

ALCOA INC  
Form 10-Q  
October 20, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended September 30, 2011**

**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)**

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**PENNSYLVANIA**  
(State of incorporation)

**25-0317820**  
(I.R.S. Employer

Identification No.)

**390 Park Avenue, New York, New York**  
(Address of principal executive offices)

**10022-4608**  
(Zip code)

**Investor Relations 212-836-2674**

**Office of the Secretary 212-836-2732**

(Registrant's telephone number including area code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of October 14, 2011, 1,064,303,727 shares of common stock, par value \$1.00 per share, of the registrant were outstanding.

**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****Alcoa and subsidiaries****Statement of Consolidated Operations (unaudited)**

(in millions, except per-share amounts)

|  | <b>Third quarter<br/>ended<br/>September 30,</b> |              | <b>Nine months ended<br/>September 30,</b> |               |
|--|--|--------------|--|---------------|
|  | <b>2011</b>                                      | <b>2010</b>  | <b>2011</b>                                | <b>2010</b>   |
| Sales (J)  | \$ 6,419   | \$ 5,287     | \$ 18,962                                  | \$ 15,361     |
| Cost of goods sold (exclusive of expenses below)                         | 5,290  | 4,413        | 15,252                                     | 12,636        |
| Selling, general administrative, and other expenses                      | 261  | 232          | 759  | 679           |
| Research and development expenses  | 47   | 40           | 136  | 124           |
| Provision for depreciation, depletion, and amortization                  | 376  | 358          | 1,112                                      | 1,079         |
| Restructuring and other charges (D)                                      | 9  | 2            | 49   | 219           |
| Interest expense   | 125  | 139          | 399  | 376           |
| Other expenses (income), net (I)   | 31   | 43           | (47)                                       | 48            |
| <b>Total costs and expenses</b>  | <b>6,139</b>                                     | <b>5,227</b> | <b>17,660</b>                              | <b>15,161</b> |
| Income from continuing operations before income taxes                    | 280  | 60           | 1,302                                      | 200           |
| Provision (benefit) for income taxes (M)                                 | 55   | (49)         | 329  | 92            |
| Income from continuing operations  | 225  | 109          | 973  | 108           |
| Loss from discontinued operations (C)                                    |  |              | (5)  | (8)           |
| Net income   | 225  | 109          | 968  | 100           |
| Less: Net income attributable to noncontrolling interests                | 53   | 48           | 166  | 104           |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO ALCOA</b>                           | <b>\$ 172</b>                                    | <b>\$ 61</b> | <b>\$ 802</b>                              | <b>\$ (4)</b> |
| <b>AMOUNTS ATTRIBUTABLE TO ALCOA COMMON SHAREHOLDERS:</b>                |  |              |  |               |
| Income from continuing operations  | \$ 172   | \$ 61        | \$ 807                                     | \$ 4          |
| Loss from discontinued operations  |  |              | (5)  | (8)           |
| Net income (loss)  | \$ 172   | \$ 61        | \$ 802                                     | \$ (4)        |
| <b>EARNINGS PER SHARE ATTRIBUTABLE TO ALCOA COMMON SHAREHOLDERS (L):</b> |  |              |  |               |
| <b>Basic:</b>  |  |              |  |               |
| Income from continuing operations  | \$ 0.16  | \$ 0.06      | \$ 0.76                                    | \$            |
| Loss from discontinued operations  |  |              | (0.01)                                     | (0.01)        |
| Net income (loss)  | \$ 0.16  | \$ 0.06      | \$ 0.75                                    | \$ (0.01)     |

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Diluted:

|                                   |         |         |         |           |
|-----------------------------------|---------|---------|---------|-----------|
| Income from continuing operations | \$ 0.15 | \$ 0.06 | \$ 0.71 | \$        |
| Loss from discontinued operations |         |         |         | (0.01)    |
| Net income (loss)                 | \$ 0.15 | \$ 0.06 | \$ 0.71 | \$ (0.01) |
| Dividends paid per common share   | \$ 0.03 | \$ 0.03 | \$ 0.09 | \$ 0.09   |

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

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

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 1,332              | \$ 1,543             |
| Receivables from customers, less allowances of \$39 in 2011 and \$45 in 2010 | 1,915                 | 1,565                |
| Other receivables  | 386                   | 326                  |
| Inventories (F)  | 3,172                 | 2,562                |
| Prepaid expenses and other current assets                                    | 865                   | 873                  |
| <b>Total current assets</b>  | <b>7,670</b>          | <b>6,869</b>         |
| Properties, plants, and equipment  | 37,343                | 37,446               |
| Less: accumulated depreciation, depletion, and amortization                  | 17,872                | 17,285               |
| <b>Properties, plants, and equipment, net</b>                                | <b>19,471</b>         | <b>20,161</b>        |
| Goodwill   | 5,271                 | 5,119                |
| Investments  | 1,521                 | 1,340                |
| Deferred income taxes  | 3,060                 | 3,184                |
| Other noncurrent assets  | 2,527                 | 2,521                |
| Assets held for sale (C)   | 78                    | 99                   |
| <b>Total assets</b>  | <b>\$ 39,598</b>      | <b>\$ 39,293</b>     |
| <b>LIABILITIES</b>   |                       |                      |
| Current liabilities:   |                       |                      |
| Short-term borrowings  | \$ 57                 | \$ 92                |
| Commercial paper   | 107                   |                      |
| Accounts payable, trade  | 2,480                 | 2,322                |
| Accrued compensation and retirement costs                                    | 956                   | 929                  |
| Taxes, including income taxes  | 510                   | 461                  |
| Other current liabilities  | 1,024                 | 1,201                |
| Long-term debt due within one year   | 489                   | 231                  |
| <b>Total current liabilities</b>   | <b>5,623</b>          | <b>5,236</b>         |
| Long-term debt, less amount due within one year                              | 8,658                 | 8,842                |
| Accrued pension benefits (O)   | 2,081                 | 2,923                |
| Accrued other postretirement benefits  | 2,555                 | 2,615                |
| Other noncurrent liabilities and deferred credits                            | 2,373                 | 2,560                |
| Liabilities of operations held for sale (C)                                  | 25                    | 31                   |
| <b>Total liabilities</b>   | <b>21,315</b>         | <b>22,207</b>        |

**COMMITMENTS AND CONTINGENCIES (H)****EQUITY**

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|   |               |               |
|---|---------------|---------------|
| Alcoa shareholders' equity:             |               |               |
| Preferred stock                         | 55            | 55            |
| Common stock (K)                        | 1,178         | 1,141         |
| Additional capital (K)                  | 7,545         | 7,087         |
| Retained earnings                       | 11,820        | 11,149        |
| Treasury stock, at cost                 | (3,954)       | (4,146)       |
| Accumulated other comprehensive loss    | (1,725)       | (1,675)       |
| <b>Total Alcoa shareholders' equity</b> | <b>14,919</b> | <b>13,611</b> |
| Noncontrolling interests                | 3,364         | 3,475         |
| <b>Total equity</b>                     | <b>18,283</b> | <b>17,086</b> |
| Total liabilities and equity            | \$ 39,598     | \$ 39,293     |

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

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

|   | <b>Nine months ended<br/>September 30,</b> |              |
|---|--|--------------|
|   | <b>2011</b>                                | <b>2010</b>  |
| <b>CASH FROM OPERATIONS</b>   |  |              |
| Net income  | \$ 968                                     | \$ 100       |
| Adjustments to reconcile net income to cash from operations:  |  |              |
| Depreciation, depletion, and amortization   | 1,113                                      | 1,080        |
| Deferred income taxes   | (78)                                       | 62           |
| Equity income, net of dividends   | (28)                                       | (25)         |
| Restructuring and other charges (D)   | 49   | 219          |
| Net loss (gain) from investing activities asset sales (I)   | 1  | (8)          |
| Loss from discontinued operations (C)   | 5  | 8            |
| Stock-based compensation  | 70   | 70           |
| Excess tax benefits from stock-based payment arrangements   | (6)  | (1)          |
| Other   | 35   | 121          |
| Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency translation adjustments: |  |              |
| (Increase) in receivables   | (415)                                      | (467)        |
| (Increase) in inventories   | (606)                                      | (94)         |
| Decrease in prepaid expenses and other current assets   | 11   | 34           |
| Increase in accounts payable, trade   | 171  | 16           |
| (Decrease) in accrued expenses  | (195)                                      | (384)        |
| Increase in taxes, including income taxes   | 117  | 167          |
| Pension contributions   | (217)                                      | (70)         |
| (Increase) in noncurrent assets   | (96)                                       | (56)         |
| Increase in noncurrent liabilities  | 160  | 136          |
| (Increase) in net assets held for sale (C)  | (2)  | (24)         |
| <b>CASH PROVIDED FROM CONTINUING OPERATIONS</b>   | <b>1,057</b>                               | <b>884</b>   |
| <b>CASH (USED FOR) PROVIDED FROM DISCONTINUED OPERATIONS</b>  | <b>(6)</b>                                 | <b>7</b>     |
| <b>CASH PROVIDED FROM OPERATIONS</b>  | <b>1,051</b>                               | <b>891</b>   |
| <b>FINANCING ACTIVITIES</b>   |  |              |
| Net change in short-term borrowings   | (36)                                       | (57)         |
| Net change in commercial paper  | 107  |              |
| Additions to long-term debt (G)   | 1,254                                      | 1,082        |
| Debt issuance costs   | (17)                                       | (5)          |
| Payments on long-term debt (G)  | (1,122)                                    | (1,587)      |
| Proceeds from exercise of employee stock options  | 36   | 8            |
| Excess tax benefits from stock-based payment arrangements   | 6  | 1            |
| Dividends paid to shareholders  | (98)                                       | (94)         |
| Distributions to noncontrolling interests   | (253)                                      | (154)        |
| Contributions from noncontrolling interests   | 136  | 121          |
| Acquisitions of noncontrolling interests  |  | (66)         |
| <b>CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES</b>   | <b>13</b>                                  | <b>(751)</b> |
| <b>INVESTING ACTIVITIES</b>   |  |              |

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|   |                 |               |
|---|-----------------|---------------|
| Capital expenditures  | (801)           | (650)         |
| Acquisitions, net of cash acquired (E)                              | (240)           | (72)          |
| Proceeds from the sale of assets and businesses                     | (6)             | (6)           |
| Additions to investments  | (216)           | (224)         |
| Sales of investments  | 5               | 138           |
| Other   | (11)            | 16            |
| <b>CASH USED FOR INVESTING ACTIVITIES</b>                           | <b>(1,269)</b>  | <b>(798)</b>  |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b> | <b>(6)</b>      | <b>20</b>     |
| <b>Net change in cash and cash equivalents</b>                      | <b>(211)</b>    | <b>(638)</b>  |
| Cash and cash equivalents at beginning of year                      | 1,543           | 1,481         |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                   | <b>\$ 1,332</b> | <b>\$ 843</b> |

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



## Alcoa and subsidiaries

## Statement of Changes in Consolidated Equity (unaudited)

(in millions, except per-share amounts)

|   | Alcoa Inc. Shareholders |                 |                       |                      |                   | Accumulated<br>other<br>comprehensive<br>loss | Non-<br>controlling<br>interests | Total<br>equity |
|---|-------------------------|-----------------|-----------------------|----------------------|-------------------|---|----------------------------------|-----------------|
|   | Preferred<br>stock      | Common<br>stock | Additional<br>capital | Retained<br>earnings | Treasury<br>stock |   |                                  |                 |
| <b>Balance at June 30, 2010</b>         | \$ 55                   | \$ 1,141        | \$ 7,091              | \$ 10,892            | \$ (4,177)        | \$ (2,393)                                    | \$ 3,116                         | \$ 15,725       |
| Net income                              |                         |                 |                       | 61                   |                   |   | 48                               | 109             |
| Other comprehensive income              |                         |                 |                       |                      |                   | 705   | 241                              | 946             |
| Cash dividends declared:                |                         |                 |                       |                      |                   |   |                                  |                 |
| Preferred @ \$0.9375 per share          |                         |                 |                       | (1)                  |                   |   |                                  | (1)             |
| Common @ \$0.03 per share               |                         |                 |                       | (30)                 |                   |   |                                  | (30)            |
| Stock-based compensation                |                         |                 | 20                    |                      |                   |   |                                  | 20              |
| Common stock issued: compensation plans |                         |                 | (17)                  |                      | 6                 |   |                                  | (11)            |
| Distributions                           |                         |                 |                       |                      |                   |   | (41)                             | (41)            |
| Contributions                           |                         |                 |                       |                      |                   |   | 61                               | 61              |
| <b>Balance at September 30, 2010</b>    | \$ 55                   | \$ 1,141        | \$ 7,094              | \$ 10,922            | \$ (4,171)        | \$ (1,688)                                    | \$ 3,425                         | \$ 16,778       |
| <b>Balance at June 30, 2011</b>         | \$ 55                   | \$ 1,178        | \$ 7,522              | \$ 11,714            | \$ (3,959)        | \$ (858)                                      | \$ 3,717                         | \$ 19,369       |
| Net income                              |                         |                 |                       | 172                  |                   |   | 53                               | 225             |
| Other comprehensive loss                |                         |                 |                       |                      |                   | (867)   | (348)                            | (1,215)         |
| Cash dividends declared:                |                         |                 |                       |                      |                   |   |                                  |                 |
| Preferred @ \$1.875 per share           |                         |                 |                       | (1)                  |                   |   |                                  | (1)             |
| Common @ \$0.06 per share               |                         |                 |                       | (65)                 |                   |   |                                  | (65)            |
| Stock-based compensation                |                         |                 | 25                    |                      |                   |   |                                  | 25              |
| Common stock issued: compensation plans |                         |                 | (2)                   |                      | 5                 |   |                                  | 3               |
| Distributions                           |                         |                 |                       |                      |                   |   | (66)                             | (66)            |
| Contributions                           |                         |                 |                       |                      |                   |   | 8                                | 8               |
| <b>Balance at September 30, 2011</b>    | \$ 55                   | \$ 1,178        | \$ 7,545              | \$ 11,820            | \$ (3,954)        | \$ (1,725)                                    | \$ 3,364                         | \$ 18,283       |

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

## Alcoa and subsidiaries

## Statement of Changes in Consolidated Equity (unaudited), continued

(in millions, except per-share amounts)

|   | Alcoa Inc. Shareholders |                 |                       |                      |                   | Accumulated<br>other<br>comprehensive<br>loss | Non-<br>controlling<br>interests | Total<br>equity |
|---|-------------------------|-----------------|-----------------------|----------------------|-------------------|---|----------------------------------|-----------------|
|   | Preferred<br>stock      | Common<br>stock | Additional<br>capital | Retained<br>earnings | Treasury<br>stock |   |                                  |                 |
| <b>Balance at December 31, 2009</b>             | \$ 55                   | \$ 1,097        | \$ 6,608              | \$ 11,020            | \$ (4,268)        | \$ (2,092)                                    | \$ 3,100                         | \$ 15,520       |
| Net (loss) income                               |                         |                 |                       | (4)                  |                   |   | 104                              | 100             |
| Other comprehensive income                      |                         |                 |                       |                      |                   | 404   | 254                              | 658             |
| Cash dividends declared:                        |                         |                 |                       |                      |                   |   |                                  |                 |
| Preferred @ \$2.8125 per share                  |                         |                 |                       | (2)                  |                   |   |                                  | (2)             |
| Common @ \$0.09 per share                       |                         |                 |                       | (92)                 |                   |   |                                  | (92)            |
| Stock-based compensation                        |                         |                 | 70                    |                      |                   |   |                                  | 70              |
| Common stock issued: compensation plans         |                         |                 | (118)                 |                      | 97                |   |                                  | (21)            |
| Issuance of common stock                        |                         | 44              | 556                   |                      |                   |   |                                  | 600             |
| Distributions                                   |                         |                 |                       |                      |                   |   | (154)                            | (154)           |
| Contributions                                   |                         |                 |                       |                      |                   |   | 125                              | 125             |
| Purchase of equity from noncontrolling interest |                         |                 | (2)                   |                      |                   |   | (4)                              | (6)             |
| Other   |                         |                 | (20)                  |                      |                   |   |                                  | (20)            |
| <b>Balance at September 30, 2010</b>            | \$ 55                   | \$ 1,141        | \$ 7,094              | \$ 10,922            | \$ (4,171)        | \$ (1,688)                                    | \$ 3,425                         | \$ 16,778       |
| <b>Balance at December 31, 2010</b>             | \$ 55                   | \$ 1,141        | \$ 7,087              | \$ 11,149            | \$ (4,146)        | \$ (1,675)                                    | \$ 3,475                         | \$ 17,086       |
| Net income                                      |                         |                 |                       | 802                  |                   |   | 166                              | 968             |
| Other comprehensive loss                        |                         |                 |                       |                      |                   | (50)  | (159)                            | (209)           |
| Cash dividends declared:                        |                         |                 |                       |                      |                   |   |                                  |                 |
| Preferred @ \$3.75 per share                    |                         |                 |                       | (2)                  |                   |   |                                  | (2)             |
| Common @ \$0.12 per share                       |                         |                 |                       | (129)                |                   |   |                                  | (129)           |
| Stock-based compensation                        |                         |                 | 70                    |                      |                   |   |                                  | 70              |
| Common stock issued: compensation plans         |                         |                 | (175)                 |                      | 192               |   |                                  | 17              |
| Issuance of common stock (K)                    |                         | 37              | 563                   |                      |                   |   |                                  | 600             |
| Distributions                                   |                         |                 |                       |                      |                   |   | (253)                            | (253)           |
| Contributions                                   |                         |                 |                       |                      |                   |   | 136                              | 136             |
| Other   |                         |                 |                       |                      |                   |   | (1)                              | (1)             |
| <b>Balance at September 30, 2011</b>            | \$ 55                   | \$ 1,178        | \$ 7,545              | \$ 11,820            | \$ (3,954)        | \$ (1,725)                                    | \$ 3,364                         | \$ 18,283       |

