | 1.7 | 1.5 |
| Forfeited | (0.2) | — |
| Performance share adjustment | (0.4) | — |
| Outstanding, end of year | 2.6 | 1.5 |
| Shares reserved for future grants | 9.3 | 10.5 |
| After-tax compensation expense | $ 16 | $ 9 |

**Share Activity** (number of shares)

| | Common stock | |
|---|---|---|
| | Treasury | Net outstanding |
| **Balance at end of 2002** | (79,755,076) | 844,819,462 |
| Stock issued: | | |
| Alcoa Alumínio minority interest acquisition (F) | 17,773,541 | 17,773,541 |
| Compensation plans | 5,897,683 | 5,897,683 |
| **Balance at end of 2003** | (56,083,852) | 868,490,686 |
| Treasury shares purchased | (1,777,354) | (1,777,354) |
| Stock issued: | | |
| Compensation plans | 4,266,751 | 4,266,751 |
| **Balance at end of 2004** | (53,594,455) | 870,980,083 |
| Treasury shares purchased | (4,334,000) | (4,334,000) |
| Stock issued: | | |
| Compensation plans | 3,622,430 | 3,622,430 |
| **Balance at end of 2005** | (54,306,025) | 870,268,513 |

There were 546,024 shares of preferred stock outstanding and 924,574,538 shares of common stock issued at the end of each year presented.

## S. Earnings Per Share

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

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

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Income from continuing operations | $1,233 | $1,377 | $1,027 |
| Less: preferred stock dividends | 2 | 2 | 2 |
| Income from continuing operations available to common shareholders | $1,231 | $1,375 | $1,025 |
| Average shares outstanding—basic | 871.7 | 869.9 | 853.4 |
| Effect of dilutive securities: | | | |
| Shares issuable upon exercise of dilutive stock options | 5.2 | 7.5 | 3.2 |
| Average shares outstanding—diluted | 876.9 | 877.4 | 856.6 |

Options to purchase 73 million shares of common stock at an average exercise price of $36 per share were outstanding as of December 31, 2005. Options to purchase 56 million shares of common stock at an average exercise price of $38 per share were outstanding as of December 31, 2004. Options to purchase 51 million shares of common stock at an average exercise price of $38 per share were outstanding as of December 31, 2003. These amounts were not included in the computation of diluted EPS because the option exercise price was greater than the average market price of the common shares.

## T. Income Taxes

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

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| U.S. | $ 183 | $ 269 | $ 335 |
| Foreign | 1,750 | 1,896 | 1,335 |
| | $1,933 | $2,165 | $1,670 |

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

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Current: | | | |
| U.S. federal* | $ (63) | $ 178 | $ (44) |
| Foreign | 482 | 445 | 304 |
| State and local | 38 | 15 | 17 |
| | 457 | 638 | 277 |
| Deferred: | | | |
| U.S. federal* | 25 | (161) | 132 |
| Foreign | (28) | 54 | (4) |
| State and local | (13) | 12 | — |
| | (16) | (95) | 128 |
| Total | $441 | $ 543 | $405 |

*Includes U.S. taxes related to foreign income

Included in discontinued operations is a tax cost of $69 in 2005 and tax benefits of $10 in 2004 and $27 in 2003.

The exercise of employee stock options generated a tax benefit of $9 in 2005, $21 in 2004, and $23 in 2003. 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.

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| U.S. federal statutory rate | 35.0% | 35.0% | 35.0% |
| Taxes on foreign income | (7.6) | (9.5) | (7.4) |
| State taxes net of federal benefit | 0.8 | 0.7 | 0.9 |
| Minority interests | 0.6 | 0.5 | 1.1 |
| Permanent differences on asset disposals | 2.5 | (1.1) | (0.1) |
| Audit and other adjustments to prior years' accruals* | (7.1) | 0.7 | (4.1) |
| Other | (1.4) | (1.2) | (1.2) |
| Effective tax rate | 22.8% | 25.1% | 24.2% |

*2005 includes the finalization of certain tax reviews and audits, decreasing the effective tax rate by approximately 6.2 percentage points.

The components of net deferred tax assets and liabilities follow.

| | 2005 | | 2004 | |
|---|---|---|---|---|
| December 31 | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Depreciation | $ — | $ 1,432 | $ — | $ 1,434 |
| Employee benefits | 1,455 | — | 1,422 | — |
| Loss provisions | 392 | — | 420 | — |
| Deferred income/expense | 116 | 188 | 113 | 202 |
| Tax loss carryforwards | 492 | — | 498 | — |
| Tax credit carryforwards | 206 | — | 348 | — |
| Unrealized gains on available-for-sale securities | — | 171 | — | 119 |
| Other | 218 | 178 | 199 | 156 |
| | 2,879 | 1,969 | 3,000 | 1,911 |
| Valuation allowance | (127) | — | (120) | — |
| | $ 2,752 | $ 1,969 | $ 2,880 | $ 1,911 |

Of the total deferred tax assets associated with the tax loss carryforwards, $86 expires over the next ten years, $183 over the next 20 years, and $223 is unlimited. Of the tax credit carryforwards, $92 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. The net change in the valuation allowance for foreign net operating losses and tax credits resulted in a tax cost of $7 in 2005 and the recognition of a tax benefit of $21 in 2004. Approximately $31 of the valuation allowance relates to acquired companies for which subsequently recognized benefits will reduce goodwill.

