



Where's Alcoa?

In almost every facet of modern life, Alcoa materials, products, and technology play an essential and growing role


ANNUAL REPORT 2000

ALCOA AT A GLANCE

- World's leading producer of primary aluminum, fabricated aluminum, and alumina. Active in all major aspects of the industry – technology, mining, refining, smelting, fabricating, and recycling.
- Alcoa's aluminum products and components are used worldwide in aircraft, automobiles, beverage cans, buildings, chemicals, sports and recreation, and a wide variety of industrial and consumer applications, including Alcoa's own consumer brands such as Alcoa® wheels, Reynolds Wrap® aluminum foil and Baco® household wraps.
- Related businesses include packaging machinery, precision castings, vinyl siding, plastic bottles and closures, fiber optic cables, and electrical distribution systems for cars and trucks.
- Vital statistics: 142,000 Alcoans in 37 countries, \$22.9 billion in revenues, and in 2000 it was 5 times safer to work at Alcoa than it was in 1990.
- Our worldwide performance standard is the Alcoa Business System, an integrated set of systems and tools organized to provide a common language and unencumbered transfer of knowledge across businesses and geographies.
- Alcoa's values begin with integrity, respect for our people, their safety and health, and for the environment within which we live and work, anywhere in the world.

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Tracey O'Neal and Kevin Pate run a simulation of the investment casting process. Howmet's advanced casting technology came to Alcoa with the Cordant acquisition.

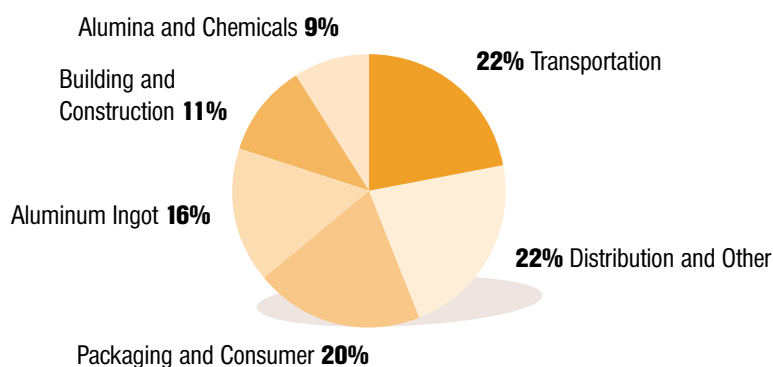
Financial and Operating Highlights

(dollars in millions, except share amounts)

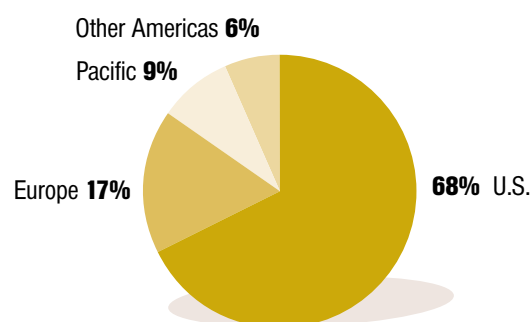
	2000	1999	% change
Sales	\$22,936	\$16,323	41
Income from operations	1,870	1,296	44
Net income	1,484	1,054	41
Total assets	31,691	17,066	86
Capital expenditures	1,121	920	22
Cash flow from operations	2,851	2,381	20
Per common share:			
Basic earnings (before cumulative effect)	1.83	1.43	28
Basic earnings (after cumulative effect)	1.82	1.43	27
Diluted earnings (before cumulative effect)	1.81	1.41	28
Diluted earnings (after cumulative effect)	1.80	1.41	28
Dividends paid	.500	.403	24
Book value	13.13	8.51	54
Return on average shareholders' equity	16.8%	17.2%	(2)
Price/earnings (P/E) ratio	18.6	29.4	(37)
Number of shareholders	265,300	185,000	43
Average common shares outstanding (000)	814,229	733,888	11
Number of employees	142,000	107,700	32

2000 Revenues: \$22.9 Billion

By Market



By Geographic Area





Alain Belda (r), Chairman and Chief Executive Officer, with Paul O'Neill, retired Chairman, now U.S. Secretary of the Treasury

To Alcoa Shareholders:

The first year of the century has come and gone. We lived our values, continued on our mission, earned the right to grow, and Paul returned to the U.S. government in one of the most important jobs in the world. Once again, Alcoans around the globe delivered record earnings.

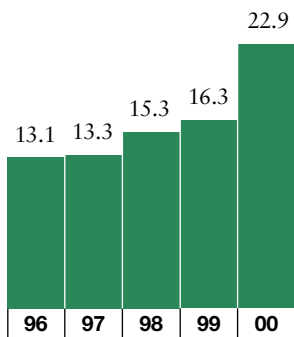
We ended the year up 41% in revenues, 41% in profits, and 28% in earnings per share. In a wildly fluctuating market, our shares went as high as 43 5/8, as low as 23 1/8, and ended the year at 33 1/2, for a negative 18.1% total return to shareholders.

SAFETY

Our number one internal priority is that our people should be safe, and on that score Alcoans turned in a record year. This is difficult to track at a time when we are integrating major acquisitions, but Alcoa's core operations – the businesses we have held for more than two years – are setting the standard as among the world's safest places to work.

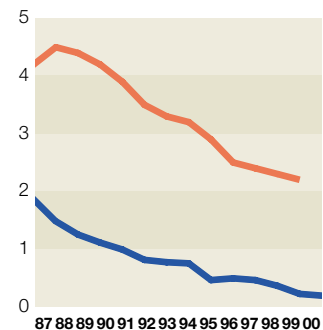
Alcoans had five times fewer Lost Work Day (LWD) injuries than they did ten years ago. Our worldwide LWD rate was less than 10% of our U.S. manufacturing counterparts. That's still too many – we are shooting for zero – but our progress has been remarkable.

Revenues
billions of dollars



Setting a World Standard in Safety

lost workday rate per 200,000 work hours



■ U.S. Manufacturing
■ Alcoa

Source: Bureau of Labor Statistics and Alcoa Real Time Safety Data

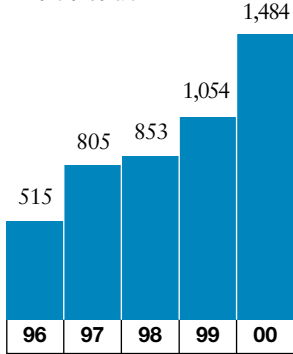
Excludes acquisitions made in 2000

ENVIRONMENT

In 2000 we developed a long-term Environmental Strategic Framework based on principles of sustainable development. Each of our businesses worldwide has set its own targets under this Alcoa framework – aggressive goals on emissions, wastewater, and energy. They will work to integrate environmental factors into the Alcoa Production System and plant processes and to involve suppliers and customers in the waste-reduction effort.

You don't have problems with emissions and wastewater if you can eliminate the waste at its origins. We expect that this program will introduce efficiencies that could save over \$100 million a year when fully implemented.

Net Income
millions of dollars



PROFITABLE GROWTH

In 2000 we completed two multibillion dollar acquisitions – Reynolds Metals and Cordant Technologies – and 15 others which, though smaller, provide important links in our strategies of expanding in key markets and technologies. We added 34,300 Alcoans to our system.

The real story here is the rapid and highly successful integration of these new operations as profitable elements in Alcoa's ongoing business. This is made possible by the talent and enthusiasm of the people involved and by the Alcoa Business System, which gives us a common language and a framework for synergies in customer service, cost reduction, productivity, sharing best practices, and measuring results.

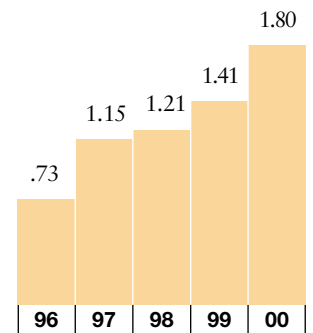
This is disciplined growth. The proof of the pudding can be seen in our record of 32 acquisitions on four continents over the past five years, and their swift assimilation and positive effect on earnings per share. As a result of profitable growth by acquisition – plus internal growth and vigorous cost reduction – Alcoa's balance sheet is strong, and we can afford to be patient and opportunistic in shaping our future.

VISION, VALUES, AND PERFORMANCE

Alcoa's management and strategies are based on simple rules and processes.

The vision of the company and every Alcoan in it is to be the best in everything we do, individually and collectively. As a foundation to this effort, we live a set of values in every country, every operation, every action we take.

Earnings Per Share
dollars



We manage by a standardized set of rules based on make-to-use, waste eradication, and problem solving at the point of origin. Our rules and our values set Alcoans free to achieve our shared vision because they permit delegation of authority to anyone in the organization who is willing and able to accomplish something important.

From a strategic point of view, we leverage our resources globally – our knowledge, technology, systems, and talents as well as hard assets and cash – to achieve sustainable, profitable growth.

We strive to build, acquire, retain, and leverage resources like our alumina assets in Australia, energy

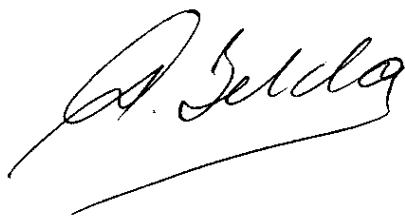
resources in the U.S. and Brazil, the cumulative fruits of our investment in R&D, and the exceptional people who make it all work.

We strive for an organization that is interdependent and diverse, one that manages by centralizing transactional

work and decentralizing decisions to the point where we interface with the customer.

We value proactivity, flexibility, and a can-do attitude in our people, and we see them as the ultimate source of our company's power to create wealth.

This year we have changed the format of our annual report to capture a sense of how we see ourselves at the start of this century and after absorbing two large acquisitions. We have tried to show what Alcoa has to offer to the various markets in which we participate. I think you will find it interesting.



Alain J.P. Belda
Chairman and Chief Executive Officer

February 12, 2001

The vision of the company and every Alcoan in it is to be the best in everything we do, individually and collectively. As a foundation to this effort, we live a set of values in every country, every operation, every action we take.

Where's Alcoa?



Wherever people use materials, Alcoa's products – aluminum and otherwise – are likely to be found playing a central role. And that role is growing.

In transporting people and products by land, sea, and air, in building homes and highrises, in sports and recreation, communication, packaging for food and beverages – that's where you'll find Alcoa's materials, products, and technology.

On the following pages, a vest pocket visual survey of Alcoa's essential and expanding role in 21st century life.



Where's Alcoa?

AT

HOME

Insulation

Shower and Tub Enclosures, Faucets, Lighting Fixtures, Alumina for Toothpaste Whiteners and Pharmaceuticals

Doors

Auto Engine, Wire Harness, Panels and Trim, Wheels, Structural Frame, Polishes, Spark Plugs, Catalyst Substrate

Shutters and Screens

Gutters and Downspouts

Roof Caps (Vents)

Greenhouse Structures and Systems

Wire and Cable

Roofing

Garage Doors

Decking and Water Treatment for Swimming Pools



Vinyl and Aluminum Siding

Ladders, Paints (Aluminum Powder)

Refrigerators and Freezers, Faucets, Appliances, Lighting, Countertops, Household Cleaners

Beer, Soda, Juice and Water Cans, Food Cans, Drink Pouches, Juice Boxes, Metal Closures, Aluminum and Plastic Formed Containers, Cookware, Cooking Utensils, Aluminum and Plastic Foil, Film and Wrap

Plastic Closures, Push-Pull Closures, Spout Fitment Closures, Lids

Fiber Optics

Window Frames

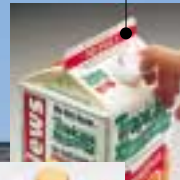
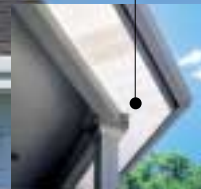
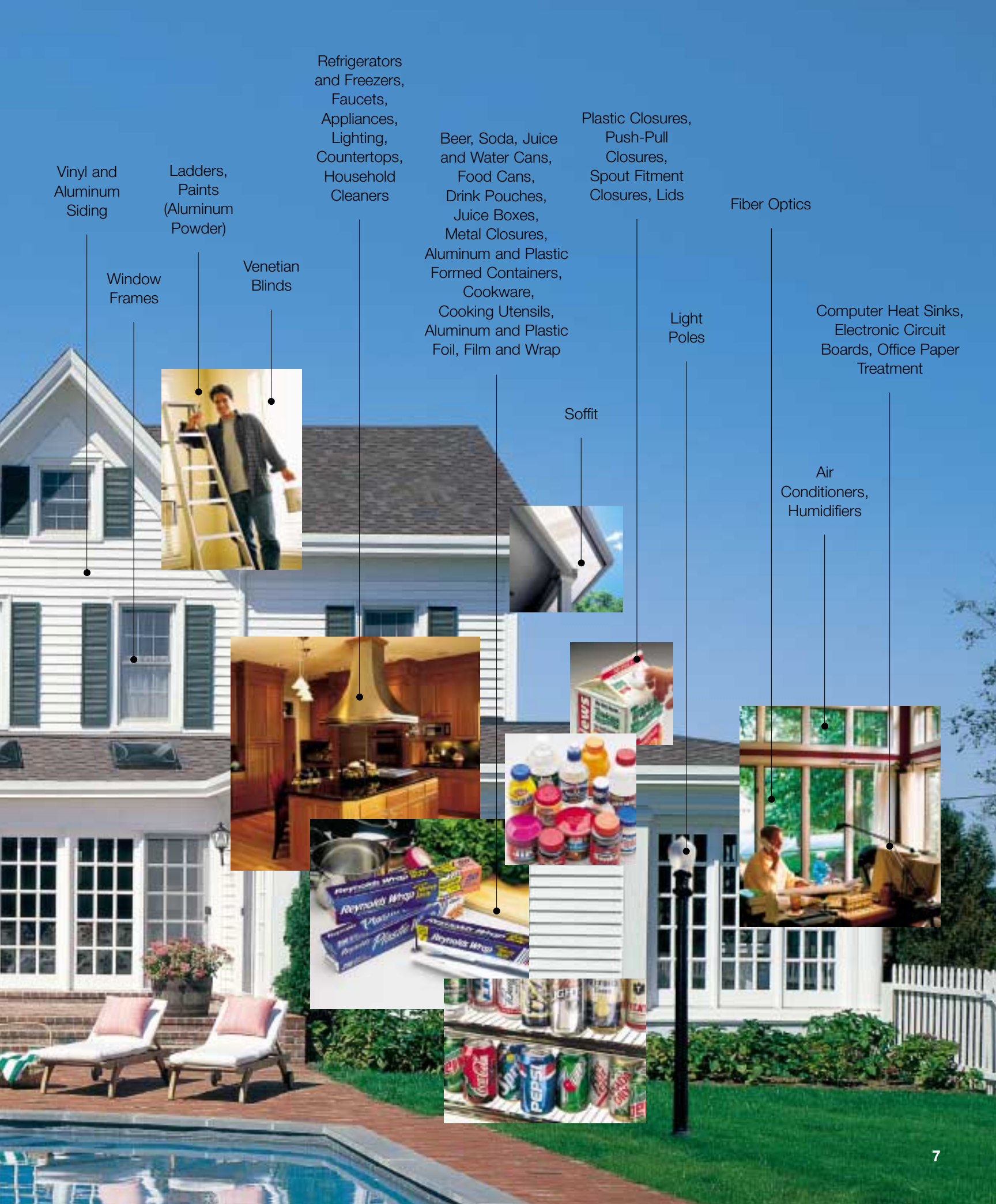
Venetian Blinds

Light Poles

Computer Heat Sinks, Electronic Circuit Boards, Office Paper Treatment

Soffit

Air Conditioners, Humidifiers





Where's Alcoa?

ALCOA WORK

Elevator Doors,
Entrances,
Cabs and Trim



Ductwork,
Suspended Ceiling
Hangers,
Ceiling Tile Grids,
HVAC Ventilation,
Industrial Fans,
Conduit

Office Furniture,
Office Partitions,
Venetian Blinds,
Lighting Fixtures,
Ceiling Fans,
Carpet Moldings,
Fire Retardant
Carpet Backing,
Ceramic Tile

Electronic Cabinetry,
Subfloors in
Computer Rooms
and Modular Buildings,
Lighting Shelves and
Scoops, Fire Retardant
Wires and Cables,
Cable Trays,
Electrical Panels

Skylight Systems,
Atrium Applications,
Architectural Windows,
Window Hardware,
Hurricane and Impact
Resistant Products,
Architectural Moldings,
Integrated Solar Electric
Curtain Wall Systems,
Thermoplastic Wall
Coverings, Architectural
Cladding Materials,
Composite Panels,
Metal Wall and
Roof Cladding

Wheelchairs,
Computer
and Cell Phone
Cases



Offset Lithography Printing Plates



Emergency Room and Intensive Care Unit Equipment, Accident and Radiation Shower Units, Prosthetic Joints



Industrial Kitchen Equipment, Appliances, Refrigerators, Sinks, Fixtures, Cookware, Utensils, Dinnerware



Industrial Size Foil, Film and Wrap, Lids, Aluminum and Plastic Formed Containers, Plastic Food Containers



Flagpoles, Lighting Poles



Construction Platforms, Scaffolding, Modular Stairways and Steps, Walkways and Covers, Hand Rails (Interior and Exterior), Wall Framing (Metal Studs), Wall Panels, Refractories, Catalyst Substrates



Beer, Soda, Juice and Water Cans, Food Cans, Plastic Closures, Metal Closures, Push-Pull Closures



Storefront Framing Systems, Thermal Framing Systems

Aluminum Swing Entrances, Flush Doors, Thermal Entrances, Sliding Doors, Sliding Mall Fronts, Monumental Sliding Doors, Entrance Hardware

Where's Alcoa?

PLAY



Fishing Reels,
Archery Equipment,
Gun Sights



Horseshoes



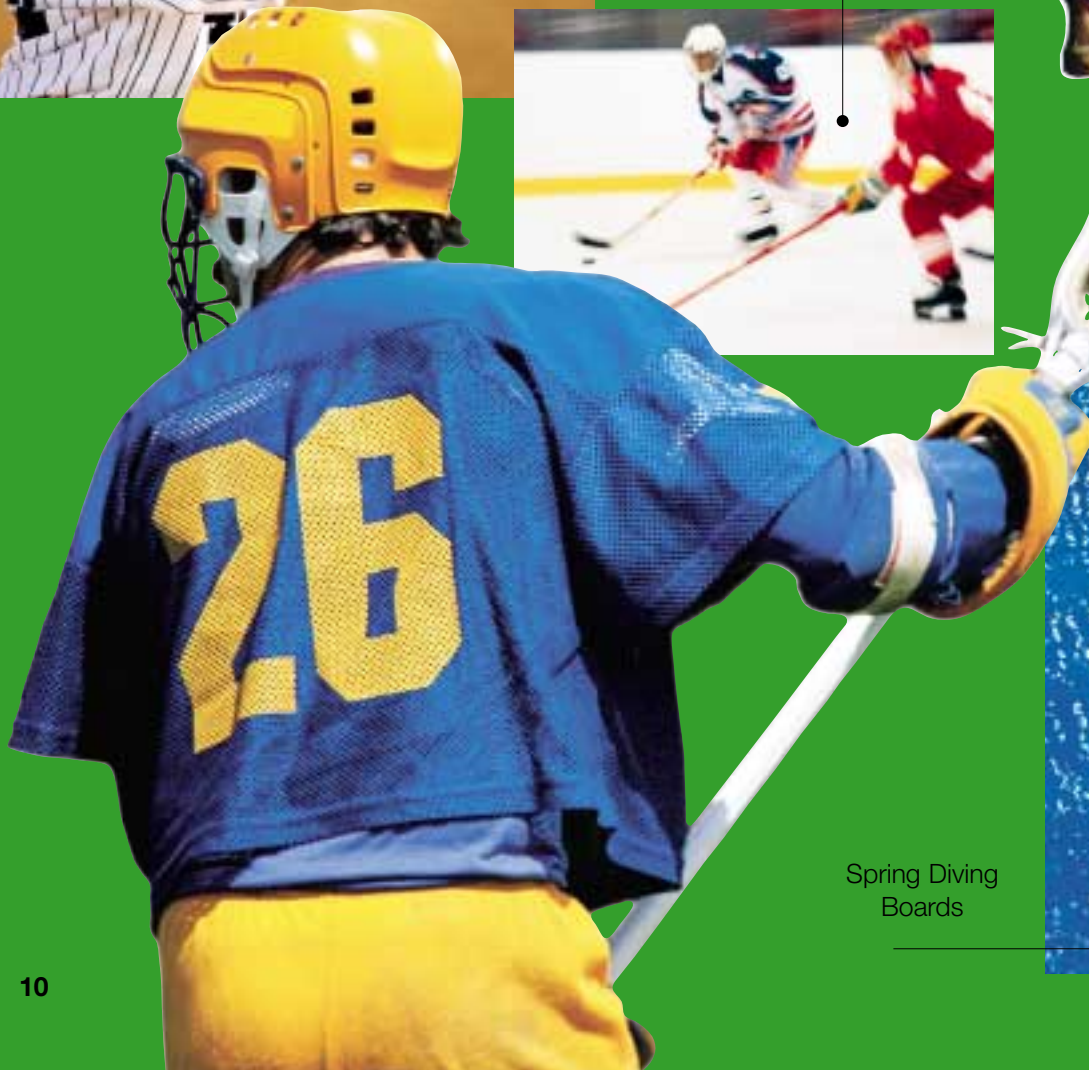
Baseball and
Softball Bats



Hockey and
Lacrosse Sticks



Canoes, Kayaks,
Racing and
Pleasure Craft



Spring Diving
Boards

Stadium
Architecture Facades,
Stadium Seating,
Light Poles, Lighting
Fixtures, Electrical and
Fiber Optic Cables



Javelins,
Discuses



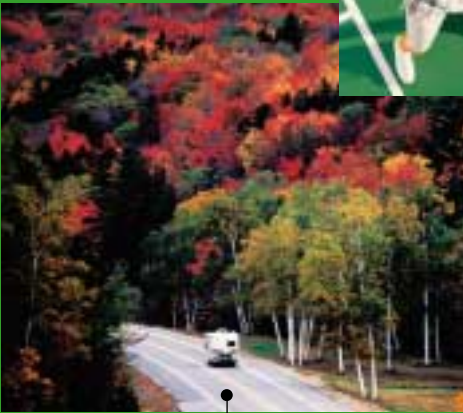
Tennis Rackets,
Exercise
Equipment



Outdoor
Furniture



Recreational
Trailers, RVs,
Horse Trailers,
Motor Homes



Golf Carts,
Ceramic Inserts
for Golf Clubs

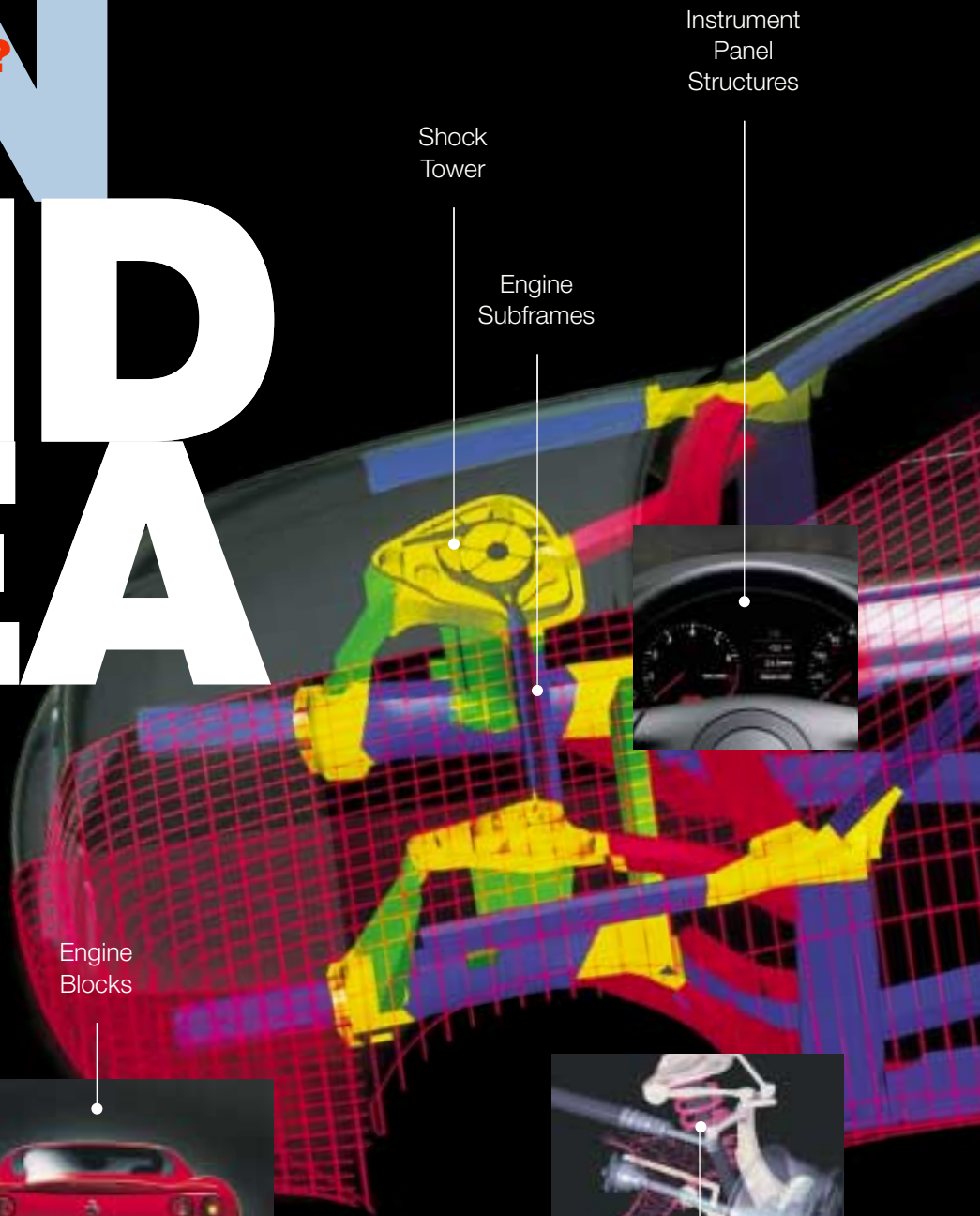


Bicycle Frames,
Wheels,
Components,
Scooters



ON LAND & SEA

Where's Alcoa?