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

## Alcoa and subsidiaries

## Statement of Consolidated Comprehensive (Loss) Income (unaudited)

(in millions)

|   | Alcoa Inc.                                   |        | Noncontrolling Interests                     |        | Total  |          |
|---|--|--------|--|--------|--|----------|
|   | Third quarter ended<br>September 30,<br>2011 | 2010   | Third quarter ended<br>September 30,<br>2011 | 2010   | Third quarter ended<br>September 30,<br>2011 | 2010     |
| Net income  | \$ 172                                       | \$ 61  | \$ 53  | \$ 48  | \$ 225                                       | \$ 109   |
| Other comprehensive (loss) income, net of tax:  |  |        |  |        |  |          |
| Change in unrecognized net actuarial loss and prior service cost/benefit related to pension and other postretirement benefits | 62   | 29     | 1  | 1      | 63   | 30       |
| Foreign currency translation adjustments  | (1,108)                                      | 895    | (351)  | 242    | (1,459)                                      | 1,137    |
| Unrealized (losses) gains on available-for-sale securities:   |  |        |  |        |  |          |
| Unrealized holding (losses) gains   | (2)  | 1      |  |        | (2)  | 1        |
| Net amount reclassified to earnings   |  |        |  |        |  |          |
| Net change in unrealized (losses) gains on available-for-sale securities  | (2)  | 1      |  |        | (2)  | 1        |
| Unrecognized gains (losses) on derivatives (P):   |  |        |  |        |  |          |
| Net change from periodic revaluations   | 149  | (248)  | 1  | (2)    | 150  | (250)    |
| Net amount reclassified to earnings   | 32   | 28     | 1  |        | 33   | 28       |
| Net unrecognized gains (losses) on derivatives  | 181  | (220)  | 2  | (2)    | 183  | (222)    |
| Total Other comprehensive (loss) income, net of tax   | (867)  | 705    | (348)  | 241    | (1,215)                                      | 946      |
| Comprehensive (loss) income   | \$ (695)                                     | \$ 766 | \$ (295)                                     | \$ 289 | \$ (990)                                     | \$ 1,055 |

|   | Nine months ended<br>September 30,<br>2011 |        | Nine months ended<br>September 30,<br>2010 |        | Nine months ended<br>September 30,<br>2011 |        | 2010   |  |
|---|--|--------|--|--------|--|--------|--------|--|
|   | Net income (loss)                          | \$ 802 | \$ (4)                                     | \$ 166 | \$ 104                                     | \$ 968 | \$ 100 |  |
| Other comprehensive (loss) income, net of tax:  |  |        |  |        |  |        |        |  |
| Change in unrecognized net actuarial loss and prior service cost/benefit related to pension and other postretirement benefits | 158  | (11)   | 4  | 3      | 162  | (8)    |        |  |
| Foreign currency translation adjustments  | (386)                                      | 342    | (170)                                      | 251    | (556)                                      | 593    |        |  |
| Unrealized (losses) gains on available-for-sale securities:   |  |        |  |        |  |        |        |  |
| Unrealized holding losses   | (1)  | (1)    |  |        | (1)  | (1)    |        |  |
| Net amount reclassified to earnings   |  | 2      |  |        |  | 2      |        |  |
| Net change in unrealized (losses) gains on available-for-sale securities  | (1)  | 1      |  |        | (1)  | 1      |        |  |
| Unrecognized gains on derivatives (P):  |  |        |  |        |  |        |        |  |
| Net change from periodic revaluations   | 65   | (35)   | 6  |        | 71   | (35)   |        |  |
| Net amount reclassified to earnings   | 114  | 107    | 1  |        | 115  | 107    |        |  |
| Net unrecognized gains on derivatives   | 179  | 72     | 7  |        | 186  | 72     |        |  |

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|   |        |        |       |        |        |        |
|---|--------|--------|-------|--------|--------|--------|
| Total Other comprehensive (loss) income, net of tax | (50)   | 404    | (159) | 254    | (209)  | 658    |
| Comprehensive income                                | \$ 752 | \$ 400 | \$ 7  | \$ 358 | \$ 759 | \$ 758 |

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

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**Alcoa and subsidiaries****Notes to the Consolidated Financial Statements (unaudited)****(dollars in millions, except per-share amounts)**

**A. Basis of Presentation** The interim Consolidated Financial Statements of Alcoa Inc. and its subsidiaries ( Alcoa or the Company ) are unaudited. These Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments, considered necessary by management to fairly state the Company's results of operations, financial position, and cash flows. The results reported in these Consolidated Financial Statements are not necessarily indicative of the results that may be expected for the entire year. The 2010 year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). This Form 10-Q report should be read in conjunction with Alcoa's Annual Report on Form 10-K for the year ended December 31, 2010, which includes all disclosures required by GAAP.

**B. Recently Adopted and Recently Issued Accounting Guidance**Adopted

On January 1, 2011, Alcoa adopted changes issued by the Financial Accounting Standards Board (FASB) to revenue recognition for multiple-deliverable arrangements. These changes require separation of consideration received in such arrangements by establishing a selling price hierarchy (not the same as fair value) for determining the selling price of a deliverable, which will be based on available information in the following order: vendor-specific objective evidence, third-party evidence, or estimated selling price; eliminate the residual method of allocation and require that the consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the arrangement to each deliverable on the basis of each deliverable's selling price; require that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis; and expand the disclosures related to multiple-deliverable revenue arrangements. The adoption of these changes had no impact on the Consolidated Financial Statements, as Alcoa does not currently have any such arrangements with its customers.

On January 1, 2011, Alcoa adopted changes issued by the FASB to the classification of certain employee share-based payment awards. These changes clarify that there is not an indication of a condition that is other than market, performance, or service if an employee share-based payment award's exercise price is denominated in the currency of a market in which a substantial portion of the entity's equity securities trade and differs from the functional currency of the employer entity or payroll currency of the employee. An employee share-based payment award is required to be classified as a liability if the award does not contain a market, performance, or service condition. Prior to this guidance, Alcoa did not consider the difference between the currency denomination of an employee share-based payment award's exercise price and the functional currency of the employer entity or payroll currency of the employee in determining the proper classification of the share-based payment award. The adoption of these changes had no impact on the Consolidated Financial Statements.

On January 1, 2011, Alcoa adopted changes issued by the FASB to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose, in the reconciliation of fair value measurements using significant unobservable inputs (Level 3), separate information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). These changes were applied to the disclosures in the Derivatives section of Note P to the Consolidated Financial Statements.

On January 1, 2011, Alcoa adopted changes issued by the FASB to the testing of goodwill for impairment. These changes require an entity to perform all steps in the test for a reporting unit whose carrying value is zero or negative if it is more likely than not (more than 50%) that a goodwill impairment exists based on qualitative factors. This will result in the elimination of an entity's ability to assert that such a reporting unit's goodwill is not impaired and additional testing is not necessary despite the existence of qualitative factors that indicate otherwise. Based on the most recent impairment review of Alcoa's goodwill (2010 fourth quarter), the adoption of these changes had no impact on the Consolidated Financial Statements.

On January 1, 2011, Alcoa adopted changes issued by the FASB to the disclosure of pro forma information for business combinations. These changes clarify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. Also, the existing supplemental pro forma disclosures

were expanded to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The adoption of these changes had no impact on the Consolidated Financial Statements.

#### Issued

In May 2011, the FASB issued changes to conform existing guidance regarding fair value measurement and disclosure between GAAP and International Financial Reporting Standards. These changes both clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements and amend certain principles or requirements for measuring fair value or for disclosing information about fair value measurements. The clarifying changes relate to the application of the highest and best use and valuation premise concepts, measuring the fair value of an instrument classified in a reporting entity's shareholders' equity, and disclosure of quantitative information about unobservable inputs used for Level 3 fair value measurements. The amendments relate to measuring the fair value of financial instruments that are managed within a portfolio; application of premiums and discounts in a fair value measurement; and additional disclosures concerning the valuation processes used and sensitivity of the fair value measurement to changes in unobservable inputs for those items categorized as Level 3, a reporting entity's use of a nonfinancial asset in a way that differs from the asset's highest and best use, and the categorization by level in the fair value hierarchy for items required to be measured at fair value for disclosure purposes only. These changes become effective for Alcoa on January 1, 2012. Management is currently evaluating the potential impact of these changes on the Consolidated Financial Statements.

In June 2011, the FASB issued changes to the presentation of comprehensive income. These changes give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements; the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. These changes become effective for Alcoa on January 1, 2012. Management is currently evaluating these changes to determine which option will be chosen for the presentation of comprehensive income. Other than the change in presentation, management has determined these changes will not have an impact on the Consolidated Financial Statements.

In September 2011, the FASB issued changes to the testing of goodwill for impairment. These changes provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of a reporting unit is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, go directly to the two-step quantitative impairment test. These changes become effective for Alcoa for any goodwill impairment test performed on January 1, 2012 or later, although early adoption is permitted. Management performs a review of Alcoa's goodwill in the fourth quarter of each calendar year and plans to early adopt these changes effective for its review of goodwill in the fourth quarter of 2011. As these changes should not affect the outcome of the impairment analysis of a reporting unit, management has determined these changes will not have an impact on the Consolidated Financial Statements.

**C. Discontinued Operations and Assets Held for Sale** For the third quarter and nine months ended September 30, 2011 and 2010, there were no active businesses classified as discontinued operations. Activity of discontinued operations in all periods presented represents post-closing and other adjustments related to divested businesses previously classified as discontinued operations.

The following table details selected financial information of discontinued operations:

|  | Third quarter<br>ended<br>September 30, |      | Nine months<br>ended<br>September 30, |         |
|--|---|------|---------------------------------------|---------|
|  | 2011                                    | 2010 | 2011                                  | 2010    |
| Sales                                    | \$                                      | \$   | \$                                    | \$      |
| Loss from operations before income taxes | \$                                      | \$   | \$ (7)                                | \$ (13) |
| Benefit for income taxes                 |   |      | 2                                     | 5       |
| Loss from discontinued operations        | \$                                      | \$   | \$ (5)                                | \$ (8)  |

In the 2011 nine-month period, discontinued operations included an additional loss of \$3 (\$5 pretax) related to the wire harness and electrical portion (divested in June 2009) of the Electrical and Electronic Solutions (EES) business as a result of a negotiated preliminary settlement related to claims filed in 2010 against Alcoa by Platinum Equity in an insolvency proceeding in Germany and an additional loss of \$2 (\$2 pretax) related to both the wire harness and electrical portion and the electronics portion (divested in December 2009) of the EES business for a number of small post-closing and other adjustments. In the 2010 nine-month period, discontinued operations included an additional loss of \$6 (\$9 pretax) related to the wire harness and electrical portion of the EES business as a result of a contract settlement with a former customer of this business and an additional loss of \$2 (\$4 pretax) related to the electronics portion of the EES business for the settling of working capital, which was not included in the divestiture transaction.

For both periods presented in the accompanying Consolidated Balance Sheet, the assets and liabilities of operations classified as held for sale included the Global Foil business (one remaining plant located in Brazil), the electronics portion of the EES business (working capital components), and the Hawesville, KY automotive casting facility.

The major classes of assets and liabilities of operations held for sale were as follows:

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
| <b>Assets:</b>                          |                       |                      |
| Receivables                             | \$ 29                 | \$ 28                |
| Inventories                             | 22                    | 22                   |
| Properties, plants, and equipment       | 21                    | 35                   |
| Other assets                            | 6                     | 14                   |
| Assets held for sale                    | \$ 78                 | \$ 99                |
| <b>Liabilities:</b>                     |                       |                      |
| Accounts payable, trade                 | \$ 8                  | \$ 10                |
| Accrued expenses                        | 17                    | 21                   |
| Liabilities of operations held for sale | \$ 25                 | \$ 31                |

**D. Restructuring and Other Charges** In the third quarter and nine-month period of 2011, Alcoa recorded Restructuring and other charges of \$9 (\$5 after-tax and noncontrolling interests) and \$49 (\$26 after-tax and noncontrolling interests), respectively.

Restructuring and other charges in the 2011 third quarter included \$18 (\$11 after-tax and noncontrolling interests) for the layoff of approximately 150 employees (70 in the Flat-Rolled Products segment, 40 in the Primary Metals segment, 30 in the Alumina segment, and 10 in

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Corporate); a net charge of \$1 (less than \$1 after-tax) for other small items; and \$10 (\$6 after-tax) for the reversal of previously recorded layoff reserves, primarily related to a change in plans for Alcoa's aluminum powder facility in Rockdale, TX.

In the 2011 nine-month period, Restructuring and other charges included \$31 (\$19 after-tax and noncontrolling interests) for the layoff of approximately 630 employees (420 in the Flat-Rolled Products segment, 110 in the Primary Metals segment, 60 in the Alumina segment, 30 in the Engineered Products and Solutions segment, and 10 in Corporate); \$20 (\$8 after-tax and noncontrolling interests) for a litigation matter related to the former St. Croix location (see the Litigation section of Note H); an \$8 (\$5 after-tax) charge for an adjustment to the fair value of the one remaining foil location classified as held for



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sale due to foreign currency movements; a net charge of \$4 (\$3 after-tax) for other small items; and \$14 (\$9 after-tax) for the reversal of previously recorded layoff reserves, primarily related to a change in plans for Alcoa's aluminum powder facility in Rockdale, TX.

In the third quarter and nine-month period of 2010, Alcoa recorded Restructuring and other charges of \$2 (a credit of \$1 after-tax and noncontrolling interests) and \$219 (\$138 after-tax and noncontrolling interests), respectively.

Restructuring and other charges in the 2010 third quarter included \$3 (\$2 after-tax and noncontrolling interests) for the layoff of approximately 30 employees (20 in the Primary Metals segment and 10 in Corporate); \$8 (\$5 after-tax) in net charges related to divested and to be divested businesses (Global Foil, Packaging and Consumer, and Transportation Products Europe) for, among other items, working capital adjustments and a tax indemnification; \$1 (\$1 after-tax and noncontrolling interests) in net charges for various other exit costs; and \$10 (\$9 after-tax) for the reversal of previously recorded layoff reserves, including a portion of those related to the Portovesme smelter in Italy due to the execution of a new power agreement (see the European Commission Matters section of Note H).

In the 2010 nine-month period, Restructuring and other charges included \$128 (\$81 after-tax and noncontrolling interests) in asset impairments and \$46 (\$29 after-tax and noncontrolling interests) in other exit costs related to the permanent shutdown and planned demolition of certain idled structures at five U.S. locations (see below); \$39 (\$26 after-tax and noncontrolling interests) for the layoff of approximately 830 employees (625 in the Engineered Products and Solutions segment; 80 in the Primary Metals segment; 25 in the Flat-Rolled Products segment; 10 in the Alumina segment; and 90 in Corporate); \$22 (\$14 after-tax) in net charges related to divested and to be divested businesses (Automotive Castings, Global Foil, Transportation Products Europe, and Packaging and Consumer) for, among other items, the settlement of a contract with a former customer, foreign currency movements, working capital adjustments, and a tax indemnification; \$9 (\$7 after-tax) in net charges for various other exit costs; and \$25 (\$19 after-tax) for the reversal of previously recorded layoff reserves.

In the 2010 first quarter, management approved the permanent shutdown and demolition of the following structures, each of which was previously temporarily idled for different reasons: the Eastalco smelter located in Frederick, MD (capacity of 195 kmt-per-year); the smelter located in Badin, NC (capacity of 60 kmt-per-year); an aluminum fluoride plant in Point Comfort, TX; a paste plant and cast house in Massena, NY; and one potline at the smelter in Warrick, IN (capacity of 40 kmt-per-year). This decision was made after a comprehensive strategic analysis was performed to determine the best course of action for each facility. Factors leading to this decision included then-current market fundamentals, cost competitiveness, other existing idle capacity, required future capital investment, and restart costs, as well as the elimination of ongoing holding costs. The asset impairments of \$128 represent the write off of the remaining book value of properties, plants, and equipment related to these facilities. Additionally, remaining inventories, mostly operating supplies, were written down to their net realizable value resulting in a charge of \$8 (\$5 after-tax and noncontrolling interests), which was recorded in Cost of goods sold on the accompanying Statement of Consolidated Operations. The other exit costs of \$46 represent \$30 (\$19 after-tax and noncontrolling interests) in asset retirement obligations and \$14 (\$9 after-tax) in environmental remediation, both triggered by the decision to permanently shutdown and demolish these structures, and \$2 (\$1 after-tax and noncontrolling interests) in other related costs.

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

|  | Third quarter<br>ended<br>September 30, |             | Nine months<br>ended<br>September 30, |               |
|--|---|-------------|---------------------------------------|---------------|
|  | 2011                                    | 2010        | 2011                                  | 2010          |
| Alumina                                      | \$ 6                                    | \$          | \$ 32                                 | \$ 13         |
| Primary Metals                               | (6)                                     | (7)         | (4)                                   | 145           |
| Flat-Rolled Products                         | 5                                       |             | 7                                     | (7)           |
| Engineered Products and Solutions            | (2)                                     |             | 1                                     | 22            |
| Segment total                                | 3                                       | (7)         | 36                                    | 173           |
| Corporate                                    | 6                                       | 9           | 13                                    | 46            |
| <b>Total restructuring and other charges</b> | <b>\$ 9</b>                             | <b>\$ 2</b> | <b>\$ 49</b>                          | <b>\$ 219</b> |

As of September 30, 2011, approximately 170 of the 630 employees associated with 2011 restructuring programs, approximately 760 of the 880 employees associated with 2010 restructuring programs, and approximately 5,600 of the 6,000 employees associated with 2009 restructuring programs were terminated. The remaining terminations for a portion of the 2011 restructuring programs and all of the 2010 and 2009 restructuring programs are expected to be completed by the end of 2011. In the 2011



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third quarter and nine-month period, cash payments of \$11 and \$14, respectively, were made against the layoff reserves related to the 2011 restructuring programs; \$2 and \$6, respectively, were made against the layoff reserves related to the 2010 restructuring programs; and \$2 and \$11, respectively, were made against the layoff reserves related to the 2009 restructuring programs.

Activity and reserve balances for restructuring charges were as follows:

|  | Layoff<br>costs | Other<br>exit costs | Total  |
|--|-----------------|---------------------|--------|
| Reserve balances at December 31, 2009  | \$ 160          | \$ 66               | \$ 226 |
| <b>2010:</b>                           |                 |                     |        |
| Cash payments                          | (93)            | (15)                | (108)  |
| Restructuring charges                  | 43              | 53                  | 96     |
| Other*                                 | (57)            | (41)                | (98)   |
| Reserve balances at December 31, 2010  | 53              | 63                  | 116    |
| <b>2011:</b>                           |                 |                     |        |
| Cash payments                          | (32)            | (6)                 | (38)   |
| Restructuring charges                  | 31              | 1                   | 32     |
| Other*                                 | (13)            |                     | (13)   |
| Reserve balances at September 30, 2011 | \$ 39           | \$ 58               | \$ 97  |

\* Other includes reversals of previously recorded restructuring charges and the effects of foreign currency translation. In 2010, Other for other exit costs also included a reclassification of the following restructuring charges: \$30 in asset retirement and \$14 in environmental obligations, as these liabilities are included in Alcoa's separate reserves for asset retirement obligations and environmental remediation, respectively. The remaining reserves are expected to be paid in cash during 2011, with the exception of approximately \$60 to \$65, which is expected to be paid over the next several years for ongoing site remediation work, special termination benefit payments, and lease termination costs.

