Alcoa Annual Report 2003

Markets
Customers
Solutions

Financial and Operating Highlights

dollars in millions, except per-share amounts	2003	2002	% change
Sales	$21,504	$20,351	6
Income from continuing operations	1,034	476	117
Net income	938	420	123
Total assets	31,711	29,810	6
Capital expenditures from continuing operations	863	1,264	(32)
Cash provided from continuing operations	2,426	1,911	27
Per common share data:			
Basic:			
Income from continuing operations	1.21	0.56	116
Net income	1.09	0.49	122
Diluted:			
Income from continuing operations	1.20	0.56	114
Net income	1.08	0.49	120
Dividends Paid	.60	.60	—
Book value*	13.84	11.69	18
Number of shareholders	278,400	273,000	2
Average common shares outstanding (000)	853,352	845,439	1
Number of employees	120,000	127,000	(6)

2002 data has been reclassified to reflect assets held for sale and discontinued operations.

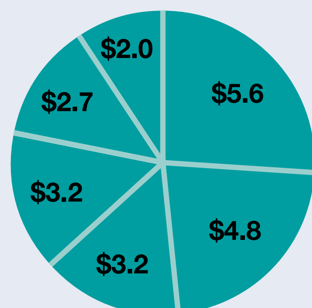
* Book value = (Total shareholders' equity minus Preferred stock) divided by Common stock outstanding, end of year

2003 Revenues: $21.5 Billion

By Segment

billions

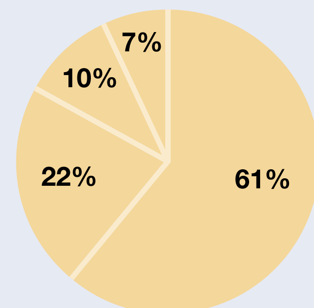
$5.6 Engineered Products
$4.8 Flat-Rolled Products
$3.2 Primary Metals
$3.2 Packaging and Consumer
$2.7 Other
$2.0 Alumina and Chemicals



By Geographic Area

percent

61% United States
22% Europe
10% Pacific
7% Other Americas*



* Includes Canada, Caribbean, Mexico and South America

Alcoa at a Glance

- Alcoa is the world's leading producer of primary aluminum, fabricated aluminum, and alumina and is active in all major aspects of the industry.
- Alcoa serves the aerospace, automotive, packaging, building and construction, commercial transportation, and industrial markets, bringing design, engineering, production, and other capabilities of Alcoa's businesses as a single solution to customers.
- In addition to aluminum products and components, Alcoa also makes and markets consumer brands including Reynolds Wrap®, Alcoa® wheels, and Baco® household wraps. Among its other businesses are vinyl siding, closures, fastening systems, precision castings, and electrical distribution systems for cars and trucks.
- The company has 120,000 employees in 41 countries. For more information, go to www.alcoa.com

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On the Cover

Some of the ways our customers use Alcoa solutions to make life better every day (clockwise, from top): aerospace (Airbus A320®); packaging (Alcoa Closure Systems International); automotive (Ferrari® 612 Scaglietti®); and building and construction (Crystal Tower, Amsterdam).

Fellow Shareowners:

A few years ago, we raised the bar on Alcoa's stated Vision of being the best aluminum company in the world to that of aspiring to be the best company in the world. While we have much to be proud of as we enter a new year, we know that we have more to do… and that this goal is about more than delivering strong financial performance. It is about sustained financial success, while building for the future. And it is about delivering on all of Alcoa's seven Values.

Alain Belda, Chairman and Chief Executive Officer

Despite what was a challenging business environment in many markets across the globe, we did make significant strides in 2003:

- Income from continuing operations rose 117% to $1.034 billion, or $1.20 per share, in 2003, and every segment demonstrated higher profitability;
- Our disciplined approach to capital allowed us to pay down more than $1 billion in debt, providing us with additional flexibility in pursuing profitable growth opportunities;
- We surpassed our second three-year, cost-savings challenge by reaching $1.012 billion of annualized savings (the first, in 1998-2000, achieved $1.1 billion in savings), which helped drive gross margins higher;
- Revenues increased 6% to $21.5 billion; and
- We recorded the lowest lost workday rate in the Company's history.

Reflecting this performance, in part, Alcoa's total shareowner return for 2003, including dividend reinvestment, was 70%. For comparative purposes, the Dow Jones Industrial Average, of which we are a component, returned 25% during the same period.

Goals and Strategies for 2004 and Beyond

In 2004, we are committed to our financial goals:

1. **Profitable Growth** – We will continue the drive to profitably grow our revenues as well as to join the first quintile of the S&P Industrials measured in terms of Return on Capital (ROC).
2. **Cost Savings** – Financial fitness is key to our future. In support of our profitable growth challenge, we have launched our third three-year, cost-savings challenge to eliminate an additional $1.2 billion in costs by the end of 2006. When we set our first billion-dollar, cost-savings goal in 1998, it was difficult, but we achieved it. The second billion-dollar challenge, which we completed and surpassed last year, was even more challenging. The new goal will be equally tough, but we have the talent, a proven Alcoa Business System (ABS), and the determination to reach it. Upon its completion, we will have eliminated more than $3.3 billion in costs, which will help offset the impact of tough global conditions we have experienced over the last three years and benefit us when markets resume their growth patterns.

While we have made strides toward our ROC goal of permanent membership in the first quintile of the S&P Industrials, we still have a long way to go. Our fourth quarter 2003 ROC on an annualized basis was 7.6% versus a company ROC of 4.2% in 2002. The first quintile entry point, however, is currently around 16%.

This goal is not about the honor of membership in the first quintile. It is about earning the right from shareowners, through our performance and consistency, to continue to profitably grow. It will provide us the opportunity to plan for the future, continue to offer challenging jobs, and pursue growth opportunities for shareowners, for Alcoans, and other stakeholders.

All our efforts are based upon two precepts: deliver short-term performance while positioning the company to be successful for years to come. The steps we are implementing are improving both short-term and long-term profitability… ***and*** laying the foundation for our continued leadership position for generations to come. We are:

- Continuing to refine our portfolio of businesses;
- Strengthening our asset base and improving its productivity;
- Extending our global reach and repositioning our primary businesses lower on the cost curve;
- Strengthening our connection to customers; and
- Building on the transformation of our businesses – from making products to delivering solutions… working across businesses in order to help our customers be successful within their markets.

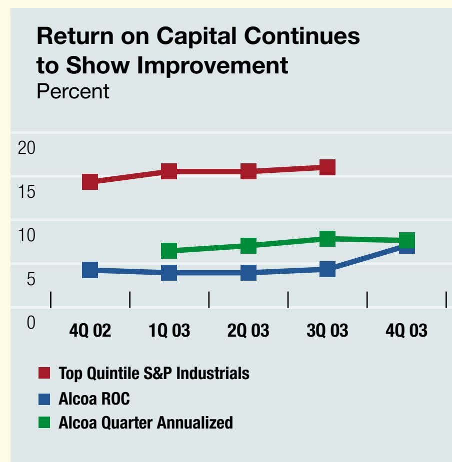
Portfolio Reconfiguration

Last year, we announced a program to divest a number of businesses that either did not have the ability to grow in excess of GDP or did not have the ability to deliver superior returns in sectors where Alcoa maintains a sustainable competitive advantage.

We have made solid progress on this program, as we have sold the Latin America PET bottle business, our equity interest in Latasa, a can producer based primarily in Brazil, and the packaging equipment business. We have announced the sale of the specialty chemicals business and expect to complete it in the first quarter, with the remainder of this divestiture program completed by the end of the first half of 2004. In total, the program should generate proceeds in excess of $750 million, which will be used to pay down debt.

We added to our portfolio this year with the acquisition of the Camargo Correa Group's 40.9% interest in Alcoa's South American operations, a position these partners held since 1984. The largest subsidiary in these operations is Alcoa Aluminio, headquartered in São Paulo. Aluminio owns and operates mining, refining, power generation, smelting, and aluminum fabrication facilities at various locations in Brazil. Additional businesses include closures and flexible packaging.

We also expanded our aluminum alliance with Kobe Steel Ltd. in Japan on the joint development of aluminum products for the automotive market. As part of this arrangement, we assumed complete control of aluminum rolling operations in Australia, used in making beverage containers, foil, and sheet.



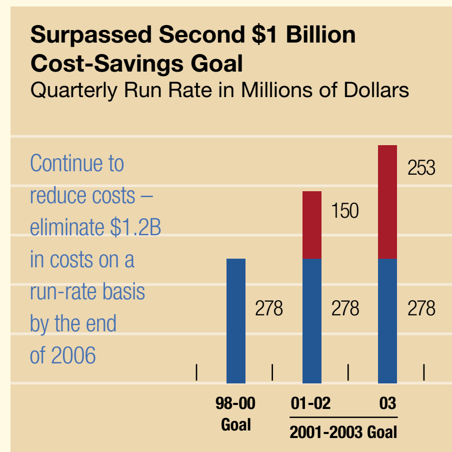
All indicators are based on the Bloomberg ROC Methodology.
1Q 03 Quarter Annualized ROC excludes $47 million after-tax cumulative effect of accounting change due to adoption of FAS 143.

Strengthening and Growing

In 2003, we made significant strides in strengthening our asset base in both our primary metals and alumina businesses, accelerating movement down the global cost curve, and laying the foundation for our continued leadership position in the industry.

The year began with the finalization of agreements to build a new, state-of-the-art, greenfield smelter in Iceland. We plan to break ground on this 322,000-metric-tons-per-year (mtpy) smelter – to be among the most efficient in the world in terms of production and sustainability – in 2005 and expect production to begin in 2007.

Our joint venture with the Aluminum Corporation of China, Ltd. (Chalco), at Pingguo, has been delayed pending final government approvals. We expect agreements in this regard to be formalized in 2004. This joint venture will enhance our position in the fastest-growing market in the aluminum industry within one of the most efficient – and growing – alumina and aluminum production facilities in China.



Elsewhere in China, we are working toward completing a joint venture with China International Trust & Investment, our equity partner in Bohai Aluminum, with the objective of expanding soft-alloy extrusions and foil opportunities in this fast-growing region. We are also installing a new foil production line at Alcoa Shanghai Aluminum.

In Canada, we are working with the government of Québec to upgrade and expand our hydropowered smelting operations in Baie-Comeau and Deschambault.

In Brazil, in addition to restructuring our long-term partnership with the Camargo Correa Group, we are engaged in several hydropower projects that will increase our energy self-sufficiency and cost-competitiveness while meeting Alcoa and Brazilian standards for socially and environmentally sound development. For example, in the case of the Barra Grande hydropower facility, construction has begun and is expected to be completed in 2006, with total installed capacity of 690 MW. Upon the completion of this project, coupled with other hydropower investments we have made, we will provide more than 40% of the energy required for our two smelters in that country. And we have an additional 355 MW under concession.

During 2003, we signed a Memorandum of Understanding (MOU) with the government of the Kingdom of Bahrain that paves the way for Alcoa to acquire up to a 26% equity stake in Alba, a Bahrain company that owns and operates a 512,000-mtpy aluminum smelter. The MOU also covers a long-term alumina supply arrangement for Alba. Alba is currently adding a fifth potline which, when completed in 2005, will bring its overall capacity to 819,000 mtpy and make it the largest prebake aluminum smelter in the world. The MOU is designed to accelerate plans for an additional expansion, a sixth line with 307,000 mtpy of additional capacity.

In addition, we have announced plans to conduct a feasibility study over the next two years to explore building a smelter in Brunei Darussalam.

Alcoa World Alumina and Chemicals (AWAC) – a global alliance between Alcoa and Alumina Ltd, with Alcoa holding 60% – completed the 250,000-mtpy construction expansion of its Jamalco alumina refinery in Clarendon, Jamaica ahead of schedule. AWAC also broke ground on a 250,000-mtpy alumina expansion at its Paranam alumina refinery in Suriname. And we have begun an efficiency upgrade at AWAC's Pinjarra alumina refinery in Western Australia that will increase capacity there by 600,000 mtpy.

As part of our strategy, we continue to explore promising opportunities across the world, including some in Russia. These efforts are designed to lower Alcoa's costs in primary metals – in many cases replacing older, less competitive capacity with newer, more efficient operations, while in other cases we are adding

capacity in order to take advantage of our already efficient operations. We will continue to expand our global footprint and build on the successful foundation of our upstream businesses.

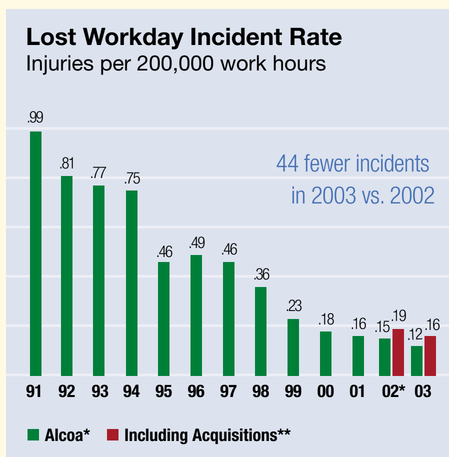
In the consumer packaging and semi-manufactured areas we concentrated on quickly integrating businesses we acquired last year – such as Ivex Packaging into our packaging businesses and Fairchild Fasteners into Alcoa Fastening Systems.

Strengthening Our Connection to Customers Through Solutions

In 2003, we continued to invest in productivity improvements in our Company through the disciplined and systematic deployment of the Alcoa Business System, which begins with the customer. Through this process we created a clearer picture of what it means to be a customer of Alcoa. As you'll see in the following pages of this report, our Market Sector Lead Teams (MSLTs) – an extension of ABS – made substantial progress toward building a coordinated approach to markets and customers.

These Lead Teams work with Alcoa's business units to improve the response to customer needs that span our organization and migrate our value proposition from materials and components to high-value, customer-centric engineered solutions.

This means we apply technologies that enable a customer to meet specific benefits – convenience, economy, safety, speed, etc. – for their end users. This elevates our value to the customer well beyond the commodity and materials levels. For our customers, this is a huge benefit. For Alcoa, our challenge is twofold: first, we must understand the issues facing our customers; and then, working with our Research and Development and application engineering staffs, as well as other businesses selling in the same market, develop solutions and demonstrate their benefits to our customers.



*Reynolds, Howmet/Huck included beginning in 2002
**Ivex, Fairchild, Kama, and other 2002/2003 acquisitions

Safety, Sustainability, and Community

At Alcoa, we begin business reviews with an update of our safety performance. We do this for two reasons. First, we take safety seriously, and we are proud of our progress. The second reason is to demonstrate to everyone what is possible through implementing a disciplined process. When we first set our sights at being the safest company in the world, many thought it was unrealistic. Whether it is a financial goal (such as our ROC or cost-savings initiatives), an environmental goal to reduce emissions, or the goal to have zero safety incidents, the bottom line is when Alcoans put their minds and talents against a given goal, we almost always achieve it.

In Safety, we had our lowest lost workday and total recordable injury rates in the Company's history. Our lost workday rate improved to 0.12 from 0.15 in the previous year, and our total recordable rate is 1.66, down from 2.22 in 2002. Approximately 77% of our locations operated in 2003 without a single lost workday incident – and 36% of them did not have a single recordable injury. Regrettably, despite this performance, we experienced four fatalities. That is why we are increasing our emphasis on identifying difficult-to-predict, low-probability events that have potential for catastrophic consequences, and why we are analyzing the causes of human error and how to prevent them… as we strengthen our resolve toward achieving the ultimate goal – zero incidents.

On the environmental front, our results were numerous… ranging from landfill waste reductions, to the use of less water, to the completion of our goal to plant one million trees five years ahead of schedule, and the launching of a new program to begin planting ten million new trees by 2020, which can absorb more than 250,000 metric tons of carbon dioxide per year during their lifetime.

Perhaps most exciting is the attainment of our 25% reduction in greenhouse-gas emissions from 1990 levels. When we defined this goal in 2000, we sought to achieve this level of reduction by 2010, but we have eliminated 13 million tons of greenhouse gases per year, so we reached the goal six years ahead of schedule.

In 2003, our connection to the communities in which we operate continued to strengthen. Our sponsorship of the Smithsonian's National Air and Space Museum's centennial of flight exhibition on the Wright Brothers was broadened beyond Washington, DC, to include activities in many of our aerospace communities. In addition, our social commitment continued to expand beyond grant making. Employee volunteerism grew to almost 200,000 hours in 2003, including the capstone to the Alcoa Foundation's 50th anniversary celebration – a worldwide week of service focused on conservation and sustainability projects.

Our Vision is Challenging, Our Goals High, Our Strategy Clear

While I am proud of all that our employees have achieved in 2003, I am most proud that they share a focus on our Values, delivering annual results, and building for the future.

Our goals remain high, our strategy is clear. And everyday we seek to strengthen your Company, improve its agility, and improve the bonds with our customers, while living our Values. This focus has served us well in the past and has positioned us for success in 2004 and beyond… as we strive to become the best company in the world.

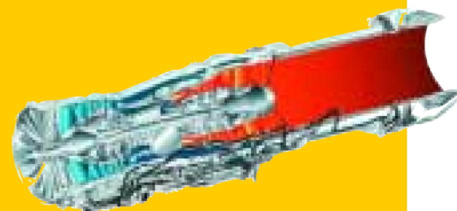
Alain J. P. Belda
Chairman and Chief Executive Officer
March 1, 2004

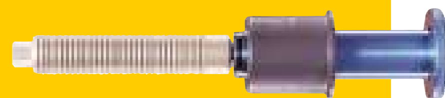
Aerospace

Alcoa Aerospace… nose to tail, we provide the materials, technology, and solutions that allow airplane and engine manufacturers to build the most efficient, reliable, and cost-effective aircraft that meet the stringent demands of both commercial and military mission requirements.