Instrument
Panel
Structures

Shock
Tower

Engine
Subframes

Engine
Blocks



Fast Ferries



Suspension
Components

Suspension
Subframes

Brake
Components



Liquefied
Natural Gas
Tankers



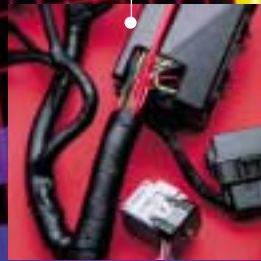
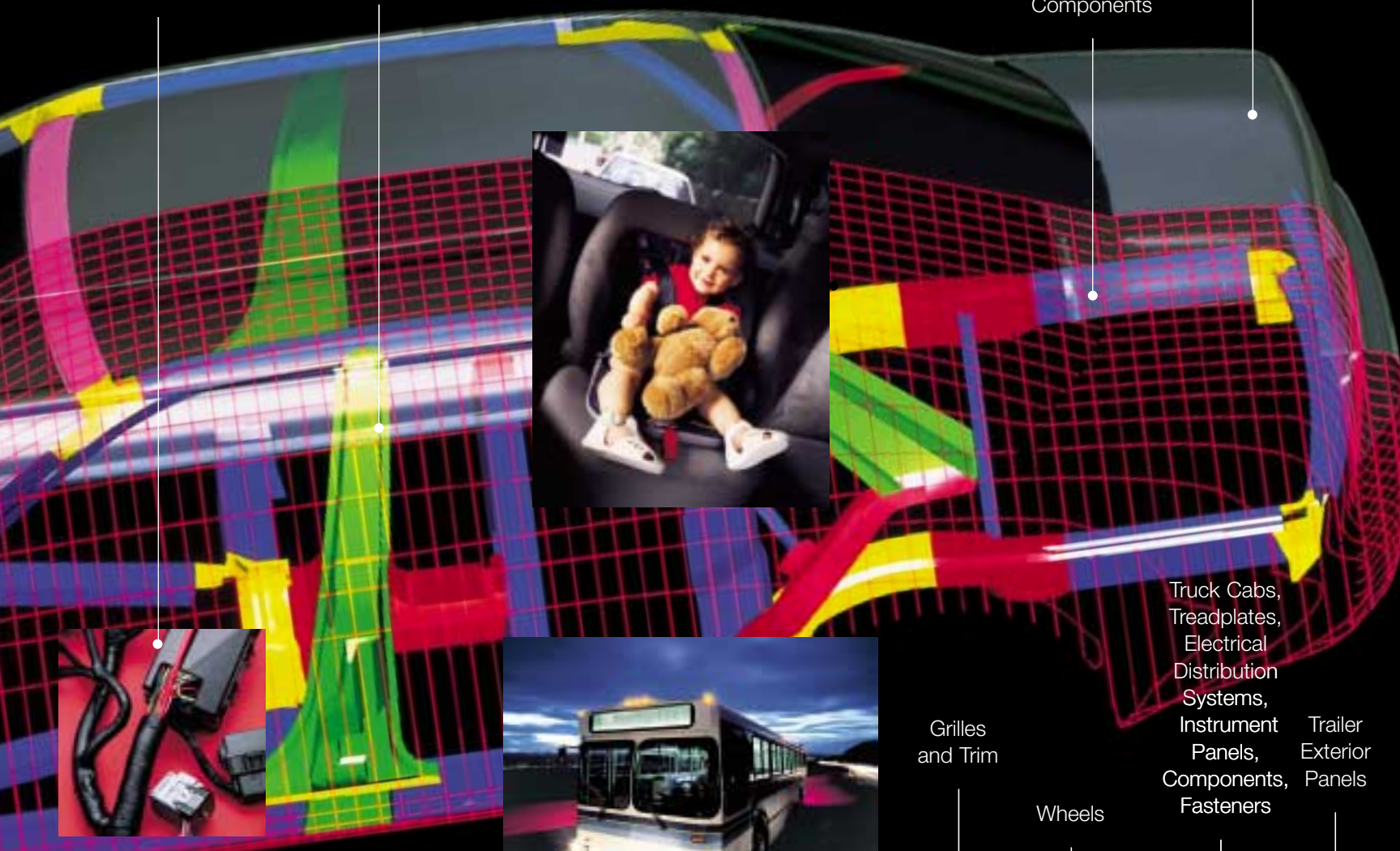
47' Aluminum
U.S. Coast Guard
Life Saving Boats

Electrical Distribution Systems, Electronics, Components

Spaceframes, Components, Fasteners

Crash Management Components

Exterior Closure Panels



Truck Cabs, Treadplates, Electrical Distribution Systems, Instrument Panels, Components, Fasteners

Grilles and Trim

Trailer Exterior Panels

Wheels

Air Compressor Pistons
Windshield Surround Structures

Bumper Systems

Bus Wheels



Heat Exchangers

Wheels

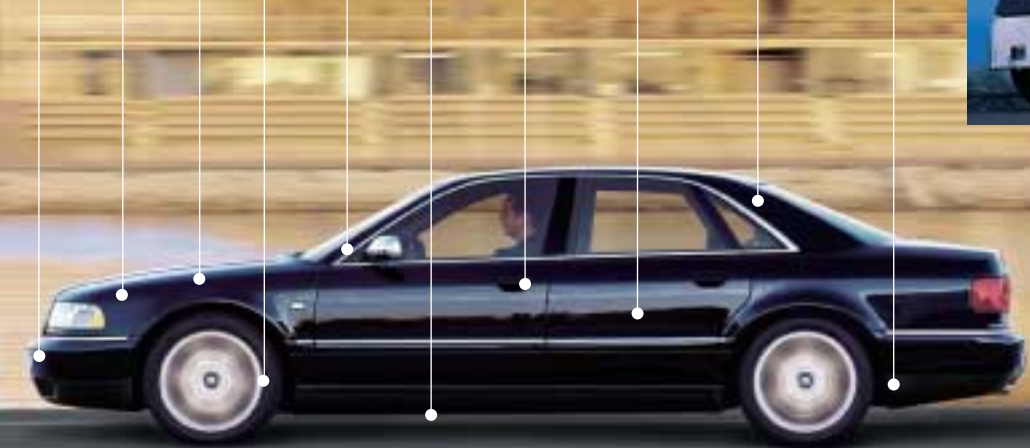
Driveshafts

Panels and Trim

Catalytic Converter Substrate

Seat Frames

Frame



Road Signs



Where's Alcoa?

THE AIR



Skin, Polishing Compounds

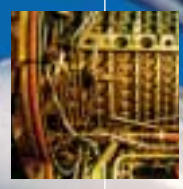
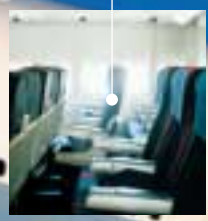
Seat Tracks

Doors

Leading Edges

Turbine Blades

Fuselage Stringers



D-nose Inlet

Keel Beam

Wire, Cable, Fiber Optics



Air Cargo Pallets and Containers

Lighting

Ductwork



Jetway



Aircraft Service Vans and Movers



People Movers, Courtesy Vehicles, Push Carts





Upper Spar Cap
Structural Frame
Upper Wing Stringers
Ribs
Upper Wing
Access Covers
Spar Web
Upper Stringers

Rudder
Elevators
Rib

Lower Wing Stringers
Lower Stringers
Lower Wing Skin
Bulkhead
Bulkhead Forgings

Cargo Door

Wire, Cable, Fiber Optics

Components, Propellants, Nose Cones, Forgings for Fuel Tanks

Internal Railings and Panels

Baggage Carousels

Aluminum Train Body

Window Frames, Furniture

Where is Alcoa **GOING?**

In the past half dozen years, Alcoa has doubled its revenues, tripled its earnings, and established the launching platform for significant growth to come. We've added to the breadth of our product lines and processing expertise. We have expanded – and will expand further – the global share of market for which Alcoa competes.

Through ABS and APS, we are integrating actions, tools, and processes to achieve decisive gains in productivity, waste reduction, and cost reduction – enabling us to provide customers with exactly what they want, when they want it, at competitive costs, anywhere on earth. Customers are finding greater and greater advantage in teaming up with Alcoa as the partner or supplier of choice.

We're still not satisfied. New Alcoa technologies are raising the standards of product, process, and environmental performance. They are focused on breakthroughs, improved products and applications, and a continuing war against waste.

Our strategic goals: To be one of the world's best performing industrial companies – as measured in social and environmental responsibility, employee choice and financial performance; as measured in superior return on capital, growth in sales, and growth in earnings per share.

What will it take?

Expand into opportune businesses, markets, regions of the world. Maintain an accelerated pace of organic growth. Keep our financial position strong, our costs and capital intensity low. Focus technology on breakthrough developments. Strengthen our commitment to being a customer-centered, value-driven organization. And continue our relentless pursuit of zero workplace injuries.

NEWS 2008



Known to America as “Pat & Betty,” food experts Betty Morton and Pat Schweitzer work in The Reynolds Kitchens, where new Alcoa consumer product ideas are developed and tested.



Darryl Towers, Melbourne, Victoria, Australia

ADVANCES IN TECHNOLOGY

A New Age in Smelting? In a conference with investment analysts in January 2001, Alcoa Chairman and CEO Alain Belda gave an update of Alcoa's efforts to revolutionize smelting technology through the use of inert anodes in place of carbon anodes. He said the first commercial pot using the technology will go into production in March, with the first full-scale potline scheduled for the first quarter of 2002. Belda expressed confidence in results to date but added that for a breakthrough of this magnitude, "Successful commercialization is not a given." If the inert anode proves feasible, it promises to increase smelter capacity, lower costs considerably, and improve working conditions by drastically reducing the frequency of anode changes. It would also benefit the environment because the principal emissions of the new process would be oxygen rather than carbon dioxide.

A Rolling Mill in the Computer.

New CADxxx simulation software developed at Alcoa Technical Center will enable Alcoa scientists and engineers to conduct realistic manufacturing tests without tying up a mill, a plant, or a pilot plant. The first version of

CADxxx targets flat-rolled products, but the underlying architecture will also accommodate extrusion, forging, tabular alumina, or other processes. The system is driven by a large database of models drawn from a variety of plant locations. These include mill models with equipment specifications as well as furnace, coil, and metallurgical models. A user can test a new alloy or try a new process variable such as a change in time, temperature, or speed all in the computer. The new system should stimulate innovation, allow faster process improvements, and support ABS efforts to eradicate waste.

New Welding Technology. Working with Newcor Bay City, a major equipment supplier to the Big Three auto makers, Alcoa has developed a new technology called aluminum single-sided projection welding and has significantly improved an existing technology known as resistance spot welding. Both processes promise to bring the performance and cost of aluminum closer to that of steel for automotive closure panels and other applications. Patents are pending.

Advanced Castings for Cars. Efforts to develop low-cost, high-performance aluminum casting methods for the automotive industry are progressing on several fronts. In 2000 Alcoa acquired Alloy Technologies Ltd. (ATL), which manufactures aluminum castings using patented technology. Alcoa is working with Lingotes Especiales, S.A. of Spain to expand the commercial application of this process – called automated green sand casting (AGSC) – for automotive components. AGSC is a low-cost, high-volume, flexible process that is already producing parts for several European carmakers. Alcoa Automotive's British Casting Center in Leyland, England is currently the focal point of AGSC development.

The Innovation Factory. In 2000, Alcoa Mill Products started up its new Brazing Sheet Development Factory (BSDF) adjacent to Lancaster (Pa.) Operations. BSDF utilizes pilot-scale manufacturing equipment to simulate customer processing and end-product performance testing. It will facilitate the development and commercialization of new Alcoa products for the heating, ventilation and air-conditioning market.



Jacques Tessier, Deschambault, Quebec, Canada

A 2003 Challenge.

Following successful completion in December 2000 of a 1998 commitment to eliminate \$1.1 billion in annual costs, Alcoa announced a new three-year challenge. At a conference in late January, Alcoa Chairman and CEO Alain Belda told investment analysts that Alcoa aspires to be one of the world's best-performing industrial companies. One of the keys to that performance, he said, is a new target of further reducing annual costs by \$1.0 billion by December 2003. "The relentless application of the Alcoa Business System will enable us to become one of the most productive industrial companies in the world," said Belda, "able to provide customers with what they need, when they need it, making us partners in achieving their cost reduction and efficiency goals. This is an important driver of our financial performance."

Alcoa Selling Thiokol.

At the end of January 2001, Alcoa and Alliant Techsystems Inc. (ATK) announced that ATK will acquire Alcoa's Thiokol rocket propulsion business for \$685 million in cash. Thiokol, with annual sales of approximately \$600 million, came to Alcoa as part of the Cordant Technologies acquisition in May of 2000. Subject to regulatory approvals, the sale is expected to close by the end of the second quarter.

E-Commerce for Castings.

Alcoa has invested in MetalMaker, an e-Business provider for automotive castings worldwide. MetalMaker will provide e-commerce services, and Alcoa will contribute personnel, capital, and advisory services. The two companies will also develop a castings-specific sales and demand chain hub. This agreement complements Quadrem – the strategic procurement marketplace supporting Alcoa's metals and mining businesses – and MetalSpectrum, the sell-side marketplace that Alcoa helped to establish for sheet, plate, and extruded aluminum products. MetalMaker provides a comprehensive e-Business infrastructure for foundries, mills, and their supply base.



Phyllis Neil, Alcoa, Tennessee, USA

Focus on Global Growth.

Throughout 2000, Alcoa Building Products (ABP) pursued its international sales development plan created in 1999. The strategy is market-specific, country-by-country, concentrating product availability close to developing markets. Recent developments: In November, ABP opened a distribution center in Turkey to serve that country and the Baltic region, including Russia. The fast-growing residential housing market in Turkey has already generated strong demand for ABP exterior cladding products. In England, ABP has received regulatory approval for vinyl siding and vinyl soffit in both the Alcoa Building Products brand and the Mastic® brand – the first North American manufacturer to win approval for U.S.-style vinyl siding and soffit.

NEW ALCOA PRODUCTS

New products fuel Alcoa's growth and strengthen market positions by delivering benefits that customers value. Dozens of patents and hundreds of product improvements take place in the normal course of business each year. Following are some of the product innovations now having a commercial impact in various markets.

Innovations in Closures. Alcoa Closure Systems International (CSI) is strengthening and expanding its market position with a rapidfire series of improved product designs.

For Coke: Shipments started in March 2000 of the new Double-Lok® SLB closure, approved throughout the entire Coca-Cola system. Double-Lok SLB was engineered specifically for the high-speed, high-volume bottler. Product enhancements include a patented thread design, increased impact strength, and a more robust tamper band.

For Pepsi: Extra-Lok® closures have been approved throughout the Pepsi system. Conversion is underway for all U.S. customers. The new product incorporates a patented "bead behind the wing" tamper-resistant wing design, a more robust tamper band, and improved high-speed application performance.

For Perrier: The new Aqua-Lok® 26 mm closure was introduced as part of a joint development project of Alcoa CSI, Alcoa Packaging Machinery, and Perrier. A complete system solution, this technology reduces bottle and closure costs and improves sealing, tamper resistance, and capping machine performance.

For Bottled Water: Nitro-Lok® I has been well received in the U.S. bottled water marketplace. It offers superior nitrogen barrier and sealing properties for water products that use nitrogen pressurization to provide package rigidity. Nitro-Lok II, which will incorporate features of CSI's "bead behind the wing" design, is currently in market qualification testing.

A Better Litho Sheet. Alcoa CRL™ (Coating Ready Litho) is expected to get a warm welcome from lithographic customers around the world. Developed by Alcoa Mill Products, CRL eliminates the need for graining and anodizing by lithographic manufacturers. It allows Alcoa's customers to move directly to applying either photo-sensitive or computer-to-plate coatings.

Super Alloys for Super Aircraft. New, super-large commercial aircraft such as the A380 double decker and A340-500/600 will achieve unprecedented capacities, efficiencies, and longer ranges with the help of Alcoa's latest high-performance alloys. Alcoa and Airbus are working together via integrated product teams, which are now in the process of selecting the materials. Alcoa supplies aerospace alloys from North American and European facilities for primary structures on all Airbus aircraft.



Monica Vignotto, Fusina, Italy

A Big Advance for Molders. An advanced aluminum alloy developed by Alcoa is creating a major stir in the plastics industry. Called QE-7® the new material is the hardest, strongest, and longest lasting aluminum alloy available to make molds for injection molding of plastic parts. QE-7 aluminum's thermal conductivity is 4.5 times higher than that of steel, which gives molding customers shorter cooling times, reduced cycle time, higher productivity, and improved finished part stability. In its first year of production using QE-7 tooling to mold polypropylene, a major U.S. toy manufacturer showed productivity gains of 30% compared with molds made of P20 steel, the industry standard until now. Studies by Purdue University and trials at GE Plastics also demonstrated cycle time savings in the 20% to 30% range, using a variety of polymers. A major introduction program is planned this year.

New Consumer Products. New products are the lifeblood of any consumer products company. They respond to consumer needs and generate excitement in the marketplace. Over the past year, Alcoa Consumer Products fired up one new product introduction after another:

Reynolds Extra Wide Plastic Wrap. At a width of 18 inches, it's 50% wider than other plastic wraps, for easy covering of larger food items, platters, and containers.

Reynolds Grill Buddies® Foil Sheets. These extra heavy duty sheets of aluminum foil lay right over the grill to provide a clean cooking surface and prevent delicate food from dropping through. Pre-cut slots allow the special flavors of grilling to come through.

Reynolds Cut-Rite® Holiday Prints Wax Paper. Adorned with wintry images like snowmen and snowflakes, it's a great lining for holiday trays and platters.

Presto Fresh-Lock® reclosable zipper bags. The first such bags to be offered in private label – and now the zippers themselves for customers to use on their packaging – this product line gives customers a powerful brand-building tool.



Ming Li, Alcoa Center, Pennsylvania, USA

Presto Sure-Seal® Disposable Containers. These come in two convenient sizes – soup and salad, and entree. They can be used for storing, freezing, and microwaving food, and they're dishwasher safe.

And there are more in the pipeline. Several new products are slated for introduction over the next 18 months. Alcoa's purchase of Reynolds will add significantly to this effort, with new technologies, improved processes, and a strong R&D commitment.

Multipacks to Fit the Fridge. Consumer research conducted by Alcoa Rigid Packaging has spawned new multipacks for beverages in aluminum cans. The innovative configurations, developed by Alcoa and paperboard packaging leader Riverwood International, allow more cans to be placed conveniently into a refrigerator – a help to the consumer and also a spur to quicker consumption. Encouraged by aluminum canmaker Amcor, Australia's Coca-Cola Amatil commercialized the "Fridge Mate," a long, slender box in which cans roll to the front of the refrigerator for easy access. Other beverage companies are evaluating a variety of Alcoa-inspired designs.

Some Smelters Back on Line.

In January 2000, Alcoa announced a plan to restart some 200,000 metric tons per year (mtpy) of idled smelting capacity. Australia's Portland and Pt. Henry smelters resumed operations in May. During the second half of the year, five Alcoa smelters in the U.S. progressively brought additional capacity on stream, reaching published targets by year end. These were at Rockdale, Texas; Wenatchee, Wash.; Alcoa, Tenn.; Badin, N.C.; and Frederick, Md. Partially offsetting these increases, in June Alcoa announced temporary curtailment of production at its Troutdale, Ore. smelter, where large capital expenditures would be necessary to meet safety, environmental, and economic performance standards. Then, in January 2001, an electrical power crisis forced cutbacks at two smelters in Washington State. (See following newsbrief.) Net effect of all these factors: approximately 12% of Alcoa's smelting capacity is currently idled.

Responding to a Power Crisis.

In light of a continuing power crisis in the Northwest U.S., Alcoa announced adjustments to the delivery of previously contracted electricity to its smelters in Wenatchee and Ferndale, Wash. Production at the two facilities was reduced by a combined 150,000 mtpy. There will be no immediate layoffs at either location. At Wenatchee, some 150 megawatts of power contracted for the smelter will be sold back to Bonneville Power Administration to meet regional demands. The curtailment is expected to be temporary. At the Intalco smelter in Ferndale, 61% owned by Alcoa, the adjustment will redistribute contracted electricity over a four-month period as production is reduced from January through April. A return to peak operating levels is expected in May.

Growth in Photonics.

AFL Telecommunications, a part of Alcoa Fujikura Ltd., opened new manufacturing facilities in Allentown, Pa. and Spartanburg, S.C., to support its photonics business.

Photonics describes the entire fiber optic network and the products used to transmit optical signals and increase bandwidth by dense wave division multiplexing and optical fiber amplifiers. The new facilities are expected to employ a total of nearly 700 people.

Fast Doors!

Commercial building customers are delighted with the quick turnaround time offered on three standard doors included in Kawneer's Fast Doors Program. Thanks to APS methods, lead times have been reduced from six weeks to 10 days on Kawneer's "bread-and-butter," high-volume orders. These standard entrance packages include doors, frame surrounds, and hardware – in the customer's choice of frames, bottom rail sizes, anodized or painted finishes, locks, hinges, and handles. All in 10 days.

For Health and Environment.

An Alcoa Foundation grant totaling \$75,000 was given to Patronato Amigos del Hospital, AC in Acuña, Mexico. The money will help to expand and equip the hospital's clinic



Juliana Pereira, Poços de Caldas, Brazil

for diagnosis and treatment of osteoporosis – one of the three leading illnesses for women in Mexico. The Foundation also presented a \$20,000 grant to Guardianes de Nuestro Valle, A.C. for conservation work in the state of Coahuila, Mexico, most notably of the famed Cuatro Ciénegas natural resource area.

STRATEGIC ADDITIONS

2000 was a year of key acquisitions, broadening Alcoa's revenue base, technology base, and opportunities for profitable growth. The additions of Reynolds Metals and Cordant Technologies dominated the headlines, but other new assets were acquired as well, strengthening Alcoa's position in major growth markets.

New British Operations. Alcoa acquired the aluminum plate, sheet, and soft-alloy extrusion operations and distribution businesses of British Aluminium Ltd. Manufacturing operations are located in England and Wales. Distribution businesses, operating under the names Aluminium Supply Aerospace and Baco Metal Centres, are in England, Wales, Scotland, and Ireland. Employing 1,550, these businesses generated some US\$360 million in revenue in 1999. Their addition strengthens Alcoa's European presence as a full-range supplier to aerospace and plate customers.

Specialty Metals Expands. Alcoa has acquired the assets of privately held C-KOE Aluminum, Inc. of Dallas, a producer of primary grade aluminum particle ingot for the chemicals and metals markets. Now a part of the Specialty Metals unit of Alcoa Primary Metals, the operation will continue to supply former C-KOE customers.

Adding to Presto's Capacity.

The plastic bag and wraps businesses of ConAgra, Inc.'s Arrow Industries Division have been acquired by Alcoa, including Arrow's food contact plastic bags, wrap products, and plastic disposer bags. These



Jeanine White, Alcoa Center, Pennsylvania, USA

segments will add significant capacity to the private label business of Alcoa Consumer Products.

Foil and Cans in Brazil. Alcoa Alumínio has purchased Itaipava Embalagens Flexivers Ltda. Itaipava converts some 12,000 annual mt of aluminum into foil, principally for consumer products packaging. It's Alcoa's second expansion within a year in Brazil's aluminum packaging sector. The merger with Reynolds in May included Reynolds' 35% share in Latasa, Brazil's largest aluminum beverage can producer.

Closures Technology. Two acquisitions in 2000 augmented the breadth of technology and market reach for Alcoa Closure Systems International (CSI). It acquired MCG Closures Ltd., with plants in England and Italy and a distribution center in the Netherlands. The purchase of Southern Plastics of Kilgore, Texas, adds injection molding technology and access to important food and personal care markets.

Baco Joins Alcoa Consumer Products. Privately held Baco Consumer Products, Ltd. has become part of Alcoa's Consumer Products business based in Richmond, Va. Baco is the U.K.'s leading supplier of household wraps, including aluminum foil, plastic bags, clingfilm, and bin liners. It augments the expertise, markets, and global presence of the consumer products business that became part of Alcoa with the Reynolds acquisition.

Growth in Automotive Fasteners. Alcoa acquired the assets of Midwest Fastener Corporation, a privately held company with manufacturing locations in South Holland, Ill. and Valparaiso, Ind. Its product line is complementary with Alcoa's growing automotive fastener business.

Buildup in Fiber Optics. Positioning itself as a complete systems supplier in the dramatic growth of fiber optics for telecommunications, Alcoa Fujikura Ltd. (AFL) completed four acquisitions in 2000:

Noyes Fiber Systems, based in Belmont, N.H., a manufacturer of fiber optic test and measurement equipment.

Focas Ltd. and Focas, Inc., with operations in Swindon, U.K. and Alpharetta, Ga., respectively, adding to AFL's worldwide product line for aerial applications.

AtPac, headquartered in Salem, Va., building on AFL's family of engineer, furnish, and install (EF&I) companies.

Aster, part of Thomas & Betts Corporation, operating out of Attleboro, Mass., offering splitters, couplers, and cable assemblies for OEM and optical systems suppliers.

...AND DIVESTITURES

In approving Alcoa's acquisition of Reynolds Metals, the U.S. Dept. of Justice and the European Commission called for divestiture of certain Reynolds assets:

Worsley in Australia. Alcoa completed the sale of Reynolds Australia Alumina, Ltd. LLC, which holds a 56% interest in the Worsley alumina refinery, to an affiliate of Billiton plc. The price was US\$1.49 billion. Alcoa had acquired its stake in Worsley as part of the Reynolds acquisition.

Sherwin in Texas. Sale of the 1.6-million-mtpy Sherwin alumina refinery in Texas was completed December 31. The buyer was BPU Reynolds Inc., a private investment company based in Atlanta, Ga.

Longview in Washington. In late December, agreement was reached for sale of the 204,000-mtpy smelter in Longview, Wash. to Michigan Avenue Partners. Alcoa was required to sell a 25% interest in Longview. The agreement is contingent on financing and subject to regulatory approvals.

Stade, Germany. Negotiations are in progress regarding the sale of the 50% stake that Reynolds held in this German refinery.



Mike Williams, Runcorn, UK



Daniele Patricia Cabral, Itapissuma, Brazil

Alcoa Wheels in Hong Kong.

Kowloon Motor Bus (KMB), a leading public bus company in Hong Kong, has specified Alcoa's mirror finish forged aluminum wheels for 150 new Volvo double deckers, to be built in Poland. It's a major step in penetrating the Hong Kong and South China wheel market because KMB is a market leader and trend setter in commercial transportation.

Production Halt in St. Croix.

Alcoa suspended operations at its 600,000-mtpy alumina refinery located on St. Croix, U.S. Virgin Islands, on January 31, 2001. The St. Croix refinery had been operating since December 1997, producing alumina for Alcoa smelters in the U.S. Future production from St. Croix will be evaluated in light of internal and external supply commitments.

ABS at the Power Plant.

In mid-2001 Alcoa will assume responsibility from Southern Indiana Gas and Electric Co. (SIGECO) for operating the Warrick (Ind.) Power Plant. Alcoa owns three of the four power generating units, and nearly all the electricity generated there is used in the smelting and fabricating facilities of Alcoa's Warrick Operations. The fourth unit is co-owned by Alcoa and SIGECO. Under the new agreement, Alcoa will manage all four generating units and deliver to SIGECO its

portion of the Unit 4 output. Alcoa Primary Metals plans to apply ABS principles to achieve optimum performance of the plant.

New Alcoa Data Center.