**E. Acquisitions and Divestitures** On March 9, 2011, Alcoa completed an acquisition of the aerospace fastener business of TransDigm Group Inc. for \$240. This business is a leading global designer, producer, and supplier of highly engineered aircraft components, with three locations (one in the state of California and two in the United Kingdom) that employ a combined 400 people. Specifically, this business provides a wide variety of high-strength, high temperature nickel alloy specialty engine fasteners, airframe bolts, and slotted entry bearings. In 2010, this business generated sales of \$61. The assets and liabilities of this business were included in the Engineered Products and Solutions segment as of March 31, 2011; this business' results of operations were included in this segment beginning March 9, 2011. Based on the preliminary purchase price allocation, goodwill of \$213 was recorded for this transaction. In the second and third quarter of 2011, the initial goodwill amount was reduced by \$53 and \$13, respectively, due to purchase price allocation adjustments of the estimated fair value of the acquired business. Approximately \$60 of goodwill is estimated to be deductible for income tax purposes. The final allocation of the purchase price will be based on valuation and other studies, including environmental and other contingent liabilities, which are expected to be completed by the end of 2011. Other intangible assets may be identified as a result of the final valuation. This acquisition is part of a strategic plan to accelerate the growth of Alcoa's fastener business, while adding efficiencies, broadening the existing technology base, and expanding product offerings to better serve customers and increase shareholder value. Pro forma results of Alcoa, assuming this acquisition was made at the beginning of the earliest period presented, would not have been materially different from the results reported.

### F. Inventories

|                 | September 30,<br>2011 | December 31,<br>2010 |
|-----------------|-----------------------|----------------------|
| Finished goods  | \$ 592                | \$ 470               |
| Work-in-process | 1,042                 | 814                  |

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|                         |          |          |
|-------------------------|----------|----------|
| Bauxite and alumina     | 697      | 621      |
| Purchased raw materials | 571      | 401      |
| Operating supplies      | 270      | 256      |
|                         | \$ 3,172 | \$ 2,562 |

At September 30, 2011 and December 31, 2010, the total amount of inventories valued on a last in, first out (LIFO) basis was 37% and 36%, respectively. If valued on an average-cost basis, total

inventories would have been \$818 and \$742 higher at September 30, 2011 and December 31, 2010, respectively.

**G. Debt** In April 2011, Alcoa completed a public debt offering under its existing shelf registration statement (dated February 18, 2011) for \$1,250 of 5.40% Notes due 2021 (the 2021 Notes ). Alcoa received \$1,241 in net proceeds from the public debt offering reflecting an original issue discount and payment of financing costs. The net proceeds were used for the early retirement of \$881 in outstanding notes (see below), early repayment of \$101 in outstanding loans related to the bauxite mine development in Brazil, and the remainder was used for general corporate purposes. The original issue discount and financing costs were deferred and are being amortized to interest expense over the term of the 2021 Notes. Interest on the 2021 Notes will be paid semi-annually in April and October, commencing October 2011. Alcoa has the option to redeem the 2021 Notes, as a whole or in part, at any time or from time to time, on at least 30 days, but not more than 60 days, prior notice to the holders of the 2021 Notes at a redemption price specified in the 2021 Notes. The 2021 Notes are subject to repurchase upon the occurrence of a change in control repurchase event (as defined in the 2021 Notes) at a repurchase price in cash equal to 101% of the aggregate principal amount of the 2021 Notes repurchased, plus any accrued and unpaid interest on the 2021 Notes repurchased. The 2021 Notes rank *pari passu* with Alcoa's other unsecured senior unsubordinated indebtedness.

In May 2011, Alcoa completed the following tender offers: (i) any and all of its 5.375% Notes due 2013 (the 5.375% Notes ) and (ii) up to \$400 of its 6.00% Notes due 2013 (the 6.00% Notes and collectively with the 5.375% Notes, the Notes ). Upon expiration of the tender offers, \$269 and \$328 of the aggregate outstanding principal amount of the 5.375% Notes and 6.00% Notes, respectively, were validly tendered and accepted. Additionally in May 2011, subsequent to the expiration of the tender offer for the 5.375% Notes, Alcoa elected to call for redemption the remaining outstanding principal of \$284 under the provisions of the 5.375% Notes. The total cash paid to the holders of the tendered 5.375% Notes and 6.00% Notes and the called 5.375% Notes was \$972, which consisted of \$881 in debt principal, \$74 in purchase premiums, and \$17 in accrued and unpaid interest from the respective last interest payment dates up to, but not including, the respective settlement dates. The \$74 was recorded in Interest expense on the accompanying Statement of Consolidated Operations. The 6.00% Notes have a remaining outstanding principal of \$422.

In conjunction with the early retirement of the 5.375% Notes, Alcoa terminated interest rate swaps with a notional amount totaling \$550. These swaps were accounted for as fair value hedges and were used to convert the stated interest rate of the 5.375% Notes from fixed to floating. At the time of termination, the swaps were in-the-money resulting in a gain of \$33, which was recorded in Interest expense on the accompanying Statement of Consolidated Operations.

On July 25, 2011, Alcoa entered into a Five-Year Revolving Credit Agreement (the Credit Agreement ) with a syndicate of lenders and issuers named therein. The Credit Agreement provides a \$3,750 senior unsecured revolving credit facility (the Credit Facility ), the proceeds of which are to be used to provide working capital or for other general corporate purposes of Alcoa, including support of Alcoa's commercial paper program. Subject to the terms and conditions of the Credit Agreement, Alcoa may from time to time request increases in lender commitments under the Credit Facility, not to exceed \$500 in aggregate principal amount, and may also request the issuance of letters of credit, subject to a letter of credit sublimit of \$1,000 under the Credit Facility.

The Credit Facility matures on July 25, 2016, unless extended or earlier terminated in accordance with the provisions of the Credit Agreement. Alcoa may make two one-year extension requests during the term of the Credit Facility, with any extension being subject to the lender consent requirements set forth in the Credit Agreement. Under the provisions of the Credit Agreement, Alcoa will pay a fee of 0.25% (based on Alcoa's long-term debt ratings as of September 30, 2011) of the total commitment per annum to maintain the Credit Facility.

The Credit Facility is unsecured and amounts payable under it will rank *pari passu* with all other unsecured, unsubordinated indebtedness of Alcoa. Borrowings under the Credit Facility may be denominated in U.S. dollars or euros. Loans will bear interest at a base rate or a rate equal to LIBOR, plus, in each case, an applicable margin based on the credit ratings of Alcoa's outstanding senior unsecured long-term debt. The applicable margin on base rate loans and LIBOR loans will be 0.50% and 1.50% per annum, respectively, based on Alcoa's long-term debt ratings as of September 30, 2011. Loans may be prepaid without premium or penalty, subject to customary breakage costs.

The Credit Facility replaces Alcoa's Five-Year Revolving Credit Agreement, dated as of October 2, 2007 (the Former Credit Agreement ), which was scheduled to mature on October 2, 2012. The Former Credit Agreement, which had a total capacity (excluding the commitment of Lehman Commercial Paper Inc.) of \$3,275 and was undrawn, was terminated effective July 25, 2011.

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

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

There were no amounts outstanding under the Credit Facility at September 30, 2011 and no amounts were borrowed under the Credit Facility during the 2011 third quarter.

## **H. Commitments and Contingencies**

### Litigation

On February 27, 2008, Alcoa Inc. received notice that Aluminium Bahrain B.S.C. (Alba) had filed suit against Alcoa Inc. and Alcoa World Alumina LLC (collectively, "Alcoa"), and others, in the U.S. District Court for the Western District of Pennsylvania (the "Court"), Civil Action number 08-299, styled Aluminium Bahrain B.S.C. v. Alcoa Inc., Alcoa World Alumina LLC, William Rice, and Victor Phillip Dahdaleh. The complaint alleges that certain Alcoa entities and their agents, including Victor Phillip Dahdaleh, have engaged in a conspiracy over a period of 15 years to defraud Alba. The complaint further alleges that Alcoa and its employees or agents (1) illegally bribed officials of the government of Bahrain and (or) officers of Alba in order to force Alba to purchase alumina at excessively high prices, (2) illegally bribed officials of the government of Bahrain and (or) officers of Alba and issued threats in order to pressure Alba to enter into an agreement by which Alcoa would purchase an equity interest in Alba, and (3) assigned portions of existing supply contracts between Alcoa and Alba for the sole purpose of facilitating alleged bribes and unlawful commissions. The complaint alleges that Alcoa and the other defendants violated the Racketeer Influenced and Corrupt Organizations Act (RICO) and committed fraud. Alba's complaint seeks compensatory, consequential, exemplary, and punitive damages, rescission of the 2005 alumina supply contract, and attorneys' fees and costs. Alba seeks treble damages with respect to its RICO claims.

On February 26, 2008, Alcoa Inc. had advised the U.S. Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) that it had recently become aware of these claims, had already begun an internal investigation, and intended to cooperate fully in any investigation that the DOJ or the SEC may commence. On March 17, 2008, the DOJ notified Alcoa that it had opened a formal investigation and Alcoa has been cooperating with the government.

In response to a motion filed by the DOJ on March 27, 2008, the Court ordered the suit filed by Alba to be administratively closed and that all discovery be stayed to allow the DOJ to fully conduct an investigation without the interference and distraction of ongoing civil litigation. The Court further ordered that the case will be reopened at the close of the DOJ's investigation. The Company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss with respect to any or all of the above matters.

In November 2006, in *Curtis v. Alcoa Inc.*, Civil Action No. 3:06cv448 (E.D. Tenn.), a class action was filed by plaintiffs representing approximately 13,000 retired former employees of Alcoa or Reynolds Metals Company and spouses and dependants of such retirees alleging violation of the Employee Retirement Income Security Act (ERISA) and the Labor-Management Relations Act by requiring plaintiffs, beginning January 1, 2007, to pay health insurance premiums and increased co-payments and co-insurance for certain medical procedures and prescription drugs. Plaintiffs alleged these changes to their retiree health care plans violated their rights to vested health care benefits. Plaintiffs additionally alleged that Alcoa had breached its fiduciary duty to plaintiffs under ERISA by misrepresenting to them that their health benefits would never change. Plaintiffs sought injunctive and declaratory relief, back payment of benefits, and attorneys' fees. Alcoa had consented to treatment of plaintiffs' claims as a class action. During the fourth quarter of 2007, following briefing and argument, the court ordered consolidation of the plaintiffs' motion for preliminary injunction with trial, certified a plaintiff class, bifurcated and stayed the plaintiffs' breach of fiduciary duty claims, struck the plaintiffs' jury demand, but indicated it would use an advisory jury, and set a trial date of September 17, 2008. In August 2008, the court set a new trial date of March 24, 2009 and, subsequently, the trial date was moved to September 22, 2009. In June 2009, the court indicated that it would not use an advisory jury at trial. Trial in the matter was held over eight days.

commencing September 22, 2009 and ending on October 1, 2009 in federal court in Knoxville, TN before the Honorable Thomas Phillips, U.S. District Court Judge. At the conclusion of evidence, the court set a post-hearing briefing schedule for submission of proposed findings of fact and conclusions of law by the parties and for replies to the same. Post trial briefing was submitted on December 4, 2009.

On March 9, 2011, the court issued a judgment order dismissing plaintiffs' lawsuit in its entirety with prejudice for the reasons stated in its Findings of Fact and Conclusions of Law. On March 23, 2011, plaintiffs filed a motion for clarification and/or amendment of the judgment order, which seeks, among other things, a declaration that plaintiffs' retiree benefits are vested subject to an annual cap and an injunction preventing Alcoa, prior to 2017, from modifying the plan design to which plaintiffs are subject or changing the premiums and deductibles that plaintiffs must pay. Also on March 23, 2011, plaintiffs filed a motion for award of attorney's fees and expenses. Alcoa filed its opposition to both motions on April 11, 2011. The time for plaintiffs to appeal from the court's March 9, 2011 judgment will not begin until the court disposes of these motions.

On April 23, 2004, St. Croix Renaissance Group, L.L.P. (SCRG), Brownfield Recovery Corp., and Energy Answers Corporation of Puerto Rico (collectively referred to as Plaintiffs) filed a suit against St. Croix Alumina L.L.C. and Alcoa World Alumina, LLC (collectively referred to as Alcoa) in the Territorial Court of the Virgin Islands, Division of St. Croix for claims related to the sale of Alcoa's former St. Croix alumina refinery to Plaintiffs. Alcoa thereafter removed the case to federal court and after a several year period of discovery and motion practice, a jury trial on the matter took place in St. Croix from January 11, 2011 to January 20, 2011. The jury returned a verdict in favor of Plaintiffs and awarded damages as described: on a claim of breaches of warranty, the jury awarded \$13; on the same claim, the jury awarded punitive damages in the amount of \$6; and on a negligence claim for property damage, the jury awarded \$10. Plaintiffs filed a motion seeking pre-judgment interest on the jury award. On February 17, 2011, Alcoa filed post-trial motions seeking judgment notwithstanding the verdict or, in the alternative, a new trial. On May 31, 2011, the court granted Alcoa's motion for judgment regarding Plaintiffs' \$10 negligence award and denied the remainder of Alcoa's motions. Additionally, the court awarded Plaintiffs pre-judgment interest of \$2 on the breach of warranty award. As a result of the court's post-trial decisions, Alcoa recorded a charge of \$20 in the 2011 second quarter (See Note D). On June 14, 2011, Alcoa filed a notice of appeal with the U.S. Court of Appeals for the Third Circuit regarding Alcoa's denied post-trial motions. On June 22, 2011, SCRG filed a notice of cross appeal with the Third Circuit Court related to certain pre-trial decisions of the court and of the court's post-trial ruling on the negligence claim.

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

#### European Commission Matters

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

On November 19, 2009, the EC announced a decision in this matter stating that the extension of the tariff by Italy constituted unlawful state aid, in part, and, therefore, the Italian Government is to recover a portion of the benefit Alcoa received since January 2006 (including interest). The amount of this recovery will be based on a calculation that is being prepared by the Italian Government. Pending formal notification from the Italian Government, Alcoa estimates that a payment in the range of \$300 to \$500 will

be required (the timing of such payment is uncertain). In late 2009, after discussions with legal counsel and reviewing the bases on which the EC decided, including the different considerations cited in the EC decision regarding Alcoa's two smelters in Italy, Alcoa recorded a charge of \$250, including \$20 to write off a receivable from the Italian Government for amounts due under the now expired tariff structure. On April 19, 2010, Alcoa filed an appeal of this decision with the General Court of the EU. Alcoa will pursue all substantive and procedural legal steps available to annul the EC's decision. On May 22, 2010, Alcoa also filed with the General Court a request for injunctive relief to suspend the effectiveness of the decision, but, on July 12, 2010, the General Court denied such request. On September 10, 2010, Alcoa appealed the July 12, 2010 decision to the European Court of Justice (ECJ).

On March 23, 2011, the EC announced that it has decided to refer the Italian Government to the ECJ for failure to comply with the EC's November 19, 2009 decision.

As a result of the EC's November 19, 2009 decision, management had contemplated ceasing operations at its Italian smelters due to uneconomical power costs. In February 2010, management agreed to continue to operate its smelters in Italy for up to six months while a long-term solution to address increased power costs could be negotiated.

Also in February 2010, the Italian Government issued a decree, which was converted into law by the Italian Parliament in March 2010, to provide interruptibility rights to certain industrial customers who were willing to be subject to temporary interruptions in the supply of power (i.e. compensation for power interruptions when grids are overloaded) over a three-year period. Alcoa applied for and was granted such rights (expiring on December 31, 2012) related to its Portovesme smelter. In May 2010, the EC stated that, based on their review of the validity of the decree, the interruptibility rights should not be considered state aid. On July 29, 2010, Alcoa executed a new power agreement effective September 1, 2010 through December 31, 2012 for the Portovesme smelter, replacing the short-term, market-based power contract that was in effect since early 2010.

Additionally in May 2010, Alcoa and the Italian Government agreed to a temporary idling of the Fusina smelter. As of September 30, 2010, the Fusina smelter was fully curtailed (44 kmt-per-year).

Separately, on November 29, 2006, Alcoa filed an appeal before the General Court (formerly the European Court of First Instance) seeking the annulment of the EC's decision to open an investigation alleging that such decision did not follow the applicable procedural rules. On March 25, 2009, the General Court denied Alcoa's appeal. On May 29, 2009, Alcoa appealed the March 25, 2009 ruling before the ECJ. The hearing of the May 29, 2009 appeal was held on June 24, 2010. On July 21, 2011, the ECJ denied Alcoa's appeal.

In January 2007, the EC announced that it had opened an investigation to establish whether the regulated electricity tariffs granted by Spain comply with EU state aid rules. At the time the EC opened its investigation, Alcoa had been operating in Spain for more than nine years under a power supply structure approved by the Spanish Government in 1986, an equivalent tariff having been granted in 1983. The investigation is limited to the year 2005 and is focused both on the energy-intensive consumers and the distribution companies. The investigation provided 30 days to any interested party to submit observations and comments to the EC. With respect to the energy-intensive consumers, the EC opened the investigation on the assumption that prices paid under the tariff in 2005 were lower than a pool price mechanism, therefore being, in principle, artificially below market conditions. Alcoa submitted comments in which the company provided evidence that prices paid by energy-intensive consumers were in line with the market, in addition to various legal arguments defending the legality of the Spanish tariff system. It is Alcoa's understanding that the Spanish tariff system for electricity is in conformity with all applicable laws and regulations, and therefore no state aid is present in the tariff system. While Alcoa does not believe that an unfavorable decision is probable, management has estimated that the total potential impact from an unfavorable decision could be approximately \$100 (70) pretax. Also, while Alcoa believes that any additional cost would only be assessed for the year 2005, it is possible that the EC could extend its investigation to later years. If the EC's investigation concludes that the regulated electricity tariffs for industries are unlawful, Alcoa will have an opportunity to challenge the decision in the EU courts.