Our broad capabilities and experience in this sector are based on more than 100 years of providing leading-edge materials and solutions that have significantly advanced each generation of new aircraft to a higher level of performance and reliability. Our commitment in this regard continues as we have expanded our aerospace presence in fasteners and propulsion through businesses such as Alcoa Fastening Systems and Alcoa Howmet Castings. Today we derive more than 60% of our aerospace revenues from these two areas. This portfolio shift significantly enhances our value proposition of integrating Alcoa materials, design, and technology into solutions that help make next-generation aircraft a reality.

Each day we are working with our customers to develop new technologies and integrated solutions that are focused on making aircraft more efficient, reliable, and cost-effective to operate over the increasingly extended life cycle of an aircraft. The capabilities we are developing continue to reduce the cost and weight of airframe structures ***and*** deliver increased engine efficiencies… key requirements to delivering the next-generation commercial and military aircraft.





(Top) Pratt and Whitney Aircraft® use high-performance solutions from Alcoa Howmet Castings for critical components of the Joint Strike Fighter (JSF) project, including all six stages of engine airfoils. The JSF also uses Alcoa fasteners.

(Middle) The EMBRAER 170™ uses Alcoa fasteners extensively for high quality at competitive cost.

(Bottom) Alcoa's XPL® Lockbolt Fastening System ties composite and metallic parts together in the Airbus® A380® wing box.

Airbus and Alcoa

Perhaps the best recognition of a team's work is when a customer cites its efforts. According to Airbus, "Alcoa sought – and won – a strategic position on the A380® by applying its integrated product approach.

"Alcoa applied all of its aviation industry experience to the A380 program, developing new alloys specifically for the 555-seat aircraft as part of the largest and fastest development program ever undertaken by the metals manufacturer."

The A380 features more new Alcoa materials and products than any other aircraft on which the company has been involved. Alcoa products are literally used from nose to tail, beginning with forward landing gear support structure to forgings for the horizontal and vertical stabilizers.

Working closely with Airbus's design team, Alcoa Fastening Systems developed the XPL® Lockbolt with a titanium collar that is both strong enough to handle the wing's great size and compatible with the composite and aluminum materials it has to link. As a

Integrated Product Approach Allows Alcoa-Airbus Relationship to Take Off

Boeing's 777-300ER gets long-range support from Alcoa

result, the A380 will use about one million Alcoa Lockbolts on every aircraft.

A new, highly damage-tolerant alloy called A6013 HDT is used for the A380 fuselage skins, while the largest die forgings ever made by Alcoa will serve as the aircraft's 21-ft.-long x 6-ft.-wide wing spars.

On the A380's upper wing, skins measuring up to 112 ft. in length are being produced from A7055 alloy, and Alcoa is manufacturing lower wing skins with the A2024 HDT alloy that also provides high damage-tolerant qualities.

Boeing and Alcoa

The latest and longest-range version of Boeing's 777® airliner features wing panels produced with Alcoa's 2324-T39 Type 2 aluminum alloy.

Using this alloy in its first production application, Boeing® maximizes the 777-300ER's performance as a result of Alcoa's extensive metallics experience. The 2324-T39 Type 2 alloy provides important weight savings, which translate into increased range for the long-haul Boeing airliner.

The 777-300ER wing uses three large underwing panels manufactured with this latest Alcoa alloy. The alloy's strength, combined with heat-treatment and stretching used in the production process, enables the panels to be thinner while still providing the support needed for the aircraft's massive wing structure.

With a maximum range of 7,705 nautical miles, the 777-300ER can fly nonstop between such destinations as New York-Tokyo, Johannesburg-London, and Frankfurt-Singapore.

Automotive

Bumper to bumper, hood to trunk, wheel to wheel, there practically isn't a vehicle on the road today that doesn't utilize Alcoa technologies.

Our decades of design and engineering experience place us in a unique position to help automakers design and build vehicles that deliver on consumer benefits such as performance, safety, fuel efficiency, and environmental performance.

We supply global automakers with a variety of high-performance automotive components and assemblies, including aluminum sheet for body panels, forged and cast wheels, electrical distribution systems, chassis and suspension components, and assemblies for bumpers, engine cradles, drive shafts, roof systems, and the like, through our various automotive businesses.

From the second-generation **Audi® A8®** body structure, suspension components on **BMW® 5 and 7 series** cars, hood and trunk lids and wheels for the **Nissan Altima®**, the spaceframe of the **Ferrari® 612 Scaglietti®**, electrical distribution systems for **Volkswagen® Jetta®/Bora**, to structural castings for the **Jaguar XJ®**, Alcoa solutions make automobiles perform and give vehicles features that consumers demand.

(Left) Ferrari's all-new, 12-cylinder luxury sports car, the 612 Scaglietti, is built on an Alcoa aluminum spaceframe. President of the Ferrari Maserati Group Luca Cordero di Montezemolo said, "The partnership with Alcoa has been successful in helping us design and engineer new automobiles meeting Ferrari's demanding standards for performance, styling, comfort, and safety."

(Top) The Nissan Altima uses Alcoa aluminum hood and trunk lids and wheels to help improve performance.

(Middle) Audi awarded Alcoa Preferred Supplier status based on the new Audi A8, which features a second-generation Alcoa spaceframe.

(Bottom) Outstanding logistics performance for Volkswagen of Mexico earned AFL Automotive the Volkswagen Group Award. AFL provides electrical distribution systems for the VW Jetta/Bora.

The largest aluminum application in the #1 vehicle in the world

Ford and Alcoa

Ford's F-Series™ pickup trucks are the most popular vehicles in the world. The F-Series has been America's best-selling truck for 27 years and the country's best-selling vehicle for 22 years in a row. So, when Ford began work on its all-new 2004 Ford F-150® pickup, it stood to reason they would be careful in whom they would choose to be part of the project.

Alcoa worked with Ford to help engineer and design a solution where Alcoa supplies the aluminum sheet used for the hoods of the new F-150 – the widest-width aluminum closure produced in the North American automobile market… a testament to Alcoa's ability to meet the supply challenges associated with America's highest-volume vehicle.

Alcoa also supplies heat shields for the 2004 Ford F-150 to help manage heat away from critical components. Alcoa's automotive products featured on Ford trucks include closures panels, wiring harnesses and electrical distribution systems, and aluminum wheels.

Ford, F-Series and F-150 are trademarks of Ford Motor Company.

Commercial Tra

Whether it is trucking, marine, rail, or almost anything else that moves in the commercial transportation industry, Alcoa is bringing its unique breadth of technical and materials capabilities to satisfy the needs of customers throughout the world.

From Alcoa's new Dura-Bright® aluminum wheels, which are continuing to expand their presence in heavy-duty trucking and other transportation applications, to electrical systems for trailers and trucks, to fastening systems, to Aluminum Vehicle Carriers for the rail segment, Alcoa is converting long-lasting products into long-lasting customer relationships.

Alcoa's leadership position in commercial transportation stems from a commitment to deliver innovative product solutions that solve customers' problems and to uncompromising quality, which has resulted in numerous awards from the industry and customers alike.

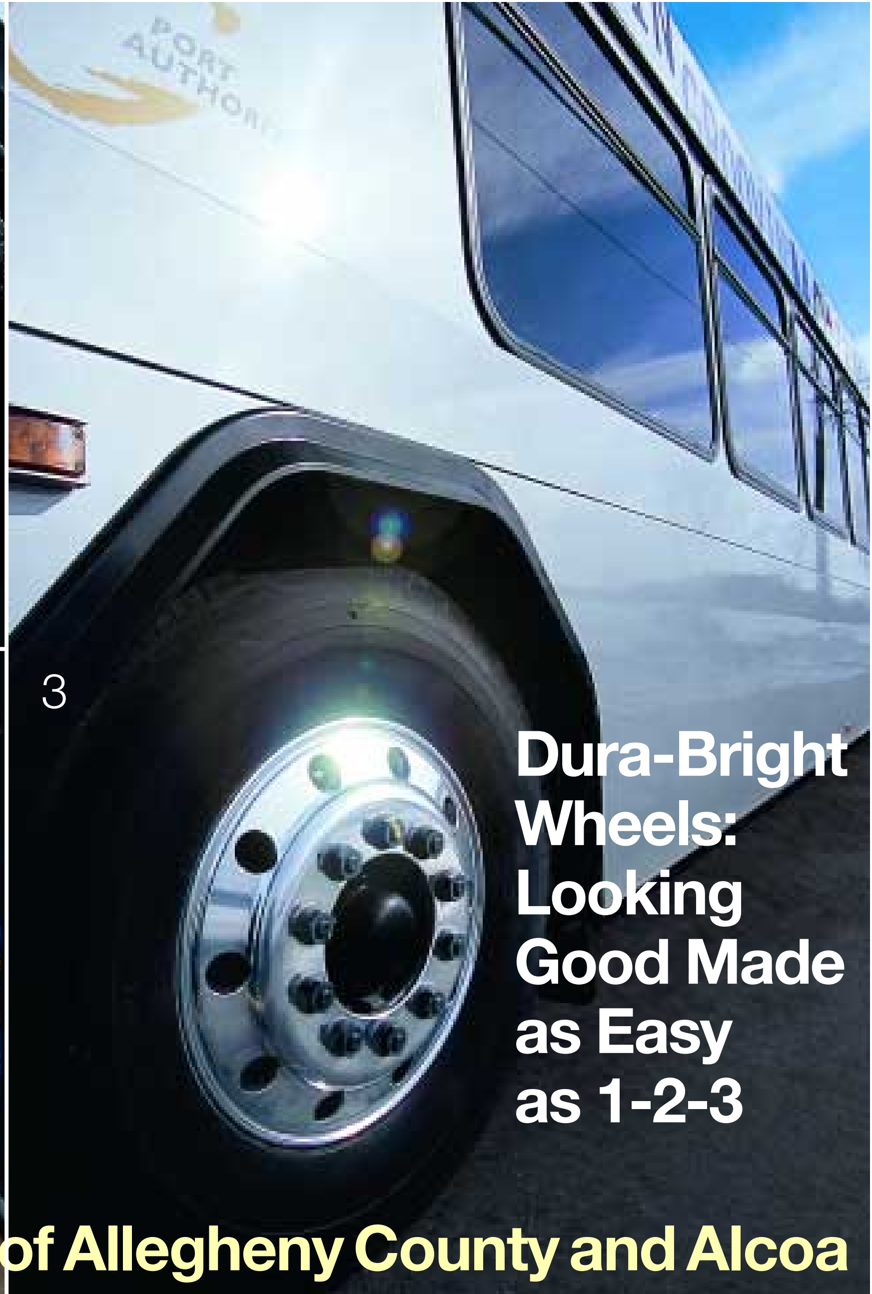
For example, AFL Automotive received PACCAR's Preferred Supplier Award, the highest award PACCAR bestows upon its vendors, from this leading manufacturer of medium-duty and heavy-duty trucks.

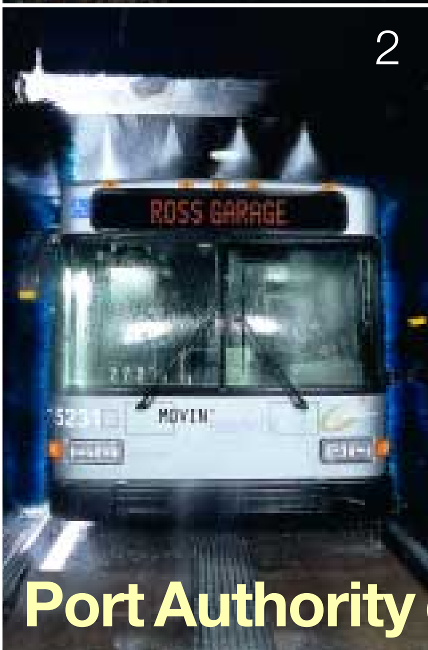
(Top) Truck wheels being forged in Hungary. Alcoa's wheel facility here earned the 2003 IIASA-Shiba Award for Total Quality Management (TQM), one of Europe's top TQM awards.

(Middle) Johnstown America's new 89-foot Aluminum Vehicle Carrier saves money for customers because it lasts longer, weighs less, and protects cargo better.

(Bottom) Truck and trailer manufacturers worldwide rely on Alcoa Fastening Systems for solutions that cut costs, boost performance, and improve manufacturability.

(Left) Part of an electrical/electronic distribution system built by AFL Automotive. High quality and service earned AFL "Preferred Supplier" recognition from PACCAR, whose truck brands include Kenworth®, Leyland Trucks™, DAF®, and Peterbilt®.





Dura-Bright Wheels: Looking Good Made as Easy as 1-2-3

Port Authority of Allegheny County and Alcoa

No matter what line of business a company is in, image matters. And if you can save money while projecting a good image, that's even better.

Several years ago, Alcoa approached the Port Authority of Allegheny County (Pennsylvania, USA) about testing its new Dura-Bright® aluminum wheels. Alcoa explained how Dura-Bright wheels feature a patented treatment that penetrates the wheels and helps keep them bright and shiny, reduces overall labor costs and downtime, and protects the wheels from oxidation and corrosion. The Port Authority asked Alcoa to prove they will last in its demanding service.

So Alcoa fitted a number of buses with Dura-Bright wheels and showed how instead of needing to scrub and polish wheels, which had been the previous labor-intensive practice, a simple hosing off with soap and water restored the wheels to their original luster.

Following the test, the Port Authority began specifying Dura-Bright wheels on all new buses in order to save time, money, and look great.

Now, bus and transit systems throughout the world – along with trucking fleets, owner/operators, truck manufacturers, and motor home owners – are beginning to reap the benefits of these wheels, helping make the roads a brighter place to be.

Building & Con

From a one-story rancher, to 70,000-seat sports stadiums, to soaring office towers across the globe, Alcoa building solutions provide the benefits that architects, homeowners, and contractors seek.

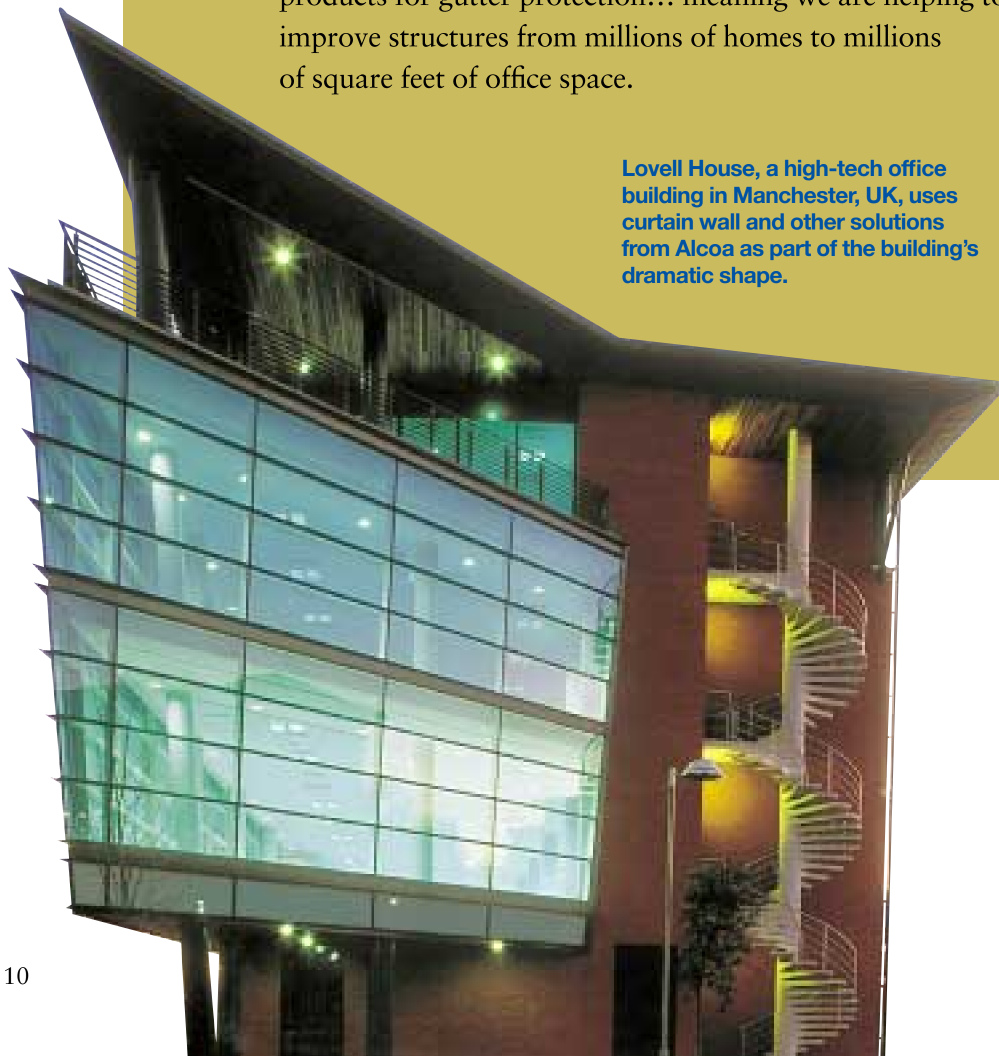
Industry professionals understand that Alcoa's technical and market expertise adds protection, strength, beauty, and endurance to every building and construction environment… and they call on Alcoa's history of innovation. These professionals depend on Alcoa when their reputations are at stake, knowing that Alcoa businesses serving the building and construction market deliver time after time.

With industry-leading brands such as Alcoa®, Cedar Discovery®, Mastic®, Reynobond®, and Reynolux®, to name a few, Alcoa solutions include aluminum, vinyl, and state-of-the-art composites for use in siding, trim, curtain walls for office buildings, architectural systems, and new products for gutter protection… meaning we are helping to improve structures from millions of homes to millions of square feet of office space.

(Top) The Crystal Tower skyscraper in Amsterdam features an Alcoa double-skin façade with integrated concealed windows.