The cumulative amount of Alcoa's foreign undistributed net earnings for which no deferred taxes have been provided was $7,562 at December 31, 2005. Management has no plans to distribute such earnings in the foreseeable future. It is not practical to determine the deferred tax liability on these earnings. Alcoa did not utilize the American Job Creation Act of 2004 provision that allows companies to repatriate earnings from foreign subsidiaries at a reduced U.S. tax rate.

### U. Lease Expense

Certain equipment, warehousing and office space, and ocean-going vessels are under operating lease agreements. Total expense from continuing operations for all leases was $267 in 2005, $251 in 2004, and $219 in 2003. Under long-term operating leases, minimum annual rentals are $215 in 2006, $178 in 2007, $132 in 2008, $109 in 2009, $118 in 2010, and a total of $273 for 2011 and thereafter.

### V. Interest Cost Components

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Amount charged to expense | $339 | $271 | $314 |
| Amount capitalized | 58 | 27 | 21 |
| | $397 | $298 | $335 |

### W. Pension Plans and Other Postretirement Benefits

Alcoa maintains pension plans covering most U.S. employees and certain other employees. Pension benefits generally depend on length of service, job grade, and remuneration. Substantially all benefits are paid through pension trusts that are sufficiently funded to ensure that all plans can pay benefits to retirees as they become due. Most U.S. salaried and non-union hourly employees hired after March 1, 2006 will participate in a defined contribution plan instead of the current defined benefit plan.

Alcoa maintains health care and life insurance benefit plans covering most eligible U.S. retired employees and certain other retirees. Generally, the medical plans pay a percentage of medical expenses, reduced by deductibles and other coverages. These plans are generally unfunded, except for certain benefits funded through a trust. Life benefits are generally provided by insurance contracts. Alcoa retains the right, subject to existing agreements, to change or eliminate these benefits. All U.S. salaried and certain hourly employees hired after January 1, 2002 will not have postretirement health care benefits. Alcoa uses a December 31 measurement date for the majority of its plans.

**Obligations and Funded Status**

| December 31 | Pension benefits 2005 | Pension benefits 2004 | Postretirement benefits 2005 | Postretirement benefits 2004 |
|---|---|---|---|---|
| **Change in projected benefit obligation** | | | | |
| Benefit obligation at beginning of year | $10,751 | $10,268 | $ 3,829 | $ 3,661 |
| Service cost | 209 | 204 | 33 | 31 |
| Interest cost | 619 | 617 | 216 | 221 |
| Amendments | — | (4) | (26) | (6) |
| Actuarial losses (gains) | 487 | 220 | (47) | 276 |
| Acquisitions | 20 | — | — | — |
| Divestitures | (5) | (10) | (1) | — |
| Benefits paid, net of participants' contributions | (685) | (668) | (349) | (355) |
| Other transfers, net | — | 46 | — | — |
| Exchange rate | (64) | 78 | 1 | 1 |
| Projected benefit obligation at end of year | $11,332 | $10,751 | $ 3,656 | $ 3,829 |
| **Change in plan assets** | | | | |
| Fair value of plan assets at beginning of year | $ 8,800 | $ 8,386 | $ 157 | $ 137 |
| Actual return on plan assets | 866 | 927 | 13 | 20 |
| Acquisitions | 16 | — | — | — |
| Employer contributions | 383 | 101 | — | — |
| Participants' contributions | 26 | 24 | — | — |
| Benefits paid | (690) | (676) | — | — |
| Administrative expenses | (24) | (28) | — | — |
| Other transfers, net | — | 27 | — | — |
| Exchange rate | (54) | 39 | — | — |
| Fair value of plan assets at end of year | $ 9,323 | $ 8,800 | $ 170 | $ 157 |
| **Funded status** | $ (2,009) | $ (1,951) | $ (3,486) | $ (3,672) |
| Unrecognized net actuarial loss | 2,187 | 1,912 | 1,028 | 1,133 |
| Unrecognized net prior service cost (benefit) | 51 | 73 | (37) | (7) |
| Net amount recognized | $ 229 | $ 34 | $ (2,495) | $ (2,546) |
| **Amounts recognized in the Consolidated Balance Sheet consist of:** | | | | |
| Prepaid benefit | $ 150 | $ 83 | $ — | $ — |
| Accrued benefit liability | (1,674) | (1,587) | (2,495) | (2,546) |
| Intangible asset | 35 | 53 | — | — |
| Accumulated other comprehensive loss | 1,718 | 1,485 | — | — |
| Amount recognized | 229 | 34 | (2,495) | (2,546) |
| Amounts attributed to joint venture partners | 10 | 17 | 38 | 38 |
| Net amount recognized | $ 239 | $ 51 | $ (2,457) | $ (2,508) |