#### Environmental Matters

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

As assessments and cleanups proceed, the liability is adjusted based on progress made in determining the extent of remedial actions and related costs and damages. The liability can change





substantially due to factors such as the nature and extent of contamination, changes in remedial requirements, and technological changes, among others.

Alcoa's remediation reserve balance was \$327 and \$333 at September 30, 2011 and December 31, 2010 (of which \$34 and \$31 was classified as a current liability), respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. In the 2011 third quarter and nine-month period, the remediation reserve was increased by \$2 and \$6, respectively, associated with a number of sites. The changes to the remediation reserve were recorded in Cost of goods sold on the accompanying Statement of Consolidated Operations. Payments related to remediation expenses applied against the reserve were \$5 and \$13 in the 2011 third quarter and nine-month period, respectively. These amounts include expenditures currently mandated, as well as those not required by any regulatory authority or third party. In the 2011 third quarter and nine-month period, the change in the reserve also reflects a decrease of \$2 and an increase of \$1, respectively, due to the effects of foreign currency translation.

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

The following discussion provides details regarding the current status of certain significant reserves related to current or former Alcoa sites. It is possible that Alcoa's financial position, liquidity, or results of operations, in a particular period, could be materially affected by matters relating to these sites. However, based on facts currently available, management believes that adequate reserves have been provided and that the disposition of these matters will not have a materially adverse effect on the financial position, liquidity, or the results of operations of the Company.

**Massena West, NY** Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa's Massena plant site, under a 1989 order from the U.S. Environmental Protection Agency (EPA) issued under CERCLA. Sediments and fish in the river contain varying levels of polychlorinated biphenyls (PCBs).

Alcoa submitted various Analysis of Alternatives Reports to the EPA starting in 1998 through 2002 that reported the results of river and sediment studies, potential alternatives for remedial actions related to the PCB contamination, and additional information requested by the EPA.

In June 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 2004, suggest that this phenomenon has the potential to occur approximately every 10 years and may impact sediments in certain portions of the river under all remedial scenarios. The EPA informed Alcoa that a final remedial decision for the river could not be made without substantially more information, including river pilot studies on the effects of ice formation and breakup on each of the remedial techniques. Alcoa submitted to the EPA, and the EPA approved, a Remedial Options Pilot Study (ROPS) to gather this information. The scope of this study included sediment removal and capping, the installation of an ice control structure, and significant monitoring.

From 2004 through 2008, Alcoa completed the work outlined in the ROPS. In November 2008, Alcoa submitted an update to the EPA incorporating the new information obtained from the ROPS related to the feasibility and costs associated with various capping and dredging alternatives, including options for ice control. As a result, Alcoa increased the reserve associated with the Grasse River by \$40 for the estimated costs of a proposed ice control remedy and for partial settlement of potential damages of natural resources.

In late 2009, the EPA requested that Alcoa submit a complete revised Analysis of Alternatives Report in March 2010 to address questions and comments from the EPA and various stakeholders. On March 24, 2010, Alcoa submitted the revised report, which included an expanded list of proposed remedial alternatives, as directed by the EPA. Alcoa increased the reserve associated with the Grasse River by \$17 to reflect an increase in the estimated costs of the Company's recommended capping alternative as a result of changes in scope that occurred due to the questions and comments from the EPA and various stakeholders. While the EPA reviews the revised report, Alcoa will continue with its on-going monitoring and field studies activities. In late 2010, Alcoa increased the reserve by \$2 based on the most recent estimate of costs expected to be incurred for on-going monitoring and field studies activities as the EPA continues its review during 2011.

The ultimate selection of a remedy may result in additional liability. Alternatives analyzed in the most recent Analysis of Alternatives report that are equally effective as the recommended capping remedy range in additional estimated costs between \$20 and \$100. As such, Alcoa may be required to record a subsequent reserve adjustment at the time the EPA's Record of Decision is issued.

**Sherwin, TX** In connection with the sale of the Sherwin alumina refinery, which was required to be divested as part of the Reynolds merger in 2000, Alcoa agreed to retain responsibility for the remediation of the then existing environmental conditions, as well as a pro rata share of the final closure of the active 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 was reserved.

**East St. Louis, IL** In response to questions regarding environmental conditions at the former East St. Louis operations, Alcoa and the City of East St. Louis, the owner of the site, 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 included remedial alternatives that ranged from no further action to significant grading, stabilization, and water management of the bauxite residue disposal areas. As a result, Alcoa increased the environmental reserve for this location by \$15 in 2005. 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.

**Fusina and Portovesme, Italy** In 1996, Alcoa acquired the Fusina smelter and rolling operations and the Portovesme smelter, both of which are owned by Alcoa's subsidiary Alcoa Trasformazioni S.r.l., from Alumix, an entity owned by the Italian Government. At the time of the acquisition, Alumix indemnified Alcoa for pre-existing environmental contamination at the sites. In 2004, the Italian Ministry of Environment (MOE) issued orders to Alcoa Trasformazioni S.r.l. and Alumix for the development of a clean-up plan related to soil contamination in excess of allowable limits under legislative decree and to institute emergency actions and pay natural resource damages. Alcoa Trasformazioni S.r.l. appealed the orders and filed suit against Alumix, among others, seeking indemnification for these liabilities under the provisions of the acquisition agreement. In 2009, Ligestra S.r.l., Alumix's successor, and Alcoa Trasformazioni S.r.l. agreed to a stay on the court proceedings while investigations were conducted and negotiations advanced towards a possible settlement. In December 2009, Alcoa Trasformazioni S.r.l. and Ligestra S.r.l. reached an agreement for settlement of the liabilities related to Fusina while negotiations continue related to Portovesme. The agreement outlines an allocation of payments to the MOE for emergency action and natural resource damages and the scope and costs for a proposed soil remediation project, which was formally presented to the MOE in mid-2010. The agreement is contingent upon final acceptance of the remediation project by the MOE. As a result of entering into this agreement, Alcoa increased the reserve by \$12 for Fusina. Additionally, due to new information derived from the site investigations conducted at Portovesme, Alcoa increased the reserve by \$3 in 2009.

#### Investments

Alcoa has an investment in a joint venture for the development, construction, ownership, and operation of an integrated aluminum complex (bauxite mine, alumina refinery, aluminum smelter, and rolling mill) in Saudi Arabia. The joint venture is owned 74.9% by the Saudi Arabian Mining Company (known as Ma'aden) and 25.1% by Alcoa and consists of three separate companies as follows: one each for the mine and refinery, the smelter, and the rolling mill. Alcoa accounts for its investment in the joint venture under the equity method. Capital investment in the project is expected to total approximately \$10,800 (SAR 40.5 billion). Alcoa's equity investment in the joint venture will be approximately \$1,100 over a four-year period, and Alcoa will be responsible for its pro rata share of the joint venture's project financing. Alcoa has contributed \$325, including \$13 and \$165 in the 2011 third quarter and nine-month period, respectively, towards the \$1,100 commitment. As of September 30, 2011 and December 31, 2010, the carrying value of Alcoa's investment in this project was \$461 and \$285, respectively.

In late 2010, the smelting and rolling mill companies entered into project financing totaling \$4,000, of which \$1,004 represents Alcoa's share (the equivalent of Alcoa's 25.1% interest in the smelting and rolling mill companies). In conjunction with the financing, Alcoa issued guarantees on behalf of the smelting and rolling mill companies to the lenders in the event that such companies default on their debt service requirements through June 2017 and December 2018, respectively, (Ma'aden issued similar guarantees for its 74.9% interest). Alcoa's guarantees for the smelting and rolling mill companies cover total debt service requirements of \$108 in principal and up to a maximum of approximately \$50 in interest per year (based on projected interest rates). At September 30, 2011 and December 31, 2010, the fair value of the guarantees was \$8 and was included in Other noncurrent liabilities and deferred credits on the accompanying Consolidated Balance Sheet. Under the project financing, a downgrade of Alcoa's credit ratings below investment grade by at least two agencies would require Alcoa to provide a letter of credit or fund an escrow account for a portion or all of Alcoa's remaining equity commitment to the joint venture project in Saudi Arabia.

Alcoa Alumínio (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. Two of these projects, Machadinho and Barra Grande, were completed in 2002 and 2006, respectively.

Alumínio committed to taking a share of the output of the Machadinho and Barra Grande projects each for 30 years at cost (including cost of financing the project). In the event that other participants in either one of these projects fail to fulfill their financial responsibilities, Alumínio may be required to fund a portion of the deficiency. In accordance with the respective agreements, if Alumínio funds any such deficiency, its participation and share of the output from the respective project will increase proportionately.

With Machadinho and Barra Grande, Alumínio's current power self-sufficiency is approximately 40% (will be approximately 70% once the hydroelectric power projects described below are completed and operating at full capacity), to meet a total energy demand of approximately 690 megawatts from Brazilian primary plants. Alumínio accounts for the Machadinho and Barra Grande hydroelectric projects as equity method investments. Alumínio's investment participation in these projects is 30.99% for Machadinho and 42.18% for Barra Grande. Its total investment in these projects was \$266 (R\$487) and \$274 (R\$461) at September 30, 2011 and December 31, 2010, respectively. Alcoa's maximum exposure to loss on these completed projects is approximately \$310 (R\$570), which represents Alumínio's investments in both projects and guarantee of debt for only Machadinho as of September 30, 2011.

In early 2006, Alumínio acquired an additional 6.41% share in the Estreito hydroelectric power project, reaching 25.49% of total participation in the consortium. This additional share entitles Alumínio to 38 megawatts of assured energy. Alumínio's share of the project is estimated to have installed capacity of approximately 280 megawatts and assured power of approximately 150 megawatts. In December 2006, the consortium obtained the environmental installation license, after completion of certain socioeconomic and cultural impact studies as required by a governmental agency. Construction began in early 2007 and is expected to be completed in 2012 (start-up of the facility began in April 2011 with full capacity expected to be reached in 2012). In early 2010, the consortium approved an increase of approximately \$720 (R\$1,300) in estimated costs to complete the Estreito project as a result of currency, inflation, and the price and scope of construction, among other factors. Total estimated project costs are approximately \$2,700 (R\$4,900) and Alumínio's share is approximately \$680 (R\$1,250). As of September 30, 2011, approximately \$620 (R\$1,100) of Alumínio's commitment was expended on the project.

Construction began on the Serra do Facão hydroelectric power project in early 2007 and was completed in the first half of 2011 (this facility is operating at full capacity). Alumínio's share of the Serra do Facão project is 34.97% and entitles Alumínio to approximately 65 megawatts of assured power. Total estimated project costs are approximately \$550 (R\$1,000) and Alumínio's share is approximately \$190 (R\$350). Through March 31, 2009, the participants in the consortium were required to provide capital for their respective share of the project costs. In April 2009, the consortium obtained long-term financing for the estimated remaining costs of construction. At that time, the participants in this project were no longer required to provide capital for their share of the project costs. Instead, the participants were each required to guarantee (expires 2027) a portion of the consortium's debt. In mid-2010, the capacity under the long-term financing arrangement was exhausted; therefore, the participants were once again required to begin providing capital for their share of the remaining costs. As of September 30, 2011, approximately \$180 (R\$340) of Alumínio's commitment was expended on the project (includes both funds provided by Alumínio and Alumínio's share of the long-term financing). Alumínio accounts for the Serra do Facão hydroelectric power project as an equity method investment and its total investment in this project was \$106 (R\$193) and \$116 (R\$195) at September 30, 2011 and December 31, 2010, respectively. Alcoa's maximum exposure to loss on this project is approximately \$220 (R\$400), which represents Alumínio's investment and guarantee of debt as of September 30, 2011.

In 2004, Alcoa acquired a 20% interest in a consortium, which subsequently purchased the Dampier to Bunbury Natural Gas Pipeline (DBNGP) in Western Australia, in exchange for an initial cash investment of \$17 (A\$24). The investment in the DBNGP was made in order to secure a competitively priced long-term supply of natural gas to Alcoa's refineries in Western Australia. This investment was classified as an equity investment. Alcoa has made additional contributions of \$141 (A\$176), including \$16 (A\$16) in the 2011 nine-month period, and committed to invest an additional \$10 (A\$9) to be paid as the pipeline expands through 2011. In addition to its equity ownership, Alcoa has an agreement to purchase gas transmission services from the DBNGP. Alcoa's maximum exposure to loss on the investment and the related contract is approximately \$470 (A\$480) as of September 30, 2011.

**I. Other Expenses (Income), Net**

|  | Third quarter<br>ended<br>September 30, |        | Nine months<br>ended<br>September 30, |         |
|--|---|--------|---------------------------------------|---------|
|  | 2011                                    | 2010   | 2011                                  | 2010    |
| Equity loss (income)                                       | \$ 2                                    | \$ (2) | \$ (24)                               | \$ (10) |
| Interest income  | (5)                                     | (5)    | (16)                                  | (14)    |
| Foreign currency losses, net                               | 35                                      | 21     | 5                                     | 23      |
| Net (gain) loss from asset sales                           |   | (8)    | 1                                     | (8)     |
| Net (gain) loss on mark-to-market derivative contracts (P) | (14)                                    | 42     | (41)                                  | 56      |
| Other, net   | 13                                      | (5)    | 28                                    | 1       |
|  | \$ 31                                   | \$ 43  | \$ (47)                               | \$ 48   |

In the 2011 nine-month period, equity income included higher earnings from an investment in a natural gas pipeline in Australia due to the recognition of a discrete income tax benefit by the consortium (Alcoa World Alumina and Chemicals' share of the benefit was \$24).

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

|   | Alumina         | Primary<br>Metals | Flat-<br>Rolled<br>Products | Engineered<br>Products<br>and<br>Solutions | Total           |
|---|-----------------|-------------------|-----------------------------|--|-----------------|
| <b>Third quarter ended September 30, 2011</b> |                 |                   |                             |  |                 |
| Sales:  |                 |                   |                             |  |                 |
| Third-party sales                             | \$ 879          | \$ 2,124          | \$ 1,974                    | \$ 1,373                                   | \$ 6,350        |
| Intersegment sales                            | 751             | 798               | 48                          |  | 1,597           |
| <b>Total sales</b>                            | <b>\$ 1,630</b> | <b>\$ 2,922</b>   | <b>\$ 2,022</b>             | <b>\$ 1,373</b>                            | <b>\$ 7,947</b> |
| Profit and loss:                              |                 |                   |                             |  |                 |
| Equity income (loss)                          | \$ 2            | \$ (4)            | \$                          | \$   | \$ (2)          |
| Depreciation, depletion, and amortization     | 117             | 137               | 61                          | 40   | 355             |
| Income taxes                                  | 42              | 21                | 26                          | 67   | 156             |
| After-tax operating income (ATOI)             | 154             | 110               | 60                          | 138  | 462             |
| <b>Third quarter ended September 30, 2010</b> |                 |                   |                             |  |                 |
| Sales:  |                 |                   |                             |  |                 |
| Third-party sales                             | \$ 717          | \$ 1,688          | \$ 1,645                    | \$ 1,173                                   | \$ 5,223        |
| Intersegment sales                            | 506             | 589               | 46                          |  | 1,141           |
| <b>Total sales</b>                            | <b>\$ 1,223</b> | <b>\$ 2,277</b>   | <b>\$ 1,691</b>             | <b>\$ 1,173</b>                            | <b>\$ 6,364</b> |
| Profit and loss:                              |                 |                   |                             |  |                 |
| Equity income                                 | \$ 1            | \$                | \$                          | \$ 1                                       | \$ 2            |
| Depreciation, depletion, and amortization     | 100             | 142               | 57                          | 37   | 336             |
| Income taxes                                  | (22)            | (3)               | 26                          | 63   | 64              |
| ATOI  | 70              | 78                | 66                          | 114  | 328             |

|   | Alumina         | Primary Metals  | Flat-Rolled Products | Engineered Products and Solutions | Total            |
|---|-----------------|-----------------|----------------------|-----------------------------------|------------------|
| <b>Nine months ended September 30, 2011</b> |                 |                 |                      |                                   |                  |
| Sales:                                      |                 |                 |                      |                                   |                  |
| Third-party sales                           | \$ 2,615        | \$ 6,249        | \$ 5,951             | \$ 3,990                          | \$ 18,805        |
| Intersegment sales                          | 2,107           | 2,559           | 179                  |                                   | 4,845            |
| <b>Total sales</b>                          | <b>\$ 4,722</b> | <b>\$ 8,808</b> | <b>\$ 6,130</b>      | <b>\$ 3,990</b>                   | <b>\$ 23,650</b> |
| Profit and loss:                            |                 |                 |                      |                                   |                  |
| Equity income (loss)                        | \$ 27           | \$ (4)          | \$                   | \$ 1                              | \$ 24            |
| Depreciation, depletion, and amortization   | 332             | 420             | 179                  | 119                               | 1,050            |
| Income taxes                                | 146             | 129             | 94                   | 201                               | 570              |
| ATOI  | 482             | 513             | 240                  | 417                               | 1,652            |
| <b>Nine months ended September 30, 2010</b> |                 |                 |                      |                                   |                  |
| Sales:                                      |                 |                 |                      |                                   |                  |
| Third-party sales                           | \$ 2,056        | \$ 5,100        | \$ 4,654             | \$ 3,369                          | \$ 15,179        |
| Intersegment sales                          | 1,627           | 1,905           | 132                  |                                   | 3,664            |
| <b>Total sales</b>                          | <b>\$ 3,683</b> | <b>\$ 7,005</b> | <b>\$ 4,786</b>      | <b>\$ 3,369</b>                   | <b>\$ 18,843</b> |
| Profit and loss:                            |                 |                 |                      |                                   |                  |
| Equity income                               | \$ 7            | \$ 1            | \$                   | \$ 2                              | \$ 10            |
| Depreciation, depletion, and amortization   | 299             | 431             | 173                  | 116                               | 1,019            |
| Income taxes                                | 46              | 15              | 72                   | 142                               | 275              |
| ATOI  | 236             | 310             | 167                  | 302                               | 1,015            |

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

|   | Third quarter ended |                    | Nine months ended  |                    |
|---|---------------------|--------------------|--------------------|--------------------|
|   | September 30, 2011  | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Total segment ATOI  | \$ 462              | \$ 328             | \$ 1,652           | \$ 1,015           |
| Unallocated amounts (net of tax):                           |                     |                    |                    |                    |
| Impact of LIFO  | 2                   | (2)                | (49)               | (19)               |
| Interest expense  | (81)                | (91)               | (259)              | (245)              |
| Noncontrolling interests                                    | (53)                | (48)               | (166)              | (104)              |
| Corporate expense   | (76)                | (71)               | (219)              | (197)              |
| Restructuring and other charges                             | (7)                 | 1                  | (35)               | (142)              |
| Discontinued operations                                     |                     |                    | (5)                | (8)                |
| Other   | (75)                | (56)               | (117)              | (304)              |
| <b>Consolidated net income (loss) attributable to Alcoa</b> | <b>\$ 172</b>       | <b>\$ 61</b>       | <b>\$ 802</b>      | <b>\$ (4)</b>      |

Items required to reconcile total segment ATOI to consolidated net income (loss) attributable to Alcoa include: the impact of LIFO inventory accounting; interest expense; noncontrolling interests; corporate expense (general administrative and selling expenses of operating the corporate headquarters and other global administrative facilities, along with depreciation and amortization on corporate-owned assets); restructuring and other charges; discontinued operations; and other items, including intersegment profit eliminations and other metal adjustments, differences between tax rates applicable to the segments and the consolidated effective tax rate, the results of the soft alloy extrusions business in Brazil, and other nonoperating items such as foreign currency transaction gains/losses and interest income.