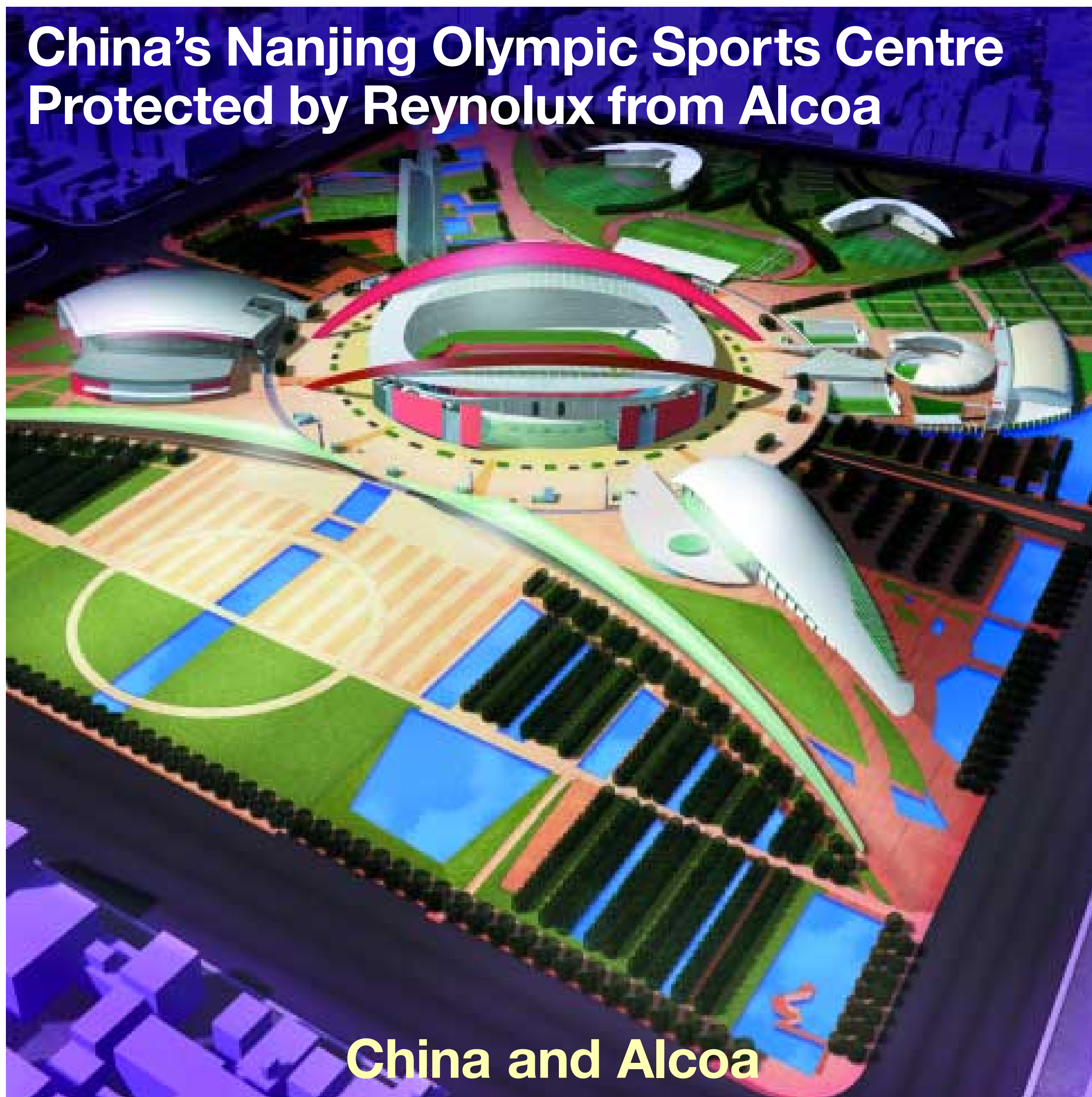
(Middle) Alcoa Home Exteriors' latest gutter protection product, Leaf Relief,™ guarantees quality leaf and debris protection at an affordable price.

(Bottom) Cedar Discovery polypropylene siding from Alcoa Home Exteriors adds warmth and charm to homes with a deep, rustic wood grain patterned from real cedar.



Lovell House, a high-tech office building in Manchester, UK, uses curtain wall and other solutions from Alcoa as part of the building's dramatic shape.

China's Nanjing Olympic Sports Centre Protected by Reynolux from Alcoa



China and Alcoa

© HOK SPORT + VENUE + EVENT

The Nanjing Olympic Sports Centre, in Jiangsu province, China, will be the main stadium for the 10th National Games in 2005 and is to become the largest sports architectural complex – with the most comprehensive functions – before Beijing hosts the 2008 Olympic Games.

Occupying a total of 89.6 hectares of land, with 400,000 square meters of floor area, the Nanjing Olympic Sports Centre will feature a main stadium, gymnasium, swimming stadium, tennis center, news center, and auxiliary projects, such as communications, engineering, and energy centers.

The designers of this state-of-the-art facility, HOK Sport + Venue + Event, the world's leading public assembly design firm, sought to create an exceptional facility worthy of being at the center of the world stage. For part of the roofing of the massive project, they tapped Alcoa Europe Building and Construction for its experience, expertise, and its ability to deliver, in short lead times, Reynolux®, a unique prepainted product from Alcoa that uses coil-coating techniques to enable one or more coats of paint to be applied. Reynolux is known the world over as an excellent multipurpose material for roofing, façade cladding, and many indoor and outdoor uses. It provides exceptional resistance against UV light and protection against weathering for high durability and long life expectancy. The optimal adherence of its paint allows the Reynolux product to be bent into many complex shapes.

Packaging & Co

Aside from our own top-of-mind consumer brands – such as Reynolds Wrap® Aluminum Foil, new Reynolds Wrap® Release® Non-Stick Aluminum Foil, or BacoFoil® in the U.K. – Alcoa businesses serving the packaging market are making its customers' products more innovative, sturdier, tamper evident, and more vivid than ever before.

Our work spans from local bottlers throughout the world to global brands in markets ranging from food, beverage, medical, and electronics. For manufacturers, our work includes state-of-the-art prepress graphics, closure and capping systems, containers, packaging materials, films, and wraps. For foodservice outlets, we provide solutions ranging from foil, film, containers, lids, wraps, and bags to baking cups and hot dog trays. And we continue to make the aluminum can ubiquitous as we provide the sheet for more than 100 billion cans each year.

Our philosophy is to bring whatever resources necessary across our leading portfolio, utilizing our breadth of services, expertise and experience, to give our customers what they want… and what they need.

Oreo®, America's favorite cookie, comes in a new plastic tray made by Alcoa that makes manufacturing faster and more flexible. Kraft's Nabisco® unit ships 130 million Oreo packages a year.

(Top) Innovative closure designs and fast response helped win new customers in the dairy market for Alcoa Closure Systems International.

(Middle) DuPont™ recognized Alcoa's Sure-Peel™ Cohesive Lidding, a new product for single-serve packaging that is more reliable and easier to use.

(Bottom) In Canada, where the Reynolds® brand name enjoys strong brand equity and is known for its vibrant red, Alcoa Consumer Products' revenues grew 33% in 2003, driven by the continued expansion of Reynolds Wrap Release Non-Stick Foil.

nsumer

Alcoa Packaging Businesses Have Nestlé Covered

Nestlé and Alcoa

When it comes to Nestlé® – the world's largest food company, based in Vevey, Switzerland – Alcoa businesses, from Southern Graphic Systems and Alcoa Flexible Packaging to Alcoa Aluminio in South America and Alcoa Closure Systems International, work closely together to ensure Nestlé's vast array of brands look their best.

Household names the world over, such as Nestlé Nesquik®, Nestlé Maggi®, Nestlé Coffeemate®, Nestlé Baking Chocolates – not to mention pet foods like Purina® Whisker Lickin's® and Leche Moustaches – feature shrink-sleeve labels, foil packaging, and foil/paper overwraps from Alcoa Flexible Packaging and Alcoa Aluminio for consumer eye appeal to help drive growth.

Nestlé frozen food brands such as Lean Cuisine®, Skillet Sensations™, and numerous ice cream products, in addition to a wide range of confections, are helped to market by Alcoa's Southern Graphic Systems, which implements prepress graphics work prior to the printing and development of packaging. And Alcoa Closure Systems International provides closures to a wide range of Nestlé beverage brands, including Poland Spring®.

In all, Alcoa packaging businesses add impact to dozens of Nestlé products… in practically every one of the more than 100 countries in which Nestlé operates.

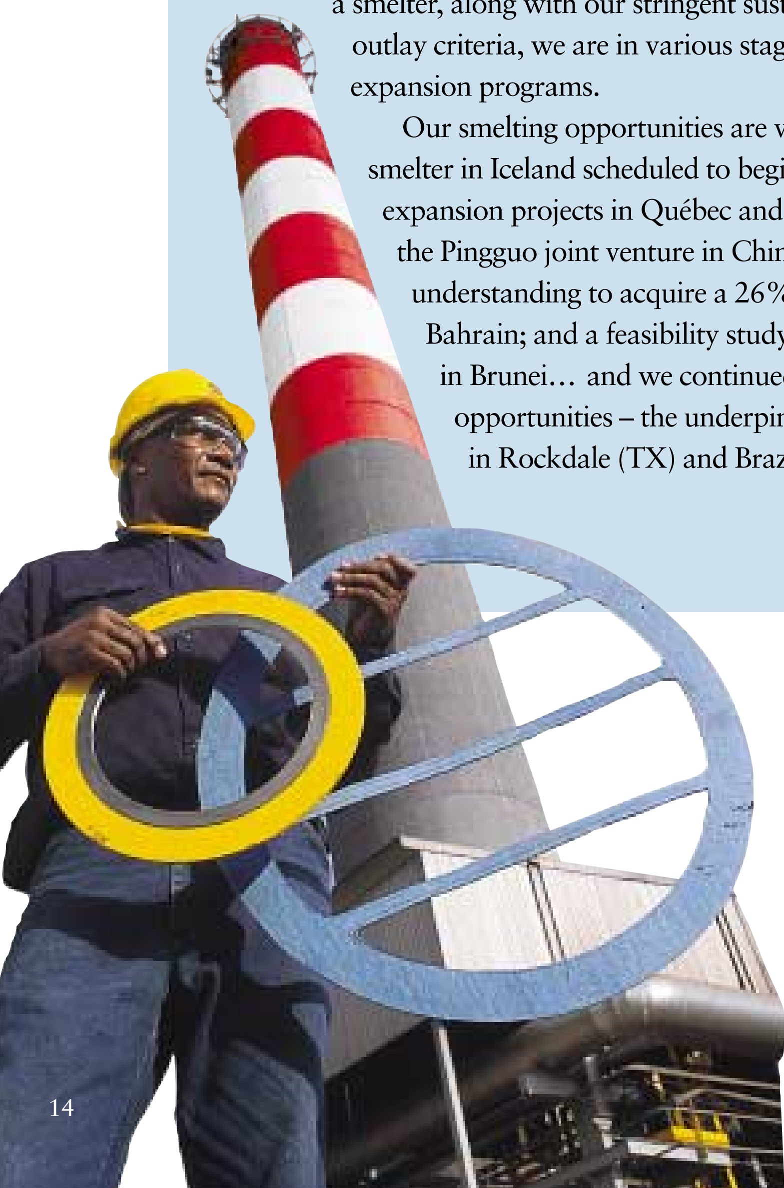
Aluminum & A

Our strategy is clear: continue our position as the world's foremost producer; strengthen and expand our base; continue to lower our costs; ***and*** build for the future.

Not a day goes by where we do not make progress on one, if not all, of these fronts. In alumina, AWAC is expanding and upgrading operations across the world. Having just completed the 250,000-mtpy expansion at our refinery in Clarendon, Jamaica, we broke ground on another 250,000-mtpy expansion in Suriname. And we have begun a 600,000-mtpy efficiency upgrade plan for Pinjarra in Western Australia. Through our various ownership stakes, that amounts to 860,000 metric tons per year of additional, low-cost alumina capacity.

Because of the lead times necessary to build or expand a smelter, along with our stringent sustainability and capital outlay criteria, we are in various stages on a number of expansion programs.

Our smelting opportunities are vast: a new greenfield smelter in Iceland scheduled to begin production in 2007; expansion projects in Québec and Brazil; finalizing the Pingguo joint venture in China; a memorandum of understanding to acquire a 26% stake in Alba in Bahrain; and a feasibility study to construct a smelter in Brunei… and we continued to invest in power opportunities – the underpinning of smelting – in Rockdale (TX) and Brazil.



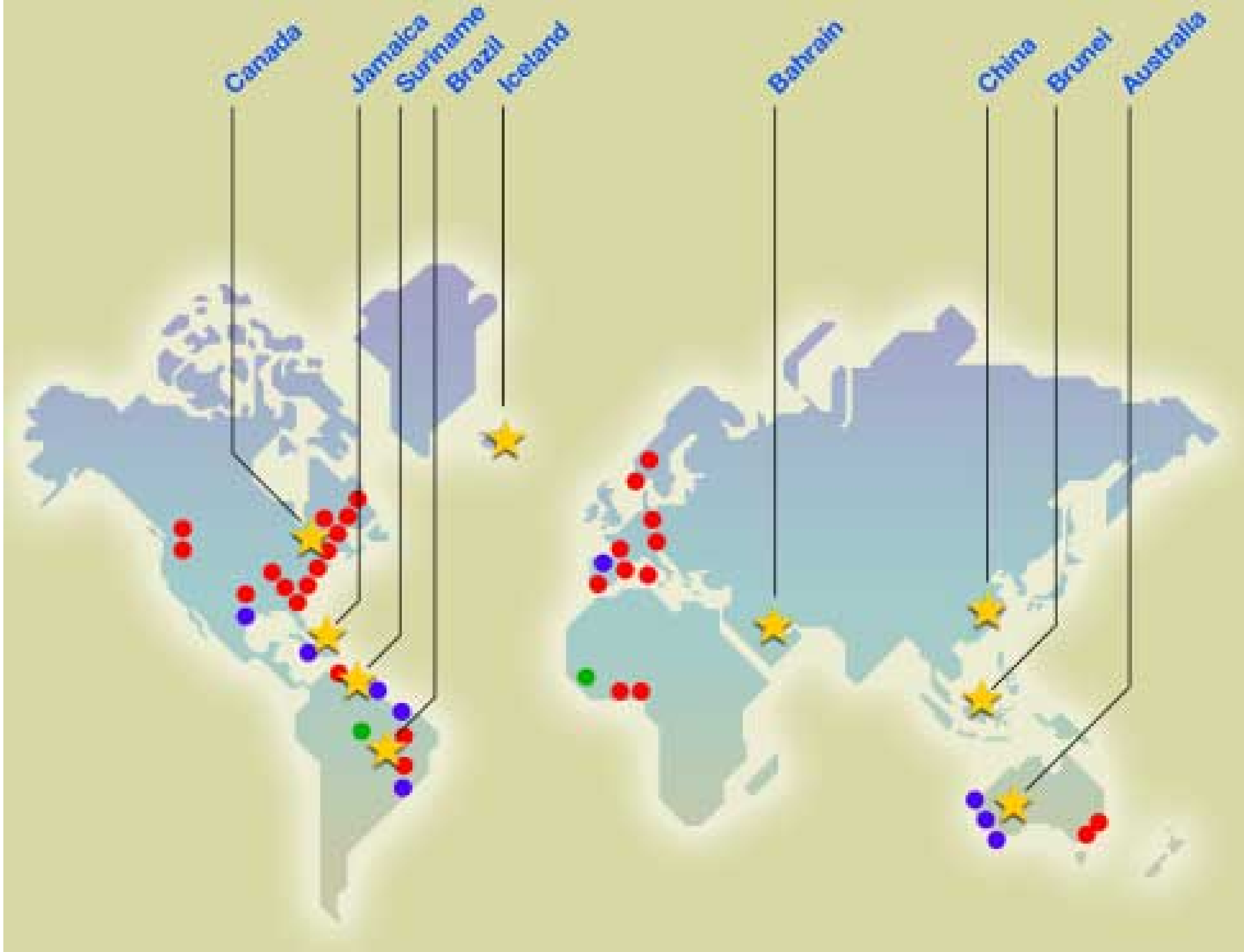
(Top) License plate in Reydarfjordur, Iceland shows popular support for our new smelter project.

(Middle) Expansion has begun on AWAC's alumina refinery in Suriname.

(Bottom) Ingots ready for shipment in Poços de Caldas, Brazil.

(Left) Glenford Morais on site at the recently expanded Clarendon, Jamaica alumina refinery.

lumina



Alcoa Worldwide

9 Refineries

28 Smelters

Key

★ Future expansion opportunity

● Refinery

● Smelter

● Stand-alone bauxite mine

Aluminum Expansion

- Australia
- Bahrain
- Brazil
- Brunei
- Canada
- China
- Iceland

Alumina Expansion

- Australia
- Jamaica
- Suriname

NEWS

Business Development

Ownership in South America

Alcoa acquired the Camargo Correa Group's 40.9% interest in Alcoa's South American operations, comprising businesses in six countries. The acquisition enables Alcoa to build on the South American operations' historically strong financial performance and better integrate them with global businesses.

Growth in China

Alcoa is pursuing further growth in China, which is expected to account for the largest increase in aluminum consumption in Asia through 2010. In addition to the proposed joint venture at Pingguo, installation of a new foil production line is under way at Alcoa Shanghai Aluminum Products. Alcoa also agreed to form a new joint venture with China International Trust & Investment, its equity partner in Bohai Aluminum. Bohai produces foil, foil stock, and soft-alloy extrusions.

AFL Automotive Expands

AFL Automotive opened its first operation in Honduras in El Porvenir, which will manufacture and assemble electrical distribution systems (EDS) for customers in the Caribbean Basin. In Romania, AFL began operations at a new plant in Caransebes and increased employment by 50% at the Nadab EDS assembly facility to serve its customers in Western Europe.