Alcoa's 47 North American computer centers and their infrastructure will be consolidated in a state-of-the-art data center to be built near Alcoa Technical Center east of Pittsburgh, Pa. Design has begun on the 50,000-square-foot, two-story facility, which will employ 150 and is scheduled to open in November 2001. A study of the company's information systems facilities concluded that cost-efficiency and levels of service would be improved by consolidating staff and facilities into one North American data center. Its design incorporates redundant systems to ensure a high level of reliability.

Eventful Year in Chemicals.

Alcoa World Alumina Chemicals (AWC) had a year of substantial change and the refocusing of many parts of the business. This included globalization of internal processes, application of ABS to the complete business, and the closing of some plants and offices. In China, construction was completed in 2000 at the Qingdao processing center. Designed using ABS

principles, this facility has the flexibility to process a range of local refractory materials for domestic and export markets. In the U.S., a major restructuring of AWC plants in Bauxite, Ark. and Leetsdale, Pa. was announced in May 2000 for early 2001 implementation.

To the Rescue!

The 47-foot Motor Lifeboat, manufactured for the U.S. Coast Guard by Textron Marine & Land Systems, is made of marine sheet and plate from Alcoa's Davenport (Iowa) Works. If capsized, the boat will right itself in less than 10 seconds.

Alicante's New Caster.

New continuous caster equipment at the Alicante, Spain, rolling plant allows uninterrupted casting with minimum metal loss when changing from one alloy to another. The system now uses natural gas for the melting-holding furnace, laser level control for channels, bypassed ceramic foam filters, and a compact on-line degasser that prevents the metal loss typical of traditional box degassers. The caster produces foilstock coils for use in making foil containers, flexible packaging, and finstock applications.

Jewelry to Jets.

Alcoa Foundation is the global sponsor of an exhibition called *Aluminum By Design: Jewelry to Jets*, which opened in October at the Carnegie Museum of Art in Pittsburgh, Pa. Three hundred objects chronicle how aluminum has inspired creativity and innovation in fields as diverse as fashion, architecture, autos, consumer products, and industrial production. In March, the show begins a worldwide tour at the Cooper-Hewitt National Design Museum in New York, then moves to other museums in the U.S., Canada and Europe.

Return of the Wallaby.

Until recently, tammar wallabies, small kangaroo-like native animals, had not been seen near Alcoa's Huntly Mine in Western Australia for over 70 years. The small marsupials had been driven to the point of

extinction by introduction of foreign predators such as the European fox. In a program sponsored by Alcoa and managed by the Western Australian Department of Conservation and Land Management, 20 of the wallabies have been released into a rehabilitated area at Huntly Mine. Students from North Dandalup and Dwellingup Primary Schools will take part in the wallaby monitoring program.

Amorebieta Recycles Oil.

The rolling plant in Amorebieta, Spain, has installed a rolling oil distillation tower with the goal to keep the oil clean and to minimize waste. Thanks to the distillation system, all of the oil used in cold rolling is now recycled and reused, bringing both environmental and economic benefits.

New Extrusion Plant.

A new plant is up and running in La Selva del Camp, Tarragona province, Spain, making extruded aluminum profiles and tubes for the automotive and construction industries. Designed for leading edge technology, safety, and efficiency, the new plant has a 1350-metric-ton press with an annual output of 4,000 mt. A second line will start up in August 2001, doubling capacity.

Steering Knuckle News.

High-performance, safety critical aluminum castings for chassis and suspension systems are an increasingly important product for the world's carmakers. Alcoa Automotive Castings will launch new steering knuckle programs in the next 12-24 months for new models coming from Saturn, Ford, and DaimlerChrysler light trucks and minivans. These will join existing programs for Volvo, GM, BMW, Ford, and Jaguar. In addition to meeting performance requirements for these applications, aluminum knuckles save an average of 40% of the weight of ductile iron parts.



Celia Almodovar, Barcelona, Spain

Mexican Plant Expands.

AFL Telecommunications expanded its Monterrey, Mexico facility, doubling its capacity, increasing its space to 35,000 square feet, and adding 300 employees. Plans include an engineering center for product design and development.

Gains in Wire Harnesses.

During 2000, AFL Automotive signed up a number of new customers for its electrical distribution system/wire harness products, including VW – North America for the Volkswagen Golf/Cabrio vehicles, GM for the Corvette, Donnelly Corporation for an aftermarket rear camera application, and Autoliv for a Chrysler CS platform. AFL Heavy Truck Specialty Vehicles Group secured a five-year wire harness and component supply contract with BlueBird Bus.

Big Plates for Big Ships.

The long-term agreement now in place between Hyundai Heavy Industries and Alcoa covers aluminum plate required for the construction of liquefied natural gas (LNG) ships. Alcoa's Davenport Works has the unique capabilities to meet the specifications for these plates – some of the largest produced anywhere in the world. The LNG market is expected to double in the next decade, due in part to rising crude oil prices.

Double Play.

Atlanta's primary convention facility, the Georgia World Congress Center, will include Kawneer curtain wall and store-fronts as part of a major addition. In a double play for Alcoa, the same project calls for Reynobond® aluminum composite panels from Alcoa Cladding Systems. In Denver, Colo., the same combination is scheduled for use on a city/county government building.

Packaging Prowess.

Alcoa Flexible Packaging Products (AFP) not only makes aluminum foil-based packaging but also produces plastic film packaging, including printed shrink film labels. Nestlé® took advantage of these capabilities, trusting Alcoa to collaborate in the upgrading of their NesQuik® product. NesQuik was moved from paperboard cartons to a uniquely shaped PET bottle, armed with eye-catching process printing on Alcoa shrink film labels. Along the way to a highly successful roll out, Alcoa assisted Nestlé in its packaging design, film formulation, machinery trials, and continuity of film supply. AFP is now installing a new printing press and seaming capacity at its Downingtown, Pa. plant to support Nestlé's growth and that of other label customers.

Stop and Think Safety.

More than 850 Alcoa workers were stopped at Kwinana (Western Australia) Refinery's main gate last January when the site's Safety Motivation and Recognition Team (SMART) staged a safety "picket line" to highlight the importance of safe work practices. Since it was formed in 1997, the team has earned a reputation for thought-provoking events to inspire Alcoa's 1,000 employees and 300 contractors to aim for a zero injury workplace. The event was so successful that SMART was invited to appear at the International Minesafe Conference in the state capital of Perth.

Four Million Metric Tons Later.

In October, the four millionth mt of aluminum produced at Alcoa's Portland smelter in Australia sailed from Portland harbor aboard the *MV Auk Arrow*, bound for Asian customers. Virtually all of Portland Aluminium's output is exported, primarily to Asia.

Community Outreach.

In June of 2000, Alcoans at Wagerup in Australia formed the Community Consultative Network (CCN) with residents of Waroona, Preston Beach, Hamel, Yarloop and Harvey. The CCN meets on a monthly basis to discuss a variety of issues relating to the refinery's operations and impacts on the community. Alcoa's Kwinana and Pinjarra plants also have CCNs.

Hot Meals for the Games.

Foodservice operators at the Sydney Summer Olympics faced some high hurdles of their own – how to offer well-prepared and well-presented meals on a moment's notice to countless thousands of hungry



Derwin Coleman, Richmond, Virginia, USA

spectators. Alcoa's Reynolds Foodservice Packaging provided the answer – attractive, ready-to-serve dual ovenable disposable containers to carry and serve hot, ready-to-eat meals.

Timely Missile Components.

Raytheon selected Alcoa's Howmet TiCast for an Exceptional Performance Team Award to recognize its work on the Standard Missile 2 Block 4A — a program that will cover 1,000 to 1,500 missiles over the next several years. The Alcoa component is a titanium shroud. TiCast made this hardware for Raytheon on an expedited basis to replace an alternate designed part from another supplier who was experiencing manufacturing problems and missing deliveries.

Capping a New Coors Bottle.

Coors Brewing of Golden, Colo., has launched test marketing of a five-layer amber bottle for 16-oz. Coors Lite. Alcoa CSI supplies the compression-molded polypropylene closure. It includes a gas barrier layer of ethylene vinyl alcohol. Like the bottle neck, the cap has a Coors Rocky Mountains design molded onto its skirt and the words Coors Lite on the top.

A FRAMEWORK FOR SUCCESS

Throughout Alcoa's worldwide operations, the Alcoa Business System (ABS) and its manufacturing arm, the Alcoa Production System (APS) are rapidly being adopted as standard practice. ABS and APS provide Alcoans with the disciplines to eliminate waste, reduce inventories, cut costs, accelerate response times, and deliver valuable competitive advantage to Alcoa customers. In 2000, these systems also provided a timely framework for rapid integration of acquired businesses.

Following are a few recent examples of ABS/APS accomplishments.

Worms, Germany. Alcoa CSI is pursuing energetic ABS/APS programs at various locations in Europe. CSI Worms is developing a "pull system" linking customer plants directly with the manufacturing schedule. (One basic tenet of APS is "Produce for use, not for inventory.") This has shortened lead times, improved delivery performance, and reduced inventories at both ends.

Székesfehérvár, Hungary. A total plant re-layout has been completed at CSI Hungary. The plant is now organized in flow-oriented cells, with workers managing flow from molding to packaging, and with cell leaders empowered to drive continuous improvement.

Itajubá, Brazil. AFL do Brasil is including EHS (Environment, Health, and Safety) in its ABS implementation, resulting in a positive and motivating work environment. Lost Work Day (LWD) injury rates have improved nearly eightfold, from 2.13 in 1998 to .26 in 2000. Defect rates are near zero, inventory is down 60%, and the recovery rate is above 97%. Supply Chain Management implementation has driven customer performance to 100% in the latest period, with a record return on capital of 25.3% for the year.



Honfi Laszlo, Székesfehérvár, Hungary



Rolland Perrault, Deschambault, Quebec, Canada

Monterrey, Mexico. Three years ago, AFL Automotive began piloting ABS/APS implementation at Monterrey. In 2000, the lessons learned and improvements made there were cascaded throughout AFL's Mexican locations and introduced at selected AFL U.S., Brazilian, and European operations. In Mexico AFL, quality is up. Inventory, flow times, and employee injuries are down. On-time delivery performance improved 46%, and customers are beginning to see ABS as a source of competitive advantage.

Lebanon, Pennsylvania. Adapting the same principles, Alcoa Mill Products' Lebanon facility has initiated a pre-shear pull system for several formed container specifications. This reduces the lead time on these items from four weeks to two. The system is now being expanded to most other formed container operations.

Richmond, Virginia. Alcoa's Bellwood Printing, a 500-employee factory that makes printed packaging – including the cartons for Reynolds Wrap® and Reynolds Plastic

Wrap – was chosen as the site for a formal pilot project to teach everyone in the newly acquired group about ABS. A core team of six hourly and four salaried employees developed a highly effective learning tool – an ABS simulation of their work, using wooden blocks to visualize the process. In October, the team began to install a pull system in the pilot area. Machine changeover time has been sharply reduced. In-process inventories have been cut in half, and total inventory is down by \$5 million. The space saved made it possible to vacate 50,000 square feet of leased warehousing, saving \$150,000 a year.

Latin America. Alcoa extrusion plants in Brazil and Argentina started ABS implementation in late 1997. A pilot plant in Sorocaba led the way, teaming up with Alcoans from plants in Tubarão, São Caetano, Utinga, Itapissuma, plus a central die shop in Brazil and an extrusion plant in Ferrosar, Argentina. Results: New anodizing lines and distribution centers are now integrated into extrusion production systems at Sorocaba, Tubarão, and Itapissuma. Extrusion costs at these plants show reductions of 21% to 49%. Order lead times, previously 6 to 14 days, now range from 1 to 5 days. Truck loading time is 3 to 5 times faster than in 1997, and all plants report significant safety improvements.

Cleveland, Ohio. When CEO Alain Belda visited Alcoa Wheel and Forged Products plants in October, he found APS results significant enough to warrant an Intranet message to all company locations. Among the examples he noted: In the three months since July, 37 hourly employees in the S-Plant had received Alcoa Commitment to Excellence awards for their problem resolution/waste elimination projects. In that same period, team leaders at the coater facilitated 21 separate problem-solving projects addressing quality, cost, and flow. In the H-Plant, ergonomic and material handling injuries improved by 70%. Internal and external rework was reduced by 80%, inventory queues by 71%, reheat rates by 67%, and coater reject rates by 85%.

Jonesboro, Georgia. APS-driven process improvements at Kawneer's Jonesboro plant have increased throughput in anodizing from an average of 48,000 square feet per day to 60,000 square feet. For Kawneer's operations as a whole, APS programs over the past year have yielded a \$10-million reduction of inventories plus across-the-board improvements in on-time deliveries.

Fast Trackers.

A molten metal holder for electromagnetic casting in the Ingot Plant at Alcoa's Warrick Operations was completely relined in a benchmark 34 days, injury free and under budget. A multidiscipline team used critical path planning to identify tasks that could be completed in parallel – simultaneously rather than one after another. The result was record fast completion, lower costs, and improved productivity on a critical piece of equipment.



Lisa Bryant, Waco, Texas, USA



Jerry Williams, Richmond, Virginia, USA

Breaking Records at Warrick.

Warrick (Ind.) Operations set records in 2000 on measures of recovery rates and quality levels. Ingot casting recovery came in at a record 93%, thanks to progress in eliminating scrap loss problems called folds, globs of skim, and rolling face cracks. Scrap caused by these factors has decreased 66% in two years. The Recovery Improvement Team included experts from Alcoa Technical Center as well as Warrick and Knoxville (Tenn.) Engineering. On the quality front, Warrick chalked up a stretch of one year and over a billion cast pounds without a customer return.

Customer Service Online.

In 2000 Alcoa's Reynolds Aluminum Supply Company (RASCO) extended to its customers the power of its core information systems, which interlink RASCO's North American network of 38 service centers. Through RASCO.Net and RASCO Online, customers can now order any one of 30,000 items, track order status, and pay invoices. Over 150 large customers are participating, and more are signing up.

New Mill Up and Running.

Alcoa's newly acquired rolling mill in San Antonio, Texas, began production in February 2000, turning out aluminum

sheet building products. In November, the facility was approved by its first finstock customer, Trane of Tyler, Texas.

Back to Nature at Squaw Creek.

Land reclamation efforts are nearing completion at Squaw Creek Coal Company, a joint venture between Peabody Coal and Alcoa that for more than 30 years produced coal for the Warrick power plant. Going well beyond requirements, mining teams have restored 2,000 acres of land, moving 2.5 million cubic yards of topsoil and grading 1.2 million cubic yards of earth back to its original contours. They revegetated more than 1,900 acres, planting 500,000 hardwood trees, 400 acres of warm season prairie grasses, and large fields of wildflowers and creating an outstanding wildlife habitat. The original system of country roads has been restored and improved.

Wheels for Australia and Japan.

In August Alcoa Wheel and Forged Products (AWFP) launched its first Australian venture, acquiring distributor Wheel Master Pty Ltd. of Melbourne. Renamed Alcoa Wheel Products Australia, the facility continues to offer Alcoa forged aluminum wheels and accessories as well as steel wheels, hubs, drums and wheel mounting services. In Japan, AWFP announced construction of a new wheel plant in Joetsu City, Niigata Prefecture, which will be operational by third quarter 2001. Its lightweight forged aluminum wheels will help customers to meet recent Japanese government and industry initiatives to save energy and lower emissions by reducing the weight of commercial vehicles.

Managing Water.

Alcoans at Lafayette (Ind.) Operations are pursuing a goal of zero water discharge by reducing the plant's volume of process water and finding innovative ways to prevent stormwater discharge. By installing cooling towers and air-cooled units, the facility reduced its use of process water from 1.2 million gallons per day (gpd) in 1998 to approximately 0.4 million gpd by December

2000. Next target: 164,000 gpd by January 2002 – an 84% reduction from 1998 levels. Now they're looking at ways to eliminate stormwater discharge by taking advantage of the natural landscape – using porous pavement, soil infiltration, and “green roofs.” This system would handle 95% of all stormwater at the 172-acre site.

AS OTHERS SEE US

One of the Best. *Industry Week* named Alcoa one of the 100 best-managed companies in the world, basing the recognition on specific best practices the company has achieved. Among them: Alcoa is positioned as the world's No.1 aluminum producer. Inventory was reduced in 1999 by \$250 million. Managers have been challenged to minimize environmental impact. And Alcoa Foundation increased donations 11% to \$17.9 million in 1999.

CFO Wins Double Honors. Alcoa CFO Rick Kelson was named one of 11 winners of the CFO Excellence Awards, the first U.S. awards to recognize leadership in finance. Kelson won in two categories – Performance Measurement and Planning/Process Allocation. The competition recognizes chief financial officers who take on growing responsibilities to meet the challenges facing today's corporations. Winners were profiled in *CFO Magazine's* October issue.

Seal of Approval. Several Mastic® brand products from Alcoa Building Products have now joined the ranks of premium products that carry the Good Housekeeping Seal, a certification highly respected by U.S. consumers.

Tops in Aerospace. Howmet Castings was recognized as one of the aerospace industry's six best-managed companies for 2000, based on *Aviation Week and Space Technology's* proprietary competitiveness index for critical management measures such as asset utilization, productivity, and financial stability. Howmet also earned a superior



Debbie Settle, Frederick, Maryland, USA

performance award from Boeing for its work in supplying titanium castings for the F-22 – improving quality and reducing flow times to ensure on-time fabrication, assembly and delivery of the F-22’s wings. Howmet has developed and produced investment cast structural titanium components for use in more than a dozen applications on the F-22, many of them fracture critical.

A Golden Gecko for Pinjarra.

Pinjarra Alumina Refinery earned a Golden Gecko award for environmental excellence from the Western Australian State Government Department of Minerals and Energy. The award recognizes “the thorough and innovative work conducted by the company as part of its Pinjarra Alumina Refinery Land Management Program.” Pinjarra was also recognized for leadership in health and safety when it placed second at the Australian 2000 MINEX Awards for leadership in health and safety systems that foster employee involvement.

Corporate Reputations. Alcoa headed the list of resources companies in a survey of corporate reputations among Australian stakeholder groups. Eighteen nongovernment organizations – ranging from Greenpeace to the Institute of

Chartered Accountants – were polled on corporate reputations of leading Australian companies, examining their marketing, financial, ethical, social, environmental, and employer reputations.

Customer Focus. Reynolds Consumer Products – part of the Alcoa Consumer Products business unit – was recognized by *Supermarket News* as best of class for category management in the Wraps and Bags category. Category management is the ultimate test of customer focus. It involves achieving the most sales-effective assortment of products on the shelf, timely replenishment of products on display, stocking new products quickly, and using the most effective promotion and pricing strategies. Net result is to help Alcoa’s customers build sales.

Safety and Productivity. Alcoa’s Warrick Operations was the recipient of the 1999 U.S. Senate Productivity Award for Indiana, which is presented to companies that have shown dramatic improvement in safety. Alcoa’s Lafayette Works was a runner-up for the 1999 award.



John Bindokas, Anglesea, Victoria, Australia

PBS Features Alcoa Teams.

Alcoa Packaging Machinery (APM) in Englewood, Colo., was featured in the national PBS Series, *Livelyhood*, which focuses on workplace change. APM was selected because of its High Performance Work Organization. Since APM adopted this system in 1995, plant employees have been able to improve quality, customer service, and safety and raise productivity by 33%. Work groups decide how to meet customers’ needs, and employees are cross-trained so that one individual’s absence doesn’t stop the manufacturing process. The plant has had no grievances in two years and no arbitration hearings in four years. Thanks to safety improvements, there have been no lost workday injuries in four years. The PBS special, titled *The Workday That Wouldn’t Die*, aired nationally in October.

A Leader in Philanthropy.

Worth Magazine named Alcoa among the top 50 publicly traded corporations for contributions to charity in 1999. The magazine noted that for the past five years the Alcoa Foundation has increased its giving by \$1 million each year. In 1999, the combined charitable giving of Alcoa and Alcoa Foundation totaled about \$23.5 million, mainly to educational, health, community service, and environmental causes throughout the world.

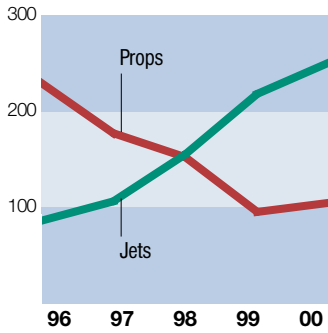
Spanish Plant Honored. Grafiba, Alcoa’s flexible packaging plant in Catalonia, Spain, was recognized by the Chamber of Industry and Commerce of Terrassa for leading all of the region’s companies in growth of exports in 1999. Grafiba sells products such as yogurt lids, butter and margarine wraps, and cheese foil to the food and beverage, and pharmaceutical industries. Clients are located in more than 20 countries in Europe, Africa, and the Americas, and sales have doubled in the past four years.

FINANCIAL AND CORPORATE

DATA

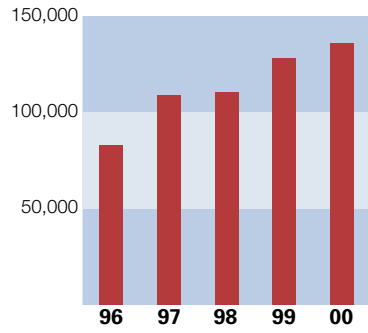
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Worldwide Commuter Aircraft Build Rates less than 100 passengers



Sources: Alcoa, Industry

North American Automotive Aluminum Sheet Demand metric tons



Sources: Alcoa, Industry

TRANSPORTATION

Alcoa segments that sell products to this market:

- Flat-Rolled Products
- Engineered Products
- Other

- With increased revenues in the automotive sector, Alcoa's transportation market sales exceeded those in packaging for the third year in a row.
- Global auto sales set a new record in 2000. In North America, although declines in demand are now evident, 2001 is still expected to be the third-best year in history, after 2000 and 1999 (PricewaterhouseCoopers LLP).

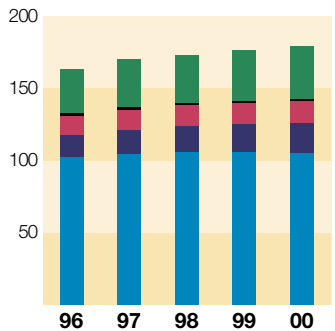
- Automotive use of aluminum continues to rise as carmakers seek ways to increase fuel efficiency and performance. In 2001, aluminum per vehicle is likely to grow 4.3%, to about 256 lbs. (116.2 kg), according to *American Metal Market*, underscoring the continued growth in this market.
- Over the next 20 years, air travel will grow about two percentage points faster than worldwide economic growth as a whole. (Boeing 2000 Market Outlook).

TRENDS

IN ALCOA'S MAJOR MARKETS

PACKAGING AND CONSUMER PRODUCTS

Aluminum Beverage Can Demand billions of cans



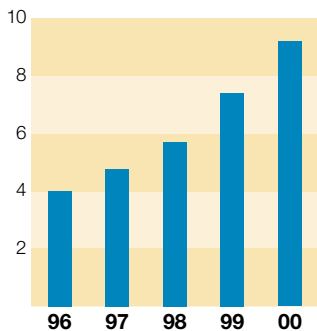
Sources: Alcoa, CMI, CCL, Kaal, IMES

Alcoa segments that sell products to this market:

- Flat-Rolled Products
- Packaging and Consumer Products

- Alcoa's packaging and consumer products revenues are primarily from sales of beverage can sheet, bottle caps, foil products, packaging machinery, and the addition in 2000 of Reynolds' consumer products businesses.
- Alcoa Closure Systems International is strengthening its market position with improved bottle cap designs to enhance tamper resistance, barrier properties, and compatibility with ultra high speed bottling lines.

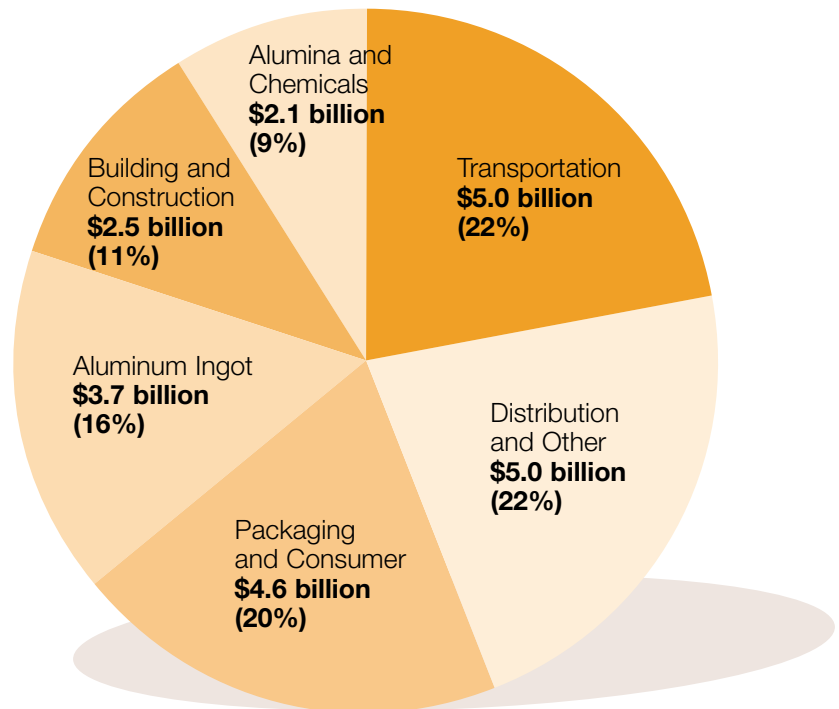
Bottled Water Growth billions of units



Small Size PET in U.S. & Canada.

Sources: Alcoa, Industry

- Alcoa Consumer Products introduced more than a dozen new products in 2000 under the Reynolds® brand, and more are in the pipeline. (See New Alcoa Products, pp 19-20.)
- Baco – acquired in 2000 and now part of Alcoa Consumer Products – is a well-respected brand in the U.K. and the leading supplier of household wraps.
- Worldwide aluminum can shipments rose 1.4% in 2000. In the U.S. market, shipments were basically flat, year over year.



DISTRIBUTION AND OTHER

Alcoa segments that sell products to this market:

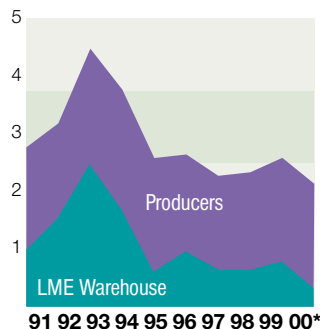
- Flat-Rolled Products
- Engineered Products
- Other

- Revenues in this market are mainly from sales of aluminum extrusions, sheet, and plate to distributors and from three businesses added in 2000: Huck fasteners, Howmet super alloy castings, and RASCO – Alcoa's Reynolds Aluminum Supply Company.