The following table details segment assets:

|                                   | September 30,<br>2011 | December 31,<br>2010 |
|-----------------------------------|-----------------------|----------------------|
| Alumina                           | \$ 9,675              | \$ 9,967             |
| Primary Metals                    | 12,222                | 11,947               |
| Flat-Rolled Products              | 5,033                 | 4,606                |
| Engineered Products and Solutions | 5,951                 | 5,434                |
| <b>Total segment assets</b>       | <b>\$ 32,881</b>      | <b>\$ 31,954</b>     |

**K. Preferred and Common Stock** On January 24, 2011, Alcoa contributed 36,518,563 newly issued shares of its common stock to a master trust that holds the assets of certain U.S. defined benefit pension plans in a private placement transaction. These shares were valued at \$16.43 per share (the closing price of Alcoa's common stock on January 24, 2011), or \$600 in the aggregate, and were issued to satisfy the estimated minimum required funding and to provide additional funding towards maintaining an approximately 80% funded status of Alcoa's U.S. pension plans. On January 25, 2011, the 36,518,563 shares were registered under Alcoa's then-current shelf registration statement dated March 10, 2008 (replaced by shelf registration statement dated February 18, 2011) for resale by the master trust, as selling stockholder. Alcoa is authorized to issue up to 1.8 billion shares of common stock. As of September 30, 2011, there were 1,177,906,557 common shares issued and 1,064,276,127 common shares outstanding.

**L. Earnings Per Share** Basic earnings per share (EPS) amounts are computed by dividing earnings, after the deduction of preferred stock dividends declared and dividends and undistributed earnings allocated to participating securities, by the average number of common shares outstanding. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive share equivalents outstanding not classified as participating securities.

The information used to compute basic and diluted EPS attributable to Alcoa common shareholders was as follows (shares in millions):

|  | Third quarter ended<br>September 30, |       | Nine months ended<br>September 30, |       |
|--|--------------------------------------|-------|------------------------------------|-------|
|  | 2011                                 | 2010  | 2011                               | 2010  |
| Income from continuing operations attributable to Alcoa common shareholders        | \$ 172                               | \$ 61 | \$ 807                             | \$ 4  |
| Less: preferred stock dividends declared   | 1                                    | 1     | 2                                  | 2     |
| Income from continuing operations available to common equity                       | 171                                  | 60    | 805                                | 2     |
| Less: dividends and undistributed earnings allocated to participating securities   |                                      |       | 2                                  |       |
| Income from continuing operations available to Alcoa common shareholders - basic   | 171                                  | 60    | 803                                | 2     |
| Add: interest expense related to convertible notes                                 | 8                                    |       | 22                                 |       |
| Income from continuing operations available to Alcoa common shareholders - diluted | \$ 179                               | \$ 60 | \$ 825                             | \$ 2  |
| Average shares outstanding - basic   | 1,064                                | 1,021 | 1,060                              | 1,017 |
| Effect of dilutive securities:   |                                      |       |                                    |       |
| Stock options  | 7                                    | 5     | 8                                  | 5     |
| Stock and performance awards   | 4                                    | 1     | 3                                  | 1     |
| Convertible notes  | 89                                   |       | 89                                 |       |
| Average shares outstanding - diluted   | 1,164                                | 1,027 | 1,160                              | 1,023 |



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Participating securities are defined as unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) and are included in the computation of earnings per share pursuant to the two-class method. Prior to January 1, 2010, under Alcoa's stock-based compensation programs, certain employees were granted stock and performance awards, which entitle those employees to receive nonforfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of Alcoa's common stock. As such, these unvested stock and performance awards met the definition of a participating security. Under the two-class method, all earnings, whether distributed or undistributed, are allocated to each class of common stock and

participating securities based on their respective rights to receive dividends. At September 30, 2011 and 2010, there were 2 million and 5 million such participating securities outstanding, respectively.

Effective January 1, 2010, new grants of stock and performance awards do not contain a nonforfeitable right to dividends during the vesting period. As a result, an employee will forfeit the right to dividends accrued on unvested awards if that person does not fulfill their service requirement during the vesting period. As such, these awards are not treated as participating securities in the EPS calculation as the employees do not have equivalent dividend rights as common shareholders. These awards are included in the EPS calculation utilizing the treasury stock method similar to stock options. At September 30, 2011 and 2010, there were 8 million and 3 million such awards outstanding, respectively.

In the 2010 third quarter and nine-month period, 89 million potential shares of common stock related to the convertible notes were not included in the computation of diluted EPS because the effect was anti-dilutive.

Options to purchase 27 million and 32 million shares of common stock at a weighted average exercise price of \$23.98 and \$27.51 per share were outstanding as of September 30, 2011 and 2010, respectively, but were not included in the computation of diluted EPS because they were anti-dilutive, as the exercise prices of the options were greater than the average market price of Alcoa's common stock.

**M. Income Taxes** The effective tax rate for the third quarter of 2011 and 2010 was 19.6% (provision on income) and 81.7% (benefit on income), respectively.

The rate for the 2011 third quarter differs from the U.S. federal statutory rate of 35% primarily due to foreign income taxed in lower rate jurisdictions and a \$15 net discrete income tax benefit for various items, primarily attributable to adjustments made related to the filing of prior year tax returns in various jurisdictions and the reversal of a valuation allowance for capital losses now available to be used against future capital gains.

The rate for the 2010 third quarter differs by 116.7% from the U.S. federal statutory rate of 35% primarily due to a \$41 discrete income tax benefit for the reversal of a valuation allowance as a result of previously restricted net operating losses of a foreign subsidiary now available, an \$8 favorable impact for operational losses in certain foreign jurisdictions that are excluded from the estimated annual effective tax rate calculation (impact reversed by the end of 2010), and a \$19 net discrete tax benefit for various other items.

The effective tax rate for the 2011 and 2010 nine-month periods was 25.3% (provision on income) and 46.0% (provision on income), respectively.

The rate for the 2011 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to foreign income taxed in lower rate jurisdictions.

The rate for the 2010 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to a \$79 discrete income tax charge as a result of a change in the tax treatment of federal subsidies received related to prescription drug benefits provided under certain retiree health care benefit plans that were determined to be actuarially equivalent to Medicare Part D and a \$19 discrete income tax charge based on settlement discussions of several matters with international taxing authorities (this amount represents a decrease to Alcoa's unrecognized tax benefits), partially offset by the \$41 discrete income tax benefit mentioned above, a \$24 discrete income tax benefit related to a Canadian provincial tax law change permitting a tax return to be filed in U.S. dollars, and a \$9 net discrete income tax benefit for various other items.

**N. Accounts Receivables** Alcoa has two arrangements with third parties to sell certain customer receivables outright without recourse on a continuous basis. As of September 30, 2011, \$206 of the sold receivables remain uncollected. Alcoa is servicing the customer receivables for the third parties at market rates; therefore, no servicing asset or liability was recorded.

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

|                                    | Third quarter<br>ended<br>September 30, |       | Nine months ended<br>September 30, |        |
|------------------------------------|---|-------|------------------------------------|--------|
|                                    | 2011                                    | 2010  | 2011                               | 2010   |
| <b>Pension benefits</b>            |   |       |                                    |        |
| Service cost                       | \$ 41                                   | \$ 38 | \$ 123                             | \$ 111 |
| Interest cost                      | 169                                     | 170   | 509                                | 510    |
| Expected return on plan assets     | (202)                                   | (195) | (605)                              | (586)  |
| Amortization of prior service cost | 5                                       | 4     | 14                                 | 12     |
| Recognized net actuarial loss      | 63                                      | 46    | 187                                | 135    |
| Net periodic benefit cost          | \$ 76                                   | \$ 63 | \$ 228                             | \$ 182 |

|                                       | Third quarter<br>ended<br>September 30, |       | Nine months ended<br>September 30, |        |
|---------------------------------------|---|-------|------------------------------------|--------|
|                                       | 2011                                    | 2010  | 2011                               | 2010   |
| <b>Other postretirement benefits</b>  |   |       |                                    |        |
| Service cost                          | \$ 5                                    | \$ 5  | \$ 13                              | \$ 15  |
| Interest cost                         | 40                                      | 44    | 119                                | 131    |
| Expected return on plan assets        | (1)                                     | (2)   | (2)                                | (5)    |
| Amortization of prior service benefit | (5)                                     | (4)   | (13)                               | (11)   |
| Recognized net actuarial loss         | 7                                       | 8     | 20                                 | 24     |
| Settlements                           |   |       |                                    | (3)    |
| Net periodic benefit cost             | \$ 46                                   | \$ 51 | \$ 137                             | \$ 151 |

On January 24, 2011, Alcoa contributed newly issued shares (see Note K) of its common stock (valued at \$600) to a master trust that holds the assets of certain U.S. defined benefit pension plans in a private placement transaction. These shares were issued to satisfy the estimated minimum required funding and to provide additional funding towards maintaining an approximately 80% funded status of Alcoa's U.S. pension plans.

**P. Derivatives and Other Financial Instruments****Derivatives**

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

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

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

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The fair values of outstanding derivative contracts recorded as assets in the accompanying Consolidated Balance Sheet were as follows:

| <b>Asset Derivatives</b>                                    | <b>September 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---|-------------------------------|------------------------------|
| Derivatives designated as hedging instruments:              |                               |                              |
| Prepaid expenses and other current assets:                  |                               |                              |
| Aluminum contracts  | \$ 9                          | \$ 48                        |
| Foreign exchange contracts                                  | 1                             | 2                            |
| Interest rate contracts                                     | 8                             | 19                           |
| Other noncurrent assets:                                    |                               |                              |
| Aluminum contracts  | 9                             | 22                           |
| Energy contracts  | 40                            | 9                            |
| Interest rate contracts                                     | 41                            | 62                           |
| <br>Total derivatives designated as hedging instruments     | <br>\$ 108                    | <br>\$ 162                   |
| <br>Derivatives not designated as hedging instruments*:     |                               |                              |
| Prepaid expenses and other current assets:                  |                               |                              |
| Aluminum contracts  | \$ 1                          | \$ 3                         |
| Other noncurrent assets:                                    |                               |                              |
| Aluminum contracts  | 5                             |                              |
| Foreign exchange contracts                                  |                               | 1                            |
| <br>Total derivatives not designated as hedging instruments | <br>\$ 6                      | <br>\$ 4                     |
| <br>Less margin held:                                       |                               |                              |
| Prepaid expenses and other current assets:                  |                               |                              |
| Aluminum contracts  | \$ 5                          | \$ 4                         |
| Interest rate contracts                                     | 5                             | 13                           |
| Other noncurrent assets:                                    |                               |                              |
| Interest rate contracts                                     | 15                            | 2                            |
| <br>Sub-total   | <br>\$ 20                     | <br>\$ 19                    |
| <br>Total Asset Derivatives                                 | <br>\$ 94                     | <br>\$ 147                   |

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

The fair values of outstanding derivative contracts recorded as liabilities in the accompanying Consolidated Balance Sheet were as follows:

| <b>Liability Derivatives</b>                       | <b>September 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|-------------------------------|------------------------------|
| Derivatives designated as hedging instruments:     |                               |                              |
| Other current liabilities:                         |                               |                              |
| Aluminum contracts                                 | \$ 90                         | \$ 89                        |
| Other noncurrent liabilities and deferred credits: |                               |                              |
| Aluminum contracts                                 | 554                           | 647                          |

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|   |    |     |    |     |
|---|----|-----|----|-----|
| Total derivatives designated as hedging instruments | \$ | 644 | \$ | 736 |
|---|----|-----|----|-----|

Derivatives not designated as hedging instruments\*:

Other current liabilities:

|                    |    |    |    |    |
|--------------------|----|----|----|----|
| Aluminum contracts | \$ | 43 | \$ | 52 |
|--------------------|----|----|----|----|

|                  |  |  |  |    |
|------------------|--|--|--|----|
| Energy contracts |  |  |  | 62 |
|------------------|--|--|--|----|

Other noncurrent liabilities and deferred credits:

|                    |  |    |  |    |
|--------------------|--|----|--|----|
| Aluminum contracts |  | 24 |  | 33 |
|--------------------|--|----|--|----|

|                            |  |    |  |    |
|----------------------------|--|----|--|----|
| Embedded credit derivative |  | 33 |  | 23 |
|----------------------------|--|----|--|----|

|                            |  |   |  |  |
|----------------------------|--|---|--|--|
| Foreign currency contracts |  | 1 |  |  |
|----------------------------|--|---|--|--|

|   |    |     |    |     |
|---|----|-----|----|-----|
| Total derivatives not designated as hedging instruments | \$ | 101 | \$ | 170 |
|---|----|-----|----|-----|

Less margin posted:

Other current liabilities:

|                             |        |        |
|-----------------------------|--------|--------|
| Aluminum contracts          | \$ 8   | \$ 4   |
| Energy contracts            |        | 37     |
| Sub-total                   | \$ 8   | \$ 41  |
|                             |        |        |
| Total Liability Derivatives | \$ 737 | \$ 865 |

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

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

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

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

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

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

Alcoa has other derivative contracts that do not have observable market quotes. For these financial instruments, management uses significant other observable inputs (e.g., information concerning time premiums and volatilities for certain option type embedded derivatives and regional premiums for aluminum contracts). For periods beyond the term of quoted market prices for aluminum, Alcoa uses a model that estimates the long-term price of aluminum based on anticipated changes in worldwide supply and demand. For periods beyond the term of quoted market prices for energy, management has developed a forward curve based on independent consultant market research. Where appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads, and credit considerations. Such adjustments are generally based on available market evidence (Level 2). In the absence of such evidence, management's best estimate is used (Level 3).

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

|                     | September 30,<br>2011 | December 31,<br>2010 |
|---------------------|-----------------------|----------------------|
| <b>Assets:</b>      |                       |                      |
| Level 1             | \$ 18                 | \$ 76                |
| Level 2             | 50                    | 81                   |
| Level 3             | 46                    | 9                    |
| Margin held*        | (20)                  | (19)                 |
| <b>Total</b>        | <b>\$ 94</b>          | <b>\$ 147</b>        |
| <b>Liabilities:</b> |                       |                      |
| Level 1             | \$ 68                 | \$ 35                |
| Level 2             | 57                    | 83                   |
| Level 3             | 620                   | 788                  |
| Margin posted*      | (8)                   | (41)                 |
| <b>Total</b>        | <b>\$ 737</b>         | <b>\$ 865</b>        |

\* Margin held represents cash collateral received related to interest rate contracts included in Level 2 and margin posted represents cash collateral paid related to aluminum contracts included in Level 1. At December 31, 2010, margin held also represents cash collateral received related to aluminum contracts included in Level 1 and margin posted also represents cash collateral paid related to energy contracts included in Level 3. Alcoa elected to net the margin held and posted against the fair value amounts recognized for derivative instruments executed with the same counterparties under master netting arrangements.

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

|  | Third quarter ended<br>September 30,<br>2011 | Nine months ended<br>September 30, 2011 |
|--|--|---|
| Balance at beginning of period                               | \$ 796                                       | \$ 779                                  |
| Total gains or losses (realized and unrealized) included in: |  |   |
| Sales (decrease)   | (14)   | (51)                                    |
| Cost of goods sold (increase)                                | (4)  | (15)                                    |
| Other expenses (income), net (increase)                      | (3)  | (37)                                    |
| Other comprehensive loss (increase)                          | (196)  | (97)                                    |
| Purchases, sales, issuances, and settlements*                | (5)  | (5)                                     |
| Transfers into and (or) out of Level 3*                      |  |   |
| <b>Balance at end of period</b>                              | <b>\$ 574</b>                                | <b>\$ 574</b>                           |

Total gains or losses included in earnings attributable to the change in unrealized gains or losses relating to derivative contracts still held at September 30, 2011:

|       |    |    |
|-------|----|----|
| Sales | \$ | \$ |
|-------|----|----|

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|                              |            |           |
|------------------------------|------------|-----------|
| Cost of goods sold           |            |           |
| Other expenses (income), net | (increase) | (13) (10) |

\* During the 2011 third quarter, there was an issuance of a Level 3 financial instrument related to a natural gas supply contract (see below). There were no purchases, sales, or settlements of Level 3 financial instruments. Additionally, there were no transfers of financial instruments into or out of Level 3.

As reflected in the table above, the net unrealized loss on derivative contracts using Level 3 valuation techniques was \$574 as of September 30, 2011. This loss was mainly attributed to embedded derivatives in power contracts that index the price of power to the London Metal Exchange (LME) price of aluminum. These embedded derivatives are primarily valued using observable market prices. However, due to the length of the contracts, the valuation model also requires management to estimate the long-term price of aluminum based upon anticipated changes in worldwide supply and demand. The embedded derivatives have been designated as hedges of forward sales of aluminum and their realized gains and losses were included in Sales on the accompanying Statement of Consolidated Operations.



During the 2011 third quarter, Alcoa entered into a six-year natural gas supply contract, which has an LME-linked ceiling. This contract is valued using probabilities of future LME aluminum prices and the price of Brent crude oil (priced on Platts), including the interrelationships between the two commodities subject to the ceiling. At inception, this contract had a fair value of \$5. Unrealized gains and losses from this contract were included in Other expenses (income), net on the accompanying Statement of Consolidated Operations, while realized gains and losses will be included in Cost of goods sold on the accompanying Statement of Consolidated Operations as gas purchases are made under the contract.