**Components of Net Periodic Benefit Costs**

| | Pension benefits 2005 | Pension benefits 2004 | Pension benefits 2003 | Postretirement benefits 2005 | Postretirement benefits 2004 | Postretirement benefits 2003 |
|---|---|---|---|---|---|---|
| Service cost | $ 209 | $ 204 | $ 194 | $ 33 | $ 31 | $ 31 |
| Interest cost | 619 | 617 | 609 | 216 | 221 | 237 |
| Expected return on plan assets | (719) | (719) | (727) | (14) | (13) | (11) |
| Amortization of prior service cost (benefit) | 22 | 39 | 38 | 4 | (6) | (32) |
| Recognized actuarial loss | 95 | 61 | 8 | 59 | 46 | 40 |
| Net periodic benefit costs | $ 226 | $ 202 | $ 122 | $298 | $279 | $265 |

An increase in the minimum pension liability resulted in a charge to shareholders' equity of $148 in 2005 and $21 in 2004.

The projected benefit obligation for all defined benefit pension plans was $11,332 and $10,751 at December 31, 2005 and 2004, respectively.

The accumulated benefit obligation for all defined benefit pension plans was $10,876 and $10,326 at December 31, 2005 and 2004, respectively.

The aggregate projected benefit obligation and fair value of plan assets for the pension plans with benefit obligations in excess of plan assets were $11,071 and $8,982, respectively, as of December 31, 2005, and $10,518 and $8,343, respectively, as of December 31, 2004. The aggregate accumulated benefit obligation and fair value of plan assets with accumulated benefit obligations in excess of plan assets were $10,163 and $8,504, respectively, as of December 31, 2005, and $10,086 and $8,320, respectively, as of December 31, 2004.

At December 31, 2005 and 2004, the long-term accrued pension benefits on the Consolidated Balance Sheet were $1,500 and $1,513, respectively. The total accrued benefit liability was $1,674 in 2005 and $1,587 in 2004, which included the current portion of the liability of $154 in 2005 and $57 in 2004 and the amounts attributed to joint venture partners of $20 in 2005 and $17 in 2004. At December 31, 2005 and 2004, the prepaid pension benefits on the Consolidated Balance Sheet were $144 and $83, respectively. The total prepaid benefit was $150 in 2005 and $83 in 2004, which included amounts attributed to joint venture partners of $6 in 2005. At December 31, 2005 and 2004, the intangible pension asset on the Consolidated Balance Sheet was $31 and $53, respectively. The total intangible asset was $35 in 2005 and $53 in 2004, which included amounts attributed to joint venture partners of $4 in 2005.

The unrecognized net actuarial loss for pension benefit plans at December 31, 2005 of $2,187 has primarily resulted from the decline in interest rates over the past four years. To the extent those losses exceed certain thresholds, the excess will continue to be recognized as prescribed under SFAS No. 87, “Employers’ Accounting for Pensions.” Generally, these amounts are amortized over the estimated future service of plan participants, which is 14 years.

The benefit obligation for postretirement benefit plans and net amount recognized were $3,656 and $2,495, respectively, as of December 31, 2005, and $3,829 and $2,546, respectively, as of December 31, 2004. Of the net amount recognized, the long-term, current, and amounts attributed to joint venture partners were $2,105, $352, and $38, respectively, as of December 31, 2005, and $2,150, $358, and $38, respectively, as of December 31, 2004.

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

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

As of December 31, 2005 and 2004, Alcoa recognized the effects of the Act in the measure of its Accumulated Postretirement Benefit Obligation (APBO) for certain retiree groups in accordance with FASB Staff Position No. FAS 106-2, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.” At December 31, 2003, recognition of the subsidy for certain retiree groups as an offset to plan costs resulted in a $190 reduction in the APBO. The reduction in the APBO is included with other deferred actuarial gains and losses. For other retiree groups not previously recognized at December 31, 2003, the impact of the potential subsidy benefit was recognized at December 31, 2005 and resulted in a $220 reduction to the APBO. Alcoa has not reflected any changes in participation in the company plan as a result of the Act. The reduction in APBO represents the value of the subsidy and does not reflect any other changes. The subsidy is estimated to reduce the prescription drug portion of the per capita cost by 24% for Medicare-eligible retirees.

The net periodic benefit cost for postretirement benefits for the year ended December 31, 2005 reflected a reduction of $24 related to the recognition of the federal subsidy under Medicare Part D. Subsequent net periodic postretirement benefit costs will be adjusted to reflect the lower interest cost due to the lower APBO. To the extent deferred gains and losses exceed certain thresholds, the excess will continue to be recognized as prescribed under SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions.” Additionally, the projected reduction to the 2006 net periodic postretirement benefit cost, due to the $220 reduction to the APBO determined in 2005, is $26.

The unrecognized net actuarial loss for postretirement benefit plans at December 31, 2005 of $1,028 primarily resulted from the decline in interest rates over the past four years. To the extent those losses exceed certain thresholds, the excess will continue to be recognized. Generally, these amounts are amortized over the estimated future service of plan participants, which is 12 years.