Regional Growth for CSI

Alcoa Closure Systems International (CSI) posted a 28% increase in sales in Central Asia, where the overall beverage market grew only 9%. **Moscow**-based management attributed the growth to improved quality and distribution systems, intensive direct marketing and sales opportunities, higher-margin and value-added products, and an expanded customer base.

Warrick Operations Diversifies

Warrick (IN) Operations installed two roll casters and a four-caster infrastructure which, coupled with the facility's existing cold rolling and finishing assets, created a production flow path that was the catalyst for Warrick's reentry to the building and construction market. Warrick now is supplying aluminum to Alcoa Home Exteriors for soffits, gutters, and downspouts, and is exploring continued growth as it evaluates additional flat-rolled aluminum markets.

21st Century Forum

Currently under construction, the Forum 2004 building in Barcelona, Spain, promises to become one of the city's biggest architectural attractions. Alcoa Arquitectura in Spain and Alcoa Architectural Products-Merxheim in France won participation in the project by taking extra steps to satisfy the architect's special design features. The Alcoa curtain wall façade is made of customized Reynobond® cladding panels – the longest ever made – which are perforated and bulge-formed to act as a sun barrier. The panels are painted with Alcoa's Duragloss® 5000 paint system, which has the exceptional flexibility necessary to prevent corrosion. Alcoa Arquitectura developed a new fixing system to integrate the panels into the curtain wall.

Sun Power Partnership

Alcoa is working with Spheral Solar Company to commercialize a concept that can result in lighter-weight, more flexible, and larger-capacity solar panels at a potentially lower cost than current technologies. Alcoa helped Spheral select an aluminum alloy and improved the total reflectance of the sheet to which its silicon spheres are bonded. The companies are working to design and integrate the technology into current architectural and building products.

Valdecir Miguel Dias, Poços de Caldas, Brazil

Shi Muchao, Shanghai, China

Divestitures

- Alcoa World Alumina & Chemicals reached an agreement to sell its Alcoa Specialty Chemicals business to Rhone Capital, an investment firm. The deal is expected to close in the first quarter of 2004.
- Alcoa sold its 37% stake in Latasa, an aluminum can business, to Rexam, a global beverage-can maker.
- Alcoa completed the sale of its PET packaging business in Latin America to Amcor PET Packaging.
- Alcoa sold Permatech® of Graham, NC, a manufacturer of precision precast refractory and insulating products, to a management group.
- In January 2004, Alcoa sold its packaging equipment business to American Industrial Partners and management.
- In February 2004, Alcoa sold its automotive fasteners business to the Kaminski Holdings Group.
- Also in February 2004, Alcoa sold its 10% stake in the Alscon smelter in Nigeria to the Federal Government of Nigeria. Alcoa assumed the stake as part of its acquisition of Reynolds Metals.

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Customer

Tomahawk Work Expands
Alcoa Howmet Castings doubled its participation in the U.S. Navy's Tactical Tomahawk missile program from two to four major castings, and Howmet customer Klune Industries added nose and payload parts. Key factors in expanding the order were reduced machining requirements and consolidation of engineering and administrative costs.

Lamborghini Goes Aluminum
The Gallardo™, introduced in 2003, is the first Lamborghini® car designed and engineered by Audi®. Following the Audi philosophy, its structure is primarily aluminum. Alcoa provided prototypes in 2002, and Alcoa businesses supply aluminum components.

Sandorfi Antal, Székesfehérvár, Hungary

A Better Bolt
Alcoa Fastening Systems introduced the SPLINE-LOK™ Eddie-Bolt® 2 for aerospace applications. The new design is easier to install, well suited for composite materials, and is compatible with a wide range of new and existing military and commercial aircraft.

Cool Packaging
Igloo Products, known for the innovative design of its coolers, introduced Igloo® PopArt® beverage coolers in shrink sleeves from Alcoa Flexible Packaging to the U.S. market. PopArt is the first personal beverage cooler line to incorporate customized design and graphics using PVC shrink-sleeve technology. Five different label designs are featured, including three developed specifically for Target stores. This packaging is the first application of shrink sleeves to beverage coolers.

New Ferrari 612 Scaglietti
Ferrari® of Italy selected Alcoa as the sole provider for the aluminum spaceframe of the Ferrari® 612 Scaglietti® sports car that initiates the automaker's new, 12-cylinder model line. Alcoa first began working with Ferrari in 1994 to develop an aluminum-structured vehicle. To date, Alcoa has supplied more than 12,000 frames for the 360 Modena®, recognized today as one of the best-performing sports cars in the world.

Instant Delivery
Working closely with Ice River Springs Water Co., a major Canadian water-bottling customer, CSI completed the first North American installation of a closure manufacturing line inside a customer facility. This unique nine-month project enabled Ice River to eliminate shipping costs and enhance customer service.

Hot New Wheels for Harley
Alcoa Forged Wheels & Engineered Products continued its close relationship with Harley-Davidson®, whose limited production 2004 Screamin' Eagle® Softail® Deuce™ and Screamin' Eagle® Electra Glide® cycles are equipped with Alcoa Detonator™ aluminum wheels. Four sizes of the wheel are available to all authorized dealers. Harley-Davidson also released the new, one-piece Road Winder™ premium chrome wheel, forged from Alcoa 6061 aluminum. Distribution of the new wheel began with shipment of a 16-inch sample Road Winder to every U.S. Harley-Davidson dealer.

Silvia de la Torre,
San Ciprián, Spain

Tony Cust, Anglesea,
Victoria, Australia

Innovations

Bags to Go
Presto® Products, an Alcoa Consumer Products business, introduced EcoSafe® trash bags that degrade naturally in the waste stream. Using an additive developed by Canada-based Environmental Products, Presto tested the new bags extensively to ensure that the environmental benefits were true and that the product would meet customer expectations. Over time, the bags are reduced to a food source for microorganisms, leaving no toxic or harmful residues.

Aerospace Initiative Continues
The U.S. Air Force awarded Alcoa a $35.5 million contract for continuation of the Advanced Aluminum Aerostructures Initiative. The program, begun in 2001, aims to apply Alcoa's design methodologies for low-cost aluminum structures to aerospace platforms. An Alcoa-led team, which includes Boeing®, Lockheed Martin®, and Northrop Grumman®, will develop aerostructures on seven to ten key military airframes, with the first prototype expected to be flight-tested in early 2004. The Air Force has projected cost savings of more than $800 million.

N E W S

Clearly a Great Idea

U.S., Canadian, and Puerto Rican consumers responded enthusiastically to Reynolds Wrap® Release® Non-Stick Aluminum Foil – as have consumers in the U.K. to Baco® Consumer Products' Baco-Foil® Release® Non-Stick Aluminum Foil. In the U.S., the foil beat initial projections and is driving growth in Puerto Rico. In Canada, where Release helped Reynolds become the leading brand of household aluminum foil, a brand extension into nonstick grill foil was successful. In the U.K., Release was a key factor in growing brand share.

Joyce Woods, Davenport, Iowa, USA

Longer Wheel Life

Scientists at Alcoa Technical Center developed a proprietary, patent-pending Dura-Flange® wheel product for enhancing the rim flange wear resistance of aluminum wheels. This is a major step in the aluminum vs. steel wheel market because the new treatment makes it possible for truck owners and operators to enjoy the lighter weight and other benefits of aluminum wheels and log significantly more miles before seeing rim flange wear.

Community

Giving in Russia

Alcoans from CSI's Vostok facility commemorated the 10th anniversary of Charities Aid Foundation, Russia, by participating in social work activities. The foundation is a London-based, international fund that has partnered with Alcoa Foundation in making grants.

Max Prilepski, Lyubuchany, Russia

CSI Vostok also takes advantage of a long-term program that allows it to use money it pays as a regional tax to finance local programs. These funds helped finance construction of a school sports ground. CSI Vostok produces two types of polypropylene closures, primarily for the Russian market.

Good Corporate Citizens

Alcoa's Köfém facility in Székesfehérvár, Hungary, received the first-ever Good Corporate Citizenship and Social Responsibility Award from *Figyelo*, the leading national business and economic journal.

Power Groups

As part of the relicensing process for its hydroelectric generating facility in Badin, NC, the Yadkin Division of Alcoa Power Generating created Issue Advisory Groups to assist it on topics ranging from environmental and recreational needs to county economics and cultural resources. The groups are composed of several state and local organizations and area residents.

Julia Thornhill, Amersham, UK

Gardens in Shanghai

Alcoa Shanghai is part of a governmental program to make Shanghai a "garden city." Alcoans joined 33 other business and neighborhood groups to form the Jiang Chuan Community Landscaping Volunteer Team to plant and maintain trees and promote their care and protection. Alcoa worked with the community to acquire open space for planting.

Shanghai official (left) and Alcoa Shanghai General Manager Joe Chan open a new garden.

Serving History and Today

A Tennessee Operations initiative involving several segments of the community preserved an historic African-American school and will provide a new athletic complex for area youth. Alcoa sold the school, constructed in the 1920s for employees' children, to a local developer who has renovated it as a service center for nonprofit and community groups. Proceeds from the sale of this property were donated to the local school district for construction of an athletic complex on a 10-acre site, also donated by Alcoa.

EHS

Eyes on Earth

Alcoa joined Earthwatch Institute, an international, nonprofit organization offering public involvement in scientific research, by supporting 15 employee volunteers involved in six projects. Earthwatch scientists benefit from the practical help provided by these Alcoa Environmental Fellows, while Alcoans benefit from firsthand knowledge of environmental issues and how to better support Alcoa's environmental and sustainability goals.

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Record Recycling

Warrick (IN) Operations partnered with Warrick and Vanderburgh counties' Habitat for Humanity organizations and the local baseball team to set a Guinness World Record™ for the most aluminum cans collected for recycling at a single event. Area citizens donated approximately 152,800 cans on July 6.

Governors' Honors

Howmet Castings earned top honors in the 2003 Virginia USA Governor's Environmental Excellence Awards. Howmet supports three Hampton, VA, programs and has reduced its own waste materials sent to landfill by 27%, with 8% diverted to a local waste-to-energy plant. Recycling, conservation, and source reductions reduced waste another 19%.

Sylvio Delisle, Québec, Canada

In Louisiana, the Governor's Environmental Commission hosted the 24 student winners of the first annual Art and Language Arts Contest at the governor's mansion. Sponsored by six Alcoa locations, the contest was open to grades K-12 statewide. The commission followed up with newspaper ads and billboards, and calendars created from winners' artwork.

Biodiesel Use a Winner

Iowa State Representative Joe Hutter presented Alcoa's Davenport (IA) Works a certificate recognizing its environmental gains using biodiesel fuel. The plant switched from diesel oil to a blend of 20% soybean oil and 80% diesel to fuel mobile equipment, helping cut emissions in the workplace by 30 - 80%. Alcoa Davenport also was recognized with a national award from the National Biodiesel Board and by the Iowa Soybean Association.

Recycling Partnership

Alcoa Aluminio joined forces with Brazilian companies Tetra Pak, Klabin, and TSL to open a new packaging recycling unit at a Klabin location in São Paulo state. The facility will feature a plasma furnace that can recover aluminum from Tetra Pak's aseptic packaging, which Alcoa will purchase for reuse in new foil for Tetra Pak.

Education Sanctuary

A Frog's World, an Alcoa Australia-supported educational facility at Serendip Sanctuary, Victoria, Australia, opened in November 2003. Developed through the Alcoa Frog Watch program, a partnership between Alcoa and the Amphibian Research Centre in Victoria, the exhibit dramatizes the importance of a healthy environment and how it sustains frogs – an important barometer of environmental health.

ABS

Not Just the Shop Floor

Alcoa is beginning to bring ABS insights from the shop floor into the office. In one case, applying ABS principles helped in processing employee expense reports 50% faster and 60% more accurately.

Sharing Pays Off

Alcoa's Rockdale (TX) smelter achieved an annualized $3 per metric ton in cost savings and revenue gains by instituting ABS management in two pilot potlines.

Natalie Rhoden, Jamalco, Jamaica

John Siemon and Kevin Robare, Alcoa Center, Pennsylvania, USA

Using a system from Alcoa's Alumar smelter as a benchmark, workers increased production volume, improved the purity and value of the molten metal, and reduced power consumption without capital expenditures or additional personnel. The system is being expanded to the remaining four potlines, with an expected $15 per metric ton annual value upon full implementation.

Optimal Alumina

Alcoa World Alumina (AWA) showed how ABS lessons learned at one plant can foster improvements elsewhere, when AWA used an approach developed at other refineries to help the Jamalco refinery in Jamaica improve its contaminant levels by 30%. A team of operations and technical personnel from AWA's global system demonstrated how to build in quality along the sand filter flow path, enabling Jamalco to achieve a higher level of quality and better meet the needs of its customers and Alcoa's North American smelters.

Safety and Productivity

By implementing the ABS improvement process, Alcoa Engineered Products' Cressona (PA) plant increased productivity on two semiautomated pack lines by 87% and enhanced safety. A combination of work flow redesign, standardized work, and equipment improvements reduced the volume of aluminum extrusions packed manually, reducing packaging costs, boosting delivery performance, and significantly lowering the risk of injury to workers.

NEWS

How Others See Us

IAI Honors

Alcoa's Suralco alumina refinery in Suriname won the International Aluminium Institute's Best Safety Performance in the World award in 2003. The organization also recognized Suralco's Moengo mining operation as among the four best performers in the bauxite category.

Québec Facilities Earn Awards

Alcoa's Bécancour and Deschambault smelters were honored for their efforts in the integrated management of waste materials in accordance with the *1998-2008 Québec Policy for Waste Management*. Honorees must recycle at least 65% of their recyclable waste materials. Bécancour achieved 85% and Deschambault reached 90%.

Alcoa's Aluminerie de Bécancour also received a sustainable development award in the annual Québec Phénix de l'environnement competition for its greenhouse-gas-reduction project.

Living Our Commitment

A 21-year partnership between AWA Australia and environmental organization Greening Australia won the Special Award for Longevity among the Prime Minister's Awards for Excellence in Community Business Partnerships. Major results include planting more than ten million trees; ongoing environmental education; revegetation projects; and publications for landholders.

R&D Award

As a member of a team led by 3M, AFL Telecommunications won an R&D 100 Award from *R&D* magazine. AFL was recognized for its development of compression accessories for 3M's composite conductor power-line cables.

Commitment to Sustainability

At Alcoa, "Sustainability" is defined as using Alcoa's Values to build financial success, environmental excellence, and social responsibility, through partnerships, in order to deliver net long-term benefits to our shareowners, employees, customers, suppliers, and the communities in which we operate.

Alcoa's commitment to sustainability has a long history and is evident every day – from the way we live our Values, to our publicly stated 2020 environmental goals to reduce emissions, increase safety and improve health, and more. It is our belief that we can't be the best company in the world until we are the best company in each community in which we operate. This entails the subsequent actions we take as a company and through the Alcoa Foundation and employees' volunteer efforts locally.

We are committed to working with others to achieve our goals. As part of the social fabric in the communities where we operate, we cannot expect to grow and prosper without working closely with those around us.

We have a history of proactively reporting our financial, environmental, and social performance. Last year, Alcoa began publishing an integrated Sustainability Report, offering a view of the Company in these areas. Combined with the Annual Report to shareowners, the Sustainability Report provides a more comprehensive view of Alcoa.

Alcoa Frog Watch, a community conservation and education program sponsored by Alcoa in Western Australia, is an example of our sustainability commitment in action.

In addition to the data in these reports, we are playing an active role in international efforts on sustainable development. We are helping lead the Aluminium Sustainable Development Initiative of the International Aluminium Institute, and we have committed to report against the Sustainable Development Principles developed by the International Council on Mining and Metals.

Performance, rather than talk, is Alcoa's way of demonstrating progress toward a sustainable future. As we continue to deliver strong financial results, we also are making a demonstrable difference to ensure that our environmental and social performance keeps step.

To learn more about Alcoa's commitment to sustainability, and to view the 2003 Alcoa Sustainability Report, visit www.alcoa.com/lnk/sustainability.

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Koiti Kawatti, Poços de Caldas, Brazil

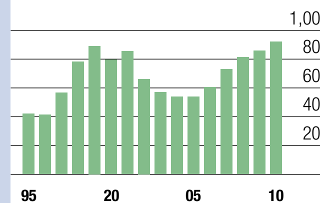
Trends in Major Markets

Aerospace 9.3% $2.0 billion

Alcoa segments that sell products to this market:
Flat-Rolled Products, Engineered Products, Other

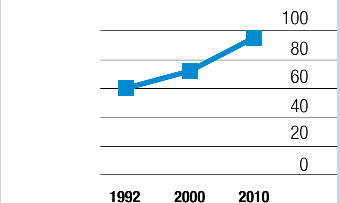
- Alcoa aerospace products are widely used in the manufacturing of aircraft and aircraft engines, including high-technology airfoils for jet engines, fastening systems, and advanced alloys for the fuselage, wings, landing gear, and wheels. Aerospace products are also serving defense and space applications.
- To ensure our long-term competitiveness in this sector, Alcoa is committed to delivering solutions to customers that significantly reduce life cycle cost and weight. At the heart of this commitment is our 20-20 initiative which aspires to deliver a 20% weight reduction and 20% lower cost for metallic aircraft components over the next two generations of new aircraft platforms.
- More than 60% of Alcoa aerospace revenues come from propulsion and fastening systems.