Also, included within Level 3 measurements are derivative financial instruments that hedge the cost of electricity. Transactions involving on-peak power are observable as there is an active market. However, there are certain off-peak times when there is not an actively traded market for electricity. Therefore, management utilizes market prices, historical relationships, and various forecast services to determine the fair value. Management utilizes these same valuation techniques for an existing power contract associated with a smelter in the U.S. that no longer qualified for the normal purchase normal sale exception under derivative accounting in late 2009. Unrealized gains and losses for this physical power contract were included in Other expenses (income), net on the accompanying Statement of Consolidated Operations, while realized gains and losses were included in Cost of goods sold on the accompanying Statement of Consolidated Operations. Additionally, a financial contract related to the same U.S. smelter utilized by management to hedge the price of electricity of the aforementioned power contract no longer qualified for cash flow hedge accounting near the end of 2009. Realized gains and losses of this financial contract were included in Cost of goods sold on the accompanying Statement of Consolidated Operations, while unrealized gains and losses were included in Other expenses (income), net on the accompanying Statement of Consolidated Operations. Both the physical power contract and the financial contract related to this U.S. smelter expired in September 2011.

Additionally, Alcoa has contracts to hedge the anticipated power requirements at two smelters in Australia. These derivatives hedge forecasted power purchases through December 2036. Beyond the term where market information is available, management has developed a forward curve, for valuation purposes, based on independent consultant market research. The effective portion of gains and losses on these contracts were recorded in Other comprehensive (loss) income on the accompanying Consolidated Balance Sheet until the designated hedge periods begin in 2014 and 2016. Once the hedge periods begin, realized gains and losses will be recorded in Cost of goods sold.

Furthermore, an embedded derivative in a power contract that indexes the difference between the long-term debt ratings of Alcoa and the counterparty from any of the three major credit rating agencies is included in Level 3. Management uses market prices, historical relationships, and forecast services to determine fair value. Realized gains and losses for this embedded derivative were included in Other expenses (income), net on the accompanying Statement of Consolidated Operations.

#### Fair Value Hedges

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

|  | Location of Gain or (Loss) Recognized in Earnings on Derivatives | Amount of Gain or (Loss) Recognized in Earnings on Derivatives |               |                                 |              |
|--|--|--|---------------|---------------------------------|--------------|
|  |  | Third quarter ended September 30,                              |               | Nine months ended September 30, |              |
|  |  | 2011   | 2010          | 2011                            | 2010         |
| <b>Derivatives in Fair Value Hedging Relationships</b> |  |  |               |                                 |              |
| Aluminum contracts                                     | Sales  | \$ (100)   | \$ 101        | \$ (78)                         | \$ 7         |
| Interest rate contracts                                | Interest expense   | 5  | 43            | 58                              | 79           |
| <b>Total</b>   |  | <b>\$ (95)</b>   | <b>\$ 144</b> | <b>\$ (20)</b>                  | <b>\$ 86</b> |

|   | Location of Gain or (Loss) Recognized in Earnings on Hedged Items | Amount of Gain or (Loss) Recognized in Earnings on Hedged Items |      |                                 |      |
|---|---|---|------|---------------------------------|------|
|   |   | Third quarter ended September 30,                               |      | Nine months ended September 30, |      |
|   |   | 2011  | 2010 | 2011                            | 2010 |
| <b>Hedged Items in Fair Value Hedging Relationships</b> |   |   |      |                                 |      |

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|                         |                  |        |         |       |        |
|-------------------------|------------------|--------|---------|-------|--------|
| Aluminum contracts      | Sales            | \$ 102 | \$ (94) | \$ 76 | \$ (8) |
| Interest rate contracts | Interest expense | (5)    | (15)    | (25)  | (51)   |

|       |       |          |       |         |
|-------|-------|----------|-------|---------|
| Total | \$ 97 | \$ (109) | \$ 51 | \$ (59) |
|-------|-------|----------|-------|---------|

**Aluminum.** Alcoa is a leading global producer of primary aluminum and fabricated aluminum products. As a condition of sale, customers often require Alcoa to enter into long-term, fixed-price commitments. These commitments expose Alcoa to the risk of fluctuating aluminum prices between the time the order is committed and the time that the order is shipped. Alcoa's aluminum commodity risk management policy is to manage, principally through the use of futures and contracts, the aluminum price risk associated with a portion of its firm commitments. These contracts cover known exposures, generally within three years. As of September 30, 2011, Alcoa had 310 kmt of aluminum futures designated as fair value hedges. The effects of this hedging activity will be recognized over the designated hedge periods in 2011 to 2013.

**Interest Rates.** Alcoa uses interest rate swaps to help maintain a strategic balance between fixed- and floating-rate debt and to manage overall financing costs. As of September 30, 2011, 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 \$515 of debt through 2018. In the 2011 second quarter, Alcoa terminated interest rate swaps with a notional amount of \$550 in conjunction with the early retirement of the related debt (see Note G). At the time of termination, the swaps were in-the-money resulting in a gain of \$33, which was recorded in Interest expense on the accompanying Statement of Consolidated Operations.

Cash Flow Hedges

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

|  | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) |                                 |                                   |                                 | Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)* | Location of Gain or (Loss) Recognized in Earnings on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)** | Amount of Gain or (Loss) Recognized in Earnings on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)** |                                 |                                   |                                 |      |        |      |      |
|--|---|---------------------------------|-----------------------------------|---------------------------------|---|---|---|---------------------------------|-----------------------------------|---------------------------------|------|--------|------|------|
|  | Third quarter ended September 30,   | Nine months ended September 30, | Third quarter ended September 30, | Nine months ended September 30, |   |   | Third quarter ended September 30,   | Nine months ended September 30, | Third quarter ended September 30, | Nine months ended September 30, |      |        |      |      |
| Derivatives in Cash Flow Hedging Relationships | 2011  | 2010                            | 2011                              | 2010                            | Portion)  | 2011  | 2010  | 2011                            | 2010                              | Testing)                        | 2011 | 2010   | 2011 | 2010 |
| Aluminum contracts                             | \$ 145  | \$ (247)                        | \$ 53                             | \$ (13)                         | Sales   | \$ (30)   | \$ (19)   | \$ (106)                        | \$ (83)                           | Other expenses (income), net    | \$ 4 | \$ (2) | \$ 4 | \$ 1 |
| Energy contracts                               | 6   | 1                               | 14                                | (12)                            | Cost of goods sold  | (2)   | (7)   | (8)                             | (18)                              | Other expenses (income), net    |      |        |      |      |

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|                            |        |          |       |         |                                 |         |         |          |          |                                 |      |        |      |      |
|----------------------------|--------|----------|-------|---------|---------------------------------|---------|---------|----------|----------|---------------------------------|------|--------|------|------|
| Energy contracts           |        | (6)      |       | (7)     | Other expenses<br>(income), net |         |         |          |          | Other expenses<br>(income), net |      |        |      |      |
| Foreign exchange contracts | 2      | 4        | 4     | (3)     | Sales                           | 2       | (2)     | 4        | (6)      | Other expenses<br>(income), net |      |        |      |      |
| Interest rate contracts    | (2)    |          | (2)   |         | Interest expense                | (2)     |         | (2)      |          | Other expenses<br>(income), net |      |        |      |      |
| Interest rate contracts    | (2)    |          | (4)   |         | Other expenses<br>(income), net |         |         | (2)      |          | Other expenses<br>(income), net |      |        |      |      |
| Total                      | \$ 149 | \$ (248) | \$ 65 | \$ (35) |                                 | \$ (32) | \$ (28) | \$ (114) | \$ (107) |                                 | \$ 4 | \$ (2) | \$ 4 | \$ 1 |

\* Assuming market rates remain constant with the rates at September 30, 2011, a loss of \$22 is expected to be recognized in earnings over the next 12 months.

\*\* For both the third quarter and nine months ended September 30, 2011, the amount of gain or (loss) recognized in earnings represents \$(1) related to the ineffective portion of the hedging relationships. There was also \$5 recognized in earnings related to the amount excluded from the assessment of hedge effectiveness for both the third quarter and nine months ended September 30, 2011. For the third quarter and nine months ended September 30, 2010, the amount of gain or (loss) recognized in earnings related to the ineffective portion of the hedging relationships.

**Aluminum and Energy.** Alcoa anticipates the continued requirement to purchase aluminum and other commodities, such as electricity, natural gas, and fuel oil, for its operations. Alcoa enters into futures and forward contracts to reduce volatility in the price of these commodities. Alcoa has also entered into power supply and other contracts that contain pricing provisions related to the LME aluminum price. The LME-linked pricing features are considered embedded derivatives. A majority of these embedded derivatives have been designated as cash flow hedges of future sales of aluminum.

Also, Alcoa has contracts to hedge the anticipated power requirements at two smelters in Australia. These derivatives hedge forecasted power purchases through December 2036.

**Interest Rates.** Alcoa had no outstanding cash flow hedges of interest rate exposures as of September 30, 2011. An investment accounted for on the equity method by Alcoa has entered into interest rate contracts, which are designated as cash flow hedges. Alcoa's share of the activity of these cash flow hedges is reflected in the table above.

**Foreign Exchange.** Alcoa is subject to exposure from fluctuations in foreign currency exchange rates. These contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. These contracts cover periods consistent with known or expected exposures through 2011.

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

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
| Aluminum contracts (kmt)                        | 1,237                 | 1,285                |
| Energy contracts (electricity - megawatt hours) | 100,578,295           | 100,578,295          |
| Foreign exchange contracts                      | \$ 5                  | \$ 20                |

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 as follows:

|  | Location of Gain or (Loss) Recognized in Earnings on Derivatives | Amount of Gain or (Loss)<br>Recognized in Earnings on Derivatives |                |                                       |                |
|--|--|---|----------------|---------------------------------------|----------------|
|  |  | Third quarter<br>ended<br>September 30,                           |                | Nine months<br>ended<br>September 30, |                |
|  |  | 2011  | 2010           | 2011                                  | 2010           |
| <b>Derivatives Not Designated as Hedging Instruments</b> |  |   |                |                                       |                |
| Aluminum contracts                                       | Sales  | \$ (10)   | \$ 7           | \$ (9)                                | \$ 3           |
| Aluminum contracts                                       | Other expenses (income), net                                     | 18  | (33)           | 7                                     | (18)           |
| Embedded credit derivative                               | Other expenses (income), net                                     | (13)  | 1              | (10)                                  | (8)            |
| Energy contract  | Other expenses (income), net                                     | 16  | (12)           | 47                                    | (31)           |
| Foreign exchange contracts                               | Other expenses (income), net                                     | (7)   | 2              | (3)                                   | 1              |
| <b>Total</b>   |  | <b>\$ 4</b>   | <b>\$ (35)</b> | <b>\$ 32</b>                          | <b>\$ (53)</b> |

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

The energy contract is associated with a smelter in the U.S. for a power contract that no longer qualified for the normal purchase normal sale exception and a financial contract that no longer qualified as a hedge under derivative accounting in late 2009. Alcoa's obligations under the contracts expired in September 2011.



Alcoa has a forward contract to purchase \$56 (C\$58) to mitigate the foreign currency risk related to a Canadian-denominated loan due in 2014. All other foreign exchange contracts were entered into and settled within each of the periods presented.

#### Material Limitations

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

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

#### Other Financial Instruments

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

|   | September 30, 2011 |            | December 31, 2010 |            |
|---|--------------------|------------|-------------------|------------|
|   | Carrying value     | Fair value | Carrying value    | Fair value |
| Cash and cash equivalents                       | \$ 1,332           | \$ 1,332   | \$ 1,543          | \$ 1,543   |
| Restricted cash                                 | 1                  | 1          | 1                 | 1          |
| Noncurrent receivables                          | 23                 | 23         | 23                | 23         |
| Available-for-sale securities                   | 93                 | 93         | 93                | 93         |
| Short-term borrowings                           | 57                 | 57         | 92                | 92         |
| Commercial paper                                | 107                | 107        |                   |            |
| Long-term debt due within one year              | 489                | 489        | 231               | 231        |
| Long-term debt, less amount due within one year | 8,658              | 9,138      | 8,842             | 9,882      |

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

**Cash and cash equivalents, Restricted cash, Short-term borrowings, Commercial paper, and Long-term debt due within one year.** The carrying amounts approximate fair value because of the short maturity of the instruments.

**Noncurrent receivables.** The fair value of noncurrent receivables was based on anticipated cash flows, which approximates carrying value.

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

**Long-term debt, less amount due within one year.** The fair value was based on quoted market prices for public debt and on interest rates that are currently available to Alcoa for issuance of debt with similar terms and maturities for non-public debt.

**Q. Subsequent Events** Management evaluated all activity of Alcoa and concluded that no subsequent events have occurred that would require recognition in the Consolidated Financial Statements or disclosure in the Notes to the Consolidated Financial Statements, except as follows in relation to Alcoa's investment in a joint venture in Saudi Arabia (see the Investments section of Note H).

In October 2011, the refining and mining company of the joint venture entered into project financing totaling \$992, of which \$249 represents Alcoa World Alumina and Chemicals' (AWAC) 25.1% interest in the refining and mining company. In conjunction with the financing, Alcoa, on behalf of AWAC, issued a guarantee to the lenders in the event that the refining and mining company defaults on its debt service requirements through June 2019 (Maden issued a similar guarantee for its 74.9% interest). Alcoa's guarantee for the refining and mining company covers total debt service requirements of \$30 in principal and up to a maximum of approximately \$12 in interest per year (based on projected interest rates). In the event Alcoa would be required to make payments under the guarantee, 40% of such amount would be contributed to Alcoa by Alumina Limited, consistent with its ownership interest in AWAC.





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**Report of Independent Registered Public Accounting Firm\***

To the Shareholders and Board of Directors of Alcoa Inc.

We have reviewed the accompanying consolidated balance sheet of Alcoa Inc. and its subsidiaries (Alcoa) as of September 30, 2011, and the related statements of consolidated operations, changes in consolidated equity, and consolidated comprehensive (loss) income for each of the three-month and nine-month periods ended September 30, 2011 and 2010, and the statement of consolidated cash flows for the nine-month periods ended September 30, 2011 and 2010. These consolidated interim financial statements are the responsibility of Alcoa's management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2010, and the related statements of consolidated operations, changes in consolidated equity, consolidated comprehensive income (loss), and consolidated cash flows for the year then ended (not presented herein), and in our report dated February 17, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2010, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania  
October 20, 2011

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

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

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

**Results of Operations****Selected Financial Data:**

|   | Third quarter<br>ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|---|---|----------|------------------------------------|-----------|
|   | 2011                                    | 2010     | 2011                               | 2010      |
| Sales   | \$ 6,419                                | \$ 5,287 | \$ 18,962                          | \$ 15,361 |
| Amounts attributable to Alcoa common shareholders:            |   |          |                                    |           |
| Income from continuing operations                             | \$ 172                                  | \$ 61    | \$ 807                             | \$ 4      |
| Loss from discontinued operations                             |   |          | (5)                                | (8)       |
| Net income (loss)   | \$ 172                                  | \$ 61    | \$ 802                             | \$ (4)    |
| Earnings per share attributable to Alcoa common shareholders: |   |          |                                    |           |
| Diluted Income from continuing operations                     | \$ 0.15                                 | \$ 0.06  | \$ 0.71                            | \$        |
| Diluted Net income (loss)                                     | 0.15                                    | 0.06     | 0.71                               | (0.01)    |
| Shipments of alumina (kmt)                                    | 2,256                                   | 2,423    | 6,840                              | 6,813     |
| Shipments of aluminum products (kmt)                          | 1,277                                   | 1,223    | 3,757                              | 3,539     |
| Alcoa's average realized price per metric ton of aluminum     | \$ 2,689                                | \$ 2,261 | \$ 2,734                           | \$ 2,300  |

Income from continuing operations attributable to Alcoa was \$172, or \$0.15 per diluted share, in the 2011 third quarter compared with \$61, or \$0.06 per share, in the 2010 third quarter. The improvement of \$111 was primarily the result of the following: higher realized prices for alumina and aluminum; stronger volumes in the midstream and downstream segments; and a net favorable change in mark-to-market derivative contracts; partially offset by continued rising input costs; net unfavorable foreign currency movements; and the absence of various discrete income tax benefits.

Income from continuing operations attributable to Alcoa was \$807, or \$0.71 per share, in the 2011 nine-month period compared with \$4, or \$0.00 per share, in the 2010 nine-month period. The improvement of \$803 was primarily the result of the following: higher realized prices for alumina and aluminum; stronger volumes in the midstream and downstream segments; the absence of charges for the permanent shutdown and planned demolition of certain U.S. structures; and a net favorable change in mark-to-market derivative contracts; somewhat offset by continued rising input costs and net unfavorable foreign currency movements.

Net income attributable to Alcoa for the 2011 third quarter was \$172, or \$0.15 per share, compared with \$61, or \$0.06 per share, for the same period in 2010, and Net income for the 2011 nine-month period was \$802, or \$0.71 per share, compared with a Net loss of \$4, or \$0.01 per share, for the corresponding period in 2010.

In the 2011 nine-month period, Net income included a loss from discontinued operations of \$3 due to an additional loss related to the wire harness and electrical portion (divested in June 2009) of the Electrical and Electronic Solutions (EES) business as a result of a negotiated preliminary settlement related to claims filed in 2010 against Alcoa by Platinum Equity in an insolvency proceeding in Germany and \$2 due to an additional loss related to both the wire harness and electrical portion and the electronics portion (divested in December 2009) of the EES business for a number of small post-closing and other adjustments.

In the 2010 nine-month period, Net loss included a loss from discontinued operations of \$6 due to an additional loss related to the wire harness and electrical portion of the EES business as a result of a contract settlement with a former customer of this business and \$2 due to an additional loss related to the electronics portion of the EES business for the settling of working capital, which was not included in the divestiture transaction.

Sales for the 2011 third quarter and nine-month period increased \$1,132, or 21%, and \$3,601, or 23%, respectively, compared with the same periods in 2010. The improvement in both periods was mainly driven by a continued rise in realized prices for alumina and aluminum and higher volumes in virtually all businesses in the midstream and downstream segments.



Cost of goods sold (COGS) as a percentage of Sales was 82.4% in the 2011 third quarter and 80.4% in the 2011 nine-month period compared with 83.5% in the 2010 third quarter and 82.3% in the 2010 nine-month period. In both periods, the percentage was positively impacted by the previously mentioned higher realized prices and volumes, partially offset by net unfavorable foreign currency movements due to a weaker U.S. dollar and continued higher energy and other input costs.