**Assumptions**

Weighted average assumptions used to determine benefit obligations are as follows:

| December 31 | 2005 | 2004 |
|---|---|---|
| Discount rate | 5.70% | 6.00% |
| Rate of compensation increase | 4.00 | 4.50 |

The discount rate is determined using a yield curve model developed by the company’s external actuaries. The plan’s projected benefit obligation cash flows are discounted using yields on high quality corporate bonds to produce a single equivalent rate. The plan’s cash flows have an average duration of 13 years.

The rate of compensation increase is based upon actual experience.

Weighted average assumptions used to determine the net periodic benefit cost are as follows:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Discount rate | 6.00% | 6.25% | 6.75% |
| Expected long-term return on plan assets | 9.00 | 9.00 | 9.00 |
| Rate of compensation increase | 4.50 | 5.00 | 5.00 |

The expected return on plan assets is based on historical performance as well as expected future rates of return on plan assets considering the current investment portfolio mix and the long-term investment strategy. The 10-year moving average of actual performance has consistently exceeded 9% over the past 20 years.

Assumed health care cost trend rates are as follows:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Health care cost trend rate assumed for next year | 8.0% | 8.0% | 9.0% |
| Rate to which the cost trend rate gradually declines | 5.0% | 5.0% | 5.0% |
| Year that the rate reaches the rate at which it is assumed to remain | 2010 | 2009 | 2009 |

The health care cost trend rate in the calculation of the 2004 benefit obligation was 8.0% from 2004 to 2005 and 8.0% from 2005 to 2006. Actual annual company health care trend experience over the past three years has ranged from 5.0% to 7.5%. The 8% trend rate will be maintained for 2006.

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

| | 1% increase | 1% decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ 8 | $ (7) |
| Effect on postretirement benefit obligations | 129 | (108) |

### Plan Assets

Alcoa's pension and postretirement plans' investment policy, weighted average asset allocations at December 31, 2005 and 2004, and target allocations for 2006, by asset category, are as follows:

| | | Plan assets at December 31 | | Target % |
|---|---|---|---|---|
| Asset category | Policy range | 2005 | 2004 | 2006 |
| Equity securities | 35–60% | 57% | 56% | 53% |
| Debt securities | 30–55% | 34 | 35 | 35 |
| Real estate | 5–15% | 5 | 5 | 6 |
| Other | 0–15% | 4 | 4 | 6 |
| Total | | 100% | 100% | 100% |

The basic goal underlying the pension plan investment policy is to ensure that the assets of the plan, along with expected plan sponsor contributions, will be invested in a prudent manner to meet the obligations of the plan as those obligations come due. Investment practices must comply with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and any other applicable laws and regulations.

Numerous asset classes with differing expected rates of return, return volatility, and correlations are utilized to reduce risk by providing diversification. Debt securities comprise a significant portion of the portfolio due to their plan-liability-matching characteristics and to address the plan's cash flow requirements. Additionally, diversification of investments within each asset class is utilized to further reduce the impact of losses in single investments. The use of derivative instruments is permitted where appropriate and necessary for achieving overall investment policy objectives.

### Cash Flows

In 2005, contributions to Alcoa's pension plans were $383, of which $300 was voluntary. The minimum required cash contribution to the pension plans in 2006 is estimated to be $154.

Benefit payments expected to be paid to plan participants and expected subsidy receipts are as follows:

| Year ended December 31 | Pension benefits | Post-retirement benefits | Subsidy receipts |
|---|---|---|---|
| 2006 | $ 700 | $ 352 | $ 25 |
| 2007 | 700 | 350 | 25 |
| 2008 | 700 | 350 | 30 |
| 2009 | 750 | 350 | 30 |
| 2010 | 750 | 350 | 30 |
| 2011 through 2015 | 4,100 | 1,750 | 180 |
| | $7,700 | $ 3,502 | $ 320 |

### Other Plans

Alcoa also sponsors a number of defined contribution pension plans. Expenses were $127 in 2005, $118 in 2004, and $107 in 2003.

## X. Other Financial Instruments and Derivatives

**Other Financial Instruments.** The carrying values and fair values of Alcoa's financial instruments follow.

| | 2005 | | 2004 | |
|---|---|---|---|---|
| December 31 | Carrying value | Fair value | Carrying value | Fair value |
| Cash and cash equivalents | $ 762 | $ 762 | $ 457 | $ 457 |
| Short-term investments | 7 | 7 | 6 | 6 |
| Noncurrent receivables | 138 | 138 | 18 | 18 |
| Available-for-sale investments | 733 | 733 | 527 | 527 |
| Short-term debt | 58 | 58 | 57 | 57 |
| Short-term borrowings | 300 | 300 | 267 | 267 |
| Commercial paper | 912 | 912 | 630 | 630 |
| Long-term debt | 5,279 | 5,576 | 5,345 | 5,967 |

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

***Cash and Cash Equivalents, Short-Term Investments, Short-Term Debt, Short-Term Borrowings, and Commercial Paper.*** The carrying amounts approximate fair value because of the short maturity of the instruments.