- "Other" includes magnesium, products and services for telecommunications, and Thiokol propulsion systems. (Acquired in 2000 as part of Cordant, Thiokol is currently being sold.)
- Positioning itself for continued growth of fiber optics and increased bandwidth in telecommunications, Alcoa Fujikura Ltd. (AFL) acquired four companies serving this market during 2000 and opened new manufacturing facilities in Pennsylvania and South Carolina.

Worldwide Aluminum Ingot Inventory

millions of metric tons



91 92 93 94 95 96 97 98 99 00*

*As of Nov 00

ALUMINUM INGOT

Alcoa segments that sell products to this market:

- Primary Metals

- Aluminum ingot is an internationally produced, priced, and traded commodity whose principal trading market is the London Metal Exchange, or LME.

- Worldwide primary aluminum capacity is estimated at 26.1 million mtpy (CRU International). Including acquisitions made in recent years, Alcoa now has 4.2 million mtpy of smelting capacity.
- As announced at the beginning of 2000, Alcoa progressively restarted 200,000 metric tons per year (mtpy) of idled smelting capacity. As power shortages emerged in the U.S. Pacific Northwest during

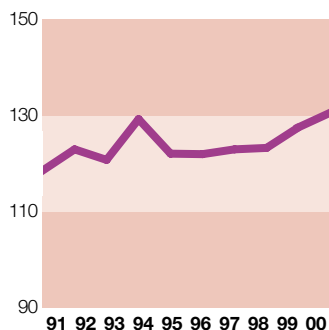
the year, production there was curtailed. Net effect: approximately 500,000 mtpy of Alcoa's worldwide capacity is currently idle.

- Alcoa produces aluminum ingot primarily to use in further fabrication of higher value products. Ingot shipments to third parties in 2000 were 38% of total aluminum shipments.

BUILDING AND CONSTRUCTION

U.S. Repair & Remodeling Expenditures

billions of dollars



Source: U.S. Census Bureau C-50, National Association of Home Builders

Alcoa segments that sell products to this market:

- Flat-Rolled Products

- Engineered Products

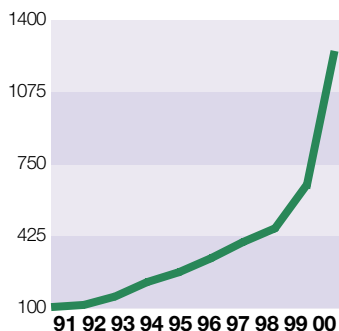
- Other

- Alcoa's revenues in this market are from an array of fabricated aluminum products for commercial and residential applications, plus vinyl siding and trim for new homes and remodeling.

- World construction spending grew 5.8% in total over the past two years (*Engineering News-Record*). However, in 2000, U.S. new housing starts declined 4.4%, the first slowdown in four years (U.S. Commerce Dept.).

- Consistent with the strategy of expanding its business beyond the U.S., Alcoa Building Products (ABP) is for the first time concentrating product availability close to developing markets. A new distribution center in Turkey will serve that country and the Baltic. In England, ABP won regulatory approval for vinyl siding and soffit in both the Alcoa and Mastic® brands – the first North American manufacturer to do so.

Alcoa Revenue Growth from the Telecommunications Industry

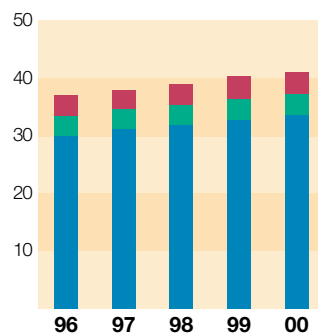


1991=100

ALUMINA AND CHEMICALS

Worldwide Demand for Alumina

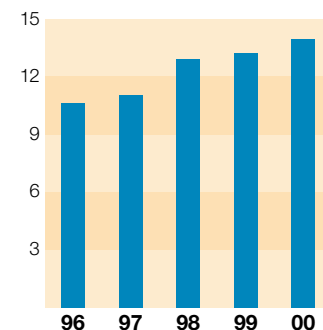
millions of metric tons



Source: CRU

Alcoa Alumina Production

millions of metric tons



Alcoa segments that sell products to this market:

- Alumina and Chemicals

- Alcoa is the world's largest producer of alumina, the white, powdery oxide of aluminum refined from bauxite ore. Alumina is used to produce aluminum and alumina-based chemicals.
- World alumina supplies tightened in 1999 due to an explosion that disabled Kaiser's 1 million mtpy Gramercy, La. refinery. The plant resumed production in the 4th quarter of 2000 and is expected to ramp up to previous output levels during 2001.

- Due in part to power shortages in the U.S. Pacific Northwest and resulting smelting cutbacks, Alcoa suspended operations of its 600,000 mtpy refinery on St. Croix in January 2001. Decreased demand for alumina also led to reduced production at the company's Point Comfort, Texas refinery. Production of aluminum fluoride, which is used primarily in aluminum smelting, will be temporarily curtailed at Fort Meade, Florida, at the end of March.
- In 2000, Alcoa World Alumina and Chemicals sold approximately half of its consolidated alumina production to third parties.

WORLDWIDE OPERATIONS

For a detailed listing of our operating locations, please visit:
www.alcoa.com



Selected Financial Data

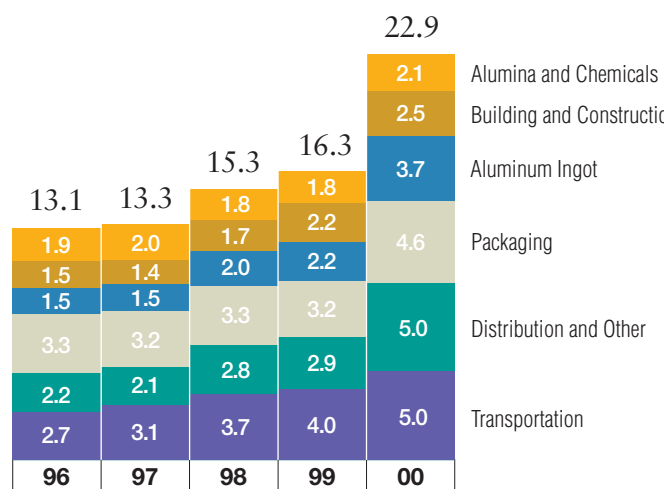
(dollars in millions, except per-share amounts and ingot prices)

	2000	1999	1998	1997	1996
Sales	\$22,936	\$16,323	\$15,340	\$13,319	\$13,061
Net income*	1,484	1,054	853	805	515
Earnings per common share					
Basic (before cumulative effect)	1.83	1.43	1.22	1.17	0.74
Basic (after cumulative effect)	1.82	1.43	1.22	1.17	0.74
Diluted (before cumulative effect)	1.81	1.41	1.21	1.15	0.73
Diluted (after cumulative effect)	1.80	1.41	1.21	1.15	0.73
Alcoa's average realized price per pound for aluminum ingot	.77	.67	.67	.75	.73
Average U.S. market price per pound for aluminum ingot (<i>Metals Week</i>)	.75	.66	.66	.77	.71
Cash dividends paid per common share	.500	.403	.375	.244	.333
Total assets	31,691	17,066	17,463	13,071	13,450
Long-term debt (noncurrent)	4,987	2,657	2,877	1,457	1,690

*2000 includes cumulative effect of accounting change for revenue recognition of \$(5); 1997 and 1996 include net after-tax gains of \$44 and net after-tax charges of \$122, respectively.

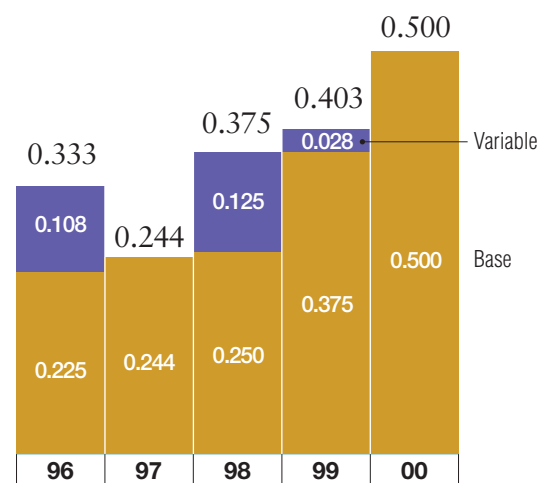
Revenues by Market

billions of dollars



Dividends Paid per Common Share*

dollars



* Adjusted to reflect 2-for-1 stock splits in February 1999 and May 2000

Results of Operations

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

Earnings Summary

2000 was another record year for Alcoa, with net income the highest in the company's 112-year history, marking the fourth consecutive year for increases in both earnings and earnings per share. The acquisitions of Reynolds Metals Company (Reynolds) and Cordant Technologies Inc. (Cordant) were completed in 2000 and were accretive to earnings in the fourth quarter. Highlights from the year include:

- > Net income of \$1,484, a 41% increase from 1999;
- > Revenues of \$22,936, a 41% increase from 1999;
- > Return on average shareholders' equity of 16.8%;
- > Achievement of the \$1.1 billion cost reduction target; and
- > Aluminum shipments of 5,398 mt, up 21% from 1999.

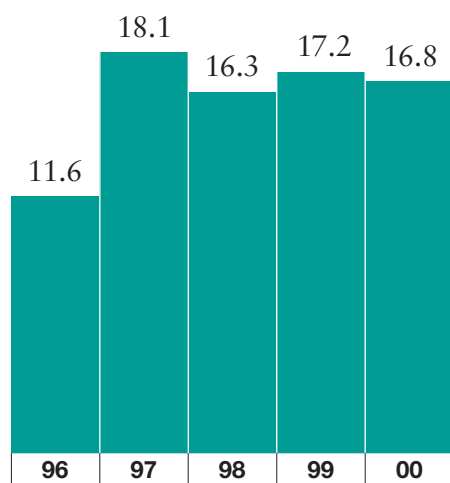
Improved financial results for 2000 relative to 1999 were the result of higher volumes, aided by the Reynolds and Cordant acquisitions, an increase in aluminum prices and continued operating improvements. Partially offsetting these positive factors were higher energy costs, a higher effective tax rate and softening in the transportation, building, construction and distribution markets.

1999 was a milestone year for Alcoa, as net income exceeded \$1 billion for the first time in the company's history. Highlights from 1999 include:

- > Net income of \$1,054, a 24% increase from 1998;
- > Revenues of \$16,323, driven by higher volumes;
- > Return on average shareholders' equity of 17.2%; and
- > Aluminum shipments of 4,478 mt, up 13% from 1998.

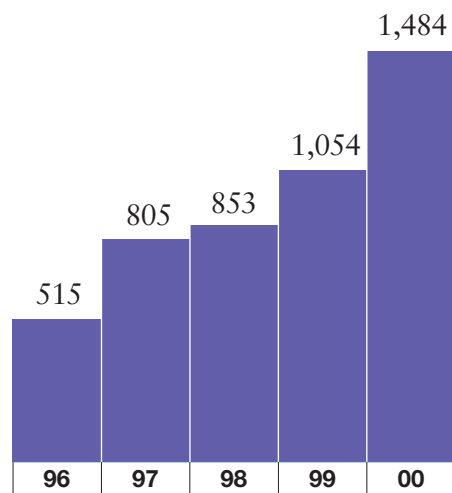
The improvement in Alcoa's 1999 net income was the result of higher aluminum revenues, operating improvements and a lower effective tax rate. Revenues in 1999 increased from 1998 as a result of higher volumes and a full year's results from the Alumax, Inc. (Alumax) acquisition which occurred in July 1998, partly offset by lower overall aluminum prices.

Percent Return on Average Shareholders' Equity



Net Income

millions of dollars



Segment Information

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

In 2000, as a result of acquisitions, Alcoa changed its internal management reporting structure to add the Packaging and Consumer segment. This segment includes the Reynolds packaging and consumer businesses acquired in 2000, Alcoa's closures, packaging, PET (polyethylene terephthalate) bottles and packaging machinery businesses. Previously, the closures, packaging, PET bottles and packaging machinery businesses were reported in the Other group. Segment data from 1999 and 1998 has been restated to reflect this change. Other Reynolds and Cordant businesses were added to the appropriate existing segments.

ATOI for all segments totaled \$2,389 in 2000, compared with \$1,489 in 1999 and \$1,344 in 1998. See Note N to the financial statements for additional information. The following discussion provides shipment, revenue and ATOI data for each segment for the years 1998 through 2000.

I. Alumina and Chemicals

	2000	1999	1998
Alumina production (mt)	13,968	13,273	12,938
Third-party alumina shipments (mt)	7,472	7,054	7,130
Third-party sales	\$2,108	\$1,842	\$1,847
Intersegment sales	1,104	925	832
Total sales	\$3,212	\$2,767	\$2,679
After-tax operating income	\$ 585	\$ 307	\$ 318

This segment's activities include the mining of bauxite, which is then refined into alumina. Alumina is sold to internal and external customers worldwide or is processed into industrial chemical products. The industrial chemical products are sold to a broad spectrum of markets including refractories, ceramics, abrasives, chemicals processing and other specialty applications. This segment does not include the Reynolds alumina assets that were required to be divested.

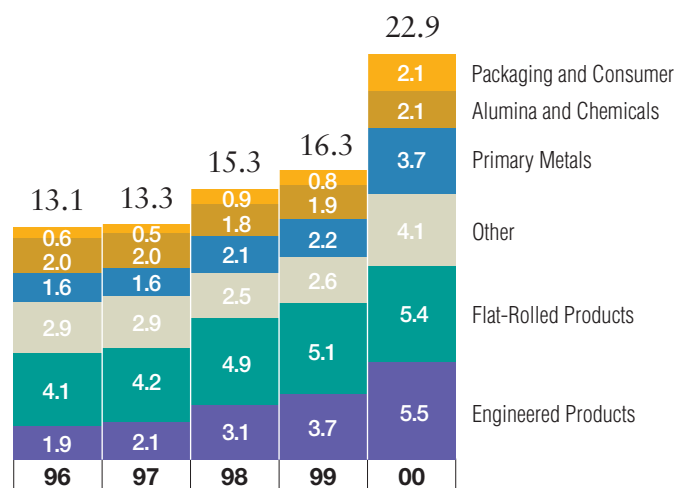
Alumina comprises approximately two-thirds of the total third-party sales. In late 1999, Alcoa completed the expansion of its Wagerup alumina refinery in Australia. This expansion, which increased Wagerup's capacity by 440,000 mt to a total plant capacity of 2.2 million mt per year, was completed on time and on budget. With the completion of this expansion and the increased production levels at Kwinana, Pinjarra and San Ciprian, alumina shipments increased 6% from 1999. The increase in production, along with a 13% increase in prices, led to a 19% increase in third-party sales of alumina in 2000 compared with 1999. In 1999, third-party sales of alumina were up 5% compared with 1998. Shipments fell 1% while realized prices rose 6%. Third-party sales of alumina-based chemical products were up 2% in 2000 compared with 1999. The increase was mainly attributable to increased volume in Alcoa's Latin America chemical operations. Third-party sales of alumina-based chemical products were down 3% in 1999 from 1998, as the divestiture of Alcoa Specialty Chemicals in 1998, lower prices and a lower value-added mix more than offset higher shipments.

Segment ATOI in 2000 rose 91% over 1999 due to higher alumina prices, higher shipment volumes and continued cost reductions, partially offset by higher energy costs. There was an increase in both alumina and chemicals ATOI of 95% and 23%, respectively, from 1999 to 2000. Segment ATOI for 1999 fell 3% from 1998 to \$307 as a result of lower operating income recognized on intersegment sales, somewhat offset by cost reductions. Alumina ATOI fell 4%, while chemicals ATOI rose 13% from 1998 to 1999.

As announced in 2000, operations at the alumina refinery located in St. Croix, U.S. Virgin Islands, were suspended on January 31, 2001. Additionally, in February 2001, Alcoa announced reduced operating rates at its Pt. Comfort, Texas refinery and a complete curtailment at its aluminum fluoride facility in Fort Meade, Florida. Future production at St. Croix, Pt. Comfort and Ft. Meade will be evaluated in light of internal and external supply commitments or market conditions.

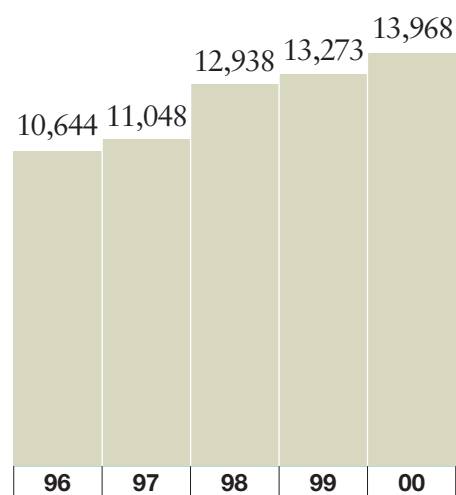
Revenues by Segment

billions of dollars



Alumina Production

thousands of metric tons



II. Primary Metals

	2000	1999	1998
Aluminum production (mt)	3,539	2,851	2,471
Third-party aluminum shipments (mt)	2,071	1,442	1,392
Third-party sales	\$3,756	\$2,241	\$2,105
Intersegment sales	3,504	2,793	2,509
Total sales	\$7,260	\$5,034	\$4,614
After-tax operating income	\$1,000	\$ 535	\$ 372

This segment consists of Alcoa's worldwide smelter system. The smelting operations of Reynolds have been added to this segment. Primary Metals receives alumina from the Alumina and Chemicals segment and produces aluminum ingot to be used by Alcoa's fabricating businesses, as well as sold to outside customers. Revenues from the sale of powder, scrap and excess power are also included in this segment. Results from internal hedging contracts and from marking to market certain aluminum commodity contracts are also included in this segment. Aluminum ingot produced by Alcoa and used internally is transferred to other segments at prevailing market prices.

In 2000, third-party sales rose \$1,515 or 68%. Approximately two-thirds of this increase was a result of the Reynolds acquisition. The remaining increase was due to a 7% increase in shipments and higher realized prices for ingot in 2000. Alcoa's average realized price for ingot in 2000 was 77 cents per pound, an increase of 15% over the average realized price of 67 cents per pound in both 1999 and 1998. This compares with average prices on the London Metal Exchange (LME) of 75 cents per pound in 2000 and 66 cents per pound in 1999 and 1998.

In 1999, third-party sales rose 6% from 1998. The increase was due primarily to higher shipments of 4%.

Intersegment sales continued to increase in 2000 and in 1999 as the former Reynolds, Alumax and Inespal locations sourced the majority of their metal needs internally.

Including the Reynolds acquisition, Primary Metals ATOI increased by \$465 in 2000, up 87% from 1999. Higher metal prices in 2000 were responsible for approximately two-thirds of the increase, while the Reynolds acquisition accounted for approximately one-fourth of the increase. The remainder of the increase was due to increased volumes and cost reductions, offset somewhat by higher energy prices. Mark-to-market gains in 2000 and 1999 were not material.

Primary Metals ATOI rose 44% in 1999 from 1998. Driving the improvement was a 7% increase in shipments due to including a full year's results from the July 1998 purchase of Alumax, lower raw material prices, production improvements and cost reductions. Mark-to-market gains in 1999 versus losses in 1998 added \$57 to ATOI in 1999.

Alcoa announced various capacity restarts and curtailments. After the curtailments and restart of capacity, Alcoa will have approximately 500,000 mt per year of idle capacity.

III. Flat-Rolled Products

	2000	1999	1998
Third-party aluminum shipments (mt)	1,960	1,982	1,764
Third-party sales	\$5,446	\$5,113	\$4,900
Intersegment sales	97	51	59
Total sales	\$5,543	\$5,164	\$4,959
After-tax operating income	\$ 299	\$ 281	\$ 306

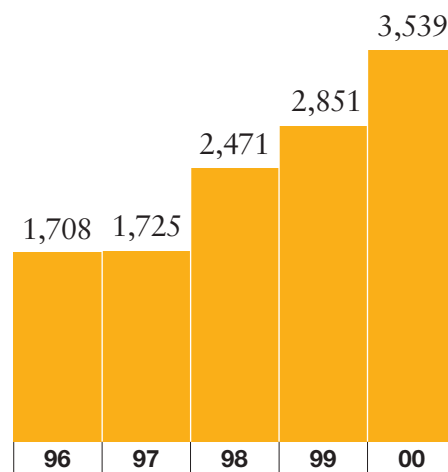
This segment's principal business is the production and sale of aluminum plate, sheet and foil. This segment includes rigid container sheet (RCS), which is used to produce aluminum beverage cans, and sheet and plate used in the transportation and distributor markets. Approximately 45% of the third-party shipments in this segment are derived from the sale of RCS and approximately 48% is obtained from sheet and plate. Other flat-rolled products, such as foil, comprise the remainder of this segment.

In 2000, third-party sales from this segment increased \$333 from 1999 with rising prices offsetting a slight decrease in shipments. The net decrease in shipments is comprised of a decrease of 24 mt in sheet and plate, offset by a 12 mt increase in RCS. Third-party sales from RCS in 2000 were up 8% from 1999, primarily due to a rise in average prices of 7%. Third-party sales for sheet and plate rose 6% from 1999, as average prices increased by 9%, offset by a decrease in shipments of 2%. Lower shipments in the U.S. more than offset increases in Europe and Latin America. Higher prices in all regions also contributed to the increase in sales.

Third-party sales from this segment in 1999 increased 4% from 1998, as shipments rose 12%, aided by a full year's results from the Alumax locations. In 1999, third-party sales from RCS were down 5% compared with 1998 primarily as a result of lower prices. In 1999, sheet and plate third-party sales were up 14% from 1998, as shipments rose 32% and average prices fell 14%. Higher shipments in the U.S. and the impact of acquisitions were partly offset by lower shipments

Aluminum Production

thousands of metric tons



in Latin America. Average realized prices fell in 1999 in part due to a change in product mix resulting from the full-year impact of the Alumax acquisition.

ATOI for Flat-Rolled Products increased in 2000 by 6% as higher prices offset lower shipments and higher energy costs. RCS ATOI dropped 7% from 1999 as stronger revenues and a \$14 increase in equity earnings were more than offset by higher energy and scrap costs. Sheet and plate ATOI increased by 7% from 1999 due to increased volumes in Latin America and Europe, while the U.S. remained constant. ATOI for foil operations was down due to lower volumes and increased natural gas prices.

In 1999, ATOI for Flat-Rolled Products fell 8%, as higher revenues and cost reductions were overshadowed by lower prices and lower equity earnings. RCS ATOI fell 14% due to a decline of \$16 in equity earnings, lower prices and less favorable product mix, partially offset by cost improvements. Sheet and Plate ATOI fell 9% as improved results for U.S. operations, aided by acquisitions, were more than offset by weaker performance in Latin America and Europe. Partially offsetting the decline in RCS and sheet and plate ATOI were improved results from foil operations and the shutdown of Alcoa Memory Products in 1999.

IV. Engineered Products

	2000	1999	1998
Third-party aluminum shipments (mt)	1,061	989	729
Third-party sales	\$5,471	\$3,728	\$3,110
Intersegment sales	62	26	11
Total sales	\$5,533	\$3,754	\$3,121
After-tax operating income	\$ 210	\$ 180	\$ 183

This segment consists of hard- and soft-alloy extrusions, including architectural extrusions, super-alloy castings, steel and aluminum fasteners, aluminum forgings and wheels. These products serve the transportation, construction and distributor markets. This segment includes the Reynolds wheel business, as well as the Huck fasteners and Howmet super-alloy castings businesses acquired as part of the Cordant acquisition.

In 2000, third-party sales increased 47% primarily due to the acquisitions of Reynolds and Cordant. The shipment data and average realized prices per pound of aluminum for this segment were significantly impacted in 2000 by the additions of Huck and Howmet, which produce revenue but have little aluminum components. Extruded

products third-party sales were up 17%, 7% from price increases in existing businesses and 10% from the recent acquisitions. Shipment volumes for the existing businesses were down 1%, offset by an increase in prices. Forged wheel sales increased 34% in 2000 mainly due to the Reynolds acquisition.

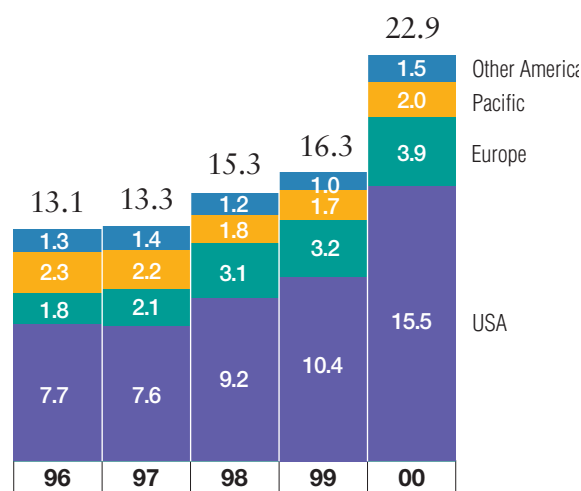
In 1999, third-party shipments for this segment were up 36%, generating a 20% increase in revenues. Extruded product sales were up 26% in 1999 from 1998 as shipments rose 43%, offset by a decrease in average realized price of 12%, primarily due to a change in product mix as a result of the Alumax acquisition. The continued strong demand for forged wheels used in sport utility vehicles and light trucks was a major factor in the higher shipment levels in 1999 compared with 1998.

ATOI for Engineered Products in 2000 increased by 17% to \$210. The impact of acquisitions, primarily Huck and Howmet, increased ATOI by 23%, offset by a decline in existing businesses. The U.S. and European engineered and extruded products ATOI fell 37% and 61% in 2000 and 1999, respectively, as a result of the overall decline in the transportation market. This was somewhat offset by an increase of 125% for Latin America due to improvements in market share.

In 1999, ATOI for Engineered Products fell 2% from 1998 to \$180. The decrease was due to the sale of Alcotec in 1998, as well as declines in volumes in the extrusion business. These factors were slightly offset by improved results in Europe due to acquisitions and in forged products as a result of higher prices and continued growth in the wheel market.

Revenues by Geographic Area

billions of dollars



V. Packaging and Consumer

	2000	1999	1998
Third-party aluminum shipments (mt)	119	9	10
Third-party sales	\$2,084	\$801	\$856
After-tax operating income	\$ 131	\$ 68	\$ 61

This segment includes the packaging and consumer businesses of Reynolds acquired in 2000, as well as Alcoa's closures, packaging, PET bottles and packaging machinery businesses. Alcoa's closures, packaging, PET bottles and packaging machinery businesses were previously included in the Other group. Data from 1999 and 1998 has been restated to reflect this change.

Third-party sales were \$2,084 in 2000, up \$1,283 from 1999. The Reynolds packaging and consumer businesses accounted for 92% of the increase. Third-party sales from existing businesses improved 12% over 1999. Closures increased third-party sales 16% year over year, driven by acquisitions in 2000.

Third-party sales in 1999 decreased by \$55 or 6% from 1998, as the decline in packaging operations in Brazil more than offset the increased sales from closures.

ATOI increased by 93% in 2000 due to the acquisition of the Reynolds packaging and consumer businesses. Excluding the impact of Reynolds, ATOI fell 13% from 1999 primarily due to the impact of higher resin prices in closures.