Selling, general administrative, and other expenses (SG&A) increased \$29 and \$80 in the 2011 third quarter and nine-month period, respectively, compared with the corresponding periods in 2010. The increase in both periods was primarily driven by higher labor, selling and marketing, and travel expenses. In the 2011 third quarter, lower bad debt expense slightly offset these higher expenses. In the 2011 nine-month period, transaction and professional fees related to the acquisition of an aerospace fastener business and the absence of a net reduction in the allowance for doubtful accounts also contributed to the increase. SG&A as a percentage of Sales declined from 4.4% in the 2010 third quarter to 4.1% in the 2011 third quarter, and from 4.4% in the 2010 nine-month period to 4.0% in the 2011 nine-month period.

Restructuring and other charges were \$9 (\$5 after-tax and noncontrolling interests) and \$49 (\$26 after-tax and noncontrolling interests) in the 2011 third quarter and nine-month period, respectively.

In the 2011 third quarter, Restructuring and other charges included \$18 (\$11 after-tax and noncontrolling interests) for the layoff of approximately 150 employees (70 in the Flat-Rolled Products segment, 40 in the Primary Metals segment, 30 in the Alumina segment, and 10 in Corporate); a net charge of \$1 (less than \$1 after-tax) for other small items; and \$10 (\$6 after-tax) for the reversal of previously recorded layoff reserves, primarily related to a change in plans for Alcoa's aluminum powder facility in Rockdale, TX.

In the 2011 nine-month period, Restructuring and other charges included \$31 (\$19 after-tax and noncontrolling interests) for the layoff of approximately 630 employees (420 in the Flat-Rolled Products segment, 110 in the Primary Metals segment, 60 in the Alumina segment, 30 in the Engineered Products and Solutions segment, and 10 in Corporate); \$20 (\$8 after-tax and noncontrolling interests) for a litigation matter related to the former St. Croix location; an \$8 (\$5 after-tax) charge for an adjustment to the fair value of the one remaining foil location classified as held for sale due to foreign currency movements; a net charge of \$4 (\$3 after-tax) for other small items; and \$14 (\$9 after-tax) for the reversal of previously recorded layoff reserves, primarily related to a change in plans for Alcoa's aluminum powder facility in Rockdale, TX.

Restructuring and other charges were \$2 (a credit of \$1 after-tax and noncontrolling interests) and \$219 (\$138 after-tax and noncontrolling interests) in the 2010 third quarter and nine-month period, respectively.

In the 2010 third quarter, Restructuring and other charges included \$3 (\$2 after-tax and noncontrolling interests) for the layoff of approximately 30 employees (20 in the Primary Metals segment and 10 in Corporate); \$8 (\$5 after-tax) in net charges related to divested and to be divested businesses (Global Foil, Packaging and Consumer, and Transportation Products Europe) for, among other items, working capital adjustments and a tax indemnification; \$1 (\$1 after-tax and noncontrolling interests) in net charges for various other exit costs; and \$10 (\$9 after-tax) for the reversal of previously recorded layoff reserves, including a portion of those related to the Portovesme smelter in Italy due to the execution of a new power agreement.

In the 2010 nine-month period, Restructuring and other charges included \$128 (\$81 after-tax and noncontrolling interests) in asset impairments and \$46 (\$29 after-tax and noncontrolling interests) in other exit costs related to the permanent shutdown and planned demolition of certain idled structures at five U.S. locations (see below); \$39 (\$26 after-tax and noncontrolling interests) for the layoff of approximately 830 employees (625 in the Engineered Products and Solutions segment; 80 in the Primary Metals segment; 25 in the Flat-Rolled Products segment; 10 in the Alumina segment; and 90 in Corporate); \$22 (\$14 after-tax) in net charges related to divested and to be divested businesses (Automotive Castings, Global Foil, Transportation Products Europe, and Packaging and Consumer) for, among other items, the settlement of a contract with a former customer, foreign currency movements, working capital adjustments, and a tax indemnification; \$9 (\$7 after-tax) in net charges for various other exit costs; and \$25 (\$19 after-tax) for the reversal of previously recorded layoff reserves.

In the 2010 first quarter, management approved the permanent shutdown and demolition of the following structures, each of which was previously temporarily idled for different reasons: the Eastalco smelter located in Frederick, MD (capacity of 195 kmt-per-year); the smelter located in Badin, NC (capacity of 60 kmt-per-year); an aluminum fluoride plant in Point Comfort, TX; a paste plant and cast house in Massena, NY; and one potline at the smelter in Warrick, IN (capacity of 40 kmt-per-year). This decision was made after a comprehensive strategic analysis was performed to determine the best course of action for each facility. Factors leading to this decision included then-current market fundamentals,

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cost competitiveness, other existing idle capacity, required future capital investment, and restart costs, as well as the elimination of ongoing holding costs. The asset impairments of \$128 represent the write off of the remaining book value of properties, plants, and equipment related to these facilities. Additionally, remaining inventories, mostly operating supplies, were written down to their net realizable value resulting in a charge of \$8 (\$5 after-tax and noncontrolling interests), which was recorded in Cost of goods sold. The other exit costs of \$46 represent \$30 (\$19 after-tax and noncontrolling interests) in asset retirement obligations and \$14 (\$9 after-tax) in environmental remediation, both triggered by the decision to permanently shutdown and demolish these structures, and \$2 (\$1 after-tax and noncontrolling interests) in other related costs.

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

|  | Third quarter<br>ended<br>September 30, |             | Nine months<br>ended<br>September 30, |               |
|--|---|-------------|---------------------------------------|---------------|
|  | 2011                                    | 2010        | 2011                                  | 2010          |
| Alumina                                      | \$ 6                                    | \$          | \$ 32                                 | \$ 13         |
| Primary Metals                               | (6)                                     | (7)         | (4)                                   | 145           |
| Flat-Rolled Products                         | 5                                       |             | 7                                     | (7)           |
| Engineered Products and Solutions            | (2)                                     |             | 1                                     | 22            |
| Segment total                                | 3                                       | (7)         | 36                                    | 173           |
| Corporate                                    | 6                                       | 9           | 13                                    | 46            |
| <b>Total restructuring and other charges</b> | <b>\$ 9</b>                             | <b>\$ 2</b> | <b>\$ 49</b>                          | <b>\$ 219</b> |

As of September 30, 2011, approximately 170 of the 630 employees associated with 2011 restructuring programs, approximately 760 of the 880 employees associated with 2010 restructuring programs, and approximately 5,600 of the 6,000 employees associated with 2009 restructuring programs were terminated. The remaining terminations for a portion of the 2011 restructuring programs and all of the 2010 and 2009 restructuring programs are expected to be completed by the end of 2011. In the 2011 third quarter and nine-month period, cash payments of \$11 and \$14, respectively, were made against the layoff reserves related to the 2011 restructuring programs; \$2 and \$6, respectively, were made against the layoff reserves related to the 2010 restructuring programs; and \$2 and \$11, respectively, were made against the layoff reserves related to the 2009 restructuring programs.

Interest expense declined \$14, or 10%, and rose \$23, or 6%, in the 2011 third quarter and nine-month period, respectively, compared to the corresponding periods in 2010. The decrease in the 2011 third quarter was due to the absence of a \$14 net charge related to the early retirement of various outstanding notes (\$42 in purchase premiums paid partially offset by a \$28 gain for in-the-money interest rate swaps). The increase in the 2011 nine-month period was mostly caused by a \$41 net charge related to the early retirement of various outstanding notes (\$74 in purchase premiums paid partially offset by a \$33 gain for in-the-money interest rate swaps), somewhat offset by the absence of the previously mentioned \$14 net charge.

Other expenses, net was \$31 in the 2011 third quarter compared to \$43 in the 2010 third quarter and Other income, net was \$47 in the 2011 nine-month period compared with Other expenses, net of \$48 in the 2010 nine-month period. In the 2011 third quarter, the change was mainly the result of a net favorable change of \$56 in mark-to-market derivative contracts and lower deferred compensation as a result of a decline in plan performance, mostly offset by a decrease in the cash surrender value of company-owned life insurance and net foreign currency losses. In the 2011 nine-month period, the change was principally driven by a net favorable change of \$97 in mark-to-market derivative contracts and higher equity income from an investment in a natural gas pipeline in Australia due to the recognition of a discrete income tax benefit by the consortium (Alcoa World Alumina and Chemicals share of the benefit was \$24), slightly offset by a decrease in the cash surrender value of company-owned life insurance.

The effective tax rate for the third quarter of 2011 and 2010 was 19.6% (provision on income) and 81.7% (benefit on income), respectively.

The rate for the 2011 third quarter differs from the U.S. federal statutory rate of 35% primarily due to foreign income taxed in lower rate jurisdictions and a \$15 net discrete income tax benefit for various items, primarily attributable to adjustments made related to the filing of prior year tax returns in various



jurisdictions and the reversal of a valuation allowance for capital losses now available to be used against future capital gains.

The rate for the 2010 third quarter differs by 116.7% from the U.S. federal statutory rate of 35% primarily due to a \$41 discrete income tax benefit for the reversal of a valuation allowance as a result of previously restricted net operating losses of a foreign subsidiary now available, an \$8 favorable impact for operational losses in certain foreign jurisdictions that are excluded from the estimated annual effective tax rate calculation (impact reversed by the end of 2010), and a \$19 net discrete tax benefit for various other items.

The effective tax rate for the 2011 and 2010 nine-month periods was 25.3% (provision on income) and 46.0% (provision on income), respectively.

The rate for the 2011 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to foreign income taxed in lower rate jurisdictions.

The rate for the 2010 nine-month period differs from the U.S. federal statutory rate of 35% primarily due to a \$79 discrete income tax charge as a result of a change in the tax treatment of federal subsidies received related to prescription drug benefits provided under certain retiree health care benefit plans that were determined to be actuarially equivalent to Medicare Part D and a \$19 discrete income tax charge based on settlement discussions of several matters with international taxing authorities (this amount represents a decrease to Alcoa's unrecognized tax benefits), partially offset by the \$41 discrete income tax benefit mentioned above, a \$24 discrete income tax benefit related to a Canadian provincial tax law change permitting a tax return to be filed in U.S. dollars, and a \$9 net discrete income tax benefit for various other items.

Net income attributable to noncontrolling interests for the 2011 third quarter and nine-month period increased \$5 and \$62, respectively, compared with the corresponding periods in 2010. The increase in both periods was primarily due to higher earnings at Alcoa World Alumina and Chemicals (AWAC), which is owned 60% by Alcoa and 40% by Alumina Limited. The improved earnings at AWAC were mainly driven by higher realized prices, mostly offset in the third quarter comparison and partially offset in the nine-month comparison by continued higher input costs and net unfavorable foreign currency movements due to a weaker U.S. dollar.

## Segment Information

### Alumina

|                                     | Third quarter ended<br>September 30, |                 | Nine months ended<br>September 30, |                 |
|-------------------------------------|--------------------------------------|-----------------|------------------------------------|-----------------|
|                                     | 2011                                 | 2010            | 2011                               | 2010            |
| Alumina production (kmt)            | 4,140                                | 4,047           | 12,308                             | 11,803          |
| Third-party alumina shipments (kmt) | 2,256                                | 2,423           | 6,840                              | 6,813           |
| Third-party sales                   | \$ 879                               | \$ 717          | \$ 2,615                           | \$ 2,056        |
| Intersegment sales                  | 751                                  | 506             | 2,107                              | 1,627           |
| <b>Total sales</b>                  | <b>\$ 1,630</b>                      | <b>\$ 1,223</b> | <b>\$ 4,722</b>                    | <b>\$ 3,683</b> |
| After-tax operating income (ATOI)   | \$ 154                               | \$ 70           | \$ 482                             | \$ 236          |

Alumina production increased 2% and 4% in the 2011 third quarter and nine-month period, respectively, compared with the corresponding periods in 2010. The increase in both periods was mainly driven by higher production at the São Luís (Brazil) refinery (the ramp-up of the expanded capacity began in late 2009 and continued throughout 2010 and into 2011).

Third-party sales for the Alumina segment rose 23% in the 2011 third quarter and 27% in the 2011 nine-month period compared with the same periods in 2010. In both periods, the improvement was primarily due to a 30% (third quarter) and 26% (nine months) increase in realized prices, driven by improved contractual LME-based pricing, movement to alumina index pricing, and benefits from improved spot prices. Also in the 2011 third quarter, a 7% decline in volumes was mostly offset by favorable foreign currency movements due to a stronger Australian dollar.

Intersegment sales increased 48% and 30% in the 2011 third quarter and nine-month period, respectively, compared to the corresponding periods in prior year, mostly due to higher realized prices and increased demand from the Primary Metals segment.





ATOI for this segment improved 120% in the 2011 third quarter and 104% in the 2011 nine-month period compared to the same periods in 2010. The increase in both periods was primarily the result of the previously mentioned higher realized prices, partially offset by continued higher input costs, especially fuel oil and caustic, and net unfavorable foreign currency movements due to a weaker U.S. dollar.

In the fourth quarter of 2011, productivity improvements are expected, while caustic costs will continue to inflate. Also, fuel oil costs are expected to temper.

### Primary Metals

|   | Third quarter ended |          | Nine months ended  |          |
|---|---------------------|----------|--------------------|----------|
|   | September 30, 2011  | 2010     | September 30, 2011 | 2010     |
| Aluminum production (kmt)                                 | 964                 | 891      | 2,813              | 2,673    |
| Third-party aluminum shipments (kmt)                      | 754                 | 708      | 2,176              | 2,102    |
| Alcoa's average realized price per metric ton of aluminum | \$ 2,689            | \$ 2,261 | \$ 2,734           | \$ 2,300 |
| Third-party sales   | \$ 2,124            | \$ 1,688 | \$ 6,249           | \$ 5,100 |
| Intersegment sales  | 798                 | 589      | 2,559              | 1,905    |
| Total sales   | \$ 2,922            | \$ 2,277 | \$ 8,808           | \$ 7,005 |
| ATOI  | \$ 110              | \$ 78    | \$ 513             | \$ 310   |

At September 30, 2011, Alcoa had 644 kmt of idle capacity on a base capacity of 4,518 kmt. In the 2011 third quarter, idle capacity did not change compared to June 30, 2011.

Aluminum production was up 8% and 5% in the 2011 third quarter and nine-month period, respectively, compared with the corresponding periods in 2010. In both periods, the improvement was primarily due to the restarted capacity at Massena East, NY (125 kmt-per-year), Ferndale, WA (Intalco: 47 kmt-per-year (11 kmt more than previously announced)), and Wenatchee, WA (43 kmt-per-year), as well as higher production at the Avilés (Spain) smelter (in June 2010 production was halted as a result of torrential flooding). The full restarts of the mentioned U.S. capacity will be achieved by the end of 2011. These restarts are expected to increase aluminum production by 140 kmt during 2011 and by 215 kmt on an annual basis thereafter and are occurring to help meet anticipated growth in aluminum demand and to meet obligations outlined in power agreements with energy providers.

Third-party sales for the Primary Metals segment improved 26% in the 2011 third quarter and 23% in the 2011 nine-month period compared with the same periods in 2010. The increase in both periods was mostly the result of a 19% (third quarter and nine months) rise in realized prices, driven by 15% (third quarter) and 18% (nine months) higher LME prices, and higher volumes, largely attributable to the previously mentioned restarted U.S. capacity. Also contributing to the increase in the 2011 nine-month period were favorable foreign currency movements due to a stronger euro.

Intersegment sales increased 35% and 34% in the 2011 third quarter and nine-month period, respectively, compared to the corresponding periods in 2010, mainly as a result of an increase in realized prices, driven by the higher LME, and higher buy/resell activity. In the 2011 nine-month period, increased demand from the midstream and downstream segments also contributed positively to the increase.

ATOI for this segment improved 41% in the 2011 third quarter and 65% in the 2011 nine-month period compared to the same periods in 2010. In both periods, the increase was primarily due to the previously mentioned improvement in realized prices and net productivity improvements, mostly offset in the quarter and partially offset in the nine months by continued higher costs for alumina, carbon, energy, and other inputs, and net unfavorable foreign currency movements due to a weaker U.S. dollar.

In the fourth quarter of 2011, net productivity improvements are anticipated while carbon price inflation is expected to continue. Higher energy costs are also expected, particularly in Norway and the U.S. due to the traditionally higher-priced upcoming winter season and a planned outage at the Rockdale, TX power plant, respectively.



**Flat-Rolled Products**

|                                      | Third quarter<br>ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|--------------------------------------|---|----------|------------------------------------|----------|
|                                      | 2011                                    | 2010     | 2011                               | 2010     |
| Third-party aluminum shipments (kmt) | 454                                     | 448      | 1,373                              | 1,247    |
| Third-party sales                    | \$ 1,974                                | \$ 1,645 | \$ 5,951                           | \$ 4,654 |
| Intersegment sales                   | 48                                      | 46       | 179                                | 132      |
| Total sales                          | \$ 2,022                                | \$ 1,691 | \$ 6,130                           | \$ 4,786 |
| ATOI                                 | \$ 60                                   | \$ 66    | \$ 240                             | \$ 167   |

Third-party sales for the Flat-Rolled Products segment increased 20% and 28% in the 2011 third quarter and nine-month period, respectively, compared with the corresponding periods in 2010. The improvement in both periods was principally the result of continued better pricing, higher volumes across most businesses, and favorable foreign currency movements, mainly due to a stronger euro. In both periods, higher volumes were primarily attributable to the packaging, commercial transportation, and aerospace markets. Mostly offsetting the improved volumes in the 2011 third quarter were volume declines related to the distribution and industrial products markets and slightly offsetting the higher volumes in the 2011 nine-month period were volume decreases related to the industrial products markets.

ATOI for this segment declined 9% in the 2011 third quarter and improved 44% in the 2011 nine-month period compared to the same periods in 2010. In the 2011 third quarter, the decrease was mostly due to higher labor and other input costs and net unfavorable foreign currency movements due to a weaker U.S. dollar, partially offset by the previously mentioned volume impacts and net productivity improvements. In the 2011 nine-month period, the improvement in profitability was primarily driven by the previously mentioned volume and pricing impacts and net productivity improvements, partially offset by higher labor and other input costs.

In the fourth quarter of 2011, demand will remain strong in the aerospace market, but normal seasonal declines are expected in the packaging market. Weakness in markets across Europe is expected to continue, while net productivity improvements are anticipated.