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

| | 2005 | 2004 |
|---|---|---|
| Aluminum | $ 4 | $211 |
| Interest rates | (100) | (42) |
| Other commodities, principally natural gas | 201 | 53 |
| Currencies | 83 | 38 |

Aluminum consists of hedge contracts with gains of $245. This is mostly offset by losses on embedded derivatives in power contracts in Iceland and Brazil and our share of losses on hedge contracts of Norwegian smelters that are accounted for under the equity method.

**Fair Value Hedges**

***Aluminum.*** Customers often require Alcoa to enter into long-term, fixed-price commitments. These commitments expose Alcoa to the risk of higher aluminum prices between the time the order is committed and the time that the order is shipped. Alcoa's aluminum commodity risk management policy is to manage, principally through the use of futures and options contracts, the aluminum price risk associated with a portion of its firm commitments. These contracts cover known exposures, generally within three years.

***Interest Rates.*** Alcoa uses interest rate swaps to help maintain a strategic balance between fixed- and floating-rate debt and to manage overall financing costs. As of December 31, 2005, the company had pay floating, receive fixed interest rate swaps that were designated as fair value hedges. These hedges effectively convert the interest rate from fixed to floating on $2,500 of debt, through 2018. For additional information on interest rate swaps and their effect on debt and interest expense, see Note K.

***Currencies.*** Alcoa uses cross-currency interest rate swaps that effectively convert its U.S. dollar denominated debt into Brazilian reais debt at local interest rates.

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

**Cash Flow Hedges**

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

***Currencies.*** Alcoa is subject to exposure from fluctuations in foreign currency exchange rates. Foreign currency exchange contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. These contracts cover periods commensurate with known or expected exposures, generally within three years. The U.S. dollar notional amount of all foreign currency contracts was approximately $240 and $400 as of December 31, 2005 and 2004, respectively. The majority of these contracts were hedging foreign currency exposure in Brazil.

***Commodities.*** Alcoa anticipates the continued requirement to purchase aluminum and other commodities such as natural gas, fuel oil, and electricity for its operations. Alcoa enters into futures and forward contracts to reduce volatility in the price of these commodities.

**Other**

Alcoa has also entered into certain derivatives to minimize its price risk related to other customer sales and pricing arrangements. Alcoa has not qualified these contracts for hedge accounting treatment and therefore, the fair value gains and losses on these contracts are recorded in earnings. The impact to earnings was not significant in 2005 and was a gain of $29 in 2004.

Alcoa has entered into power supply contracts that contain pricing provisions related to the LME aluminum price. The LME-linked pricing features are considered embedded derivatives. A majority of these embedded derivatives have been designated as cash flow hedges of future sales of aluminum. Gains and losses on the remainder of these embedded derivatives are recognized in earnings. The impact to earnings was a loss of $21 in 2005 and a loss of $24 in 2004.

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

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

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

## Y. Environmental Matters

Alcoa continues to participate in environmental assessments and cleanups at a number of locations. These include approximately 35 owned or operating facilities and adjoining properties, approximately 33 previously owned facilities and adjoining properties, and approximately 61 waste sites, including Superfund sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. See Note A for additional information.

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

logical changes. Therefore, it is not possible to determine the outcomes or to estimate with any degree of accuracy the potential costs for certain of these matters.

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

**Massena, NY—**Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa's Massena, NY plant site, under order from the U.S. Environmental Protection Agency (EPA) issued under the Comprehensive Environmental Response, Compensation and Liability Act, also known as Superfund. Sediments and fish in the river contain varying levels of polychlorinated biphenyl (PCB).

In 2002, Alcoa submitted an Analysis of Alternatives Report that detailed a variety of remedial alternatives with estimated costs ranging from $2 to $525. Because the selection of the $2 alternative (natural recovery) was considered remote, Alcoa adjusted the reserve for the Grasse River in 2002 to $30, representing the low end of the range of possible alternatives, as no single alternative could be identified as more probable than the others.

In June of 2003, based on river observations during the spring of 2003, the EPA requested that Alcoa gather additional field data to assess the potential for sediment erosion from winter river ice formation and breakup. The results of these additional studies, submitted in a report to the EPA in April of 2004, suggest that this phenomenon has the potential to occur approximately every 10 years and may impact sediments in certain portions of the river under all remedial scenarios. The EPA informed Alcoa that a final remedial decision for the river could not be made without substantially more information, including river pilot studies on the effects of ice formation and breakup on each of the remedial techniques. Alcoa submitted to EPA and EPA approved a Remedial Options Pilot Study (ROPS) to gather this information. The scope of this study includes sediment removal and capping, the installation of an ice control structure, and significant monitoring.

In May of 2004, Alcoa agreed to perform the study at an estimated cost of $35. Most of the construction work was completed in 2005 with monitoring proposed for 2006. The findings will be incorporated into a revised Analysis of Alternatives Report, which is expected to be submitted in 2007. This information will be used by the EPA to propose a remedy for the entire river.

Alcoa adjusted the reserves in the second quarter of 2004 to include the $35 for the ROPS. This was in addition to the $30 previously reserved. With the exception of the natural recovery remedy, none of the existing alternatives in the 2002 Analysis of Alternatives Report is more probable than the others, and the results of the ROPS are necessary to revise the scope and estimated cost of many of the current alternatives.