ATOI for this segment rose 12% from 1998 to 1999, as improvements in closures were partially offset by a decline from packaging operations in Brazil. The improvement in closures ATOI in 1999 was a result of higher volumes and cost improvements, offset in part by lower prices. Cost improvements somewhat offset the impact of a 23% decline in revenues from packaging operations in Brazil.

VI. Other

	2000	1999	1998
Third-party aluminum shipments (mt)	187	56	56
Third-party sales	\$4,071	\$2,592	\$2,506
After-tax operating income	\$ 164	\$ 118	\$ 104

This group includes Alcoa's businesses that do not fit into the segments previously mentioned. This group includes Alcoa Fujikura Ltd. (AFL), which produces fiber-optic cable and provides services for the telecommunications industry and produces electrical components for the automotive industry; Thiokol Propulsion (Thiokol), a producer of solid rocket propulsion systems; Reynolds' metal distribution business (RASCO); the residential building products operations, Alcoa Building Products (ABP) and aluminum automotive engineering and parts businesses. Thiokol and RASCO were added in 2000 as part of the Cordant and Reynolds acquisitions, respectively. Alcoa's closures, packaging, PET bottles and packaging machinery businesses that were previously reported in this group are now included in the Packaging and Consumer segment.

In 2000, third-party sales were up 57% due primarily to the RASCO and Thiokol acquisitions. Excluding these acquisitions, third-party revenue increased by 14%, driven by an increase of 16% in the AFL telecommunications business that was partially offset by a 7%

decrease at ABP. The increase in the AFL telecommunications business is largely due to acquisitions in 2000. The decline in ABP sales is due to softness in the overall housing and construction market.

Third-party sales from this group in 1999 were up \$86 or 3% from 1998. Higher sales of automotive electrical components and a 5% increase in third-party sales at AFL were somewhat offset by declines from the castings and cable businesses in Brazil.

In 2000, ATOI for this group increased by 39% including the acquisitions of RASCO and Thiokol. Excluding these acquisitions, ATOI rose by 14%, driven by a 20% increase at AFL, mainly due to acquisitions, offset by a decrease at ABP, due to lower volumes and higher resin costs.

In 1999, ATOI for this group rose 13% from 1998 as aluminum automotive parts benefited from higher volumes and selling prices, lower administrative costs and improved productivity.

Reconciliation of ATOI to Consolidated Net Income

The following reconciles segment ATOI to Alcoa's consolidated net income and explains each line item in the reconciliation:

	2000	1999	1998
Total after-tax operating income	\$2,389	\$1,489	\$1,344
Elimination of intersegment profit	(20)	(24)	(16)
Unallocated amounts (net of tax):			
Interest income	40	26	64
Interest expense	(278)	(126)	(129)
Minority interests	(381)	(242)	(238)
Corporate expense	(227)	(171)	(197)
Other	(39)	102	25
Consolidated net income	\$1,484	\$1,054	\$ 853

Items required to reconcile ATOI to consolidated net income include:

- > Corporate adjustments to eliminate any remaining profit or loss among segments;
- > The after-tax impact of interest income and expense at the statutory rate;
- > Minority interests;
- > Corporate expense, comprised of general administrative and selling expenses of operating the corporate headquarters and other global administrative facilities along with depreciation on corporate owned assets; and
- > Other, which includes the impact of LIFO, differences between estimated tax rates used in each segment and the corporate effective tax rate and other nonoperating items such as foreign exchange.

The variance in Other was due to LIFO adjustments in 1999 and the adjustments to deferred taxes in 1999 that resulted from a change in the Australian corporate income tax rate.

Costs and Other

Costs of Goods Sold (COGS) — COGS rose \$4,806 or 38% to \$17,342 in 2000. The increase was primarily due to higher sales volumes in 2000. COGS as a percentage of sales was 75.6%, down 1.2% from 1999. The decrease is due primarily to higher sales prices resulting from a stronger LME and cost-cutting efforts, somewhat offset by higher cost of sales at acquired entities and higher energy costs. COGS totaled \$12,536 for 1999, up 5% from 1998. The increase was due to higher volumes that generated additional costs of \$1,100. The higher volumes related primarily to acquired companies. Offsetting a portion of the increases were cost and operating improvements of approximately \$500. In 1999, COGS as a percentage of sales also fell 1.0% to 76.8% as cost reductions and a LIFO liquidation more than offset the negative impact of lower overall aluminum prices on revenues.

Selling and General Administrative Expenses (S&GA) — S&GA expenses increased 30% to \$1,108 in 2000. The increase was primarily due to acquisitions and higher personnel costs related to pay for performance, partially offset by cost-cutting improvements. However, as a percentage of revenue, S&GA was down by 0.4% to 4.8% in 2000.

S&GA expenses in 1999 were \$851, an increase of 9% or \$68 from 1998. The higher level of S&GA in 1999 was also due to acquisitions; Alcoa owned Alumax for 12 months in 1999 versus six months in 1998. S&GA expenses were also impacted by higher personnel costs related to pay for performance in 1999. As a percentage of sales revenue, S&GA was 5.2% in 1999.

Research and Development Expenses (R&D) — In 2000, R&D expenses increased \$66 or 52% with acquisitions accounting for \$33 or 26%. The remaining increases were due to corporate spending and increases in Primary Metals, Flat-Rolled Products and AFL.

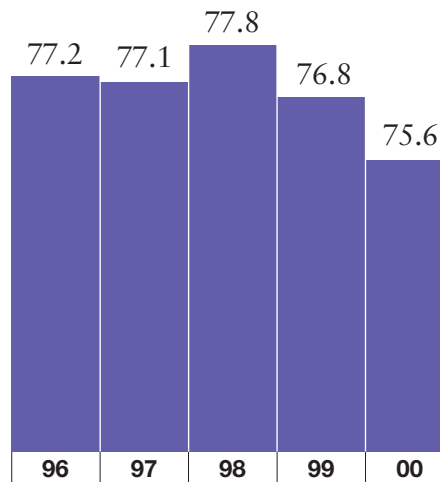
R&D expenses of \$128 in 1999 were essentially unchanged from 1998, as a reduction in corporate spending was offset by increases in the Primary Metals and Flat-Rolled Products segments.

Interest Expense — Interest expense rose \$232 to \$427 in 2000 primarily as a result of the Reynolds and Cordant acquisitions. Debt of \$1,297 was assumed in the acquisition of Reynolds while \$826 of debt was assumed in the Cordant acquisition. Alcoa issued \$1,500 of notes. Alcoa also issued \$3,711 of commercial paper. Additionally, the company entered into a new \$2,490 revolving-credit facility that expires in April 2001 and a \$510 revolving-credit facility that expires in August 2005. Total interest costs, including interest capitalized, was \$447, with the capitalized interest cost remaining relatively constant from 1999. Interest expense of \$195 in 1999 was down \$3 from 1998. Total interest costs, including capitalized interest, were up 2% to \$216 in 1999 due to a higher level of capitalized interest and higher interest rates, partly offset by lower debt levels and the repayment of some higher cost debt. The increase in capitalized interest relates to the expansion of the Wagerup alumina refinery in Australia.

Income Taxes — In 2000, Alcoa's effective tax rate was 33.5%, one and a half percentage points below the statutory rate of 35%. This lower rate is primarily driven by lower taxes on foreign income. Alcoa's effective tax rate in 1999 was 29.9%. The lower rate

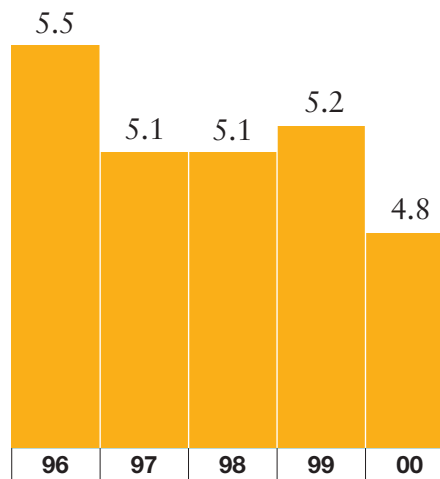
Costs of Goods Sold

as a percent of sales



Selling and General Administrative Expenses

as a percent of sales



was primarily due to lower taxes on foreign income and a reduction in the Australian corporate income tax rate. In the 1999 fourth quarter, Australia reduced its corporate income tax rate from 36% to 34% for 2000 and to 30% for 2001. Alcoa's effective tax rate in 1998 was 32%. The lower rate was primarily due to lower taxes on foreign income.

Other Income/Foreign Currency — In 2000, other income increased 24% or \$30 from 1999. The increase was due to a \$59 increase in equity income and higher interest and dividend income, offset by foreign exchange losses. Other income totaled \$124 in 1999, down \$25 from 1998. The decline was due to a \$57 decline in interest income, a negative swing in foreign exchange and lower gains from

asset sales. Offsetting a portion of these negative factors in 1999 were gains from marking to market certain aluminum commodity contracts versus losses in 1998.

Foreign exchange losses included in other income were \$82 in 2000, \$19 in 1999, and \$4 in 1998.

In July 1999, the Brazilian real became the functional currency for translating the financial statements of Alcoa's 59%-owned Brazilian subsidiary, Alcoa Alumínio (Alumínio). Economic factors and circumstances related to Alumínio's operations had changed significantly since the devaluation of the real in the 1999 first quarter. Under Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," the change in those facts and circumstances required a change in Alumínio's functional currency. As a result, at July 1, 1999, Alcoa's shareholders' equity (cumulative translation adjustment) and minority interests were reduced by \$156 and \$108, respectively. These amounts were driven principally by a reduction in fixed assets. This reduction resulted in a \$15 decrease in Alumínio's depreciation expense for 1999 and \$30 in 2000.

The total impact of translation and exchange included in net income, after taxes and minority interests, was an \$8 loss in each year.

Minority Interests — In 2000, minority interests increased by \$139 to \$381. The increase was due to higher earnings at Alcoa of Australia (AofA), AFL, and Alumínio. Minority interests' share of income from operations rose 2% in 1999 from 1998 to \$242. The increase was due to higher earnings at AofA and AFL, partially offset by lower earnings from other Alcoa World Alumina and Chemicals (AWAC) locations.

Market Risks

In addition to the risks inherent in its operations, Alcoa is exposed to financial, market, political and economic risks. The following discussion, which provides additional detail regarding Alcoa's exposure to the risks of changing commodity prices, foreign exchange rates and interest rates, includes forward-looking statements that involve risk and uncertainties. Forward-looking statements also include those containing such words as "anticipates, believes, estimates, expects, hopes, targets, should, will, will likely result, forecast, outlook, projects" or similar expressions. Actual results could differ materially from those projected in these forward-looking statements.

Commodity Price Risks — Alcoa is a leading global producer of aluminum ingot and aluminum fabricated products. As a condition of sale, customers often require Alcoa to commit to fixed-price contracts that sometimes extend a number of years into the future. Customers will likely require Alcoa to enter into similar arrangements in the future. These contracts expose Alcoa to the risk of fluctuating aluminum prices between the time the order is accepted and the time that the order ships.

In order to fulfill some of the orders noted above, Alcoa might be required to purchase aluminum to supplement its internal production. These purchases expose the company to the risk of higher aluminum prices. To hedge this risk, Alcoa enters into long positions, principally using futures and options. Alcoa follows a stable pattern of purchasing metal; therefore, it is highly likely that anticipated metal purchase requirements will be met. At December 31, 2000 and 1999, these contracts totaled approximately 522,000 mt and 465,000 mt, respectively. These contracts act to fix the purchase price for these metal purchase requirements, thereby reducing Alcoa's risk to rising metal prices.

A hypothetical 10% change from the 2000 year-end, three-month LME aluminum ingot price of \$1,565 per mt would result in a pretax gain or loss to future earnings of \$81 related to all of the futures and options contracts noted above. However, it should be noted that any change in the value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying metal purchase transactions.

Earnings were selected as the measure of sensitivity due to the historical relationship between aluminum ingot prices and Alcoa's earnings. The hypothetical change of 10% was calculated using a parallel shift in the existing December 31, 2000 forward price curve for aluminum ingot. The price curve takes into account the time value of money, as well as future expectations regarding the price of aluminum ingot.

The futures and options contracts noted above are with credit-worthy counterparties and are further supported by cash, treasury bills or irrevocable letters of credit issued by carefully chosen banks.

Alcoa also had 51,000 mt and 21,000 mt of futures and options contracts outstanding at year-end 2000 and 1999, respectively, that cover long-term, fixed-price commitments to supply customers with metal from internal sources. Accounting convention requires that these contracts be marked to market, which resulted in after-tax gains of \$6 in 2000 and \$12 in 1999 and charges of \$45 in 1998. A hypothetical 10% change in aluminum ingot prices from the year-end 2000 level of \$1,565 per mt would result in a pretax gain or loss of \$7 related to these positions. The hypothetical gain or loss was calculated using the same model and assumptions noted earlier.

Alcoa sells products to various third parties at prices that are influenced by changes in LME aluminum prices. From time to time, the company may elect to hedge a portion of these exposures to reduce the risk of fluctuating market prices on these sales. Toward this end, Alcoa may enter into short positions using futures and options contracts. At December 31, 2000 and 1999, these contracts totaled 112,000 mt and 244,000 mt, respectively. These contracts act to fix a portion of the sales price related to these sales contracts. A hypothetical 10% change in aluminum ingot prices from the year-end 2000 level of \$1,565 per mt would result in a pretax gain or loss of \$15 related to these positions. The hypothetical gain or loss was calculated using the same model and assumptions noted earlier.

Alcoa is required to purchase natural gas to meet its production requirements. These purchases expose the company to the risk of higher natural gas prices. To hedge this risk, Alcoa enters into long positions, principally using futures and options. Alcoa follows a

stable pattern of purchasing natural gas; therefore, it is highly likely that anticipated natural gas purchases will occur. At December 31, 2000, the fair value of the contracts for natural gas totaled approximately \$69. A hypothetical 50% change in the market price of natural gas from year-end 2000 levels would increase or decrease future earnings by \$81.

Alcoa also purchases certain other commodities, such as fuel oil, electricity and copper, for its operations and enters into futures and options contracts to eliminate volatility in the prices of such products. None of these contracts are material. For additional information on financial instruments, see Notes A and S to the financial statements.

Foreign Exchange Risks — Alcoa is subject to significant exposure from fluctuations in foreign currencies. As a matter of company policy, foreign currency exchange contracts, including forwards and options, are sometimes used to limit the risk of fluctuating exchange rates. A hypothetical 10% change in applicable 2000 year-end forward rates would result in a pretax gain or loss of approximately \$210 related to these positions. However, it should be noted that any change in the value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged item. The model assumes a parallel shift in the forward curve for the applicable currencies and includes the foreign currency impacts of Alcoa's cross-currency interest rate swaps. See Notes A and S for information related to the accounting policies and fair market values of Alcoa's foreign exchange contracts at December 31, 2000 and 1999.

Interest Rate Risks — Alcoa attempts to maintain a reasonable balance between fixed- and floating-rate debt and uses interest rate swaps and caps to keep financing costs as low as possible. At December 31, 2000 and 1999, Alcoa had \$8,133 and \$3,067 of debt outstanding at effective interest rates of 7.6% for 2000 and 5.8% for 1999, after the impact of interest rate swaps and caps is taken into account. A hypothetical change of 10% in Alcoa's effective interest rate from year-end 2000 levels would increase or decrease interest expense by \$62. The interest rate effect of Alcoa's cross-currency interest rate swaps has been included in this analysis. For more information related to Alcoa's use of interest rate instruments, see Notes A and S to the financial statements.

Risk Management — All of the aluminum and other commodity contracts, as well as the various types of financial instruments, are straightforward and are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility and cover underlying exposures.

Alcoa's commodity and derivative activities are subject to the management direction and control of the Strategic Risk Management Committee (SRMC). SRMC is composed of the chief executive officer, the chief financial officer and other officers and employees that the chief executive officer may select from time to time. SRMC reports to the board of directors on the scope of its derivative activities.

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

Environmental Matters

Alcoa participates in environmental assessments and cleanups at a number of locations. These include approximately 24 owned or operating facilities and adjoining properties, approximately 28 previously owned or operated facilities and adjoining properties and approximately 87 Superfund and other waste sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. For additional information, see Notes A and T to the financial statements.

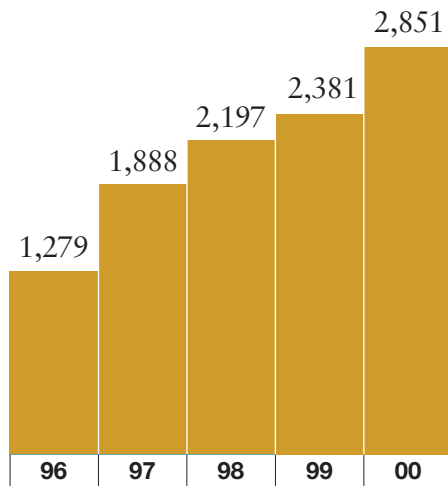
As assessments and cleanups proceed, the liability is adjusted based on progress in determining the extent of remedial actions and related costs and damages. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements and technological changes. Therefore, it is not possible to determine the outcomes or to estimate with any degree of accuracy the potential costs for certain of these matters. For example, there are issues related to Massena, New York; Pt. Comfort, Texas; and Troutdale, Oregon sites where investigations are ongoing and where natural resource damage or off-site contaminated sediments have been alleged. Based on these facts, it is possible that Alcoa's results of operations, in a particular period, could be materially affected by matters relating to these sites. However, based on facts currently available, management believes that the disposition of these matters will not have a materially adverse effect on the financial position or liquidity of the company.

Alcoa's remediation reserve balance at the end of 2000 was \$447, of which \$78 was classified as a current liability, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. Approximately 17% of this balance relates to the Massena, New York plant sites, 22% relates to the Sherwin, Texas plant site and 11% relates to the Troutdale, Oregon plant site. Remediation expenses charged to the reserve were \$77 in 2000, \$47 in 1999 and \$63 in 1998. These include expenditures currently mandated, as well as those not required by any regulatory authority or third party. In 2000, the reserve balance was increased by \$350 as a result of acquisitions.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be about 3% of cost of goods sold.

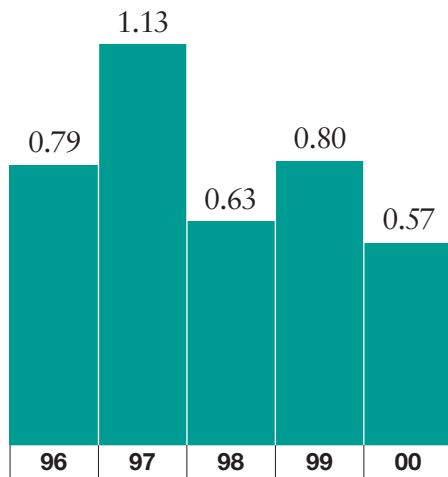
Cash from Operations

millions of dollars



Free Cash Flow to Debt Coverage

times covered



Liquidity and Capital Resources

(dollars in millions, except share amounts)

Cash from Operations

Cash from operations increased 20% to \$2,851 in 2000, after rising 8% in 1999 to \$2,381, versus \$2,197 in 1998. The 2000 increase was primarily due to increases in net income, depreciation and amortization, partially offset by changes in noncurrent assets and liabilities. The increase in cash from operations in 1999 relative to 1998 was primarily the result of higher earnings and lower working capital. In 1999, the lower working capital was a result of lower inventories and higher taxes, partly offset by higher receivables.

Financing Activities

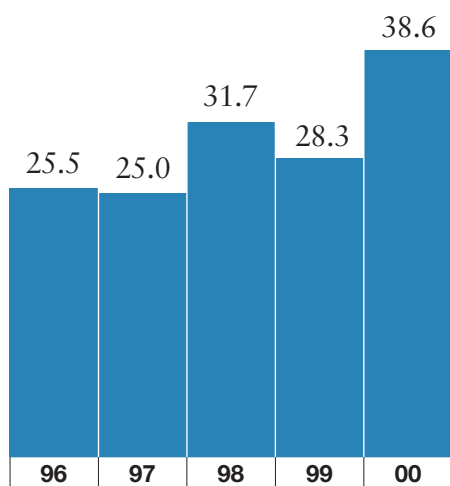
Cash provided from financing activities was \$1,552 in 2000 compared with cash used in financing activities of \$1,311 in 1999. The primary reason for the shift in 2000 was the increase in short-term borrowings, commercial paper and long-term debt. This was partially offset by a decrease in common stock issued for stock compensation plans. In 1999, financing activities used \$1,311 of cash versus \$280 in the 1998 period. The primary reason for the increase in 1999 was a decrease in borrowings. This decrease was partly offset by an increase in common stock issued in connection with stock compensation plans.

In 2000, the additions to long-term debt exceeded the payments by \$571. In 2000, Alcoa issued \$1,500 of notes. Of these notes, \$1,000 mature in 2010 and carry a coupon rate of 7.375%, and \$500 mature in 2005 and carry a coupon rate of 7.25%. Additionally, Alcoa issued \$3,711 of commercial paper. Net payments on long-term debt in 1999 totaled \$428, versus \$561 of net additions in 1998. In 1998, Alcoa issued \$1,100 of commercial paper, \$200 of term debt due in 2005, \$250 of term debt due in 2018, and \$300 of thirty-year bonds due in 2028. Partially offsetting these borrowings were net payments of \$350 on commercial paper and the repayment of \$950 of Alumax debt. In 2000, Alcoa entered into a new \$2,490 revolving-credit facility that expires in April 2001 and a \$510 revolving-credit facility that expires in August 2005. The revolving-credit facilities are used to support Alcoa's commercial paper program.

In 2000, Alcoa used \$763 to repurchase 21,742,600 shares of the company's common stock at an average price of \$35.08 per share. In 1999, Alcoa used \$838 to repurchase 31,211,044 shares of the company's common stock at an average price of \$26.85 per share. Stock purchases in 2000 and 1999 were partially offset by \$251 and \$464, respectively, of stock issued for stock compensation plans.

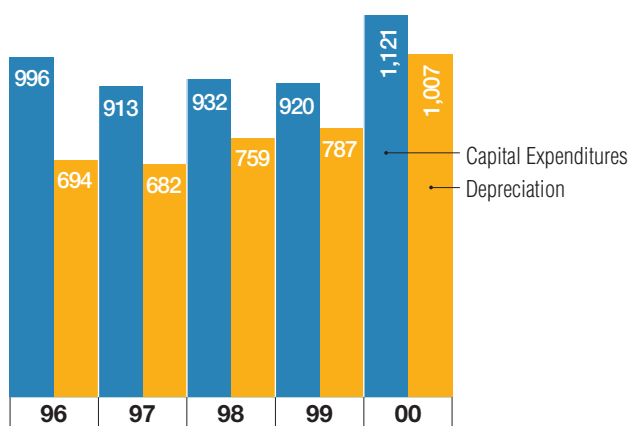
Debt as a percentage of invested capital was 38.6% at the end of 2000, compared with 28.3% for 1999 and 31.7% for 1998.

Debt as a Percent of Invested Capital



Capital Expenditures and Depreciation

millions of dollars



In 2000, dividends paid to shareholders increased by \$120 to \$418. The increase was due to a higher number of shares outstanding as well as an increase in the dividend per share in 2000, with a total payout of 50 cents per share versus 40.3 cents per share in 1999. Alcoa has a variable dividend program that provides for the distribution, in the following year, of 30% of Alcoa's annual earnings in excess of \$1.50 per basic share. The dividends paid to shareholders in 1999 were \$298, an increase of \$33 from 1998 when dividends paid were 37.5 cents per share.

The dividends paid to minority interests in 2000 were \$212, an increase of \$90 from 1999. The increase was due to an increase in dividends paid to Aluminio and AWAC. For 1999, the dividends paid and return of capital to minority interests totaled \$122, a decline of \$100 from 1998. The decline was due to a lack of dividends paid at Aluminio and at entities comprising AWAC.

Investing Activities

Cash used for investing activities in 2000 totaled \$4,309, up \$3,142 from 1999. In 2000, cash used in investing activities included \$3,121 for a number of acquisitions, consisting mainly of Reynolds, Cordant and British Aluminium Limited. In 1999, Alcoa spent \$122 to acquire a number of businesses, none of which were individually significant.

Capital expenditures totaled \$1,121 in 2000, compared with \$920 and \$932 in 1999 and 1998, respectively. Of the total capital expenditures in 2000, 32% related to capacity expansion, including alumina production in Australia and automotive sheet production in the U.S. Also included are costs of new and expanded facilities for environmental control in ongoing operations totaling \$96 in 2000, \$91 in 1999, and \$105 in 1998. Alcoa added \$94, \$96 and \$126 to its investments in 2000, 1999 and 1998, respectively, primarily to acquire a stake in the Norwegian metals producer, Elkem.

Subsequent Event

On January 31, 2001, Alcoa and Alliant Techsystems Inc. (ATK) announced that they had reached a definitive agreement under which ATK will acquire Thiokol for \$685 cash. The transaction, which has received all necessary corporate approvals of both companies, is subject to customary regulatory approvals. It is expected to close by the end of the second quarter of 2001.