**Engineered Products and Solutions**

|                                      | Third quarter<br>ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|--------------------------------------|---|----------|------------------------------------|----------|
|                                      | 2011                                    | 2010     | 2011                               | 2010     |
| Third-party aluminum shipments (kmt) | 56                                      | 51       | 168                                | 147      |
| Third-party sales                    | \$ 1,373                                | \$ 1,173 | \$ 3,990                           | \$ 3,369 |
| ATOI                                 | \$ 138                                  | \$ 114   | \$ 417                             | \$ 302   |

On March 9, 2011, Alcoa completed an acquisition of the aerospace fastener business of TransDigm Group Inc. for \$240. This business is a leading global designer, producer, and supplier of highly engineered aircraft components, with three locations (one in the state of California and two in the United Kingdom) that employ a combined 400 people. Specifically, this business provides a wide variety of high-strength, high temperature nickel alloy specialty engine fasteners, airframe bolts, and slotted entry bearings. In 2010, this business generated sales of \$61. The assets and liabilities of this business were included in the Engineered Products and Solutions segment as of March 31, 2011; this business' results of operations were included in this segment beginning March 9, 2011.

Third-party sales for the Engineered Products and Solutions segment improved 17% and 18% in the 2011 third quarter and nine-month period, respectively, compared with the corresponding periods in 2010, principally due to higher volumes across all businesses, especially related to the aerospace and commercial transportation markets. Additionally, in both periods, favorable foreign currency movements due to a stronger euro and sales from two acquisitions (the building and construction business acquired in July 2010 (\$8 (quarter) and \$43 (nine months)) and the newly acquired fastener business mentioned above (\$18 (quarter) and \$39 (nine months))) were positive impacts. Slightly offsetting the positive



contributions in the 2011 nine-month period was the absence of sales related to the April 2010 divestiture of the Transportation Products Europe business (\$28).

ATOI for this segment improved 21% in the 2011 third quarter and 38% in the 2011 nine-month period compared to the same periods in 2010. In both periods, the increase was mainly the result of the previously mentioned volume impacts, somewhat offset by unfavorable price/product mix. In the 2011 nine-month period, net productivity improvements across most businesses were also a positive contributor to ATOI.

In the fourth quarter of 2011, incremental improvements are anticipated in all end markets, except for the commercial transportation market in Europe and the building and construction market in both Europe and North America. Also, net productivity improvements and share gains through innovation are expected to continue.

#### Reconciliation of ATOI to Consolidated Net Income (Loss) Attributable to Alcoa

Items required to reconcile total segment ATOI to consolidated net income (loss) attributable to Alcoa include: the impact of LIFO inventory accounting; interest expense; noncontrolling interests; corporate expense (general administrative and selling expenses of operating the corporate headquarters and other global administrative facilities, along with depreciation and amortization on corporate-owned assets); restructuring and other charges; discontinued operations; and other items, including intersegment profit eliminations and other metal adjustments, differences between tax rates applicable to the segments and the consolidated effective tax rate, the results of the soft alloy extrusions business in Brazil, and other nonoperating items such as foreign currency transaction gains/losses and interest income.

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

|  | Third quarter |        | Nine months ended |          |
|--|---------------|--------|-------------------|----------|
|  | ended         |        | ended             |          |
|  | September 30, |        | September 30,     |          |
|  | 2011          | 2010   | 2011              | 2010     |
| Total segment ATOI                                   | \$ 462        | \$ 328 | \$ 1,652          | \$ 1,015 |
| Unallocated amounts (net of tax):                    |               |        |                   |          |
| Impact of LIFO                                       | 2             | (2)    | (49)              | (19)     |
| Interest expense                                     | (81)          | (91)   | (259)             | (245)    |
| Noncontrolling interests                             | (53)          | (48)   | (166)             | (104)    |
| Corporate expense                                    | (76)          | (71)   | (219)             | (197)    |
| Restructuring and other charges                      | (7)           | 1      | (35)              | (142)    |
| Discontinued operations                              |               |        | (5)               | (8)      |
| Other  | (75)          | (56)   | (117)             | (304)    |
| Consolidated net income (loss) attributable to Alcoa | \$ 172        | \$ 61  | \$ 802            | \$ (4)   |

The significant changes in the reconciling items between total segment ATOI and consolidated net income (loss) attributable to Alcoa for the 2011 third quarter and nine-month period compared with the corresponding periods in 2010 (unless otherwise noted) consisted of:

a change in the Impact of LIFO (nine months) due to higher prices for alumina and metal, both of which were driven by a rise in LME prices, and rising input costs;

a decrease in Interest expense (third quarter), principally caused by the absence of a \$9 net charge related to the early retirement of various outstanding notes (\$27 in purchase premiums paid partially offset by an \$18 gain for in-the-money interest rate swaps), and an increase in Interest expense (nine months), primarily the result of a \$27 net charge related to the early retirement of various outstanding notes (\$48 in purchase premiums paid partially offset by a \$21 gain for in-the-money interest rate swaps), somewhat offset by the absence of the previously-mentioned \$9 net charge;

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an increase in Noncontrolling interests (nine months), mainly due to higher earnings at AWAC, principally driven by higher realized prices, partially offset by continued higher input costs and net unfavorable foreign currency movements due to a weaker U.S. dollar;

a decline in Restructuring and other charges (nine months), mostly due to the absence of asset impairments and other exit costs related to the permanent shutdown and planned demolition of certain idled structures at five U.S. locations; and

a change in Other (third quarter), mainly driven by a difference of \$45 in discrete income tax items, a decrease in the cash surrender value of company-owned life insurance, and net foreign currency losses, mostly offset by the difference between the consolidated effective tax rate and the estimated tax rates applicable to the segments and a net favorable change of \$36 in mark-to-market derivative contracts, and a change in Other (nine months), primarily due to the difference between the consolidated effective tax rate and the estimated tax rates applicable to the segments, a net favorable change of \$63 in mark-to-market derivative contracts, and a difference of \$37 in discrete income tax items.

#### **Environmental Matters**

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

#### **Liquidity and Capital Resources**

##### **Cash From Operations**

Cash provided from operations was \$1,051 in the 2011 nine-month period compared with \$891 in the same period of 2010. The improvement of \$160 was principally due to significantly better operating results, partially offset by a higher net cash outflow associated with working capital of \$189 and higher pension contributions of \$147.

The major components of the higher net cash outflow in working capital were as follows: a smaller outflow of \$52 in receivables, primarily related to the receipt of \$132 more from the sale of customer receivables, partially offset by higher sales; an additional outflow of \$512 in inventories, mostly due to higher production as a result of increased demand and continued rising input costs; a smaller inflow of \$23 in prepaid expenses and other current assets; an additional inflow of \$155 in accounts payable, trade, principally the result of higher purchasing needs and timing of vendor payments; a lower outflow of \$189 in accrued expenses, mostly related to fewer cash payments for restructuring programs; and a lower inflow of \$50 in taxes, including income taxes, mainly due to the absence of a \$347 federal income tax refund for the carryback of Alcoa's 2009 net loss to prior tax years, mostly offset by higher income taxes due to Alcoa's improved operating results.

The higher pension contributions were principally driven by cash contributions made to U.S. pension plans towards maintaining an approximately 80% funded status.

##### **Financing Activities**

Cash provided from financing activities was \$13 in the 2011 nine-month period, an improvement of \$764 compared with cash used for financing activities of \$751 in the corresponding period of 2010.

The source of cash in the 2011 nine-month period was primarily due to \$1,254 in additions to long-term debt, \$1,248 of which was for the issuance of 5.40% Notes due 2021; and a change of \$107 in commercial paper; mostly offset by \$1,122 in payments on long-term debt, principally related to \$881 for the early retirement of all of the 5.375% Notes due 2013 and a portion of the 6.00% Notes due 2013, \$189 for previous borrowings on the loans supporting the São Luís refinery expansion and Juruti bauxite mine development in Brazil, and \$45 for a loan associated with the Samara, Russia facility; net cash distributed to noncontrolling interests of \$117, all of which relates to Alumina Limited's share of AWAC; and \$98 in dividends paid to shareholders.

In the 2010 nine-month period, the use of cash was primarily due to \$1,587 in payments on long-term debt, mostly related to \$511 for the repayment of 7.375% Notes due 2010 as scheduled, \$825 for the early retirement of all of the 6.50% Notes due 2011 and a portion of the 6.00% Notes due 2012 and 5.375% Notes due 2013, and \$230 related to previous borrowings on the loans supporting the São Luís refinery expansion and Juruti bauxite mine development; \$94 in dividends paid to shareholders; \$66 in acquisitions of noncontrolling interests, mainly the result of the \$60 paid to redeem the convertible securities of a subsidiary that were held by Alcoa's former partner related to the joint venture in Saudi Arabia; a change of \$57 in short-term borrowings; and net cash paid to noncontrolling interests of \$33, all of which relates to Alumina Limited's share of AWAC; partially offset by \$1,082 in additions to long-term debt, \$998 for the issuance of 6.150% Notes due 2020 and \$74 related to borrowings under the loans that support the Estreito hydroelectric power project in Brazil.

On July 25, 2011, Alcoa entered into a Five-Year Revolving Credit Agreement (the Credit Agreement) with a syndicate of lenders and issuers named therein. The Credit Agreement provides a \$3,750 senior unsecured revolving credit facility (the Credit Facility), the proceeds of which are to be used to provide working capital or for other general corporate purposes of Alcoa, including support of

Alcoa's commercial paper program. Subject to the terms and conditions of the Credit Agreement, Alcoa may from time to time request increases in lender commitments under the Credit Facility, not to exceed \$500 in aggregate principal amount, and may also request the issuance of letters of credit, subject to a letter of credit sublimit of \$1,000 under the Credit Facility.

The Credit Facility matures on July 25, 2016, unless extended or earlier terminated in accordance with the provisions of the Credit Agreement. Alcoa may make two one-year extension requests during the term of the Credit Facility, with any extension being subject to the lender consent requirements set forth in the Credit Agreement. Under the provisions of the Credit Agreement, Alcoa will pay a fee of 0.25% (based on Alcoa's long-term debt ratings as of September 30, 2011) of the total commitment per annum to maintain the Credit Facility.

The Credit Facility is unsecured and amounts payable under it will rank *pari passu* with all other unsecured, unsubordinated indebtedness of Alcoa. Borrowings under the Credit Facility may be denominated in U.S. dollars or euros. Loans will bear interest at a base rate or a rate equal to LIBOR, plus, in each case, an applicable margin based on the credit ratings of Alcoa's outstanding senior unsecured long-term debt. The applicable margin on base rate loans and LIBOR loans will be 0.50% and 1.50% per annum, respectively, based on Alcoa's long-term debt ratings as of September 30, 2011. Loans may be prepaid without premium or penalty, subject to customary breakage costs.

The Credit Facility replaces Alcoa's Five-Year Revolving Credit Agreement, dated as of October 2, 2007 (the Former Credit Agreement), which was scheduled to mature on October 2, 2012. The Former Credit Agreement, which had a total capacity (excluding the commitment of Lehman Commercial Paper Inc.) of \$3,275 and was undrawn, was terminated effective July 25, 2011.

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

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

There were no amounts outstanding under the Credit Facility at September 30, 2011 and no amounts were borrowed under the Credit Facility during the 2011 third quarter.

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

On April 12, 2011, Standard and Poor's Ratings Services (S&P) affirmed the following ratings for Alcoa: long-term debt at BBB- and short-term debt at A-3. Additionally, S&P changed the current outlook from negative to stable.

On March 2, 2011, Moody's Investors Service (Moody's) confirmed the following ratings for Alcoa: long-term debt at Baa3 and short-term debt at Prime-3. Additionally, Moody's changed the current outlook from negative to stable. On September 7, 2011, Moody's affirmed the ratings and outlook published in its March 2, 2011 report.

On February 22, 2011, Fitch Ratings (Fitch) affirmed the following ratings for Alcoa: long-term debt at BBB- and short-term debt at F3. Additionally, Fitch changed the current outlook from negative to stable.

### **Investing Activities**

Cash used for investing activities was \$1,269 in the 2011 nine-month period compared with \$798 in the 2010 nine-month period, resulting in an increase in cash used of \$471.

In the 2011 nine-month period, the use of cash was mainly due to \$801 in capital expenditures, 33% of which related to growth projects, including the Estreito hydroelectric power project and Juruti bauxite mine development; \$239 (net of cash acquired) for the acquisition of an aerospace fastener business; and \$216 in additions to investments, mostly for the contributions of \$165 related to the aluminum complex joint venture in Saudi Arabia and of \$16 related to the natural gas pipeline consortium in Australia.

The use of cash in the 2010 nine-month period was mainly due to \$650 in capital expenditures, 54% of which related to growth projects, including the Estreito hydroelectric power project, Juruti bauxite mine development, and São Luís refinery expansion; and \$224 in additions to investments, mostly for the purchase of \$122 in fixed income and equity securities held by Alcoa's captive insurance company and contributions of \$75 related to the aluminum complex joint venture in Saudi Arabia; and \$72 for





acquisitions, principally related to the purchase of a new building and construction systems business; slightly offset by \$138 in sales of investments, virtually all of which related to the sale of fixed income and equity securities held by Alcoa's captive insurance company.

### **Recently Adopted and Recently Issued Accounting Guidance**

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

### **Forward-Looking Statements**

This report contains statements that relate to future events and expectations and, as such, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those containing such words as anticipates, believes, estimates, expects, forecasts, hopes, outlook, plans, projects, should, targets, will, or other words or phrases that reflect Alcoa's expectations, assumptions, or projections about the future other than statements of historical fact or statements that reflect Alcoa's expectations, assumptions, or projections about the future other than statements of historical fact or forward-looking statements, including, without limitation, forecasts concerning global demand for aluminum, end market conditions or other trend projections, anticipated financial results or operating performance, and statements about Alcoa's strategies, objectives, goals, targets, outlook, and business and financial prospects. Forward-looking statements are subject to a number of known and unknown risks, uncertainties, and other factors and are not guarantees of future performance. Actual results, performance, or outcomes may differ materially from those expressed in or implied by those forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include: (a) material adverse changes in aluminum industry conditions, including global supply and demand conditions and fluctuations in London Metal Exchange-based prices for primary aluminum, alumina, and other products, and fluctuations in index-based and spot prices for alumina; (b) global economic and financial market conditions generally, including the risk of another global economic downturn and uncertainties regarding the effects of sovereign debt issues or government intervention into the markets to address economic conditions; (c) unfavorable changes in the markets served by Alcoa, including automotive and commercial transportation, aerospace, building and construction, distribution, packaging, oil and gas, defense, and industrial gas turbine; (d) the impact of changes in foreign currency exchange rates on costs and results, particularly the Australian dollar, Brazilian real, Canadian dollar, euro, and Norwegian kroner; (e) increases in energy costs, including electricity, natural gas, and fuel oil, or the unavailability or interruption of energy supplies; (f) increases in the costs of other raw materials, including caustic soda or carbon products; (g) Alcoa's inability to achieve the level of revenue growth, cash generation, cost savings, improvement in profitability and margins, fiscal discipline, or strengthening of operations anticipated from its cash sustainability, productivity improvement, and other initiatives; (h) Alcoa's inability to realize expected benefits from newly constructed, expanded or acquired facilities or from international joint ventures as planned and by targeted completion dates, including the joint venture in Saudi Arabia or the upstream operations in Brazil; (i) political, economic, and regulatory risks in the countries in which Alcoa operates or sells products, including unfavorable changes in laws and governmental policies, civil unrest, and other events beyond Alcoa's control; (j) the outcome of contingencies, including legal proceedings, government investigations, and environmental remediation; (k) the outcome of negotiations with, and the business or financial condition of, key customers, suppliers, and business partners; (l) changes in tax rates or benefits; and (m) the other risk factors summarized in Alcoa's Form 10-K, including under Part I, Item 1A, for the year ended December 31, 2010 and the following sections of this report: Note H and the Derivatives section of Note P to the Consolidated Financial Statements and the discussion included above under Segment Information. Alcoa disclaims any intention or obligation to update publicly any forward-looking statements, whether in response to new information, future events, or otherwise, except as required by applicable law.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

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

**Item 4. Controls and Procedures.**

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the third quarter of 2011, that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Mine Safety

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act is included in Exhibit 99 of this report, which is incorporated herein by reference.

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

(c) Issuer Purchases of Equity Securities:

| Period  | Total Number<br>of Shares<br>Purchased (a) | Average<br>Price Paid<br>Per Share | Total Number of<br>Shares Purchased<br>as Part of<br>Publicly<br>Announced<br>Repurchase Plans<br>or Programs | Maximum Number<br>of Shares<br>that<br>May Yet Be<br>Purchased Under<br>the Plans or<br>Programs |
|---|--|------------------------------------|---|--|
| January 1 - January 31, 2011                  | 2,582                                      | \$ 16.52                           |   |  |
| February 1 - February 28, 2011                | 2,462                                      | \$ 17.32                           |   |  |
| March 1 - March 31, 2011                      |  |                                    |   |  |
| Total for quarter ended<br>March 31, 2011     | 5,044                                      | \$ 16.91                           |   |  |
| April 1 - April 30, 2011                      |  |                                    |   |  |
| May 1 - May 31, 2011                          |  |                                    |   |  |
| June 1 - June 30, 2011                        |  |                                    |   |  |
| Total for quarter ended<br>June 30, 2011      |  |                                    |   |  |
| July 1 - July 31, 2011                        |  |                                    |   |  |
| August 1 - August 31, 2011                    |  |                                    |   |  |
| September 1 - September 30, 2011              |  |                                    |   |  |
| Total for quarter ended<br>September 30, 2011 |  |                                    |   |  |

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

**Item 6. Exhibits.**

- 10. Five-Year Revolving Credit Agreement, dated as of July 25, 2011, among Alcoa Inc., the Lenders and Issuers named therein, Citibank, N.A., as Administrative Agent for the Lenders and Issuers, and JPMorgan Chase Bank, N.A., as Syndication Agent, incorporated by reference to Exhibit 10 to the Company's Current Report on Form 8-K dated July 28, 2011
- 12. Computation of Ratio of Earnings to Fixed Charges
- 15. Letter regarding unaudited interim financial information
- 31. Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32. Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99. Mine Safety
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Alcoa Inc.

October 20, 2011  
Date

By /s/ CHARLES D. MCLANE, JR.  
Charles D. McLane, Jr.  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

October 20, 2011  
Date

By /s/ GRAEME W. BOTTGER  
Graeme W. Bottger  
Vice President and Controller  
(Principal Accounting Officer)



**EXHIBIT INDEX**

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