The EPA's ultimate selection of a remedy could result in additional liability. Alcoa may be required to record a subsequent reserve adjustment at the time the EPA's Record of Decision is issued, which is expected in 2008 or later.

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

**East St. Louis, IL—**In response to questions regarding environmental conditions at the former East St. Louis, IL operations, Alcoa entered into an administrative order with the EPA in December 2002 to perform a remedial investigation and feasibility study of an area used for the disposal of bauxite residue from historic alumina refining operations. A draft feasibility study was submitted to the EPA in April 2005. The feasibility study includes remedial alternatives that range from no further action at $0 to significant grading, stabilization, and water management of the bauxite residue disposal areas at $75. Because the selection of the $0 alternative was considered remote, Alcoa increased the environmental reserve for this location by $15 in the second quarter of 2005, representing the low end of the range of possible alternatives which meets the remedy selection criteria, as no alternative could be identified as more probable than the others. The EPA has not completed a final review of the feasibility study, and the EPA's selection of a remedy could result in additional liability. Alcoa may be required to record a subsequent reserve adjustment at the time the EPA's Record of Decision is issued.

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

Alcoa's remediation reserve balance at the end of 2005 and 2004 was $390 and $391 (of which $40 and $73 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. Remediation expenses charged to the reserve were approximately $53 in 2005, $46 in 2004, and $32 in 2003. These amounts include expenditures currently mandated, as well as those not required by any regulatory authority or third party. The reserve balance was increased by $52 in 2005, primarily due to the reserve recorded for the acquired Russian fabricating facilities in the first quarter and for the East St. Louis, IL facility which was recorded in the second quarter of 2005. In 2004, the reserve increased by $42, primarily for the additional reserve recorded for the Grasse River site.

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 (unaudited)

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

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

| | First | Second | Third | Fourth | Year |
|---|---|---|---|---|---|
| **2005** | | | | | |
| Sales | $6,226 | $ 6,698 | $6,566 | $6,669 | $26,159 |
| Income from continuing operations | 267 | 466 | 290 | 210 | 1,233 |
| (Loss) income from discontinued operations (B) | (7) | (6) | (1) | 16 | 2 |
| Cumulative effect of accounting change (C) | — | — | — | (2) | (2) |
| Net income | 260 | 460 | 289 | 224 | 1,233 |
| Earnings (loss) per share: | | | | | |
| Basic: | | | | | |
| Income from continuing operations | .31 | .53 | .33 | .24 | 1.41 |
| (Loss) income from discontinued operations | (.01) | — | — | .02 | — |
| Cumulative effect of accounting change | — | — | — | — | — |
| Net income | .30 | .53 | .33 | .26 | 1.41 |
| Diluted: | | | | | |
| Income from continuing operations | .30 | .53 | .33 | .24 | 1.40 |
| (Loss) income from discontinued operations | — | (.01) | — | .02 | — |
| Cumulative effect of accounting change | — | — | — | — | — |
| Net income | .30 | .52 | .33 | .26 | 1.40 |

| | First | Second | Third | Fourth | Year |
|---|---|---|---|---|---|
| **2004** | | | | | |
| Sales | $5,527 | $ 5,912 | $5,818 | $5,979 | $23,236 |
| Income from continuing operations | 345 | 399 | 293 | 340 | 1,377 |
| Income (loss) from discontinued operations (B) | 10 | 5 | (10) | (72) | (67) |
| Net income | 355 | 404 | 283 | 268 | 1,310 |
| Earnings (loss) per share: | | | | | |
| Basic: | | | | | |
| Income from continuing operations | .40 | .46 | .33 | .39 | 1.58 |
| Income (loss) from discontinued operations | .01 | — | (.01) | (.08) | (.08) |
| Net income | .41 | .46 | .32 | .31 | 1.50 |
| Diluted: | | | | | |
| Income from continuing operations | .39 | .45 | .33 | .39 | 1.57 |
| Income (loss) from discontinued operations | .02 | .01 | (.01) | (.09) | (.08) |
| Net income | .41 | .46 | .32 | .30 | 1.49 |

**Number of Employees**

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| U.S. | 45,300 | 47,800 | 49,300 |
| Other Americas | 35,800 | 35,200 | 35,300 |
| Europe | 39,300 | 28,500 | 27,700 |
| Pacific | 8,600 | 7,500 | 7,700 |
| | 129,000 | 119,000 | 120,000 |

## Shareowner Information

### Annual Meeting

The annual meeting of shareowners will be at 9:30 a.m. Friday, April 21, 2006, at the Westin Convention Center Hotel Pittsburgh.

### Company News

Visit www.alcoa.com for Securities and Exchange Commission (SEC) filings, quarterly earnings reports, and other company news.

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

### Investor Information

Securities analysts and investors may write to Director –Investor Relations 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 Alcoa community investments, visit www.alcoa.com under "community."

For Alcoa's 2005 Sustainability Highlights Report, visit www.alcoa.com or write Director – Sustainability, 390 Park Avenue, New York, NY 10022-4608 or e-mail sustainability@alcoa.com.