Management's Report to Alcoa Shareholders

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

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

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



Alain J. P. Belda
Chairman and
Chief Executive Officer



Richard B. Kelson
Executive Vice President and
Chief Financial Officer

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Alcoa at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Alcoa's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



600 Grant St., Pittsburgh, Pa.
January 8, 2001, except for Note U,
for which the date is January 31, 2001

Statement of Consolidated Income

Alcoa and subsidiaries

(in millions, except per-share amounts)

For the year ended December 31	2000	1999	1998
Revenues			
Sales (A and N)	\$22,936	\$16,323	\$15,340
Other income	154	124	149
	23,090	16,447	15,489
Costs and Expenses			
Cost of goods sold	17,342	12,536	11,933
Selling, general administrative and other expenses	1,108	851	783
Research and development expenses	194	128	128
Provision for depreciation, depletion and amortization	1,207	888	842
Interest expense (R)	427	195	198
	20,278	14,598	13,884
Earnings			
Income before taxes on income	2,812	1,849	1,605
Provision for taxes on income (O)	942	553	514
Income from operations	1,870	1,296	1,091
Less: Minority interests' share	381	242	238
Income before accounting change	1,489	1,054	853
Cumulative effect of accounting change (A)	(5)	—	—
Net Income	\$ 1,484	\$ 1,054	\$ 853
Earnings per Share (B and L)			
Basic (before cumulative effect)	\$ 1.83	\$ 1.43	\$ 1.22
Basic (after cumulative effect)	\$ 1.82	\$ 1.43	\$ 1.22
Diluted (before cumulative effect)	\$ 1.81	\$ 1.41	\$ 1.21
Diluted (after cumulative effect)	\$ 1.80	\$ 1.41	\$ 1.21

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

Consolidated Balance Sheet

Alcoa and subsidiaries

(in millions)

December 31	2000	1999
Assets		
Current assets:		
Cash and cash equivalents (S)	\$ 315	\$ 237
Short-term investments (S)	56	77
Receivables from customers, less allowances: 2000 – \$69; 1999 – \$58	3,461	2,199
Other receivables	354	165
Inventories (D)	2,703	1,618
Deferred income taxes (O)	385	233
Prepaid expenses and other current assets	304	271
Total current assets	7,578	4,800
Properties, plants and equipment (E)	12,850	9,133
Goodwill, net of accumulated amortization of \$344 in 2000 and \$221 in 1999 (C)	6,003	1,328
Other assets (G and S)	5,260	1,805
Total Assets	\$31,691	\$17,066
Liabilities		
Current liabilities:		
Short-term borrowings (F and S)	\$ 2,719	\$ 343
Accounts payable, trade	1,876	1,219
Accrued compensation and retirement costs	928	582
Taxes, including taxes on income	702	368
Other current liabilities	1,302	424
Long-term debt due within one year (F and S)	427	67
Total current liabilities	7,954	3,003
Long-term debt, less amount due within one year (F and S)	4,987	2,657
Accrued postretirement benefits (P)	2,719	1,720
Other noncurrent liabilities and deferred credits (H)	2,126	1,473
Deferred income taxes (O)	969	437
Total liabilities	18,755	9,290
Minority Interests (I)	1,514	1,458
Contingent liabilities (K)	—	—
Shareholders' Equity		
Preferred stock (M)	56	56
Common stock (M)	925	395
Additional capital	5,927	1,704
Retained earnings	7,127	6,061
Treasury stock, at cost	(1,717)	(1,260)
Accumulated other comprehensive loss	(896)	(638)
Total shareholders' equity	11,422	6,318
Total Liabilities and Equity	\$31,691	\$17,066

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

Statement of Consolidated Cash Flows

Alcoa and subsidiaries

(in millions)

For the year ended December 31	2000	1999	1998
Cash from Operations			
Net income	\$ 1,484	\$ 1,054	\$ 853
Adjustments to reconcile net income to cash from operations:			
Depreciation, depletion and amortization	1,219	901	856
Change in deferred income taxes	135	54	110
Equity earnings before additional taxes, net of dividends	(66)	(10)	(3)
Gains from investing activities—sale of assets	(7)	(12)	(32)
Accounting change	5	—	—
Minority interests	381	242	238
Other	32	31	(23)
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:			
(Increase) reduction in receivables	(446)	(56)	145
Reduction in inventories	117	253	100
Reduction (increase) in prepaid expenses and other current assets	6	(36)	23
Reduction in accounts payable and accrued expenses	(88)	(79)	(68)
Increase in taxes, including taxes on income	407	171	69
Change in deferred hedging gains/losses	7	(63)	(51)
Net change in noncurrent assets and liabilities	(335)	(69)	(20)
Cash provided from operations	2,851	2,381	2,197
Financing Activities			
Net changes to short-term borrowings	2,123	(89)	(76)
Common stock issued for stock compensation plans	251	464	87
Repurchase of common stock	(763)	(838)	(365)
Dividends paid to shareholders	(418)	(298)	(265)
Dividends paid and return of capital to minority interests	(212)	(122)	(222)
Net change in commercial paper	530	—	776
Additions to long-term debt	1,918	572	881
Payments on long-term debt	(1,877)	(1,000)	(1,096)
Cash provided from (used for) financing activities	1,552	(1,311)	(280)
Investing Activities			
Capital expenditures	(1,121)	(920)	(932)
Acquisitions, net of cash acquired (J)	(3,121)	(122)	(1,463)
Proceeds from the sale of assets	4	45	55
Additions to investments	(94)	(96)	(126)
Sale of investments	18	—	—
Changes in minority interests	—	—	33
Changes in short-term investments	21	(37)	66
Other	(16)	(37)	(10)
Cash used for investing activities	(4,309)	(1,167)	(2,377)
Effect of exchange rate changes on cash	(16)	(8)	1
Net change in cash and cash equivalents	78	(105)	(459)
Cash and cash equivalents at beginning of year	237	342	801
Cash and cash equivalents at end of year	\$ 315	\$ 237	\$ 342

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

Statement of Shareholders' Equity

Alcoa and subsidiaries

(in millions, except per-share amounts)

December 31	Comprehensive income	Preferred stock	Common stock	Additional capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total shareholders' equity
Balance at end of 1997		\$56	\$179	\$ 578	\$4,717	\$ (758)	\$(353)	\$ 4,419
Comprehensive income — 1998:								
Net income — 1998	\$ 853				853			853
Other comprehensive income (loss):								
Change in minimum pension liability, net of \$3 tax benefit	(5)							
Unrealized translation adjustments	11						6	6
Comprehensive income	<u>\$ 859</u>							
Cash dividends: Preferred @ \$3.75 per share					(2)			(2)
Common @ \$.375 per share					(263)			(263)
Treasury shares purchased						(365)		(365)
Stock issued: Alumax acquisition			19	1,302				1,321
Stock issued: compensation plans				(7)		94		87
Stock issued: two-for-one split			197	(197)				—
Balance at end of 1998		56	395	1,676	5,305	(1,029)	(347)	6,056
Comprehensive income — 1999:								
Net income — 1999	\$1,054				1,054			1,054
Other comprehensive loss:								
Unrealized translation adjustments (A)	(291)						(291)	(291)
Comprehensive income	<u>\$ 763</u>							
Cash dividends: Preferred @ \$3.75 per share					(2)			(2)
Common @ \$.403 per share					(296)			(296)
Treasury shares purchased						(838)		(838)
Stock issued: compensation plans				28		607		635
Balance at end of 1999		56	395	1,704	6,061	(1,260)	(638)	6,318
Comprehensive income — 2000:								
Net income — 2000	\$1,484				1,484			1,484
Other comprehensive income (loss):								
Change in minimum pension liability, net of \$(3) tax expense	5							
Unrealized translation adjustments	(263)						(258)	(258)
Comprehensive income	<u>\$1,226</u>							
Cash dividends: Preferred @ \$3.75 per share					(2)			(2)
Common @ \$.500 per share					(416)			(416)
Treasury shares purchased						(763)		(763)
Stock issued: Reynolds acquisition			135	4,367				4,502
Stock issued: compensation plans †				251		306		557
Stock issued: two-for-one split			395	(395)				—
Balance at end of 2000		\$56	\$925	\$5,927	\$7,127	\$(1,717)	\$(896)*	\$11,422

* Comprised of unrealized translation adjustments of \$(886) and minimum pension liability of \$(10)

† Includes stock to be issued under options of \$182

Share Activity (B)

(number of shares)

	Preferred stock	Common stock		
		Issued	Treasury	Net outstanding
Balance at end of 1997	557,649	715,690,332	(42,587,828)	673,102,504
Treasury shares purchased			(19,549,200)	(19,549,200)
Stock issued: Alumax acquisition		73,701,520		73,701,520
Stock issued: compensation plans			6,363,332	6,363,332
Balance at end of 1998	557,649	789,391,852	(55,773,696)	733,618,156
Treasury shares purchased			(31,211,044)	(31,211,044)
Stock issued: compensation plans			33,090,884	33,090,884
Balance at end of 1999	557,649	789,391,852	(53,893,856)	735,497,996
Treasury shares purchased			(21,742,600)	(21,742,600)
Stock issued: Reynolds acquisition		135,182,686		135,182,686
Stock issued: compensation plans			16,579,158	16,579,158
Balance at end of 2000	557,649	924,574,538	(59,057,298)	865,517,240

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

Notes to Consolidated Financial Statements

(dollars and shares in millions, except per-share amounts)

A. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Alcoa and companies more than 50% owned. Investments in other entities are accounted for principally on an equity basis.

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

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

Properties, Plants and Equipment. Properties, plants and equipment are recorded at cost. Depreciation is recorded principally on the straight-line method at rates based on the estimated useful lives of the assets, averaging 33 years for structures and between 5 and 25 years for machinery and equipment. Profits or losses from the sale of assets are included in other income. Repairs and maintenance are charged to expense as incurred. Interest related to the construction of qualifying assets is capitalized as part of the construction costs.

Depletion is taken over the periods during which the estimated mineral reserves are extracted. See Notes E and R for additional detail.

Amortization of Intangibles. The excess purchase price over the net tangible assets of businesses acquired is reported as goodwill in the Consolidated Balance Sheet. Goodwill and other intangibles are amortized on a straight-line basis over not more than 40 years. The carrying value of goodwill and other intangibles is evaluated periodically in relation to the operating performance and future undiscounted cash flows of the underlying businesses. Adjustments are made if the sum of expected future net cash flows is less than book value. See Note G for additional information.

Revenue Recognition. Alcoa recognizes revenue when title, ownership and risk of loss pass to the customer. See Recently Adopted Accounting Standards for additional information.

Thiokol Propulsion's (Thiokol) sales encompass products and services performed principally under contracts and subcontracts with various United States government (government) agencies and aerospace prime contractors. Sales under cost-type contracts are recognized as costs are incurred and include a portion of total estimated earnings to be realized in the ratio that costs incurred relate to estimated total costs. Sales under fixed-price-type contracts are recognized when deliveries are made or upon completion of specified tasks. Cost or performance incentives are incorporated into certain contracts and are recognized when awards are earned or when realization is reasonably assured and amounts can be estimated. Alcoa participates in teaming arrangements and records its share

of sales and profits related to such ventures on the percentage-of-completion method. Adjustments in estimates, which can affect both revenues and earnings, are made in the period in which the information necessary to make the adjustment becomes available. Provisions for estimated losses on contracts are recorded when identified.

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

Stock-Based Compensation. Alcoa accounts for stock-based compensation in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation cost is not required to be recognized on options granted. Disclosures required with respect to alternative fair value measurement and recognition methods prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," are presented in Note M.

Financial Instruments and Commodity Contracts. Alcoa enters into long-term contracts to supply fabricated aluminum products to a number of its customers. To hedge the market risk of changing prices for purchases or sales of metal, Alcoa uses aluminum commodity futures and options contracts. Alcoa also purchases certain other commodities such as fuel oil, natural gas, electricity and copper for its operations and enters into futures and options contracts to eliminate volatility in the prices of such products.

Gains and losses related to transactions that qualify for hedge accounting, including closed futures contracts, are deferred and reflected in cost of goods sold when the underlying physical transaction takes place. The deferred gains or losses are reflected on the balance sheet in other current and noncurrent liabilities or assets. If future purchases are revised lower than initially anticipated, the futures contracts associated with the reduction no longer qualify for deferral and are marked to market. Mark-to-market gains and losses are recorded in other income in the current period.

The effectiveness of the hedge is measured by an historical and probable future high correlation of changes in the fair value of the hedging instruments with changes in value of the hedged item. If correlation ceases to exist, hedge accounting will be terminated and gains or losses recorded in other income. To date, high correlation has always been achieved.

Alcoa also enters into futures and options contracts that cover long-term, fixed-price commitments to supply customers with metal from internal sources. These contracts are marked to market, and the gains and losses from changes in market value of the contracts are recorded in other income in the current period. This resulted in after-tax gains of \$6 in 2000 and \$12 in 1999 and losses of \$45 in 1998.

From time to time, Alcoa may elect to sell forward a portion of its production. Gains and losses related to transactions that qualify for hedge accounting are deferred and reflected in revenues when the underlying physical transaction takes place. The deferred gains or losses are reflected on the balance sheet in other current and non-current liabilities or assets. If the above contracts no longer qualify for deferral, the contracts are marked to market to other income in the current period.

Alcoa attempts to maintain a reasonable balance between fixed- and floating-rate debt, using interest rate swaps and caps, to keep financing costs as low as possible. If the requirements for hedge accounting are met, amounts paid or received under these agreements are recognized over the life of the agreements as adjustments to interest expense. Otherwise, the instruments are marked to market, and the gains and losses from changes in the market value of the contracts are recorded in other income in the current period.

Upon early termination of an interest rate swap or cap, gains or losses are deferred and amortized as adjustments to interest expense of the related debt over the remaining period covered by the terminated swap or cap.

Alcoa is subject to exposure from fluctuations in foreign currencies. To manage this exposure, Alcoa uses foreign exchange forward and option contracts. Gains and losses on contracts that meet the requirements for hedge accounting are deferred and included in the basis of the underlying transactions. Contracts that do not meet these requirements are marked to market in other income each period.

Cash flows from financial instruments are recognized in the statement of cash flows in a manner consistent with the underlying transactions. See Note S for additional detail.

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

Effective July 1, 1999, the Brazilian real became the functional currency for translating the financial statements of Alcoa's 59%-owned Brazilian subsidiary, Alcoa Alumínio S.A. (Alumínio). Economic factors and circumstances related to Alumínio's operations had changed significantly due to the devaluation of the real in the 1999 first quarter. Under SFAS No. 52, "Foreign Currency Translation," the change in these facts and circumstances required a change in Alumínio's functional currency.

As a result of the change, at July 1, 1999, Alcoa's shareholders' equity (cumulative translation adjustment) and minority interests' accounts were reduced by \$156 and \$108, respectively. These amounts were driven principally by a reduction in fixed assets. This reduction

resulted in a \$15 decrease in Alumínio's depreciation expense for 1999 and \$30 in 2000.

One of the factors affecting the change in Alumínio's functional currency was Alcoa's purchase of approximately \$185 of Alumínio's 7.5% secured export notes. The repurchase of these notes was consistent with Alcoa's policy change regarding the manner in which large subsidiaries are capitalized and resulted in lower overall financing costs to the company.

Recently Adopted Accounting Standards. In 2000, Alcoa changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements." Under the new accounting method, adopted retroactive to January 1, 2000, Alcoa recognizes revenue upon the passage of title, ownership and risk of loss to the customer. The cumulative effect of the change on prior years resulted in a charge to income of \$5 (net of income taxes and minority interests of \$3), which has been included in net income for the year ended December 31, 2000. The change did not have a significant effect on revenues or results of operations for the year ended December 31, 2000. The pro forma amounts, assuming that the new revenue recognition method were applied retroactively to prior periods, were not materially different from the amounts shown in the Statement of Consolidated Income for the years ended December 31, 1999 and 1998. Therefore, these amounts have not been presented.

For the three months ended March 31, 2000, Alcoa recognized \$43 in revenue that resulted from the cumulative effect adjustment as of January 1, 2000. The effect of the revenue in the first quarter was to increase income by \$5 (net of income taxes and minority interests of \$3) during that period.

Effective January 1, 2001, Alcoa adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138. The new accounting standard requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or in other comprehensive income, depending on whether a derivative is designated as a fair value or cash flow hedge. The ineffective portion of all hedges is recognized in current-period earnings.

For transactions that are designated as fair value hedges, changes in the fair value of the hedged asset, liability or firm commitment are also recorded on the balance sheet. Thus, changes in the fair value of the derivative instrument are generally offset in the income statement by changes in the fair value of the hedged item.

For transactions that are designated as cash flow hedges related to a variable-rate liability or a forecasted transaction, the offsetting effects of changes in the fair value of the derivative instrument are reported in other comprehensive income. These gains and losses will be reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item.

On January 1, 2001, Alcoa recorded the fair value of all outstanding derivative instruments as assets or liabilities on the balance sheet. The transition adjustment was not material to earnings or accumulated other comprehensive income.

In September 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 140, an amendment to SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 140 is effective for transfers after March 31, 2001, and is effective for disclosures about securitizations and collateral and for recognition and reclassification of collateral for fiscal years ending after December 15, 2000. This SFAS, which was adopted in 2000, did not have a material impact on Alcoa's financial statements.

Reclassification. Certain amounts in previously issued financial statements were reclassified to conform to 2000 presentations.

B. Common Stock Split

On January 10, 2000, the board of directors declared a two-for-one common stock split, subject to shareholder approval to increase the number of authorized shares. At the company's annual meeting on May 12, 2000, Alcoa shareholders approved an amendment to increase the authorized shares of Alcoa common stock from 600 million to 1.8 billion. As a result of the stock split, shareholders of record on May 26, 2000, received an additional common share for each share held. The additional shares were distributed on June 9, 2000. All per-share amounts and number of shares outstanding in this report have been restated for the stock split.

C. Acquisitions

In August 1999, Alcoa and Reynolds Metals Company (Reynolds) announced they had reached a definitive agreement to merge. On May 3, 2000, after approval by the U.S. Department of Justice (DOJ) and other regulatory agencies, Alcoa and Reynolds completed their merger. Under the agreement, Alcoa issued 2.12 shares of Alcoa common stock for each share of Reynolds. The exchange resulted in Alcoa issuing approximately 135 million shares at a value of \$33.30 per share to Reynolds stockholders. The transaction was valued at approximately \$5,900, including debt assumed of \$1,297. The purchase price includes the conversion of outstanding Reynolds options to Alcoa options as well as other direct costs of the acquisition. The purchase price allocation is preliminary; the final allocation of the purchase price will be based upon valuation and other studies, including environmental and other contingent liabilities, that have not been completed. However, Alcoa does not believe that the completion of these studies will have a material impact on the purchase price allocation. The preliminary allocation resulted in total goodwill of approximately \$2,000, which will be amortized over a 40-year period.

As part of the merger agreement, Alcoa agreed to divest the following Reynolds operations:

- > a 56% stake in its alumina refinery at Worsley, Australia;
- > a 50% stake in its alumina refinery at Stade, Germany;
- > 100% of an alumina refinery at Sherwin, Texas; and
- > 25% of an interest in its aluminum smelter at Longview, Washington.

The consolidated financial statements have been prepared in accordance with Emerging Issues Task Force (EITF) 87-11, "Allocation of Purchase Price to Assets to be Sold." Under EITF 87-11, the fair value of net assets to be divested have been reported as assets held for sale in the balance sheet, and the results of operations from these

assets of \$19 (after tax) have not been included in the Statement of Consolidated Income.

On January 25, 2001, Alcoa completed the sale of Reynolds Australia Alumina, Ltd. LLC, which held the 56% interest in the Worsley alumina refinery in Western Australia, for \$1,490. The purchaser is an affiliate of Billiton plc.

On December 31, 2000, Alcoa sold the Reynolds Sherwin, Texas alumina refinery to BPU Reynolds, Inc.

On December 27, 2000, Alcoa and Michigan Avenue Partners (MAP) announced that they had reached an agreement under which MAP will acquire 100% of the Reynolds aluminum smelter located in Longview, Washington. The agreement, which is contingent on financing, is subject to regulatory approvals and is expected to close by the end of the first quarter of 2001.

Negotiations to divest Reynolds' interest in an alumina refinery in Stade, Germany are ongoing and are expected to be concluded in the first quarter of 2001.

On March 14, 2000, Alcoa and Cordant Technologies Inc. (Cordant) announced a definitive agreement under which Alcoa would acquire all outstanding shares of Cordant, a company serving global aerospace and industrial markets. In addition, on April 13, 2000, Alcoa announced plans to commence a cash tender offer for all outstanding shares of Howmet International Inc. (Howmet). The offer for Howmet shares was part of Alcoa's acquisition of Cordant, which owned approximately 85% of Howmet.

On May 25, 2000 and June 20, 2000, after approval by the DOJ and other regulatory agencies, Alcoa completed the acquisitions of Cordant and Howmet, respectively. Under the agreement and tender offer, Alcoa paid \$57 for each outstanding share of Cordant common stock and \$21 for each outstanding share of Howmet common stock. The total value of the transaction was approximately \$3,300, including the assumption of debt of \$826. The purchase price includes the conversion of outstanding Cordant and Howmet options to Alcoa options as well as other direct costs of the acquisition. The purchase price allocation is preliminary; the final allocation is subject to valuation and other studies, including environmental and other contingent liabilities, that have not been completed. However, Alcoa does not believe that the completion of these studies will have a material impact on the purchase price allocation. The preliminary allocation resulted in total goodwill of approximately \$2,400, which will be amortized over a 40-year period.

In July 1998, Alcoa acquired Alumax Inc. (Alumax) for approximately \$3,800, consisting of cash of approximately \$1,500, stock of approximately \$1,300 and assumed debt of approximately \$1,000. The allocation of the purchase price resulted in goodwill of approximately \$910, which is being amortized over a 40-year period.

The following unaudited pro forma information for the years ended December 31, 2000, 1999 and 1998 assumes that the acquisitions of Reynolds and Cordant had occurred at the beginning of 2000 and 1999, and the acquisition of Alumax had occurred at the beginning of 1998. Adjustments that have been made to arrive at the pro forma totals include those related to acquisition financing; the amortization of goodwill; the elimination of transactions between Alcoa, Reynolds, Cordant and Alumax; and additional depreciation

related to the increase in basis that resulted from the transaction. Tax effects from the pro forma adjustments previously noted have been included at the 35% U.S. statutory rate.

(Unaudited)	2000	1999	1998
Sales	\$25,636	\$23,369	\$16,766
Net income	1,514	1,148	876
Earnings per share:			
Basic	\$ 1.86*	\$ 1.32	\$ 1.18
Diluted	1.84*	1.30	1.18

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

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

On October 31, 2000, after approval by the European Union (EU), Alcoa completed the acquisition of Luxfer Holdings plc's aluminum plate, sheet and soft-alloy extrusion manufacturing operations and distribution businesses of British Aluminium Limited, a wholly owned subsidiary of Luxfer. These businesses generated approximately \$360 in revenues in 1999 and have about 1,550 employees. Had the British Aluminium acquisition occurred at the beginning of 2000, net income for the year would not have been materially different.

In February 1998, Alcoa completed its acquisition of Inespal, S.A. (Inespal), of Madrid, Spain. Alcoa paid approximately \$150 in cash and assumed \$260 of debt and liabilities in exchange for substantially all of Inespal's businesses. The acquisition included an alumina refinery, three aluminum smelters, three aluminum rolling facilities, two extrusion plants and an administrative center. Had the Inespal acquisition occurred at the beginning of 1998, net income for the year would not have been materially different.

Alcoa completed a number of other acquisitions in 2000, 1999 and 1998. Net cash paid for other acquisitions in 2000 was \$488. None of these transactions had a material impact on Alcoa's financial statements.

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

D. Inventories

December 31	2000	1999
Finished goods	\$ 814	\$ 363
Work in process	806	550
Bauxite and alumina	311	286
Purchased raw materials	562	267
Operating supplies	210	152
	\$2,703	\$1,618

Approximately 51% of total inventories at December 31, 2000 were valued on a LIFO basis. If valued on an average-cost basis, total

inventories would have been \$658 and \$645 higher at the end of 2000 and 1999, respectively. During 2000 and 1999, LIFO inventory quantities were reduced, which resulted in partial liquidations of the LIFO bases. The impact of these liquidations increased net income by \$31 or four cents per share in 2000 and 1999.

E. Properties, Plants and Equipment, at Cost

December 31	2000	1999
Land and land rights, including mines	\$ 384	\$ 270
Structures	5,329	4,491
Machinery and equipment	16,063	13,090
	21,776	17,851
Less: accumulated depreciation and depletion	9,750	9,303
	12,026	8,548
Construction work in progress	824	585
	\$12,850	\$ 9,133

F. Debt

December 31	2000	1999
Commercial paper, variable rate, (6.6% and 5.8% average rates)	\$1,510	\$ 980
5.75% Notes payable, due 2001	250	250
6.125% Bonds, due 2005	200	200
7.25% Notes, due 2005	500	—
7.375% Notes, due 2010	1,000	—
6.50% Bonds, due 2018	250	250
6.75% Bonds, due 2028	300	300
Tax-exempt revenue bonds ranging from 3.7% to 7.2%, due 2001–2033	347	166
Alcoa Fujikura Ltd.		
Variable-rate term loan, due 2001–2002 (6.3% average rate)	190	210
Alcoa Aluminio		
7.5% Export notes, due 2008	184	194
Variable-rate notes, due 2001 (8.2% and 7.6% average rates)	3	8
Alcoa of Australia		
Euro-commercial paper, variable rate, (5.4% average rate)	—	20
Reynolds		
9% Bonds, due 2003	21	—
Medium-term notes, due 2001–2013 (8.3% average rate)	334	—
6.625% Notes payable, due 2001–2002	114	—
Cordant		
6.625% Notes payable, due 2008	150	—
Other	61	146
	5,414	2,724
Less: amount due within one year	427	67
	\$4,987	\$2,657

The amount of long-term debt maturing in each of the next five years is \$427 in 2001, \$294 in 2002, \$1,089 in 2003, \$59 in 2004 and \$1,269 in 2005.

Debt increased primarily as a result of the Reynolds and Cordant acquisitions. Debt of \$1,297 was assumed in the acquisition of Reynolds, while \$826 of debt was assumed in the acquisition of Cordant. The Cordant acquisition, including the acquisition of the remaining shares of Howmet, was financed with debt.

In 2000, Alcoa issued \$1,500 of notes. Of these notes, \$1,000 mature in 2010 and carry a coupon rate of 7.375%, and \$500 mature in 2005 and carry a coupon rate of 7.25%. In addition, Alcoa issued \$3,711 of commercial paper. The proceeds from these borrowings were used to fund acquisitions, refinance debt and for general corporate purposes.

In 2000, Alcoa entered into a new \$2,490 revolving-credit facility that expires in April 2001 and a \$510 revolving-credit facility that expires in August 2005. In 1998, Alcoa entered into a \$2,000 revolving-credit facility, half of which expired in August 2000, while the other half expires in August 2003. Under these agreements, certain levels of consolidated net worth must be maintained while commercial paper balances are outstanding. A portion of the commercial paper issued by Alcoa is classified as long-term debt because it is backed by the revolving-credit facilities.

Alcoa Fujikura Ltd. (AFL) and Alumínio are required to maintain certain financial ratios under the terms of the term loan and export note agreements, respectively.

Short-term borrowings of \$2,719 consisted of commercial paper of \$2,201, extendible commercial notes of \$280 and bank and other borrowings of \$238 at December 31, 2000. Short-term borrowings of \$343 at December 31, 1999 consisted of commercial paper of \$108 and bank and other borrowings of \$235. The weighted average interest rate on short-term borrowings was 6.6% in 2000 and 5.1% in 1999.

G. Other Assets

December 31	2000	1999
Investments, principally equity investments	\$ 954	\$ 630
Assets held for sale	1,473	—
Intangibles, net of accumulated amortization of \$238 in 2000 and \$177 in 1999	821	117
Noncurrent receivables	118	43
Deferred income taxes	360	424
Deferred charges and other	1,534	591
	\$5,260	\$1,805

H. Other Noncurrent Liabilities and Deferred Credits

December 31	2000	1999
Deferred alumina sales revenue	\$ 212	\$ 220
Environmental remediation	369	111
Deferred credits	317	283
Other noncurrent liabilities	1,228	859
	\$2,126	\$1,473

I. Minority Interests

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

December 31	2000	1999
Alcoa of Australia	\$ 462	\$ 439
Alcoa Alumínio	256	253
Alcoa World Alumina and Chemicals	260	290
Alcoa Fujikura Ltd.	309	260
Other majority-owned companies	227	216
	\$1,514	\$1,458

J. Cash Flow Information

Cash payments for interest and income taxes follow.