Large Commercial Aircraft Demand
100+ passengers



Source: Various market contributors

Aerospace Metallic Market Large Commercial Aircraft
$ billions



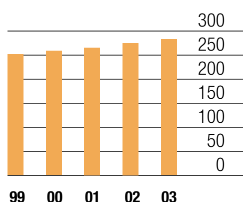
Source: Alcoa

Automotive 13.1% $2.8 billion

Alcoa segments that sell products to this market:
Flat-Rolled Products, Engineered Products, Other

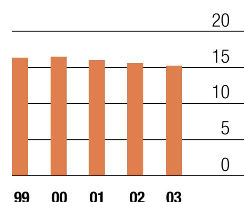
- Alcoa revenues in this market come from a range of products for automotive applications; from chassis, suspension and drivetrain components to crash management systems to body structures, forged and cast wheels, as well as wiring harnesses and other electrical distribution systems.
- A 6 to 8% fuel savings can be realized for every 10% reduction in weight from substituting aluminum for steel. Aluminum absorbs nearly twice as much crash energy as steel, and during a crash, aluminum folds like an accordion, letting the vehicle – not its passengers – absorb more of the crash forces. Lighter vehicles generally accelerate quicker and require shorter stopping distances than heavier vehicles. *The Aluminum Association*
- Through June of 2003, automakers in Asia reported a sales increase of 8.4% from year 2002 levels. China alone saw more than a 30% year-over-year increase in total light vehicle sales. *J.D. Power and Associates*

North American Light Vehicle Aluminum Content
lbs. per vehicle



Source: Ducker

North American Light Truck & Auto Sales
millions



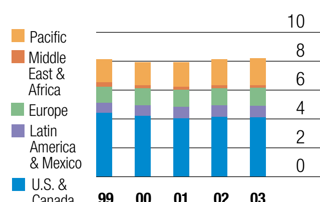
Source: DRI

Packaging and Consumer 25.1% $5.4 billion

Alcoa segments that sell products to this market:
Flat-Rolled Products, Packaging and Consumer

- Alcoa's brands include Reynolds Wrap® and other Reynolds® brand products as well as BacoFoil® in the U.K., among others. Alcoa's Packaging and Consumer product revenues are primarily from sales of beverage can sheet, bottle closures, flexible packaging, graphic products, plastic film/sheet, plastic food packaging, and consumer products.
- U.S. grocery store sales rose 3.4% in 2003 to an estimated $447 billion. *U.S. Census*
- Alcoa's product innovation and value-driven products are evidenced by numerous awards, including: Kosherfest's New Product Competition for Reynolds Wrap® Release® Aluminum Foil, "Best in class" for private label foil and food/trash bags by *PLBuyer* magazine, Silver DuPont Packaging Award for Sure-Peel™ lidding, as well as others.
- Alcoa supplies aluminum sheet used to make 100 billion cans each year.

Aluminum Consumption for Beverage Cans
billions of lbs.



Source: CRU Alcoa

U.S. PET Container Unit Summary (All End-Uses)
millions of units

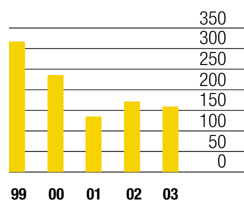
Source: Container Consulting October 2003 Report

Commercial Transportation 5.1% $1.1 billion

Alcoa segments that sell products to this market:
Flat-Rolled Products, Engineered Products, Other

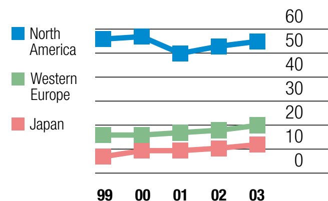
- Alcoa revenues in this market come from sales of aluminum sheet, extrusions, and components such as fasteners, wire harnesses, and wheels for medium/heavy-duty trucks and trailers; and buses, boats, motorcycles, recreational vehicles, etc.
- Following a year buoyed by "buy-aheads" in anticipation of new engine emissions standards, 2003 build rates were 5% lower. Build rates in 2004 are expected to be more than 20% above 2003.
- European legislation focused at enforcing load limits will provide a catalyst for weight reduction; however, build rates are expected to be flat in 2004. Asia build rates, following a modest increase, should also be flat.
- Alcoa is well-positioned to leverage global opportunities with its complete lineup of weight-saving wheels. In addition, new engine emission standards to be implemented in 2007 will provide a similar boost for light-weighting solutions similar to what occurred in 2002.

North American Heavy Truck Production
thousands



Source: ACT Research

Aluminum Wheel Penetration in Heavy-Duty Trucks
percent



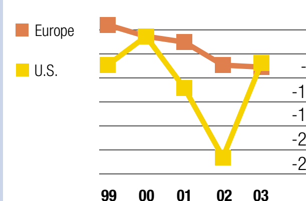
Source: Alcoa

Building and Construction 10.2% $2.2 billion

Alcoa segments that sell products to this market:
Flat-Rolled Products, Engineered Products, Other

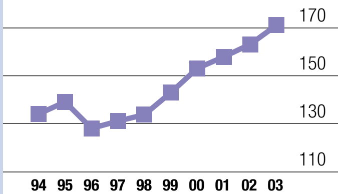
- Alcoa's revenues in this market are from an array of fabricated aluminum products for commercial and residential applications, as well as vinyl extrusions and injection moldings for new homes and remodeling.
- Low mortgage rates in the U.S. spurred record highs for housing starts, which were up 8.4% over 2002, and for new home sales, rising 11.5%, a record level. *U.S. Commerce Dept., National Association of Home Builders*
- Home improvement expenditures in the U.S. grew 6% over 2002. *U.S. Census*

New Nonresidential Construction Annual Growth Rates
percent



Source: U.S. Census, Euroconstruct

U.S. Repair & Improvement Expenditures
billions of dollars



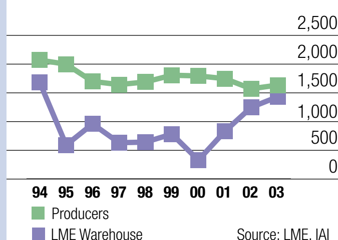
Source: U.S. Census

Aluminum and Alumina 24.2% $5.2 billion

Alcoa segments that sell products to this market:
Primary Metals, Alumina and Chemicals

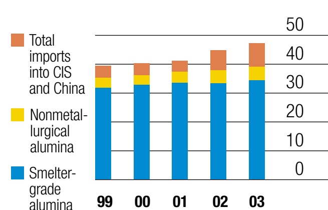
- Alcoa is the world's largest producer of alumina, a powdery oxide of aluminum refined from bauxite ore and used to produce aluminum and alumina-based chemicals. Alcoa's 2003 alumina production rose 6.2% to approximately 14 million metric tons. In 2003, 53% of Alcoa World Alumina and Chemicals' refinery production was supplied to outside customers.
- 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 in 2003 was estimated at 30.4 million mtpy, of which 8% was idle. *CRU Alcoa*
- Alcoa's worldwide primary aluminum capacity is 4.0 million mtpy, of which 14% is idle.

Worldwide Aluminum Ingot Inventory
millions of metric tons



Source: LME, IAI

Western World Alumina Demand
millions of metric tons



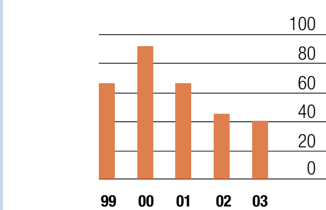
Source: CRU Alcoa

Industrial Products and Other 13.0% $2.8 billion

Alcoa segments that sell products to this market:
Flat-Rolled Products, Engineered Products, Other

- Alcoa's revenues from this market include sales of aluminum sheet, plate, and extrusions to distributors and sales of products and services for telecommunications and power generation.
- In 2003, U.S. fabricated aluminum sales were relatively unchanged compared to 2002. *NAAD*
- Projected build rates for heavy-duty gas turbines in the U.S. and Europe could drop to as low as one-third in 2004 of its peak in 2001. Most of the decline is due to power plant overcapacity. *General Electric, Siemens Power Generation*

North American Telecommunications Capital Expenditures
billions of dollars



Source: RHK, Inc.

Selected Financial Data

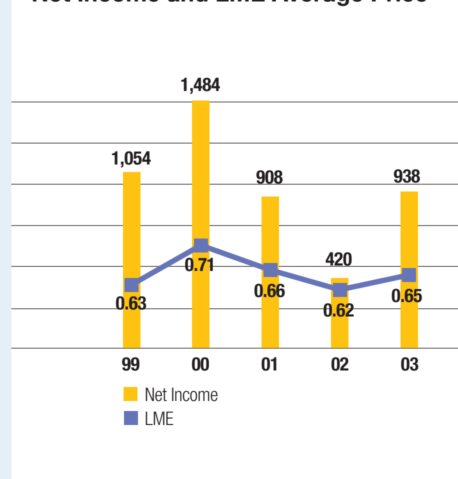
(in millions, except per-share amounts and ingot prices)

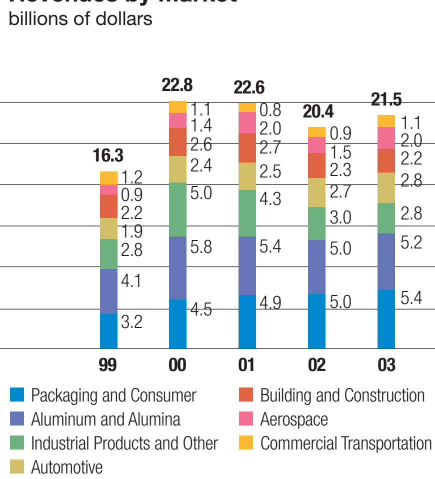
	2003	2002	2001	2000	1999
Sales	$21,504	$20,351	$22,576	$22,755	$16,268
Income from continuing operations	1,034	476	904	1,474	1,050
(Loss) income from discontinued operations	(49)	(90)	4	15	4
Cumulative effect of accounting change	(47)	34	—	(5)	—
Net income	938	420	908	1,484	1,054
Earnings (loss) per share:					
Basic:					
Income from continuing operations	1.21	.56	1.05	1.80	1.43
(Loss) income from discontinued operations	(.06)	(.11)	.01	.02	.01
Cumulative effect of accounting change	(.06)	.04	—	(.01)	—
Net income	1.09	.49	1.06	1.81	1.44
Diluted:					
Income from continuing operations	1.20	.56	1.04	1.78	1.40
(Loss) income from discontinued operations	(.06)	(.11)	.01	.02	.01
Cumulative effect of accounting change	(.06)	.04	—	(.01)	—
Net income	1.08	.49	1.05	1.79	1.41
Alcoa's average realized price per pound for aluminum ingot	.70	.66	.72	.77	.67
LME average 3-month price per pound for aluminum ingot	.65	.62	.66	.71	.63
Cash dividends paid per common share	.600	.600	.600	.500	.403
Total assets	31,711	29,810	28,355	31,691	17,066
Short-term borrowings	56	39	166	2,718	339
Long-term debt	7,215	8,449	6,484	5,407	2,718

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

Significant items impacting the results for 2003 included: acquisitions of businesses, special items, various gains/losses recorded in other income, changes in the provision for income taxes, discontinued operations, and the adoption of a new accounting standard. Significant items impacting the results for 2002 included: special items, the adoption of new accounting standards, goodwill impairment, and discontinued operations. Significant items impacting the results for 2001 included: special items, gains on asset sales, and various charges to cost of goods sold and selling, general administrative, and other expenses. Significant items impacting the results for 2000 included primarily the acquisitions of Reynolds Metals Company (Reynolds) and Cordant Technologies Inc. (Cordant).

The data presented in the Selected Financial Data table should be read in conjunction with the information provided in Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Consolidated Financial Statements.





Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

Our Business

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

Alcoa is a global company operating in 41 countries. North America is the largest market with 65% of Alcoa's revenues. Europe is also a significant market with 22% of the company's revenues. Alcoa also has investments and activities in Iceland, Australia, Brazil, China, and Bahrain, which present opportunities for substantial growth. Governmental policies and other economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates, affect the results of operations in these countries.

Management Review of 2003 and Outlook for the Future

Alcoa aspires to be the best company in the world. As part of that mission, Alcoa strives to attain certain financial goals to improve both short-term and long-term profitability, while positioning the company to be successful in the future.

In 2003, Alcoa's focus on long-term value creation through living our values, controlling costs and capital, managing our portfolio of businesses, and focusing on profitable growth contributed to the following financial achievements:

- Significant improvement in income from continuing operations, rising from $476 in 2002 to $1,034 in 2003, as all segments increased profitability;
- Achievement of our three-year, $1 billion cost savings goal through manufacturing productivity improvements realized from continued application of the Alcoa Business System (ABS), procurement savings from improved purchasing practices and global sourcing, and headcount reductions from prior restructuring programs;
- Strengthened balance sheet and continued cash generation through disciplined capital spending, improved working capital, payment of more than $1 billion in debt which facilitated a reduction in the debt-to-capital ratio from 43.1% in 2002 to 35.1% in 2003, and progress on our divestiture plan with the sales of the Latin America PET business and our equity interest in Latasa, a Latin America aluminum can business, in 2003.

During 2003, the company was faced with a number of challenges including increased costs for energy, raw materials, employee benefits, and foreign currency exchange movements. Additionally in 2003, significant efforts were made to globalize the production base as a means to better serve Alcoa's customers and to take advantage of lower costs to produce in certain global regions. The actions surrounding the globalization provide unique challenges including exposure to foreign currency appreciation against the U.S. dollar, as well as the general business and political risks involved with expanding operations in global regions where Alcoa does not currently have a significant presence. The company expects that it will continue to face these and similar challenges in the future.

To position ourselves for success in 2004 and beyond, we will work toward the following financial goals:

- Reducing costs through a new three-year cost savings challenge aimed at eliminating an additional $1.2 billion in costs by the end of 2006. The new goal will be achieved through continued implementation of ABS to eliminate waste and improve productivity, as well as throughout other areas within the company.
- Striving to join the first quintile of S&P Industrials in return on capital (ROC) performance and, in pursuit of that goal, we will seek to provide returns in excess of cost of capital, which is currently 9%;
- Completing our divestiture plan by mid-2004 with anticipated total proceeds to be realized in the range of $750 to $850, to be used to pay down debt. [The packaging equipment business was sold in January of 2004, and the sale of the specialty chemicals business is expected to close in the first quarter of 2004.]
- Maintaining a strong balance sheet with a long-term target for a 25%–35% debt-to-capital ratio;
- Strengthening our asset base and improving its productivity, as well as expanding our global reach and positioning our primary businesses lower on the cost curve through various strategies including: expanding alumina refinery capacity in Jamaica, Suriname, and Australia; constructing a smelter in Iceland and expanding smelting capacity in China, Canada, and Bahrain; investing in energy projects in Brazil and Rockdale, TX; as well as various other projects throughout other segments of the business. These projects are outlined in more detail below under Segment Information, Liquidity and Capital Resources, and Contractual Obligations and Off-Balance Sheet Arrangements.

Forward-Looking Statements

Certain statements in this report under this caption and elsewhere relate to future events and expectations and, as such, constitute forward-looking statements. Forward-looking statements also include those containing such words as "anticipates," "believes," "estimates," "expects," "hopes," "targets," "should," "will," "will likely result," "forecast," "outlook," "projects," or similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause actual results,

performance, or achievements of Alcoa to be different from those expressed or implied in the forward-looking statements. For a discussion of some of the specific factors that may cause such a difference, see Notes M and X to the Consolidated Financial Statements and the disclosures included below under Segment Information and Market Risks. For additional information on forward-looking statements and risk factors, see Alcoa's Form 10-K, Part I, Item 1.

Results of Operations

Earnings Summary

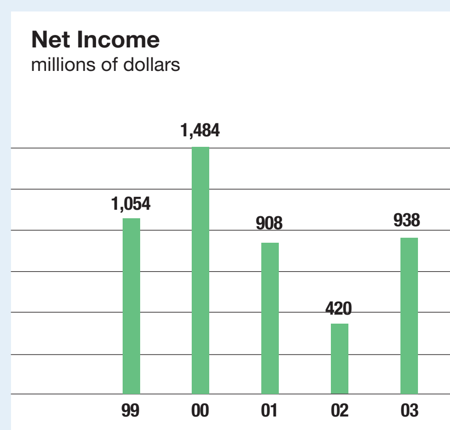
Alcoa's income from continuing operations for 2003 was $1,034, or $1.20 per diluted share, compared with $476, or $0.56 per share, in 2002. The highlights for 2003 include: intense focus on profitability with ongoing cost reductions in 2003 that resulted in achievement of the company's three-year, $1 billion cost savings goal initiated in 2001; higher realized prices for alumina as demand increased due to a tightening of the world alumina market, as well as higher realized prices for aluminum as LME prices rose; significant restructuring charges that were recognized in 2002; improved profitability across all segments aided in part by cost savings and acquisitions; higher equity income, primarily at Elkem; recognition of insurance settlements of a series of environmental matters in the U.S.; and a lower effective tax rate due to several discrete tax items.

Partially offsetting these positive contributions in 2003 were: cost increases for energy, employee benefits and raw materials; the impact of a weakened U.S. dollar against other currencies, primarily the Australian and Canadian dollars; higher minority interest expense; and continued volume declines in businesses serving the telecommunications, commercial building and construction, and industrial gas turbine markets.

Net income for 2003 was $938, or $1.08 per share, compared with $420, or $0.49 per share, in 2002. Net income of $938 in 2003 included a charge of $47 representing the cumulative effect of the accounting change for asset retirement obligations upon adoption of Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." Net income also included a loss of $49 from discontinued operations, comprised of a $45 unfavorable adjustment to the estimated fair value of the automotive fasteners business and $4 of net operating losses. See details of the divestiture plan below.

Alcoa's income from continuing operations for 2002 was $476, or $0.56 per share, compared with $904, or $1.04 per share, in 2001. The decline in income from continuing operations was primarily due to lower realized prices for alumina and aluminum; lower volumes in businesses serving the aerospace, commercial building and construction, telecommunications, and industrial gas turbine markets; power sales that were recognized in 2001; a goodwill impairment charge in 2002; and lower gains on sales of assets and lower equity income in 2002. Partially offsetting these declines were benefits resulting from continued focus on cost savings and restructuring initiatives; lower costs recognized in 2002 for contract losses, customer claims, and bad debts; the favorable impact in 2002 of ceasing amortization of goodwill; lower restructuring charges recognized in 2002 compared with 2001; and lower minority interest expense.