### Dividends

Alcoa's objective is to pay common stock dividends at rates competitive with other investments of equal risk and consistent with the need to reinvest earnings for long-term growth. To support this objective, Alcoa pays a quarterly dividend of 15 cents per common share and 93.75 cents per preferred share. Quarterly dividends are paid to shareowners of record at each quarterly distribution date.

### Dividend Reinvestment

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

### Direct Deposit of Dividends

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

### Shareowner Services

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

Computershare Trust Company, N.A. at 1 800 317 4445 (in the U.S. and Canada) or 1 781 575 2724 (all other calls) or through the Computershare Web site at www.computershare.com/equiserve

Telecommunications Device for the Deaf (TDD):
1 800 952 9245

For shareowner questions on other matters related to Alcoa, write to Donna C. Dabney, Office of the Secretary, 390 Park Avenue, New York, NY 10022-4608 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

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| Quarter | High | Low | Dividend | High | Low | Dividend |
| First | $32.29 | $28.01 | $ .15 | $39.44 | $32.60 | $ .15 |
| Second | 31.80 | 25.91 | .15 | 36.60 | 28.51 | .15 |
| Third | 29.98 | 23.81 | .15 | 33.70 | 29.44 | .15 |
| Fourth | 29.84 | 22.28 | .15 | 34.99 | 30.63 | .15 |
| Year | $32.29 | $22.28 | $ .60 | $39.44 | $28.51 | $ .60 |

### Common Share Data

| | Estimated number of shareowners* | Average shares outstanding (000) |
|---|---|---|
| 2005 | 271,000 | 871,721 |
| 2004 | 295,000 | 869,907 |
| 2003 | 278,400 | 853,352 |
| 2002 | 273,000 | 845,439 |
| 2001 | 266,800 | 857,990 |

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

### Corporate Center

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

Alcoa Inc. is incorporated in the Commonwealth of Pennsylvania.

**Exhibit 21**

## SUBSIDIARIES AND EQUITY ENTITIES OF THE REGISTRANT
**(As of December 31, 2005)**
**(Reported Under Item 601 of Regulation S-K)**

| Name | State or Country of Organization |
|---|---|
| Alcoa Domestic LLC | Delaware |
| Alcoa Securities Corporation | Delaware |
| Alcoa Materials Management, Inc. | Delaware |
| Alcoa Fujikura Ltd. | Delaware |
| Alcoa Fujikura Holding, L.L.C. | Delaware |
| Alcoa Fujikura De Mexico, S. DE R. L. RE C. V. | Mexico |
| Howmet International Inc. | Delaware |
| Howmet Holdings Corporation | Delaware |
| Howmet Corporation | Delaware |
| Howmet Castings & Services, Inc. | Delaware |
| Alcoa International Holdings Company | Delaware |
| Alcoa Luxembourg S.àr.l. | Luxembourg |
| Alcoa Europe Holding B.V. | Netherlands |
| Alcoa Europe S.A. | Switzerland |
| Norsk Alcoa Holdings AS | Norway |
| Alcoa Global Treasury Services S.àr.l. | Luxembourg |
| Alcoa Inversiones Espana SL | Spain |
| Alcoa Inespal, S.A. | Spain |
| Alúmina Española, S.A. | Spain |
| Aluminio Español, S.A. | Spain |
| Alcoa Inversiones Internacionales SL | Spain |
| Alcoa-Köfém Kft | Hungary |
| Alcoa Aluminio S.A. | Brazil |
| Alcoa A Islandi ehf | Iceland |
| Alcoa Inter-America, Inc. | Delaware |
| Alcoa International Asia Limited | Hong Kong |
| Alcoa of Australia Limited | Australia |
| Alcoa UK Holdings Limited | United Kingdom |
| Alcoa Manufacturing (G.B.) Limited | United Kingdom |
| Alcoa Extruded Products (UK) Limited | United Kingdom |
| Alcoa World Alumina LLC[1] | Delaware |
| AAC Holdings Company | Delaware |
| Alcoa Minerals of Jamaica, L.L.C. | Delaware |
| Suriname Aluminum Company, L.L.C. | Delaware |
| Alumax Inc. | Delaware |
| Alcoa Extrusions, Inc. | Pennsylvania |
| Alumax Mill Products, Inc. | Delaware |
| Aluminerie Lauralco, Inc. | Delaware |
| Alcoa-Lauralco Management Company | Nova Scotia |
| Alcoa-Aluminerie de Deschambault G.P. | Quebec |
| Alcoa-Lauralco Holdings Company | Nova Scotia |

| Name | State or Country of Organization |
|---|---|
| Cordant Technologies Holding Company | Delaware |
| Alcoa Global Fasteners, Inc. | Delaware |
| Huck International Inc. | Delaware |
| Reynolds Metals Company | Delaware |
| Reynolds International, Inc. | Delaware |
| RMCC Company | Delaware |
| Alcoa Canada Ltd. | Quebec |
| Alcoa Ltd. | Quebec |
| Reynolds Bécancour, Inc. | Delaware |
| RB Sales Company, Limited | Delaware |
| Reynolds Consumer Products, Inc. | Delaware |
| Grupiara Participacaoes, S.A. | Brazil |
| Reynolds Food Packaging LLC | Delaware |
| RMC Delaware, Inc. | Delaware |
| Ivex Packaging Corporation | Delaware |
| IPC, Inc. | Delaware |
| Alcoa Kama, Inc. | Delaware |

The names of particular subsidiaries and equity entities have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of the end of the year covered by this report, a "significant subsidiary" as that term is defined in Regulation S-X under the Securities Exchange Act of 1934.