	2000	1999	1998
Interest	\$388	\$225	\$199
Income taxes	419	394	371

The details of cash payments related to acquisitions follow.

	2000	1999	1998
Fair value of assets acquired	\$14,991	\$ 282	\$ 5,511
Liabilities assumed	(7,075)	(159)	(2,554)
Stock options issued	(182)	—	—
Stock issued	(4,502)	—	(1,321)
Cash paid	3,232	123	1,636
Less: cash acquired	111	1	173
Net cash paid for acquisitions	\$ 3,121	\$ 122	\$ 1,463

K. Commitments and Contingencies

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

Alumínio is a 23.75% participant in a hydroelectric construction project in Brazil. The total estimated costs of the project are \$532, of which \$422 has been expended to date. Alumínio has contributed \$41 to the project in the form of equity and \$31 in the form of short-term financing. Alumínio has also guaranteed \$42 of a bridge loan to the project as of December 31, 2000. Long-term financing in the amount of \$342 is currently being negotiated for the project. Upon completion of this long-term financing in 2001, Alumínio will receive repayment of its short-term loan and will provide a guarantee equal to 34% of the project's total outstanding indebtedness, estimated at \$342. As a result of this participation, Alumínio will receive a share of the output upon completion of the project. In the event that other participants in this project fail to fulfill their financial responsibilities, Alumínio may be liable for a portion of the deficiency. In accordance with the agreement, if Alumínio funds any such deficiency, its participation and share of the output from the project will increase proportionately.

Alcoa of Australia (AofA) is party to a number of natural gas and electricity contracts that expire between 2001 and 2022. Under these take-or-pay contracts, AofA is obligated to pay for a minimum amount of natural gas or electricity even if these commodities are not required for operations. Commitments related to these contracts total \$184 in 2001, \$177 in 2002, \$173 in 2003, \$174 in 2004, \$154 in 2005 and \$2,120 thereafter. Expenditures under these contracts totaled \$188 in 2000, \$179 in 1999 and \$171 in 1998.

L. Earnings Per Share

Basic earnings per common share (EPS) amounts are computed by dividing earnings after the deduction of preferred stock dividends by the average number of common shares outstanding. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive equivalents outstanding. Antidilutive outstanding stock options have been excluded from the diluted EPS calculation. See Note M for additional information.

The details of basic and diluted EPS follow:

	2000	1999	1998
Income before cumulative effect	\$1,489	\$1,054	\$ 853
Less: preferred stock dividends	2	2	2
Income available to common stockholders before cumulative effect	\$1,487	\$1,052	\$ 851
Cumulative effect of accounting change	(5)	—	—
Income available to common stockholders after cumulative effect	\$1,482	\$1,052	\$ 851
Average shares outstanding—basic	814.2	733.8	698.2
Effect of dilutive securities:			
Shares issuable upon exercise of dilutive stock options	9.0	13.4	5.0
Average shares outstanding—diluted	823.2	747.2	703.2
Basic EPS (before cumulative effect)	\$ 1.83	\$ 1.43	\$ 1.22
Basic EPS (after cumulative effect)	1.82	1.43	1.22
Diluted EPS (before cumulative effect)	1.81	1.41	1.21
Diluted EPS (after cumulative effect)	1.80	1.41	1.21

Options to purchase 44 million shares of common stock at an average exercise price of \$36.00 were outstanding as of December 31, 2000 but were not included in the computation of diluted EPS because the option exercise price was greater than the average market price of the common shares.

In April 2000, Alcoa entered into a forward share repurchase agreement to partially hedge the equity exposure related to its stock option program. The contract, which matures in 2002, allows the company to repurchase up to 10 million shares from a financial institution. The company may elect to settle the contract on a net share basis in lieu of physical settlement. The contract permits early settlement. As of December 31, 2000, 10 million shares had been committed at an average price of \$31.90 per share. The effect of this repurchase agreement has been considered in determining diluted EPS.

M. Preferred and Common Stock

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

Common Stock. There are 1.8 billion shares authorized at a par value of \$1 per share. As of December 31, 2000, 90,620,594 shares of common stock were reserved for issuance under the long-term stock incentive plan.

Stock options under the company's stock incentive plan have been and may be granted, generally at not less than market prices on the dates of grant, except for the 12.5 cents per-share options issued as a payout of earned performance share awards. The stock option program includes a reload or stock continuation ownership feature. Stock options granted have a maximum term of 10 years. Vesting periods are one year from the date of grant and six months for options granted under the reload feature.

Alcoa's net income and earnings per share would have been reduced to the pro forma amounts shown below if compensation cost had been determined based on the fair value at the grant dates.

	2000	1999	1998
Net income:			
As reported	\$1,484	\$1,054	\$853
Pro forma	1,277	912	815
Basic earnings per share:			
As reported	1.82	1.43	1.22
Pro forma	1.57	1.24	1.16
Diluted earnings per share:			
As reported	1.80	1.41	1.21
Pro forma	1.55	1.22	1.16

The weighted average fair value per option granted was \$10.13 in 2000, \$5.35 in 1999 and \$2.87 in 1998.

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

	2000	1999	1998
Average risk-free interest rate	6.1%	5.0%	5.2%
Expected dividend yield	1.6	1.4	2.1
Expected volatility	40.0	37.0	25.0
Expected life (years):			
New option grants	2.5	2.5	2.5
Reload option grants	2.0	1.5	1.5

The transactions for shares under options were:

	2000	1999	1998
Outstanding, beginning of year:			
Number of options	53.0	53.2	42.2
Weighted average exercise price	\$22.15	\$16.50	\$15.84
Options assumed from acquisitions:			
Number of options	15.2	—	—
Weighted average exercise price	\$25.09	—	—
Granted:			
Number of options	31.3	43.6	23.6
Weighted average exercise price	\$37.87	\$24.47	\$17.19
Exercised:			
Number of options	(24.3)	(43.2)	(12.0)
Weighted average exercise price	\$22.03	\$17.22	\$15.07
Expired or forfeited:			
Number of options	(.4)	(.6)	(.6)
Weighted average exercise price	\$34.90	\$18.59	\$18.25
Outstanding, end of year:			
Number of options	74.8	53.0	53.2
Weighted average exercise price	\$29.29	\$22.15	\$16.50
Exercisable, end of year:			
Number of options	44.6	26.4	27.6
Weighted average exercise price	\$23.42	\$19.21	\$15.24
Shares reserved for future options	15.8	28.6	22.8

The following tables summarize certain stock option information at December 31, 2000:

Options Outstanding

Range of exercise price	Number	Weighted average remaining life	Weighted average exercise price
\$ 0.125	0.6	employment career	\$0.125
\$ 4.38-\$12.15	3.0	3.86	10.04
\$12.16-\$19.93	8.6	4.41	16.70
\$19.94-\$27.71	17.0	5.84	22.58
\$27.72-\$35.49	21.7	6.18	31.75
\$35.50-\$43.25	23.9	8.07	39.48
Total	74.8	6.36	\$29.29

Options Exercisable

Range of exercise price	Number	Weighted average exercisable price
\$ 0.125	0.6	\$0.125
\$ 4.38-\$12.15	3.0	10.04
\$12.16-\$19.93	8.6	16.70
\$19.94-\$27.71	17.0	22.57
\$27.72-\$35.49	14.6	31.04
\$35.50-\$43.25	0.8	40.22
Total	44.6	\$23.42

N. Segment and Geographic Area Information

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

In 2000, as a result of acquisitions, Alcoa changed its internal management reporting structure to add the Packaging and Consumer segment. Alcoa's closures, packaging, PET bottles and packaging machinery businesses were moved from the Other group to this segment. Previously reported data from 1999 and 1998 has been restated to reflect this change. Reynolds' packaging and consumer businesses were also added to the new Packaging and Consumer segment. Other Reynolds and Cordant businesses were added to the appropriate existing segments.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (Note A). Transactions among segments are established based on negotiation among the parties. Differences between segment totals and Alcoa's consolidated totals for line items not reconciled are primarily due to corporate allocations.

Alcoa's products are used primarily by packaging, consumer products, transportation (including aerospace, automotive, rail and shipping), building and construction and industrial customers worldwide. Total exports from the U.S. were \$1,687 in 2000, compared with \$1,309 in 1999 and \$1,283 in 1998. Total government contract revenue at Thiokol was \$372 in 2000. Alcoa's reportable segments follow.

Alumina and Chemicals. This segment's activities include the mining of bauxite, which is then refined into alumina. Alumina is sold to internal and external customers worldwide or is processed into industrial chemical products. Alcoa's Australian alumina operations are a significant component of this segment. This segment does not include the Reynolds alumina assets that were required to be divested. The majority of the third-party sales from this segment are derived from alumina.

Primary Metals. This segment consists of Alcoa's worldwide smelter system. Primary Metals receives alumina from the Alumina and Chemicals segment and produces aluminum ingot to be used by Alcoa's fabricating business, as well as sold to outside customers. Results from internal hedging contracts and from marking to market certain aluminum commodity contracts are also included in this segment. Revenues from the sale of powder, scrap and excess power are also included. The sale of ingot represents over 90% of this segment's third-party sales.

Flat-Rolled Products. This segment's principal business is the production and sale of aluminum plate, sheet and foil. This segment includes rigid container sheet (RCS), which is used to produce aluminum beverage cans, and sheet and plate used in the transportation and distributor markets.

Engineered Products. This segment consists of hard- and soft-alloy extrusions, including architectural extrusions, super-alloy castings, steel and aluminum fasteners, aluminum forgings and wheels. This segment includes the Reynolds wheel business, as well as the Huck fasteners and Howmet super-alloy castings businesses. These products serve primarily the transportation, construction and distributor markets.

Packaging and Consumer. This segment includes Alcoa's closures, packaging, PET bottles and packaging machinery businesses, as well as the packaging and consumer businesses of Reynolds acquired in 2000.

Other. This group includes Alcoa businesses that do not fit into the segments previously mentioned. This group includes AFL, which produces electrical components for the automotive industry along with fiber-optic cable and services for the telecommunications industry; Thiokol, a producer of solid rocket propulsion systems;

Reynolds' metal distribution business (RASCO); the residential building products operations, Alcoa Building Products (ABP); and aluminum automotive engineering and parts businesses. Thiokol and RASCO were added in 2000 as part of the Cordant and Reynolds acquisitions, respectively.

Segment information	Alumina and Chemicals	Primary Metals	Flat-Rolled Products	Engineered Products	Packaging and Consumer	Other	Total
2000							
Sales:							
Third-party sales	\$2,108	\$3,756	\$5,446	\$5,471	\$2,084	\$4,071	\$22,936
Intersegment sales	1,104	3,504	97	62	—	—	4,767
Total sales	\$3,212	\$7,260	\$5,543	\$5,533	\$2,084	\$4,071	\$27,703
Profit and loss:							
Equity income	\$ 3	\$ 50	\$ 6	\$ 1	\$ —	\$ 32	\$ 92
Depreciation, depletion and amortization	163	311	188	221	105	127	1,115
Income tax	279	505	126	124	70	93	1,197
After-tax operating income	585	1,000	299	210	131	164	2,389
Assets:							
Capital expenditures	\$ 154	\$ 232	\$ 185	\$ 234	\$ 112	\$ 100	\$ 1,017
Equity investment	176	274	90	6	1	139	686
Total assets	2,924	7,700	3,657	6,455	2,457	3,376	26,569
1999							
Sales:							
Third-party sales	\$1,842	\$2,241	\$5,113	\$3,728	\$ 801	\$2,592	\$16,317
Intersegment sales	925	2,793	51	26	—	—	3,795
Total sales	\$2,767	\$5,034	\$5,164	\$3,754	\$ 801	\$2,592	\$20,112
Profit and loss:							
Equity income (loss)	\$ —	\$ 42	\$ (9)	\$ —	\$ —	\$ 10	\$ 43
Depreciation, depletion and amortization	161	216	184	116	60	89	826
Income tax	159	214	131	88	32	71	695
After-tax operating income	307	535	281	180	68	118	1,489
Assets:							
Capital expenditures	\$ 183	\$ 207	\$ 166	\$ 144	\$ 96	\$ 62	\$ 858
Equity investment	54	153	66	—	1	138	412
Total assets	3,046	4,532	3,385	2,320	646	1,647	15,576
1998							
Sales:							
Third-party sales	\$1,847	\$2,105	\$4,900	\$3,110	\$ 856	\$2,506	\$15,324
Intersegment sales	832	2,509	59	11	—	—	3,411
Total sales	\$2,679	\$4,614	\$4,959	\$3,121	\$ 856	\$2,506	\$18,735
Profit and loss:							
Equity income (loss)	\$ 1	\$ 27	\$ 8	\$ (1)	\$ —	\$ 10	\$ 45
Depreciation, depletion and amortization	159	176	190	88	63	92	768
Income tax	174	196	126	85	28	79	688
After-tax operating income	318	372	306	183	61	104	1,344
Assets:							
Capital expenditures	\$ 275	\$ 164	\$ 152	\$ 105	\$ 96	\$ 47	\$ 839
Equity investment	50	150	69	—	1	112	382
Total assets	3,082	5,341	3,513	2,427	678	1,568	16,609

The following reconciles segment information to consolidated totals.

	2000	1999	1998
Sales:			
Total sales	\$27,703	\$20,112	\$18,735
Elimination of intersegment sales	(4,767)	(3,795)	(3,411)
Other revenues	—	6	16
Consolidated sales	\$22,936	\$16,323	\$15,340
Net income:			
Total after-tax operating income	\$ 2,389	\$ 1,489	\$ 1,344
Elimination of intersegment profit	(20)	(24)	(16)
Unallocated amounts (net of tax):			
Interest income	40	26	64
Interest expense	(278)	(126)	(129)
Minority interests	(381)	(242)	(238)
Corporate expense	(227)	(171)	(197)
Other	(39)	102	25
Consolidated net income	\$ 1,484	\$ 1,054	\$ 853
Assets:			
Total assets	\$26,569	\$15,576	\$16,609
Elimination of intersegment receivables	(530)	(362)	(378)
Unallocated amounts:			
Cash, cash equivalents and short-term investments	371	314	381
Deferred tax assets	745	657	703
Corporate goodwill	1,570	558	480
Corporate fixed assets	414	278	315
LIFO reserve	(658)	(645)	(703)
Operations to be divested	1,473	—	—
Other	1,737	690	56
Consolidated assets	\$31,691	\$17,066	\$17,463

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

	2000	1999	1998
Revenues:			
U.S.	\$15,487	\$10,392	\$ 9,212
Australia	1,690	1,398	1,470
Spain	1,146	1,059	965
Brazil	885	730	934
Germany	713	521	554
Other	3,015	2,223	2,205
	\$22,936	\$16,323	\$15,340
Long-lived assets:			
U.S.	\$14,276	\$ 6,650	\$ 6,726
Australia	1,458	1,585	1,441
Brazil	698	712	967
Canada	2,844	948	890
Germany	213	165	213
Other	1,700	1,122	1,023
	\$21,189	\$11,182	\$11,260

O. Income Taxes

The components of income before taxes on income were:

	2000	1999	1998
U.S.	\$ 756	\$ 631	\$ 595
Foreign	2,056	1,218	1,010
	\$2,812	\$1,849	\$1,605

The provision for taxes on income consisted of:

	2000	1999	1998
Current:			
U.S. federal*	\$217	\$175	\$159
Foreign	568	306	219
State and local	22	18	26
	807	499	404
Deferred:			
U.S. federal*	90	74	81
Foreign	42	(25)	25
State and local	3	5	4
	135	54	110
Total	\$942	\$553	\$514

*Includes U.S. taxes related to foreign income

In the 1999 fourth quarter, Australia reduced its corporate income tax rate from 36% to 34% for 2000 and 30% for 2001.

The exercise of employee stock options generated a tax benefit of \$108 in 2000 and \$145 in 1999. This amount was credited to additional capital and reduced current taxes payable.

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

	2000	1999	1998
U.S. federal statutory rate	35.0%	35.0%	35.0%
Taxes on foreign income	(3.5)	(2.4)	(4.1)
State taxes net of federal benefit	.5	.5	.7
Tax rate changes	—	(2.4)	—
Other	1.5	(.8)	.4
Effective tax rate	33.5%	29.9%	32.0%

The components of net deferred tax assets and liabilities follow.

	2000		1999	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
December 31				
Depreciation	\$ —	\$2,263	—	\$ 951
Employee benefits	1,127	—	\$ 872	—
Loss provisions	588	—	214	—
Deferred income/expense	237	166	91	138
Tax loss carryforwards	272	—	185	—
Tax credit carryforwards	144	—	2	—
Other	262	304	111	64
	2,630	2,733	1,475	1,153
Valuation allowance	(165)	—	(134)	—
	\$2,465	\$2,733	\$1,341	\$1,153

Of the total deferred tax assets associated with the tax loss carryforwards, \$57 expires over the next 10 years, \$99 over the next 20 years and \$116 is unlimited. Of the tax credit carryforwards, \$107 is unlimited with the balance expiring over the next 10 years. A substantial portion of the valuation allowance relates to the loss carryforwards because the ability to generate sufficient foreign taxable income in future years is uncertain. Approximately \$60 of the valuation allowance relates to acquired companies for which subsequently recognized benefits will reduce goodwill.

The cumulative amount of Alcoa's share of undistributed earnings for which no deferred taxes have been provided was \$3,861 at December 31, 2000. Management has no plans to distribute such earnings in the foreseeable future. It is not practical to determine the deferred tax liability on these earnings.

P. Pension Plans and Other Postretirement Benefits

Alcoa maintains pension plans covering most U.S. employees and certain other employees. Pension benefits generally depend on length of service, job grade and remuneration. Substantially all benefits are paid through pension trusts that are sufficiently funded to ensure that all plans can pay benefits to retirees as they become due.

Alcoa maintains health care and life insurance benefit plans covering most eligible U.S. retired employees and certain other retirees.

Generally, the medical plans pay a stated percentage of medical expenses, reduced by deductibles and other coverages. These plans are generally unfunded, except for certain benefits funded through a trust. Life benefits are generally provided by insurance contracts. Alcoa retains the right, subject to existing agreements, to change or eliminate these benefits.

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

December 31	Pension benefits		Postretirement benefits	
	2000	1999	2000	1999
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 5,366	\$ 5,394	\$ 1,687	\$ 1,862
Service cost	162	141	25	19
Interest cost	502	342	177	109
Amendments	9	5	(17)	1
Actuarial (gains) losses	(309)	(143)	85	(173)
Acquisitions (principally Reynolds and Cordant)	3,124	—	1,182	—
Benefits paid	(514)	(387)	(215)	(130)
Exchange rate	(70)	14	—	(1)
Benefit obligation at end of year	\$ 8,270	\$ 5,366	\$ 2,924	\$ 1,687
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 6,103	\$ 5,758	\$ 112	\$ 100
Actual return on plan assets	586	666	12	12
Acquisitions (principally Reynolds and Cordant)	3,597	—	31	—
Employer contributions	61	16	5	—
Participants' contributions	13	22	—	—
Benefits paid	(487)	(362)	(5)	—
Administrative expenses	(12)	(15)	—	—
Exchange rate	(71)	18	—	—
Fair value of plan assets at end of year	\$ 9,790	\$ 6,103	\$ 155	\$ 112
Funded status				
Unrecognized net actuarial gain	\$ 1,520	\$ 737	\$ (2,769)	\$ (1,575)
Unrecognized net prior service cost (credit)	(1,385)	(1,189)	(137)	(221)
Unrecognized transition obligation	40	69	(97)	(116)
Unrecognized transition obligation	—	1	—	—
Net amount recognized	\$ 175	\$ (382)	\$ (3,003)	\$ (1,912)
Amount recognized in the balance sheet consists of:				
Prepaid benefit	\$ 661	\$ 61	—	—
Accrued benefit liability	(509)	(471)	\$ (3,003)	\$ (1,912)
Intangible asset	9	4	—	—
Accumulated other comprehensive income	14	24	—	—
Net amount recognized	\$ 175	\$ (382)	\$ (3,003)	\$ (1,912)

The components of net periodic benefit costs are reflected below.

December 31	Pension benefits			Postretirement benefits		
	2000	1999	1998	2000	1999	1998
Components of net periodic benefit costs						
Service cost	\$ 162	\$ 141	\$ 119	\$ 25	\$ 19	\$ 18
Interest cost	502	342	318	177	109	112
Expected return on plan assets	(666)	(427)	(391)	(11)	(9)	(8)
Amortization of prior service cost (benefit)	35	39	48	(34)	(34)	(34)
Recognized actuarial gain	(18)	(4)	(7)	(2)	(4)	(5)
Amortization of transition obligation	2	2	2	—	—	—
Net periodic benefit costs	\$ 17	\$ 93	\$ 89	\$ 155	\$ 81	\$ 83

The aggregate benefit obligation and fair value of plan assets for the pension plans with benefit obligations in excess of plan assets were \$804 and \$508, respectively, as of December 31, 2000, and \$1,022 and \$696, respectively, as of December 31, 1999. The aggregate pension accumulated benefit obligation and fair value of plan assets with accumulated benefit obligations in excess of plan assets were \$594 and \$338, respectively, as of December 31, 2000, and \$337 and \$119, respectively, at December 31, 1999.

Weighted average assumptions used to determine plan liabilities and expense follow.

December 31	2000	1999	1998
Discount rate	7.75%	7.00%	6.50%
Expected long-term return on plan assets	9.00	9.00	9.00
Rate of compensation increase	5.00	5.00	5.00

For measurement purposes, an 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to decrease gradually to 5.5% in 2005 and remain at that level thereafter.

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

	1% increase	1% decrease
Effect on total of service and interest cost components	\$ 13	\$ (13)
Effect on postretirement benefit obligations	165	(144)

Alcoa also sponsors a number of defined contribution pension plans. Expenses were \$80 in 2000, \$64 in 1999 and \$57 in 1998.

Q. Lease Expense

Certain equipment, warehousing and office space and oceangoing vessels are under operating lease agreements. Total expense for all leases was \$152 in 2000, \$145 in 1999 and \$130 in 1998. Under long-term operating leases, minimum annual rentals are \$125 in 2001, \$100 in 2002, \$63 in 2003, \$38 in 2004, \$27 in 2005 and a total of \$123 for 2006 and thereafter.

R. Interest Cost Components

	2000	1999	1998
Amount charged to expense	\$427	\$195	\$198
Amount capitalized	20	21	13
	\$447	\$216	\$211

S. Financial Instruments

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

	2000		1999	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	\$ 315	\$ 315	\$ 237	\$ 237
Short-term investments	56	56	77	77
Noncurrent receivables	118	118	43	43
Short-term debt	3,146	3,146	410	410
Long-term debt	4,987	5,053	2,657	2,526

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

Cash and Cash Equivalents, Short-Term Investments and Short-Term Debt.

The carrying amounts approximate fair value because of the short maturity of the instruments. All investments purchased with a maturity of three months or less are considered cash equivalents.

Noncurrent Receivables. The fair value of noncurrent receivables is based on anticipated cash flows and approximates carrying value.

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

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

Foreign Exchange Contracts. The company enters into foreign exchange contracts to hedge its significant firm and anticipated purchase and sale commitments denominated in foreign currencies. These contracts cover periods commensurate with known or expected exposures, generally within 36 months, and are principally unsecured foreign exchange contracts with carefully selected banks. The market risk exposure is essentially limited to risk related to currency rate movements. Unrecognized gains (losses) on these contracts at December 31, 2000 and 1999 were \$(139) and \$57, respectively.

The table below reflects the various types of foreign exchange contracts Alcoa uses to manage its foreign exchange risk.

	2000		1999	
	Notional amount	Market value	Notional amount	Market value
Forwards	\$2,342	\$(166)	\$1,499	\$60
Purchased options	—	—	28	3

The notional values summarized above provide an indication of the extent of the company's involvement in such instruments but do not represent its exposure to market risk.

The following table summarizes by major currency the contractual amounts of Alcoa's forward exchange and option contracts translated to U.S. dollars at December 31 rates. The "buy" amounts represent

the U.S. dollar equivalent of commitments to purchase foreign currencies, and the “sell” amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies.

	2000		1999	
	Buy	Sell	Buy	Sell
Australian dollar	\$1,940	\$ 1	\$1,447	\$ 4
Canadian dollar	197	—	98	8
Japanese yen	—	—	6	—
Deutsche mark	—	—	2	21
Pound sterling	—	6	—	—
Euro	—	29	—	—
	\$2,137	\$36	\$1,553	\$33

Interest Rate Swaps. Alcoa manages its debt portfolio by using interest rate swaps and options to achieve an overall desired position of fixed and floating rates. As of December 31, 2000, Alcoa had the following interest rate swap contracts outstanding:

- > Interest rate swap contracts relating to Alcoa’s 5.75% notes that mature in 2001. The swaps convert \$175 notional amount from fixed rates to floating rates and mature in 2001.
- > Interest rate swap contracts relating to AFL’s variable-rate loan. These agreements convert the variable rate to a fixed rate on a notional amount of \$178 and mature in 2002.

In addition to the above, Aluminio has cross-currency interest rate swap contracts, relating to deposit accounts, that primarily convert local currency floating rates to dollar fixed rates on a notional amount of \$81.

Alcoa utilizes cross-currency interest rate swaps to take advantage of international debt markets. At year-end 2000, Alcoa had in place \$60 of cross-currency interest rate swaps that effectively convert U.S. dollar-denominated debt into liabilities in yen based on Japanese interest rates.

Based on current interest rates for similar transactions, the fair value of all interest rate swap agreements is not material.

Credit and market risk exposures are limited to the net interest differentials. The net payments or receipts from interest rate swaps are recorded as part of interest expense and are not material. The effect of interest rate swaps on Alcoa’s composite interest rate on long-term debt was not material at the end of 2000 and 1999.

Alcoa is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, but does not anticipate nonperformance by any of the counterparties.

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

T. Environmental Matters

Alcoa participates in environmental assessments and cleanups at a number of locations. These include approximately 24 owned or operating facilities and adjoining properties, approximately 28 previously owned or operated facilities and adjoining properties and approximately 87 Superfund and other waste sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. See Note A for additional information.

As assessments and cleanups proceed, the liability is adjusted based on progress in determining the extent of remedial actions and related costs and damages. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements and technological changes. Therefore, it is not possible to determine the outcomes or to estimate with any degree of accuracy the potential costs for certain of these matters. For example, there are issues related to the Massena, New York; Pt. Comfort, Texas; and Troutdale, Oregon sites where investigations are ongoing and where natural resource damage or off-site contaminated sediments have been alleged. The following discussion provides additional details regarding the current status of these sites.

Massena. Sediments and fish in the Grasse River adjacent to Alcoa’s Massena, New York plant site contain varying levels of polychlorinated biphenyl (PCB). Alcoa has been identified by the U.S. Environmental Protection Agency (EPA) as potentially responsible for this contamination and, since 1989, has been conducting investigations and studies of the river under order from the EPA issued under the Comprehensive Environmental Response, Compensation and Liability Act, also known as Superfund.