Net income for 2002 was $420, or $0.49 per share, compared with $908, or $1.05 per share, in 2001. Net income of $420 in 2002 included income of $34 representing the cumulative effect of the accounting change for goodwill under SFAS No. 142, "Goodwill and Intangible Assets." Net income also included a loss of $90 for discontinued operations, which consisted of charges of $59 to reduce the carrying values of certain businesses to be divested to their estimated fair values less costs to sell, as well as $31 of operating losses.



Divestiture Plan — Alcoa's financial statements in both 2003 and 2002 were significantly impacted by activities relating to the planned divestiture of a number of Alcoa's businesses.

During the fourth quarter of 2002, Alcoa performed a portfolio review of its businesses and the markets they serve. As a result of this review, Alcoa committed to a plan to divest certain noncore businesses that did not meet internal growth and return measures. In accordance with the accounting requirements, these businesses are classified as either discontinued operations or assets held for sale.

For businesses classified as discontinued operations, the balance sheet amounts and income statement results are reclassified from their historical presentation to assets and liabilities of operations held for sale on the Consolidated Balance Sheet and to discontinued operations in the Statement of Consolidated Income for all periods presented. Additionally, segment information does not include the results of businesses classified as discontinued operations. Management does not expect any continuing involvement with these businesses following the sales. At the end of 2003, businesses classified as discontinued operations included Alcoa's commodity automotive fasteners business, a packaging business in South America, and Alcoa's packaging equipment business, which are expected to be sold by mid-2004.

For businesses classified as assets held for sale, the balance sheet amounts are reclassified from their historical presentation to assets and liabilities of operations held for sale. The income statement results continue to be reported in the historical income statement

categories as income from continuing operations. The segment results include the results of businesses classified as assets held for sale for all periods presented. Management expects that Alcoa will have continuing involvement with these businesses following the sale, primarily in the form of ongoing aluminum or other significant supply contracts. At the end of 2003, businesses classified as assets held for sale included Alcoa's specialty chemicals business, certain architectural products businesses in North America, an extrusion facility in Europe, certain extrusion facilities in Latin America, and foil facilities in St. Louis, MO and Russellville, AR. These businesses are expected to be sold by mid-2004.

During 2003, there were a number of changes in the classification of businesses to be divested:

- In the third quarter of 2003, the protective packaging business, a part of the Ivex Packaging Corporation (Ivex) acquisition, was reclassified from discontinued operations to assets held and used as management discontinued the plan of sale due to market conditions. The results of operations of the protective packaging business have been reclassified and are included in income from continuing operations and in the Packaging and Consumer segment results beginning in July 2002 (date of the Ivex acquisition).
- In the fourth quarter of 2003, the Magnolia, AR and Plant City, FL fabricating businesses were reclassified from discontinued operations to assets held and used as management discontinued the plan of sale due to market conditions. The results of operations and $18 of losses (reflected in Special Items) in 2002 associated with adjustments to estimated fair values were reclassified to income from continuing operations. The results of operations, excluding the adjustments reflected in Special Items, are included in the Engineered Products segment.
- In the fourth quarter of 2003, Alcoa's packaging equipment business was reclassified from assets held and used to discontinued operations. The sale of this business was completed in January of 2004. The results of operations of this business are reported as discontinued operations in the Statement of Consolidated Income for all periods presented. Packaging and Consumer segment results do not include the results of operations of the packaging equipment business.
- In the fourth quarter of 2003, the specialty chemicals business was reclassified from assets held and used to assets held for sale. The sale of the specialty chemicals business is expected to close in the first quarter of 2004. The change in classification did not impact the Statement of Consolidated Income, and the results of the specialty chemicals business are included in the Alumina and Chemicals segment results.

The Statement of Consolidated Income in 2003 reflects a charge of $45 (after tax) in discontinued operations related to a reduction in the estimated fair value of the automotive fasteners business and $33 of net favorable adjustments in Special Items related to businesses classified as assets held for sale. The 2003 activity on assets held for sale of $33, including income of $53 and losses of $20, is primarily comprised of:

- Reversal of estimated loss and recognition of a gain in the second and fourth quarters of 2003 on the sale of the Latin America PET business; and
- Recognition of losses in the second and fourth quarters of 2003 related to reductions in the estimated fair values of businesses included in assets held for sale.

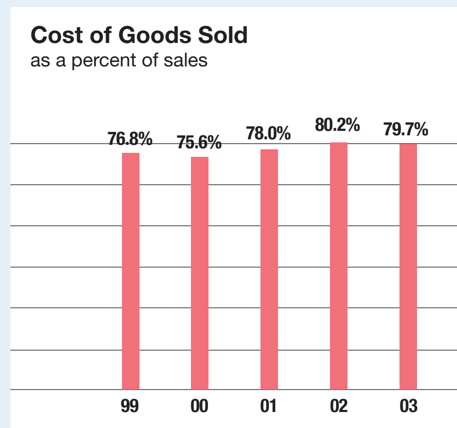
The Statement of Consolidated Income in 2002 reflects charges of $232 in Special Items related to businesses classified as assets held for sale and charges of $59 (after tax) included in discontinued operations related to unfavorable adjustments to the estimated fair values on businesses to be divested.

Sales — Sales for 2003 were $21,504 compared with sales of $20,351 in 2002, an increase of $1,153, or 6%. Acquisitions accounted for $1,015 of the increase in sales in 2003. Sales in 2003 included the full-year results of Fairchild Fasteners (acquired in December 2002) and Ivex (acquired in July 2002), and three months of activity for KAAL Australia (acquired in October 2003). Excluding the impact of acquisitions, sales increased in 2003 primarily in the upstream businesses, as realized prices for alumina rose 17% and realized prices for aluminum rose 6% from 2002. Partly offsetting the increases in the upstream businesses were the dispositions of distribution facilities in Europe and the Latin America PET business, as well as lower volumes in the downstream businesses, which continue to be impacted by weak markets for industrial gas turbines, telecommunications, and commercial building and construction.

Sales in 2002 were $20,351 compared with sales of $22,576 in 2001, a decrease of $2,225, or 10%. The decline in sales was primarily due to lower volumes in downstream businesses serving the aerospace, commercial building and construction, telecommunications, and industrial gas turbine markets; lower realized prices for alumina and aluminum; significant power sales recognized in 2001; the divestiture of Thiokol Propulsion (Thiokol) in 2001; and the contribution of the net assets of Reynolds' metals distribution business (RASCO) in 2001 to a joint venture, Integris Metals, Inc. (Integris), in which Alcoa retained a 50% equity interest. These decreases were somewhat offset by increased volumes in businesses serving the automotive and commercial transportation markets, increased volumes in the alumina and primary metals businesses, and the acquisitions of Ivex and several smaller businesses.

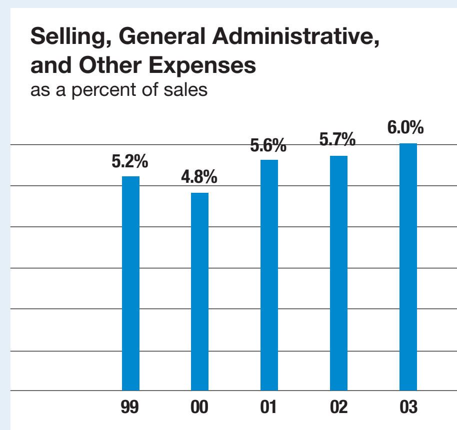
Cost of Goods Sold — COGS as a percentage of sales was 79.7% in 2003 compared with 80.2% in 2002. Cost reductions as a result of procurement savings, productivity improvements, and headcount reductions from prior restructuring programs, as well as higher realized prices for alumina and aluminum, more than offset lower volumes, higher costs for energy, purchased raw materials and employee benefits, a weakened U.S. dollar against other currencies, and a benefit realized in 2002 as a result of a favorable LIFO adjustment.

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



Selling, General Administrative, and Other Expenses — SG&A expenses were $1,295, or 6.0% of sales, in 2003 compared with $1,157, or 5.7% of sales, in 2002. The increase of $138, or 0.3% as a percentage of sales, was primarily due to the full-year results related to the acquisitions of Ivex and Fairchild Fasteners (Fairchild), which accounted for 60% of the change in 2003 compared with 2002. The remaining increase was primarily due to increased deferred compensation costs in 2003.

SG&A expenses of $1,157, or 5.7% of sales, in 2002 decreased from $1,264, or 5.6% of sales, in 2001. The decrease of $107, or 8%, in 2002 was primarily due to lower bad debt expense, bad debt recoveries, and lower deferred compensation costs.



Research and Development Expenses — R&D expenses were $194 in 2003 compared with $214 in 2002 and $203 in 2001. The decrease in 2003 compared with 2002 was primarily due to reduced spending to control costs. The increase in 2002 compared with 2001 was primarily due to increased spending in the Primary Metals segment related to inert anode technology.

Provision for Depreciation, Depletion, and Amortization — The provision for depreciation, depletion, and amortization was $1,194 in 2003 compared with $1,111 in 2002. The increase of $83, or 7%, was primarily due to the full-year results related to the acquisitions of Ivex and Fairchild, as well as the impact of foreign currency exchange movements, somewhat offset by a reduction due to ceasing depreciation on assets held for sale.

The provision for depreciation, depletion, and amortization of $1,111 in 2002 decreased from $1,237 in 2001. The decrease of $126, or 10%, was primarily the result of ceasing amortization of goodwill in 2002 under the provisions of SFAS No. 142. The elimination of goodwill amortization expense of $171 in 2002 was partly offset by increases in depreciation and amortization expense related to acquisitions in 2002.

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

Special Items — Special items for each of the three years in the period ended December 31, 2003, were comprised of:

December 31	2003	2002	2001
Asset write-downs	$ —	$296	$372
Layoff costs	45	105	178
Other costs	—	31	16
Net additions to/reversals of prior year layoff and other costs	(38)	(7)	—
Net additions to/reversals of prior year gains/losses on assets held for sale	(33)	—	—
Special Items	$(26)	$425	$566

Special items consisted of income of $26 ($25 after tax and minority interests) in 2003 compared with a charge of $425 in 2002. The income recognized in 2003 was comprised of: $33 of net favorable adjustments on assets held for sale, described in the Divestiture Plan section above; $38 of income resulting from adjustments to prior year layoff reserves (in conjunction with these reserve adjustments, there was a change in the number of employees to be terminated under the 2002 restructuring program from 8,500 to 6,700 employees); and $45 of charges for additional layoff costs associated with approximately 1,600 hourly and salaried employees located primarily in Europe, the U.S., and Brazil, as the company continued to focus on cost reductions in businesses that continued to be impacted by market declines.

As of December 31, 2003, approximately 1,100 of the 1,600 employees associated with the 2003 restructuring charges had been terminated and approximately $20 of cash payments was made against the reserves.

During 2002, Alcoa recorded special charges of $425 ($280 after tax and minority interests) for restructurings associated with the curtailment of aluminum production at three smelters, as well as restructuring operations for those businesses experiencing negligible growth due to continued market declines and the decision to divest certain businesses that failed to meet internal growth and return measures. The 2002 charges were comprised of asset write-downs of $296, consisting of $113 of goodwill on businesses to be divested, as well as $183 for structures, machinery, and equipment; employee termination and severance costs of $105 related to approximately 6,700 salaried and hourly employees at over 70 locations, primarily in Mexico, Europe, and the U.S.; and exit costs, including environmental, demolition, and lease termination costs, of $31. Additionally, net reversals of $7 were recorded in Special Items in 2002 primarily associated with adjustments to 2001 restructuring program reserves due to changes in estimates of liabilities resulting from lower than expected costs.

As part of the 2002 restructuring program, Alcoa temporarily curtailed aluminum production at its Badin, NC plant and permanently closed its Troutdale, OR plant as well as approximately 25% of the capacity at its Rockdale, TX facility. Alcoa recognized a restructuring charge of $39 associated with these curtailments. The remaining carrying value and results of operations related to these facilities were not material. The restructuring of operations of businesses serving the aerospace, automotive, and industrial gas turbine markets, and in the U.S. smelting system resulted in a charge of $154. The remaining $232 of special items was related to losses recognized on assets held for sale described in the Divestiture Plan section above.

As of December 31, 2003, approximately 6,400 of the 6,700 employees associated with the 2002 restructuring program were terminated. Alcoa expects to complete substantially all actions relative to the restructuring charges by the end of 2004. Cost savings associated with lower employee and other costs are anticipated to be approximately $150 to $175 in 2004.

During 2001, Alcoa recorded charges of $566 ($355 after tax and minority interests) as a result of a restructuring plan based on a strategic review of the company's primary products and fabricating businesses aimed at optimizing and aligning its manufacturing systems with customer needs, while positioning the company for stronger profitability. These charges consisted of costs associated with the shutdown of 18 facilities in the U.S. and Europe and were comprised of asset write-downs of $372, employee termination and severance costs of $178 related to workforce reductions of approximately 10,400 employees, and other exit costs of $16 related to the shutdown of facilities.

As of December 31, 2003, the 2001 restructuring program was substantially complete, with the exception of approximately $60 in reserves for ongoing site remediation work and employee layoff costs that consist of monthly payments being made over an extended period.

Alcoa does not include special items in the segment results. The pretax impact of allocating special items to the segment results would have been as follows:

December 31	2003	2002	2001
Alumina and Chemicals	$ (1)	$ 3	$ 94
Primary Metals	4	64	157
Flat-Rolled Poducts	13	65	105
Engineered Products	(4)	217	126
Packaging andConsumer	(44)	46	—
Other	(1)	28	63
Segment total	(33)	423	545
Corporate expenses	7	2	21
Total Special Items	$(26)	$425	$566

Interest Expense — Interest expense was $314 in 2003 compared with $350 in 2002. The decrease of $36, or 10%, was primarily due to lower average effective interest rates, somewhat offset by higher average debt levels due to higher borrowings in 2002 to fund acquisitions.

Interest expense was $350 in 2002 compared with $371 in 2001. The decrease of $21, or 6%, in 2002 was primarily due to lower average effective interest rates, partially offset by higher borrowings during the year.

Other Income — Other income was $274 in 2003 compared with $179 in 2002. The increase of $95, or 53%, was primarily due to a gain of $105 from insurance settlements of a series of historical environmental matters in the U.S.; $66 of higher equity income, primarily at Elkem; and an increase in the cash surrender value of employee life insurance; partially offset by the unfavorable impact of foreign currency translation losses of $51, primarily due to the impact of strengthening Australian and Canadian currencies; and several favorable nonoperating gains recognized in 2002.

Other income was $179 in 2002 compared with $309 in 2001. The decrease of $130, or 42%, was primarily due to $62 higher net gains on asset sales in 2001 (related to the sales of Thiokol, Alcoa Proppants, Inc., and Alcoa's interest in a Latin American cable business), and a decrease of $46 in equity income, driven by lower earnings at Elkem. See Note N to the Consolidated Financial Statements for further information.

Income Taxes — Alcoa's effective tax rate was 24.2% in 2003 compared with the statutory rate of 35% and Alcoa's effective tax rates of 32.3% in 2002 and 31.9% in 2001. The effective tax rate in 2003 was reduced to reflect a number of discrete tax items that are required to be excluded from management's estimate of the annual effective tax rate:

- Reversal of a valuation reserve on foreign net operating losses resulted in a reduction of the rate by approximately 2.9%
- Expiration of a prior international audit period resulted in a reduction of the rate by approximately 2.3%
- Recently enacted international tax legislation resulted in a reduction of the rate by approximately 1.3%
- Partially offsetting some of the reductions above was a tax recognized on the sale of Latasa which increased the effective tax rate by 1.3%.

Management anticipates that the tax rate in 2004 will be similar to the tax rate for 2003 excluding the impact of the discrete tax items mentioned above.

Minority Interests — Minority interests' share of income from operations was $231 in 2003 compared with $135 in 2002 and $208 in 2001. The increase of $96, or 71%, in 2003 was primarily due to higher earnings at Alcoa World Alumina and Chemicals (AWAC), due to higher realized prices and higher volumes, and higher earnings at Alcoa Fujikura Ltd. (AFL) due to cost savings in 2003 and the impact of a goodwill impairment charge recognized in 2002. Somewhat offsetting these factors was lower minority interests' share of income at Alcoa Aluminio resulting from Alcoa's acquisition of the remaining 40.9% shareholding from Camargo Correa Group in August of 2003.

Minority interests' share of income from operations was $135 in 2002 compared with $208 in 2001. The decrease of $73, or 35%, in 2002 compared with 2001 was due to lower earnings at Alcoa Aluminio, AWAC, and AFL. The goodwill impairment charge of $44 (pretax) contributed to the earnings decline of AFL in 2002.

Loss From Discontinued Operations — Loss from discontinued operations was $49 in 2003 compared with a loss of $90 in 2002 and income from discontinued operations of $4 in 2001. The loss of $49 in 2003 was comprised of an adjustment of $45 related to a reduction in the estimated fair value of the automotive fasteners business and $4 of operating losses. The loss of $90 recognized in 2002 was comprised of $31 of operating losses of businesses to be divested, as well as losses of $59 to reduce the carrying values of certain businesses to their estimated fair values less costs to sell. See Note B to the Consolidated Financial Statements for further information.

Cumulative Effect of Accounting Change — The cumulative effect of accounting changes resulted in a charge of $47 in 2003 compared with income of $34 recognized in 2002. The adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" in 2003 resulted in a cumulative effect adjustment of $47, consisting primarily of costs to establish assets and liabilities related to spent pot lining disposal for pots currently in operation. The adoption of SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangibles" in 2002 resulted in a cumulative effect adjustment of $34, consisting of income from the write-off of negative goodwill from prior acquisitions of $49, offset by a $15 write-off for the impairment of goodwill in the automotive business resulting from a change in measurement criteria for impairments. See Notes A, C, and E to the Consolidated Financial Statements for further information.