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

**Exhibit 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-74874) and Form S-8 (Nos. 33-22346, 33-24846, 33-49109, 33-60305, 333-27903, 333-62663, 333-79575, 333-32516, 333-36208, 333-37740, 333-39708, 333-106411, 333-115717 and 333-128445) of Alcoa Inc. and its subsidiaries of our report dated February 17, 2006 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 17, 2006 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
February 17, 2006

**Exhibit 24**

# POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each of the undersigned Directors of Alcoa Inc. (the “Company”) hereby constitutes and appoints JOSEPH C. MUSCARI, WILLIAM B. PLUMMER, CHARLES D. MCLANE, JR. and DONNA C. DABNEY, or any of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution, to do any and all acts and things and to execute any and all instruments which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable or may be required:

(1) To enable the Company to comply with the Securities Exchange Act of 1934, as amended (the “1934 Act”), and any rules, regulations or requirements of the Securities and Exchange Commission (the “Commission”) in respect thereof, in connection with the filing under the 1934 Act of the Company’s Annual Report on Form 10-K for the year ended December 31, 2005 (the “2005 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 2005 Annual Report to be filed with the Commission and to any instruments or documents filed as part of or in connection with the 2005 Annual Report, including any amendments or supplements thereto;

(2) To enable the Company to comply with the Securities Act of 1933, as amended (the “1933 Act”), and any rules, regulations or requirements of the Commission in respect thereof, in connection with the registration under the 1933 Act during 2006 of the offer and sale or delivery of shares of common stock of the Company to be issued under the 2004 Alcoa Stock Incentive Plan (the “2004 Plan”) or the Alcoa Stock Incentive Plan (the “Stock Incentive Plan”), including specifically, but without limiting the generality of the foregoing, power and authority to sign the name of each of the undersigned in the capacity of Director of the Company to any registration statement on Form S-8, or on such other form as may be appropriate, to be filed with the Commission in respect of said shares and the 2004 Plan or the Stock Incentive Plan, or either of them, to any and all pre-effective amendments, post-effective amendments and supplements to any such registration statement, and to any instruments or documents filed as part of or in connection with any such registration statement or any such amendments or supplements thereto; and

(3) To enable the Company to comply with the 1933 Act, and any rules, regulations or requirements of the Commission in respect thereof, in connection with the registration under the 1933 Act during 2006 of the offer and sale or delivery of up to 15 million shares of common stock of the Company to be issued under the Company’s employee savings plans (together with interests in such plans), including, without limitation, the Alcoa Savings Plan for Bargaining Employees, the Alcoa Savings Plan for Non-Bargaining Employees, the Alcoa Savings Plan for Subsidiary and Affiliate Employees, and employee savings plans sponsored by entities acquired by the Company from time to time (the “Plans”), including specifically, but without limiting the generality of the foregoing, power and authority to sign the name of each of the undersigned in the capacity of Director of the Company to any registration statement on Form S-8, or on such other form as may be appropriate, to be filed with the Commission in respect of said shares and the Plans, or any of them, to any and all pre-effective amendments, post-effective amendments and supplements to any such registration statement, and to any instruments or documents filed as part of or in connection with any such registration statement or any such amendments or supplements thereto; and

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

IN WITNESS WHEREOF, each of the undersigned has subscribed these presents this 13th day of January, 2006.

/s/ Kathryn S. Fuller
Kathryn S. Fuller

/s/ Carlos Ghosn
Carlos Ghosn

/s/ Joseph T. Gorman
Joseph T. Gorman

/s/ Judith M. Gueron
Judith M. Gueron

/s/ Klaus Kleinfeld
Klaus Kleinfeld

/s/ James W. Owens
James W. Owens

/s/ Henry B. Schacht
Henry B. Schacht

/s/ Franklin A. Thomas
Franklin A. Thomas

/s/ Ernesto Zedillo
Ernesto Zedillo

**Exhibit 31**

## Certifications

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

1. I have reviewed this annual report on Form 10-K of Alcoa Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2006

/s/ Alain J.P. Belda

Title: Chairman of the Board and Chief Executive Officer

**Exhibit 31**

## Certifications

I, Joseph C. Muscari, 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 report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 17, 2006

/s/ Joseph C. Muscari

Title: Executive Vice President and Chief Financial Officer

**Exhibit 32**

**Certification**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Alcoa Inc., a Pennsylvania corporation (the "Company"), does hereby certify that:

The Annual Report on Form 10-K for the year ended December 31, 2005 (the "Form 10-K") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 17, 2006

/s/ Alain J.P. Belda

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

Dated: February 17, 2006

/s/ Joseph C. Muscari

Name: Joseph C. Muscari
Title: Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-K and shall not be considered filed as part of the Form 10-K.