Alcoa continues to perform studies and investigations on the Grasse River. A planned pilot test of certain sediment capping techniques, intended for 1999, could not be completed because a final scope of work could not be developed with the EPA in time to complete the project before the construction season concluded. In addition, in the 1999 fourth quarter, Alcoa submitted an Analysis of Alternatives report to the EPA. This report identified potential courses of remedial action related to the PCB contamination of the river. Alcoa has proposed to the EPA that the planned pilot scale tests be conducted to assess the feasibility of performing certain sediment-covering techniques before selection and approval of a remedial alternative by the EPA. The costs of these pilot scale tests have been fully reserved. The results of these tests and discussions with the EPA regarding all of the alternatives identified should provide additional information for the selection and approval of the appropriate remedial alternative.

The Analysis of Alternatives report and the results of the pilot tests must be reviewed and approved by the EPA. Currently, no one of the alternatives is more likely to be selected than any other. The range of additional costs associated with the potential courses of remedial action is between zero and \$53. During meetings through December 2000, the EPA had indicated to Alcoa that it believes additional remedial alternatives need to be included in the Analysis of Alternatives report. Such additional remedies involve removal of more sediment from the river than was included in the alternatives provided in the recent Analysis of Alternatives report. The cost of such potential additional remedial alternatives cannot be estimated at this time. Alcoa expects to submit a revised Analysis of Alternatives report during 2001.

In 1988, Reynolds discovered that soils in the area of the heat transfer medium system at its primary aluminum production plant in Massena, New York were contaminated with PCB and other contaminants. Remediation of the contaminated soils and other contaminated areas of the plant were substantially completed in 1998. Portions of the St. Lawrence River system adjacent to the plant are also contaminated with PCB. Since 1989, Reynolds has been conduct-

ing investigations and studies of the river system under order from the EPA issued under Superfund. Alcoa is working with the EPA to better define the scope of the dredging program, which is planned for 2001 and has been included in the reserve.

Alcoa is aware of natural resource damage claims that may be asserted by certain federal, state and tribal natural resource trustees at these locations.

Pt. Comfort/Lavaca Bay. In 1990, Alcoa began discussions with certain state and federal natural resource trustees concerning alleged releases of mercury from its Pt. Comfort, Texas facility into the adjacent Lavaca Bay. In March 1994, the EPA listed the "Alcoa (Point Comfort)/Lavaca Bay Site" on the National Priorities List and, shortly thereafter, Alcoa and the EPA entered into an administrative order on consent under which Alcoa is obligated to conduct certain remedial investigations and feasibility studies. In accordance with this order, Alcoa recently submitted a remedial investigation report, a draft feasibility study and a baseline risk assessment to the EPA. In addition, Alcoa has nearly completed construction of the EPA-approved project to fortify an offshore dredge disposal island. The probable and estimable costs of these actions are fully reserved. Since the order from the EPA, Alcoa and the natural resource trustees have continued efforts to understand natural resource injury and ascertain appropriate restoration alternatives. That process is currently expected to be complete by early 2001.

Troutdale, Oregon. In 1994, the EPA added the Reynolds Troutdale, Oregon primary aluminum production plant to the National Priorities List of Superfund sites. Alcoa is cooperating with the EPA and, under a September 1995 consent order, is working with the EPA in investigating potential environmental contamination at the Troutdale site and promoting more efficient cleanup at the site. The current estimate of costs has been accrued; however, the shutdown of operations at Troutdale, announced June 28, 2000, could affect the cleanup alternative selected for the site.

Sherwin, Texas. In connection with the sale of the Sherwin alumina refinery, which was required to be divested as part of the Reynolds merger (see Note C), Alcoa has agreed to retain responsibility for the remediation of certain properties, including former waste disposal areas, and a share of the ultimate closure costs of other active waste disposal areas. The cost of such remediation has been evaluated and is fully reserved.

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

Alcoa's remediation reserve balance at the end of 2000 and 1999 was \$447 and \$174 (of which \$78 and \$63 were classified as a current liability), respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. Approximately 17% of the 2000 balance relates to the Massena plant sites, 22% of the 2000 balance relates to the Sherwin plant site and 11% of the 2000 balance relates to the Troutdale plant site. Remediation costs charged to the reserve were \$77 in 2000, \$47 in 1999 and \$63 in 1998. They include expenditures

currently mandated, as well as those not required by any regulatory authority or third party. In 2000, the reserve balance was increased by \$350 as a result of acquisitions. In 1999, the reserve balance was increased by \$4 to cover anticipated future environmental expenditures.

U. Subsequent Event

On January 31, 2001, Alcoa and Alliant Techsystems Inc. (ATK) announced that they had reached a definitive agreement under which ATK will acquire Thiokol for \$685 in cash. The transaction, which has received all necessary corporate approvals of both companies, is subject to customary regulatory approvals. It is expected to close by the end of the second quarter of 2001.

Supplemental Financial Information

Quarterly Data (unaudited)

(dollars in millions, except per-share amounts)

2000	First*	Second	Third	Fourth	Year
Sales	\$4,509	\$5,569	\$6,298	\$6,560	\$22,936
Income from operations	457	462	459	492	1,870
Net income	347	377	368	392†	1,484
Earnings per share:					
Basic	.47	.47	.42	.45	1.82
Diluted	.47	.47	.42	.45	1.80

*The first quarter amounts have been restated for the effect of the change in accounting for revenue recognition (see Note A). Amounts originally reported were as follows: Sales, \$4,531; Income from operations, \$460; Net income, \$355; Earnings per share, basic and diluted, \$.48. The amounts for the quarters ended June 30 and September 30, 2000 were not materially different from those originally reported; therefore, these amounts have not been restated.

†The 2000 fourth quarter includes an after-tax credit of \$18, or two cents per share, related to changes in the LIFO index and LIFO liquidations.

1999	First	Second	Third	Fourth	Year
Sales	\$3,985	\$4,033	\$4,052	\$4,253	\$16,323
Income from operations	247	294	313	442	1,296
Net income	221	240	259	334*	1,054
Earnings per share:					
Basic	.30	.33	.35	.46	1.43
Diluted	.30	.32	.35	.44	1.41

*The 1999 fourth quarter included an after-tax credit of \$49, or seven cents per share, related to changes in the LIFO index and LIFO liquidations.

Number of Employees (unaudited)

	2000	1999	1998
Other Americas	46,500	45,100	40,900
U.S.	61,600	38,400	38,900
Europe	27,400	18,800	18,200
Pacific	6,500	5,400	5,500
	142,000	107,700	103,500

11-Year Summary of Financial and Other Data

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

	For the year ended December 31	2000	1999	1998
Operating Results	Sales	\$22,936	\$16,323	\$15,340
	Other income	154	124	149
	Cost of goods sold	17,342	12,536	11,933
	Selling, general administrative and other expenses	1,108	851	783
	Research and development expenses	194	128	128
	Depreciation and depletion	1,207	888	842
	Special items—(income) expense	—	—	—
	Interest expense	427	195	198
	Taxes on income	942	553	514
	Income from operations	1,870	1,296	1,091
	Less: Minority interests	381	242	238
	Extraordinary losses and accounting changes*	(5)	—	—
	Net income (loss)	1,484	1,054	853
	Alcoa's average realized price per pound for aluminum ingot	.77	.67	.67
Average U.S. market price per pound for aluminum ingot (<i>Metals Week</i>)	.75	.66	.66	
Dividends Declared	Preferred stock	2	2	2
	Common stock	416	296	263
Financial Position	Working capital	(376)	1,797	1,757
	Properties, plants and equipment	12,850	9,133	9,134
	Other assets (liabilities), net	5,449	(497)	(482)
	Total assets	31,691	17,066	17,463
	Long-term debt (noncurrent)	4,987	2,657	2,877
	Minority interests	1,514	1,458	1,476
	Shareholders' equity	11,422	6,318	6,056
Common Share Data (dollars per share)	Basic earnings per share*	1.82	1.43	1.22
	Diluted earnings per share*	1.80	1.41	1.21
	Dividends declared	.500	.403	.375
	Book value (based on year-end outstanding shares)	13.13	8.51	8.18
	Price range: High	43 ³ / ₈	41 ¹¹ / ₁₆	20 ³ / ₁₆
	Low	23 ¹ / ₈	17 ³¹ / ₃₂	14 ¹ / ₂
	Shareholders (number)	265,300	185,000	119,000
	Average shares outstanding (thousands)	814,229	733,888	698,228
Operating Data (thousands of metric tons)	Alumina shipments	7,472	7,054	7,130
	Aluminum product shipments:			
	Primary	2,032	1,411	1,367
	Fabricated and finished products	3,366	3,067	2,584
	Total	5,398	4,478	3,951
	Primary aluminum capacity:			
	Consolidated	4,219	3,182	3,159
	Total, including affiliates' and others' share of joint ventures	5,141	4,024	3,984
	Primary aluminum production:			
	Consolidated	3,539	2,851	2,471
Total, including affiliates' and others' share of joint ventures	4,395	3,695	3,158	
Other Statistics	Capital expenditures	\$1,121	\$920	\$932
	Number of employees	142,000	107,700	103,500
	Pretax profit on sales (%)	12.3	11.3	10.4
	Return on average shareholders' equity (%)	16.8	17.2	16.3
	Return on average invested capital (%)	15.0	13.8	13.8

* Reflects the cumulative effects of the accounting changes for revenue recognition in 2000, for extraordinary loss on debt repayments in 1994 and for postretirement benefits and income taxes in 1992

1997	1996	1995	1994	1993	1992	1991	1990
\$13,319	\$13,061	\$12,500	\$ 9,904	\$ 9,056	\$ 9,491	\$ 9,884	\$10,710
163	67	155	487	93	97	97	160
10,275	10,084	9,477	7,945	7,264	7,415	7,523	7,684
682	717	718	640	633	623	612	619
143	165	141	126	130	212	252	220
735	747	713	671	692	683	698	690
(96)	199	16	80	151	252	331	415
141	134	120	107	88	105	153	185
529	361	446	219	(10)	132	193	404
1,073	721	1,024	603	201	166	219	653
268	206	233	160	196	144	156	358
—	—	—	(68)	—	(1,161)	—	—
805	515	791	375	5	(1,139)	63	295
.75	.73	.81	.64	.56	.59	.67	.75
.77	.71	.86	.71	.53	.58	.59	.74
2	2	2	2	2	2	2	2
169	232	160	142	140	137	151	265
1,964	1,908	2,090	1,600	1,610	1,083	1,546	1,706
6,667	7,078	6,930	6,689	6,507	6,416	6,586	6,747
(1,315)	(1,223)	(1,750)	(1,572)	(1,711)	(1,734)	(702)	(414)
13,071	13,450	13,643	12,353	11,597	11,023	11,178	11,413
1,457	1,690	1,216	1,030	1,433	855	1,131	1,295
1,440	1,611	1,609	1,688	1,389	1,306	1,362	1,581
4,419	4,463	4,445	3,999	3,584	3,604	4,937	5,163
1.17	.74	1.11	.53	.01	(1.68)	.09	.43
1.15	.73	1.10	.52	.01	(1.67)	.09	.42
.244	.333	.225	.200	.200	.200	.223	.383
6.49	6.39	6.23	5.52	4.99	5.18	7.18	7.53
22 ¹³ / ₃₂	16 ¹ / ₁₆	15 ¹ / ₁₆	11 ³ / ₃₂	9 ¹³ / ₁₆	10 ³ / ₃₂	9 ¹ / ₈	9 ²¹ / ₃₂
16 ¹ / ₁₆	12 ³ / ₃₂	9 ³ / ₃₂	8 ¹ / ₃₂	7 ³ / ₈	7 ³ / ₈	6 ²³ / ₃₂	6 ⁷ / ₃₂
95,800	88,300	83,600	55,200	55,300	55,200	55,800	56,300
688,904	697,334	712,072	711,528	701,384	683,792	679,872	689,632
7,223	6,406	6,407	6,660	5,962	5,468	4,898	5,024
920	901	673	655	841	1,023	1,179	1,179
2,036	1,940	1,909	1,896	1,739	1,774	1,657	1,545
2,956	2,841	2,582	2,551	2,580	2,797	2,836	2,724
2,108	2,101	1,905	1,905	1,905	1,905	1,903	1,903
2,652	2,642	2,428	2,428	2,428	2,428	2,498	2,498
1,725	1,708	1,506	1,531	1,770	1,903	1,919	1,870
2,254	2,240	2,037	2,067	2,315	2,446	2,511	2,395
\$913	\$996	\$887	\$612	\$757	\$789	\$850	\$851
81,600	76,800	72,000	60,200	63,400	63,600	65,600	63,700
11.9	8.2	11.6	7.9	2.1	3.1	4.1	9.7
18.1	11.6	18.5	9.9	.1	(26.7)	1.2	5.7
15.5	11.0	15.9	9.3	4.3	(14.0)	4.2	9.7

Directors



From left to right:

Paul H. O'Neill, 65, retired, chairman of the board of Alcoa from 1987 through December 31, 2000, and chief executive officer 1987-1999; president and director of International Paper Company 1985-1987. Director of Alcoa from 1986-2000.

Alain J. P. Belda, 57, chairman of the board of Alcoa since January 1, 2001, and chief executive officer since May 1999. Elected president and chief operating officer in January 1997, vice chairman in 1995, and executive vice president in 1994. President of Alcoa Aluminio S.A. from 1979 to 1994; president-Latin America in 1991. Director of Alcoa since 1998.

Marina v.N. Whitman, 65, professor of Business Administration and Public Policy, University of Michigan since 1992; vice president and group executive, public affairs and marketing staffs of General Motors Corporation (GMC) 1985-1992; vice president and chief economist of GMC 1979-1985; member of the President's Council of Economic Advisers 1972-1973. Director of Alcoa since 1994.

Joseph T. Gorman, 63, chairman of TRW Inc., a global company serving the automotive, space and information systems markets; chairman and chief executive officer from 1988 to February 2001; president and chief operating officer 1985-1988; president 1985-1991; executive vice president 1980-1985; vice president and general counsel 1976-1980. Director of Alcoa since 1991.

Henry B. Schacht, 66, chairman and chief executive officer of Lucent Technologies Inc., a communications systems and services company, since October 2000; Mr. Schacht is on unpaid leave from Warburg Pincus, where he has been managing director since January 2000 and senior advisor in 1999; chief executive officer of Lucent Technologies Inc. from 1996-1997; chairman 1996-1998; senior advisor from 1998-1999; chairman of Cummins Inc., from 1977-1995 and chief executive officer from 1973-1994. Director of Alcoa since 1994.

Franklin A. Thomas, 66, consultant, TFF Study Group, a nonprofit institution assisting development in South Africa, since 1996; president and chief executive officer of The Ford Foundation 1979-1996; president and chief executive officer of Bedford Stuyvesant Restoration Corporation 1967-1977. Director of Alcoa since 1977.

Kenneth W. Dam, 68, Max Pam Professor of American and Foreign Law, University of Chicago Law School since 1992; president and chief executive officer of United Way of America 1992; vice president for law and external relations of IBM 1985-1992; Deputy Secretary of State 1982-1985; provost of the University of Chicago 1980-1982. Director of Alcoa since 1987.

Judith M. Gueron, 59, president of Manpower Demonstration Research Corporation (MDRC), a nonprofit research organization, since 1986; executive vice president for research and evaluation 1978-1986; prior to MDRC, director of special projects and studies and a consultant for the New York City Human Resources Administration. Director of Alcoa since 1988.

Sir Ronald Hampel, 68, chairman of United Business Media, a U.K.-based media company, since 1999; chairman of Imperial Chemical Industries plc 1995-1999; deputy chairman and chief executive officer 1993-1995; chief operating officer 1991-1993; and a director from 1985-1999. Director of Alcoa since 1995.

John P. Mulroney, 65, executive director of the Opera Company of Philadelphia since 1999; former president and chief operating officer of Rohm and Haas Company, a specialty chemicals manufacturer, from 1986-1998. Director of Alcoa since 1987.

Hugh M. Morgan, 60, managing director WMC Limited, an Australian mining and minerals processing company, since 1986 and its chief executive officer since 1990; executive director of WMC from 1976 to 1986. Director of Alcoa since 1998.

Board Committees

The Audit Committee

Reviews financial reporting and internal control functions, and recommends the firm that Alcoa should retain as its independent accountants.

Kenneth W. Dam
Judith M. Gueron
Henry B. Schacht (chairman)
Franklin A. Thomas
Marina v.N. Whitman

The Compensation Committee

Determines the compensation of Alcoa officers and performs specified functions under company compensation plans.

Kenneth W. Dam
Joseph T. Gorman
Hugh M. Morgan
John P. Mulroney
Franklin A. Thomas (chairman)

The Executive Committee

Meets principally when specific action must be taken between Board meetings; has been granted the authority of the Board in the management of the company's business and affairs.

Alain J. P. Belda (chairman)
Kenneth W. Dam
Franklin A. Thomas

The Nominating Committee

Reviews the performance of incumbent directors and the qualifications of nominees proposed for election to the Board and makes recommendations to the Board with regard to nominations for director.

Joseph T. Gorman
Sir Ronald Hampel
John P. Mulroney (chairman)
Franklin A. Thomas

Pension and Savings Plan Investment Committee

Reviews and makes recommendations to the Board concerning the investment management of the assets of Alcoa's retirement plans and principal savings plans.

Joseph T. Gorman (chairman)
Judith M. Gueron
Sir Ronald Hampel
Hugh M. Morgan
Franklin A. Thomas
Marina v.N. Whitman

Officers

(As of February 12, 2001)

Alain J. P. Belda

Chairman and
Chief Executive Officer

Ricardo E. Belda

Vice President – Alcoa and Group
President, Alcoa Europe

Julie A. Caponi

Assistant Controller

William F. Christopher

Vice President – Alcoa and
President, Alcoa Wheel and
Forged Products

Michael Coleman

Vice President – Alcoa and
President, Alcoa Rigid Packaging

John W. Collins III

Vice President – Alcoa and
President, Alcoa Mill Products

Donna C. Dabney

Secretary and Assistant
General Counsel

Ronald D. Dickel

Vice President – Tax

Janet F. Duderstadt

Counsel and Assistant Secretary

Ronald A. Glah

Vice President – Alcoa and
President, Alcoa Closure Systems
International

Brenda A. Hart

Assistant Secretary and Chief
Securities and Finance Counsel

L. Patrick Hassey

Executive Vice President – Alcoa
and Group President, Alcoa
Industrial Components

Rudolph P. Huber

Vice President and Chief
Information Officer

Robert S. Hughes II

Vice President – Alcoa and
Chairman, President and CEO,
Alcoa Fujikura Ltd.

Barbara S. Jeremiah

Vice President –
Corporate Development

Richard B. Kelson

Executive Vice President and
Chief Financial Officer

Denise H. Kluthe

Assistant Controller

Kathleen L. Lang

Assistant Secretary

William E. Leahey, Jr.

Vice President – Alcoa and Group
President, Alcoa Packaging,
Consumer, Construction &
Distribution

Frank L. Lederman

Vice President and
Chief Technical Officer

Joseph R. Lucot

Assistant Controller

Thomas J. Meek

Assistant General Counsel

L. Richard Milner

Vice President – Alcoa and
President, Alcoa Automotive

Timothy S. Mock

Vice President and Controller

Joseph C. Muscari

Vice President – Environment,
Health & Safety, Audit and
Compliance

William J. O'Rourke, Jr.

Vice President – Alcoa Business
Support Services

G. John Pizzey

Vice President – Alcoa and Group
President, Alcoa Primary Products

William B. Plummer

Vice President and Treasurer

Russell W. Porter, Jr.

Deputy General Counsel

Lawrence R. Purtell

Executive Vice President and
General Counsel

Alan C. Renken

Vice President – Alcoa and
President, Alcoa Primary Metals

Robert F. Slagle

Executive Vice President – Human
Resources and Communications

Paul D. Thomas

Vice President – Alcoa and
President, North American
Extrusions

G. Keith Turnbull

Executive Vice President –
Alcoa Business System

Kurt R. Waldo

Assistant General Counsel

Thomas G. Weglewski

Tax Counsel

Robert G. Wennemer

Vice President – Pension Fund
Investments and Analysis

John M. Wilson

Vice President and
Deputy General Counsel

Russell C. Wisor

Vice President –
Government Affairs

James J. Wright

Assistant Treasurer

Shareholder Information

Annual Meeting

The annual meeting of shareholders will be at 9:30 a.m. Friday, April 20, 2001 at the Westin Convention Center Pittsburgh.

Company News

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

Copies of the annual report, Alcoa *Update*, and Forms 10-K and 10-Q may be requested through the Internet or by calling the toll-free numbers.

Investor Information

Security analysts and investors may write to Director – Investor Relations, at charles.mclane@alcoa.com or call 1 212 836 2674.

Other Publications

For a report of contributions and programs supported by Alcoa Foundation, write Alcoa Foundation at the corporate center address or call 1 412 553 2348.

For a report on Alcoa's environmental, health and safety performance, write Alcoa EHS Department at the corporate center address.

Dividends

Alcoa's objective is to pay common stock dividends at rates competitive with other investments of equal risk and consistent with the need to reinvest earnings for long-term growth. To support this objective, Alcoa pays a base quarterly dividend of 12.5 cents per common share. Alcoa also pays a variable dividend that is linked directly to financial performance. The variable dividend is 30% of Alcoa's annual earnings over \$1.50 per basic share. This is calculated annually and paid quarterly, together with the base dividend, to shareholders of record at each quarterly distribution date.

Dividend Reinvestment

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

Direct Deposit of Dividends

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

Shareholder Services

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

First Chicago Trust Company, a Division of EquiServe Shareholder Services Group P.O. Box 2500 Jersey City, NJ 07303-2500	Telephone Response Center: 1 800 317 4445 Outside U.S. and Canada: 1 201 324 0313
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Internet address: www.equiserve.com
Telecommunications Device for the Deaf (TDD): 1 201 222 4955

For shareholder questions on other matters related to Alcoa, write to Donna Dabney, Corporate Secretary, Alcoa, 6603 West Broad Street, Richmond, Va. 23230 or call 1 412 553 4707.

Stock Listing

Common: New York Stock Exchange, The Electronical Stock Exchange in Switzerland, the Australian Stock Exchange and exchanges in Brussels, Frankfurt and London

Preferred: American Stock Exchange

Ticker symbol: AA

Quarterly Common Stock Information

Quarter	2000			1999*		
	High	Low	Dividend	High	Low	Dividend
First*	\$43 $\frac{5}{8}$	\$30 $\frac{13}{32}$	\$.125	\$22 $\frac{1}{16}$	\$17 $\frac{31}{32}$	\$.101
Second	37 $\frac{1}{16}$	27 $\frac{7}{8}$	.125	33 $\frac{31}{32}$	20 $\frac{1}{8}$	.100
Third	34 $\frac{15}{16}$	23 $\frac{1}{4}$	.125	35 $\frac{7}{16}$	29 $\frac{1}{4}$	.101
Fourth	35	23 $\frac{1}{8}$	.125	41 $\frac{11}{16}$	28 $\frac{3}{8}$	.101
Year	\$43 $\frac{5}{8}$	\$23 $\frac{1}{8}$	\$.500	\$41 $\frac{11}{16}$	\$17 $\frac{31}{32}$	\$.403

* Adjusted to reflect two-for-one stock split

Common Share Data

	Estimated number of shareholders*	Average shares outstanding (000)†
2000	265,300	814,229
1999	185,000	733,888
1998	119,000	698,228
1997	95,800	688,904
1996	88,300	697,334

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

† Adjusted to reflect two-for-one stock split

Corporate Center

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

Alcoa Inc. is incorporated in the Commonwealth of Pennsylvania.

Glossary

Alloy A substance with metallic properties, composed of two or more chemical elements of which at least one is a metal. More specifically, aluminum plus one or more other elements, produced to have certain specific, desirable characteristics.

Alumina Aluminum oxide produced from bauxite by an intricate chemical process. It is a white powdery material that looks like granulated sugar. Alumina is an intermediate step in the production of aluminum from bauxite and is also a valuable chemical on its own.

Aluminum foil A flat-rolled product, rectangular in cross section, of thickness from 0.006" to 0.00025".

Aluminum plate A flat-rolled product, rectangular in cross section, of thickness not less than 0.250" and with sheared or sawed edges.

Aluminum sheet A rolled product, flat or coiled, rectangular in cross section, with thickness less than 0.250" but not less than 0.006" and with slit, sheared or sawed edges.

Aluminum SpaceFrame™ An integrated structure of aluminum castings and extruded parts that forms the primary body frame of a new generation of automobiles.

Anodizing An electrochemical process for applying a protective or decorative coating to metal surfaces.

Bauxite An ore from which alumina is extracted and from which aluminum is eventually smelted. Bauxite usually contains at least 45% alumina. About four pounds of bauxite are required to produce one pound of aluminum.

Casting The process of forming molten metal into a particular shape by pouring it into a mold and letting it harden.

Continuous casting A means of casting aluminum in which an ingot, billet, tube or other shape is continuously solidified and withdrawn while the molten metal is being poured, so that its length is not determined by mold dimensions.

Engineered product A basic aluminum fabricated product that has been mechanically altered to create special properties for specific purposes; forgings and extrusions are examples of engineered products.

Extrusion The process of shaping material by forcing it to flow through a shaped opening in a die.

Fabricate To work a material into a finished state by machining, forming or joining.

Flat-rolled products Aluminum plate, sheet or foil products made by passing ingot through pairs of rolls. By moving the rolls closer together and passing the ingot between them, the thickness is reduced and the length is increased.

Forging A metal part worked to predetermined shape by one or more processes such as hammering, pressing or rolling.

Hydrate An aluminum oxide with three molecules of chemically combined water.

Ingot A cast form suitable for remelting or fabricating. An ingot may take many forms: some may be 30 feet long and weigh 15 tons; others are notched or specially shaped for stacking and handling.

London Metal Exchange (LME) The international trading body that facilitates the worldwide open market buying and selling of metals.

Magnesium A light, silvery, moderately hard metallic element used in processing metals and chemicals, and in alloying aluminum to give it desired metallurgical properties.

Metric ton (mt) A unit of mass and weight equal to 1,000 kilograms, or 2,204.6 pounds.

Micromill Alcoa Micromill technology uses fully continuous casting and rolling processes to produce aluminum sheet with reduced capital investment, lower operating costs, and—for some products—superior metallurgical properties.

Mill products Metal that has been fabricated into an intermediate form before being made into a finished product. The most common fabricating processes for aluminum are rolling, extruding, forging and casting. Example: aluminum sheet, a mill product, is used to make beverage cans, a finished product.

Pot In aluminum production: the electrolytic reduction cell, commonly called a "pot," in which alumina dissolved in molten cryolite is reduced to metallic aluminum. A series of cells connected electrically is called a potline.

Smelt To fuse or melt ore in order to extract or refine the metal it contains.

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