Segment Information

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

ATOI for all segments totaled $1,713 in 2003, $1,478 in 2002, and $2,039 in 2001. See Note P to the Consolidated Financial Statements for additional information. The following discussion provides shipment, sales, and ATOI data for each segment for each of the three years in the period ended December 31, 2003. The financial information and data on shipments of all prior periods have been adjusted to remove the results of discontinued operations.

Alumina and Chemicals

	2003	2002	2001
Alumina production (mt)	13,841	13,027	12,527
Third-party alumina shipments (mt)	7,671	7,486	7,217
Third-party sales	$2,002	$1,743	$1,908
Intersegment sales	1,021	955	1,021
Total sales	$3,023	$2,698	$2,929
ATOI	$ 415	$ 315	$ 471

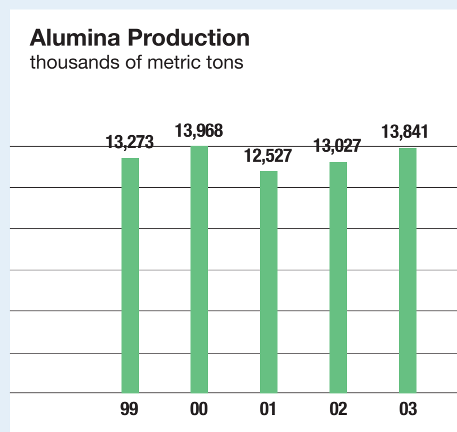
This segment consists of Alcoa's worldwide alumina and chemicals system that includes the mining of bauxite, which is then refined into alumina. Alumina is sold directly to internal and external smelter customers worldwide or is processed into industrial chemical products. The industrial chemical products are sold to a broad spectrum of markets including refractories, ceramics, abrasives, chemicals processing, and other specialty applications. Alcoa's alumina operations in Australia are a significant component of this segment. Slightly more than half of Alcoa's alumina production is sold under supply contracts to third parties worldwide, while the remainder is used internally. Alumina comprises over three-quarters of this segment's third-party sales. The sale of Alcoa's specialty chemicals business is expected to close in the first quarter of 2004.

Third-party sales for the Alumina and Chemicals segment increased 15% in 2003 compared with 2002 primarily due to an increase in realized prices of 17% influenced by higher LME prices and a tightening of the world alumina market, as well as increased shipments due to higher production at the Point Comfort, TX refinery. In 2002, third-party sales of alumina decreased 9% compared with 2001, primarily due to an 11% decline in realized prices, which

more than offset increased shipments. Third-party sales of alumina-based chemical products were down 12% in 2002 compared to 2001 primarily due to lower volumes.

ATOI for this segment rose 32% in 2003 compared with 2002 primarily due to higher realized prices and higher volumes, which were somewhat offset by higher energy costs and unfavorable foreign currency exchange movements. ATOI in 2002 fell 33% compared with 2001, primarily due to lower realized prices, partially offset by increased volumes and cost improvements.

Alcoa continued to make long-term investments to improve its world-class position in alumina refining. Through AWAC, Alcoa's global alliance with Alumina Limited, the company moved forward in 2003 on its plan to add 1,100,000 mt (Alcoa's share is 862,500 mt) of annual capacity at its alumina refineries by completing a 250,000 mt (Alcoa's share is 125,000 mt) expansion in Jamaica, and proceeding with plans to add 250,000 mt (Alcoa's share is 137,500 mt) in Suriname, and 600,000 mt in Western Australia by 2005.



Primary Metals

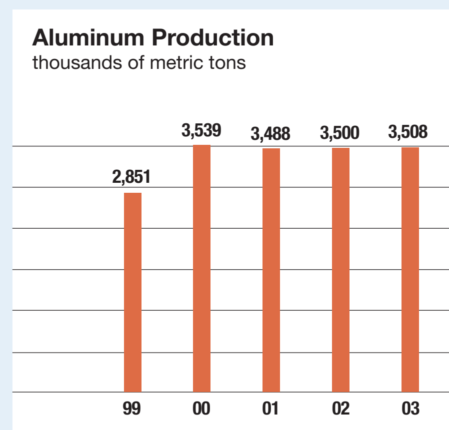
	2003	2002	2001
Aluminum production (mt)	3,508	3,500	3,488
Third-party aluminum shipments (mt)	1,952	2,073	1,873
Alcoa's average realized price per pound for aluminum ingot	$ 0.70	$ 0.66	$ 0.72
Third-party sales	$3,229	$3,174	$3,432
Intersegment sales	3,098	2,655	2,849
Total sales	$6,327	$5,829	$6,281
ATOI	$ 657	$ 650	$ 905

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

Third-party sales for the Primary Metals segment increased 2% in 2003 compared with 2002 as higher realized prices more than offset lower third-party shipments and the negative impact of an electrical outage at the Alumar smelter in Brazil. Intersegment sales increased 17% due to higher realized prices and higher volumes. Third-party sales in 2002 decreased 8% compared with 2001 as higher shipments were more than offset by lower realized prices and the lack of significant power sales resulting from production curtailments at plants located in the northwestern U.S. in 2001. Intersegment sales decreased 7% due to lower realized prices.

ATOI for this segment was relatively flat in 2003 compared with 2002 as higher realized prices and ongoing cost savings were substantially offset by higher costs for energy, raw materials, and employee benefits, and the impact of unfavorable foreign currency exchange movements. ATOI for this segment decreased 28% in 2002 compared with 2001. The decline was primarily due to lower realized prices and the lack of significant power sales in 2002. These decreases were somewhat offset by increased volumes and lower foreign taxes.

During 2003, Alcoa announced capacity curtailments of 57,000 mt at Intalco in Ferndale, WA and 60,000 mt at Massena, NY due to higher energy costs. As a result, Alcoa has approximately 562,000 mt per year (mtpy) of idle capacity on a base capacity of 4,020,000 mtpy. Also during 2003, Alcoa began detailed design of a 322,000-mt smelter in Iceland and continued to make progress on plans to expand smelting opportunities in China, Canada, and Bahrain. Alcoa continued to invest in energy projects in Brazil and Rockdale, TX.



Flat-Rolled Products

	2003	2002	2001
Third-party aluminum shipments (mt)	1,819	1,774	1,818
Third-party sales	$4,815	$4,640	$4,999
Intersegment sales	66	68	64
Total sales	$4,881	$4,708	$5,063
ATOI	$ 221	$ 220	$ 262

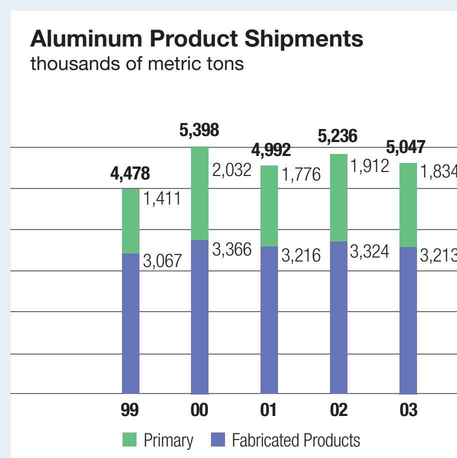
This segment's principal business is the production and sale of aluminum plate, sheet, and foil. This segment includes rigid container sheet (RCS), which is sold directly to customers in the packaging and consumer market and is used to produce aluminum beverage cans. Seasonal increases in RCS sales are generally experienced in the second and third quarters of the year. This segment also includes sheet and plate used in the transportation, building and

construction, and distributor markets (mainly used in the production of machinery and equipment and consumer durables), of which approximately two-thirds is sold directly to customers while the remainder is sold through distributors. Approximately 60% of the third-party sales in this segment are derived from sheet and plate, and foil used in industrial markets, while the remaining 40% of third-party sales consists of RCS. While the customer base for flat-rolled products is large, a significant amount of sales of RCS, sheet, and plate are to a relatively small number of customers.

Third-party sales for the Flat-Rolled Products segment increased 4% in 2003 compared with 2002 primarily due to the acquisition of the remaining 50% interest in KAAL Australia (can sheet rolling mills) in October of 2003, which contributed $105; the favorable impact of foreign currency exchange movements in Europe; and increased volumes for RCS and sheet and plate. Partially offsetting these increases were the absence of sales in 2003 from the commercial foil business, which was discontinued as a result of a prior year's restructuring program. In 2002, third-party sales declined 7% compared with 2001 primarily due to lower metal prices, an unfavorable mix for sheet and plate in the U.S. and Europe due to continued weakness in the aerospace market, and lower volumes for RCS and sheet and plate in Europe.

ATOI for this segment was flat in 2003 compared with 2002. The contribution of KAAL Australia to ATOI and the positive results in Europe due to favorable foreign currency exchange movements were offset by higher costs for raw materials, energy, and employee benefits for RCS and the U.S. sheet and plate business. ATOI decreased 16% in 2002 compared with 2001 primarily due to unfavorable product mix for sheet and plate in the U.S. and Europe, as well as lower volumes and lower prices in Europe. These decreases were partially offset by cost savings in the RCS business.

During 2003, Alcoa expanded operations in high growth markets such as Asia through the addition of a foil line at its Shanghai foil facility. Alcoa continued to make progress in its discussions of a joint venture in Bohai. Alcoa dissolved its joint ventures with Kobe Steel Ltd. and acquired the remaining 50% interest in KAAL Australia, which is now fully consolidated in the segment results.



Engineered Products

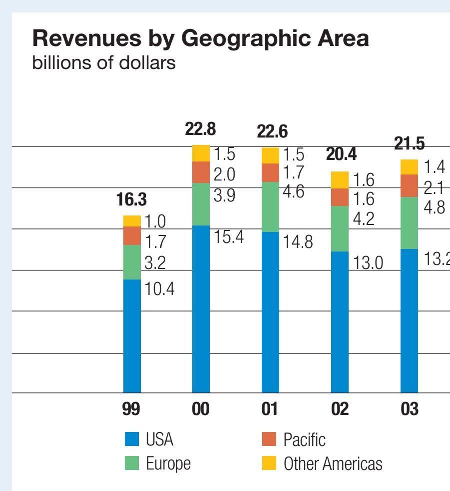
	2003	2002	2001
Third-party aluminum shipments (mt)	879	919	932
Third-party sales	$5,589	$5,150	$5,910
Intersegment sales	24	34	35
Total sales	$5,613	$5,184	$5,945
ATOI	$ 155	$ 105	$ 173

This segment includes hard- and soft-alloy extrusions, including architectural extrusions, super-alloy castings, steel and aluminum fasteners, aluminum forgings, and wheels. These products serve the aerospace, automotive, commercial transportation, industrial gas turbine, building and construction, and distributor markets (mainly used in the production of machinery and equipment) and are sold directly to customers and through distributors.

Third-party sales for the Engineered Products segment increased 9% in 2003 compared with 2002, primarily as a result of the Fairchild acquisition, which contributed approximately $560 in 2003. Additionally, higher sales in Europe driven by the favorable impact of foreign currency exchange movements contributed to the increase in 2003. These increases were somewhat offset by volume declines in businesses serving the industrial gas turbine and commercial building and construction markets. Third-party sales declined 13% in 2002 compared with 2001 primarily due to lower volumes in businesses serving the aerospace, industrial gas turbine, and commercial building and construction markets, somewhat offset by increased volumes in businesses serving the commercial transportation market during the year.

ATOI for this segment increased 48% in 2003 compared with 2002 primarily due to cost savings, the contribution of Fairchild results in 2003, and favorable foreign currency exchange movements in Europe. These favorable results were somewhat offset by higher employee benefit costs. ATOI decreased 39% in 2002 compared with 2001. The decrease was primarily due to declining volumes as a result of continued weakness in certain markets, as previously noted, partially offset by productivity and purchasing cost savings, higher volumes due to a stronger commercial transportation market during the year, and the absence of goodwill amortization of $61 in 2002.

In 2003, Alcoa continued to build on its low cost capabilities with soft-alloy extrusions production platforms in Hungary and Brazil. Alcoa Fastening Systems and Howmet were awarded several component contracts on various aerospace programs.



Packaging and Consumer

	2003	2002	2001
Third-party aluminum shipments (mt)	167	162	141
Third-party sales	$3,215	$2,838	$2,625
ATOI	$ 214	$ 197	$ 181

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

Third-party sales for the Packaging and Consumer segment increased 13% in 2003 compared with 2002, primarily as a result of the Ivex acquisition, which contributed approximately $350 more in 2003 than in 2002. Higher volumes in the closures business also contributed to the sales increase in 2003. Third-party sales increased 8% in 2002 compared with 2001 primarily due to the acquisition of Ivex in 2002, which contributed approximately $290, as well as higher volumes in the closures, consumer products, and packaging design businesses. These increases were partly offset by lower volumes, lower prices, and currency devaluation in Latin America.

Despite significantly higher resin prices and the divestitures of the Latin America PET business and Latasa, ATOI for this segment increased 9% in 2003 compared with 2002 primarily due to the full-year results of Ivex, cost savings, an increase in closures volumes, and positive results in Latin America due to improved economic conditions. ATOI increased 9% in 2002 compared with 2001 primarily due to the acquisition of Ivex, which contributed approximately $14. Also impacting ATOI, to a lesser extent, were higher volumes in the closures, consumer products, and packaging design businesses, as well as cost savings across various businesses within this segment. These increases were partially offset by the negative impact of the business conditions in Latin America, as noted.

During 2003, Alcoa continued its globalization of the closures business with new operations in Asia. Additionally, new products were launched in the consumer and closures businesses. Alcoa sold its PET business and its equity interest in Latasa in 2003. The packaging equipment business was sold in January of 2004.

Other

	2003	2002	2001
Third-party aluminum shipments (mt)	230	308	228
Third-party sales	$2,654	$2,806	$3,702
ATOI	$ 51	$ (9)	$ 47

This group includes other Alcoa businesses that are not included in the segments previously mentioned. This group includes AFL, which produces electrical components for the automotive industry, and produces fiber-optic cable and provides services to the telecommunications industry; the residential building products operations, Alcoa Home Exteriors; and automotive parts businesses. Products in this segment are generally sold directly to customers or through distributors. AFL sales are dependent on a relatively small number of customers. Seasonal increases in the building products business generally occur in the second and third quarters of the year.

Third-party sales for the Other group declined 5% in 2003 compared with 2002 primarily at AFL, as the automotive business continued to rebalance the customer base and telecommunications volumes continued to deteriorate. The disposition of distribution facilities in Europe also contributed to the sales decline. Third-party sales decreased 24% in 2002 compared with 2001. The decrease was due to the divestiture of Thiokol (a producer of solid rocket propulsion systems acquired in 2000 as part of the Cordant acquisition) and the contribution of the net assets of RASCO (a business acquired in 2000 as part of the Reynolds acquisition) to a joint venture in 2001, as well as lower volumes in the AFL telecommunications business, as the market for this business continued to decline. These decreases were partially offset by volume increases in the automotive businesses (aided by the acquisition of the remaining 50% interest in Engineered Plastic Components, Inc.).

ATOI for this group rose substantially in 2003 compared to a loss recognized in 2002. The increase in ATOI is primarily due to productivity and purchasing cost savings recognized at AFL, as well as the impact of a goodwill impairment recognized in 2002 associated with the AFL telecommunications business. These increases in 2003 were partly offset by volume declines at AFL. ATOI declined significantly in 2002 compared with 2001 due to volume declines in the telecommunications business, an impairment loss on goodwill of $39 (before minority interests) associated with the AFL telecommunications business, and the gains on the sales of Thiokol, Alcoa Proppants, Inc., and Alcoa's interest in a Latin American cable business that were recognized in 2001. These decreases were partially offset by performance improvements in the automotive businesses and the absence of goodwill amortization that favorably impacted the segment by $32 in 2002.

During 2003, Alcoa broadened its customer base in this segment, specifically in the automotive business, with new business contracts with several automotive makers. Additionally, Alcoa focused on low cost sourcing by opening a facility in Honduras and further operations in Romania.

Reconciliation of ATOI to Consolidated Net Income — The following table reconciles segment ATOI to consolidated net income.

	2003	2002	2001
ATOI	$1,713	$1,478	$2,039
Impact of intersegment profit eliminations	9	(6)	(20)
Unallocated amounts (net of tax):			
Interest income	24	31	40
Interest expense	(204)	(227)	(242)
Minority interests	(231)	(135)	(208)
Corporate expense	(287)	(234)	(261)
Special items	26	(304)	(397)
Discontinued operations	(49)	(90)	4
Accounting changes	(47)	34	—
Other	(16)	(127)	(47)
Consolidated net income	$ 938	$ 420	$ 908

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

- Corporate adjustments to eliminate any remaining profit or loss between segments;
- The after-tax impact of interest income and expense;
- Minority interests;
- Corporate expense, comprised of general administrative and selling expenses of operating the corporate headquarters and other global administrative facilities along with depreciation on corporate-owned assets;
- Special items (excluding minority interests) related to restructurings;
- Discontinued operations;
- Accounting changes for asset retirement obligations in 2003 and goodwill in 2002; and
- Other, which includes the impact of LIFO, differences between estimated tax rates used in the segments and the corporate effective tax rate and other nonoperating items such as foreign currency translation gains/losses.

The increase in corporate expense in 2003 compared with 2002 is primarily due to an increase in deferred compensation costs. The decrease in Other in 2003 compared with 2002 is primarily due to an increase in the cash surrender value of employee life insurance (which essentially offsets the increase in deferred compensation costs), insurance settlements of past environmental matters, and lower taxes related to differences between statutory tax rates applied and the overall corporate effective tax rate, and higher equity income, primarily Elkem. These increases were partly offset by the unfavorable impact of a higher LIFO benefit recognized in 2002, as well as foreign currency translation losses.

Market Risks

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

Derivatives

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

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

The following discussion includes sensitivity analyses for hypothetical changes in the commodity price or interest rate contained in the various derivatives used for hedging certain exposures. In all cases, the hypothetical change was calculated based on a parallel shift in the forward price curve existing at December 31, 2003. The forward curve takes into account the time value of money and the future expectations regarding the values of the underlying commodities and interest rates.

Commodity Price Risks — Alcoa is the world's leading producer of aluminum ingot and fabricated products. As a condition of sale, customers often require Alcoa to enter into forward-dated, fixed-price commitments. These commitments expose Alcoa to the risk of fluctuating aluminum prices between the time the order is committed and the time that the order is shipped.

Alcoa's aluminum commodity risk management policy is to manage, through the use of futures contracts, the aluminum price risk associated with a portion of its fixed-price firm commitments. At December 31, 2003, these contracts totaled approximately 454,000 mt with a fair value gain of approximately $70 ($46 after tax). A hypothetical 10% increase (or decrease) in aluminum ingot prices from the year-end 2003 level of $1,600 per mt would result in an additional pretax gain (or loss) of $56 related to these positions.

Alcoa purchases natural gas, fuel oil, and electricity to meet its production requirements. These purchases expose the company to the risk of higher prices. To hedge a portion of this risk, Alcoa enters into long positions using futures contracts. Alcoa follows a stable pattern of purchasing these commodities; therefore, it is highly likely that anticipated purchases will occur. The fair value of these contracts was a gain of approximately $73 ($39 after tax and minority interests) at December 31, 2003. A hypothetical 25% increase (or decrease) in the market prices from year-end 2003 levels would result in an additional pretax gain (or loss) of $111 related to these positions.

Financial Risk

Currencies — Alcoa is subject to exposure from fluctuations in foreign currencies. Foreign currency exchange contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. These contracts cover periods commensurate with known or expected exposures, generally within three years. The fair value of these contracts and relative sensitivity were not material at December 31, 2003. During 2003, Alcoa did not enter into any material foreign currency exchange contracts.

Interest Rates — Alcoa uses interest rate swaps to help maintain a strategic balance between fixed- and floating-rate debt and to manage overall financing costs. The company has entered into pay floating, receive fixed interest rate swaps to change the interest rate risk exposure of its outstanding debt. The fair value of these swaps was a loss of approximately $74 ($48 after tax) at December 31, 2003.

Alcoa also uses interest rate swaps to establish fixed interest rates on anticipated borrowings between June 2005 and June 2006. The anticipated borrowings have a high probability of occurrence because the proceeds will be used to fund debt maturities and anticipated capital expenditures. Alcoa has $1,000 of interest rate swaps outstanding that will establish fixed interest rates on anticipated borrowings of $500 of debt through 2016 and $500 of debt through 2036. The fair value of these swaps was not material at December 31, 2003.

At December 31, 2003 and 2002, Alcoa had $7,271 and $8,488 of debt outstanding at effective interest rates of 3.6% for 2003 and 4.4% for 2002, after the impact of settled and outstanding interest rate swaps is taken into account. A hypothetical change of 10% in Alcoa's effective interest rate from year-end 2003 levels would increase or decrease interest expense by $26 per year.

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

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

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

Environmental Matters

Alcoa continues to participate in environmental assessments and cleanups at a number of locations. These include approximately 30 owned or operating facilities and adjoining properties, approximately 39 previously owned or operated facilities and adjoining properties, and approximately 67 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 X to the Consolidated Financial Statements.

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

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

In June 2002, Alcoa submitted a final Analysis of Alternatives Report to the EPA related to PCB contamination of the Grasse River, adjacent to Alcoa's Massena, NY plant site. The range of costs associated with the remedial alternatives evaluated in the 2002 report is between $2 and $525. Alcoa believes that rational, scientific analysis supports a remedy involving the containment of sediments in place via natural or man-made processes. Based on an assessment of the EPA decision-making process at the end of 2002, Alcoa concluded that the selection of the $2 alternative, based on natural recovery only, was remote. In June 2003, based on river observations during the spring of 2003, the EPA requested that Alcoa gather additional field data to assess the potential for sediment erosion from winter river ice formation and breakup. Alcoa has collected a significant portion of the additional data and is in the process of data analysis and determining how this phenomenon should be factored into the range of remedial alternatives being considered. It is anticipated that a report of findings will be issued to the EPA in the second quarter of 2004. Subsequent to this submittal, a revised Analysis of Alternatives Report will be submitted at a date to be determined.

Alcoa continues to believe that alternatives involving the largest amounts of sediment removal should not be selected for the Grasse River remedy. Therefore, Alcoa believes that the alternatives that should reasonably be considered for selection range from engineered capping and natural recovery of $30 to a combination of moderate dredging, capping, and natural recovery of $90. Accordingly, Alcoa adjusted the reserve for the Grasse River to $30 at the end of 2002, representing the low end of the range of possible alternatives, as no one of the alternatives is more likely to be selected than any other.

The EPA's ultimate selection of a remedy could result in additional liability. However, as the process continues, it allows for input that can influence the scope and cost of the remedy that will be selected by the EPA in its issuance of the formal Record of Decision (ROD). Alcoa may be required to record a subsequent reserve adjustment at the time the ROD is issued.

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

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

Alcoa's remediation reserve balance at the end of 2003 was $395, of which $65 was classified as a current liability, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. Of the 2003 reserve balance, approximately 31% relates to the Massena, NY and Sherwin, TX plant sites. Remediation expenses charged to the reserve were $32 in 2003, $50 in 2002, and $72 in 2001. These include expenditures currently mandated, as well as those not required by any regulatory authority or third party. In 2003, the reserve balance was reduced by approximately $9, primarily for adjustments based on recent assessments of remaining work required at certain sites.

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

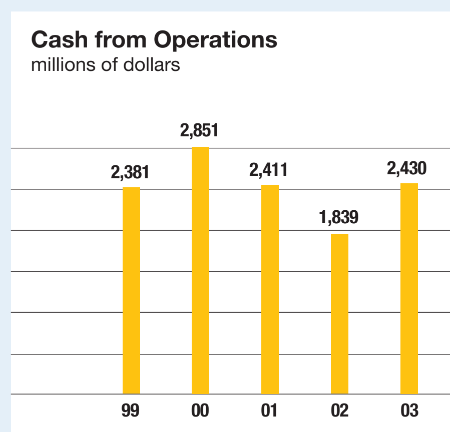
Liquidity and Capital Resources

Alcoa takes a disciplined approach to cash management and strengthening its balance sheet, as it undertook aggressive capital controls, management of working capital, and continued focus on its divestiture plan in 2003. These actions helped the company to retire more than $1,000 of debt during the year. Disciplined capital spending resulted in a 32% reduction in capital expenditures in 2003 compared with 2002. Stronger earnings during 2003, as well as proceeds from an advance payment against a long-term aluminum supply contract contributed to a 32% increase in cash from operations in 2003 compared with 2002. These increases, as well as progress on the divestiture program with the sales of the Latin America PET business and Alcoa's equity interest in Latasa in 2003, facilitated payments of debt, which aided in a reduction in the debt-to-capital ratio from 43.1% in 2002 to 35.1% in 2003.

Cash provided from operations and from the divestiture plan is anticipated to be adequate to cover dividends, debt repayments, capital expenditures, and other business needs over the next 12 months.

Cash from Operations

Cash from operations was $2,430 in 2003 compared with $1,839 in 2002. The increase of $591, or 32%, was primarily due to higher earnings after adjustments for noncash items, as well as proceeds of $440 from an advance payment against a long-term aluminum supply contract. Partially offsetting these increases were higher working capital requirements, primarily attributed to an increase in accounts receivable due to higher sales. Cash from operations of $1,839 in 2002 decreased $572, or 24%, compared with $2,411 in 2001. The decrease was primarily due to a decline in earnings. See the Results of Operations discussion for further details.



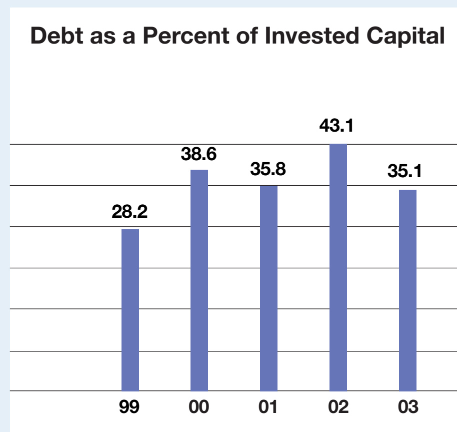
Financing Activities

Cash used for financing activities was $1,713 in 2003 compared with cash provided from financing activities of $593 in 2002, resulting in a change of $2,306, primarily due to borrowing activities. Net cash used to pay down short-term borrowings, commercial paper, and long-term debt was $1,088 in 2003 compared with net cash provided from borrowing activities of $1,468 in 2002, primarily used to fund the acquisitions of Ivex and Fairchild. In August 2002, Alcoa issued $1,400 of notes. Of these notes, $800 mature in 2007 and carry a coupon rate of 4.25%, and $600 mature in 2013 and carry a coupon rate of 5.375%.

Cash used for financing activities was $3,127 in 2001. Net cash used to pay down short-term borrowings, commercial paper, and long-term debt was $1,458 in 2001. Cash used to pay down debt was provided from proceeds from the sales of operations required to be divested from the Reynolds merger and from the sale of Thiokol. In addition, $1,452 was used for common stock repurchases.

During 2003, Standard and Poor's Rating Services lowered its long-term debt rating of Alcoa to A– from A and its short-term rating to A-2 from A-1 due to, among other things, unfunded postretirement benefit obligations. Moody's Investors Service long-term debt rating of Alcoa and its rated subsidiaries is A2 and its short-term debt rating of Alcoa is Prime–1.

Alcoa maintains $4,000 of revolving-credit facilities with varying expiration dates as backup to its commercial paper program. In April 2003, Alcoa refinanced its $2,000 revolving-credit agreement that expired in April 2003 into a $2,000 revolving-credit agreement that expires in April 2004. Additionally, Alcoa refinanced its $1,000 revolving-credit agreement that expired in August 2003 into a $1,000 revolving-credit agreement that expires in April 2008. Alcoa also has a $1,000 revolving-credit facility that expires in April 2005. Alcoa intends to refinance the April 2004 facility in April 2004. Debt of $523, primarily consisting of floating-rate notes of $467, will mature in 2004.



Investing Activities

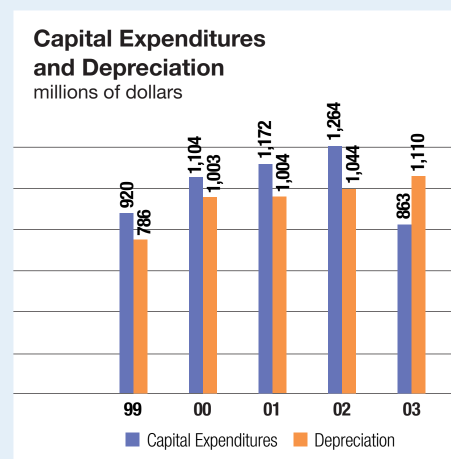
Cash used for investing activities was $523 in 2003 compared with $2,544 in 2002, resulting in a change of $2,021. The decrease in cash used in 2003 was primarily due to disciplined capital spending, which drove a reduction of $403 in capital expenditures. Cash proceeds from sales of assets and investments was $166 higher in 2003, primarily due to progress on the company's divestiture plan with the sales of the PET business and Latasa. Additionally, acquisitions used $1,244 more cash in 2002 compared with 2003 as a result of the acquisitons of Ivex and Fairchild.

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

Capital expenditures totaled $867 in 2003 compared with $1,270 and $1,177 in 2002 and 2001, respectively. Of the total capital expenditures in 2003, approximately 26% related to growth projects, including alumina refinery expansions in Suriname, Jamaica, and Australia, as well as detailed design work on a smelter in Iceland. Also included are costs of new and expanded facilities for environmental control in ongoing operations totaling $37 in 2003, $115 in 2002, and $80 in 2001. Capital expenditures related to environmental control are anticipated to be approximately $94 in 2004. Total capital expenditures are anticipated to be approximately $1,400 in 2004.

Alcoa added $11, $112, and $270 to its investments in 2003, 2002, and 2001, respectively. Cash paid for investments of $112 in 2002 was primarily due to the purchase of additional shares in the Norwegian metals producer, Elkem. Cash paid for investments of $270 in 2001 was primarily due to Alcoa's purchase of an 8% interest in Aluminum Corporation of China (Chalco) for approximately $150, as part of a strategic alliance to form a 50/50 joint venture at Chalco's facility in Pingguo, China, as well as an increased stake in Elkem. In January of 2004, Alcoa paid $32 to acquire approximately 44 million additional shares of Chalco to maintain its 8% ownership interest.

For a discussion of long-term liquidity, see the disclosure included in Contractual Obligations and Off-Balance Sheet Arrangements that follows.



Critical Accounting Policies and Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make judgments, estimates, and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Areas that require significant judgments, estimates, and assumptions include the accounting for derivatives, environmental matters, the testing of goodwill and other intangible assets for impairment, estimated proceeds on businesses to be divested, pensions and other postretirement benefits, and tax matters. Management uses historical experience and all available information to make these judgments and estimates, and actual results will inevitably differ from those estimates and assumptions that are used to prepare the company's financial statements at any given time. Despite these inherent limitations, management believes that Management's Discussion and Analysis of Financial Condition

and Results of Operations (MD&A) and the financial statements and related footnotes provide a meaningful and fair perspective of the company. A discussion of the judgments and uncertainties associated with accounting for derivatives and environmental matters can be found in the Market Risks and Environmental Matters sections of MD&A.

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

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

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

Other areas of significant judgments and estimates include the liabilities and expenses for pensions and other postretirement benefits. These amounts are determined using actuarial methodologies and incorporate significant assumptions, including the rate used to discount the future estimated liability, the long-term rate of return on plan assets, and several assumptions relating to the employee workforce (salary increases, medical costs, retirement age, and mortality). The rate used to discount future estimated liabilities is determined considering the rates available at year-end on debt instruments that could be used to settle the obligations of the plan. The impact on the liabilities of a change in the discount rate of ¼ of 1% is approximately $335 and a change of $14 to after-tax earnings in the following year. The long-term rate of return is estimated by considering historical returns and expected returns on current and projected asset allocations and is generally applied to a five-year average market value of assets. A change in the assumption for the long-term rate of return on plan assets of ¼ of 1% would impact after-tax earnings by approximately $12 for 2004.

In 2002, the declines in equity markets and interest rates had a negative impact on Alcoa's pension plan liability and fair value of plan assets. As a result, the accumulated benefit obligation exceeded the fair value of plan assets at the end of 2002, which resulted in a net charge of $851 to shareholders' equity. In 2003, a net charge of $39 was recorded in shareholders' equity as strong asset returns of 19.75% almost entirely offset higher accumulated benefit obligations resulting from a 50 basis point decline in the discount rate.

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

Related Party Transactions

Alcoa buys products from and sells products to various related companies, consisting of entities in which Alcoa retains a 50% or less equity interest, at negotiated prices between the two parties. These transactions were not material to the financial position or results of operations of Alcoa at December 31, 2003.

Recently Issued and Adopted Accounting Standards

Effective December 31, 2003, Alcoa adopted SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits – an amendment of FASB Statements No. 87, 88, and 106." This standard requires additional disclosures about an employer's pension plans and postretirement benefit plans such as: the types of plan assets, investment strategy, measurement date, plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. See Note V to the Consolidated Financial Statements for the required additional disclosures.

Effective December 31, 2003, Alcoa adopted Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities – an Interpretation of ARB 51." Interpretation No. 46 addresses consolidation and disclosure by business enterprises of variable interest entities. This standard has no impact on Alcoa's financial statements.

Contractual Obligations and Off-Balance Sheet Arrangements

The company is obligated to make future payments under various contracts such as long-term purchase obligations, debt agreements, lease agreements, and unconditional purchase obligations and has certain contingent commitments such as debt guarantees. The company has grouped these contractual obligations and off-balance sheet arrangements into operating activities, financing activities, and investing activities in the same manner as they are classified in the Statement of Consolidated Cash Flows in order to provide a better understanding of the nature of the obligations and arrangements and to provide a basis for comparison to historical information. The table below provides a summary of contractual obligations and off-balance sheet arrangements as of December 31, 2003:

Contractual obligations	Total	2004	2005 – 2006	2007 – 2008	Thereafter
Operating activities:					
Unconditional purchase obligations	$4,052	$ 565	$ 872	$ 555	$2,060
Long-term purchase obligations	3,840	300	322	234	2,984
Operating leases [1]	1,037	180	279	186	392
Estimated pension funding	[2]	100	250	1,100	[2]
Postretirement benefit payments	[2]	360	800	875	[2]
Layoff and impairment payments [3]	101	51	50	—	—
Deferred revenue arrangements	746	135	219	168	224
Financing activities:					
Long-term debt [4]	7,215	523	1,382	1,078	4,232
Dividends to shareholders [5]					
Investing activities:					
Capital projects [6]	3,950	600	1,350	1,100	900
Other:					
Standby letters of credit [7]	258	253	3	—	2
Guarantees [7]	127	—	9	12	106
Total contractual obligations		$3,067	$5,536	$5,308	

[1] See Note T to the Consolidated Financial Statements for further details on operating leases.
[2] Annual payments and funding are expected to continue into the foreseeable future at the amounts or ranges noted in the discussion below.
[3] See Note D to the Consolidated Financial Statements for further details on layoff and impairment payments.
[4] See Note K to the Consolidated Financial Statements for further details on long-term debt.
[5] See discussion below under Obligations for Financing Activities.
[6] See discussion below under Obligations for Investing Activities.
[7] See Note M to the Consolidated Financial Statements for further details on standby letters of credit and guarantees.

Obligations for Operating Activities

The table above provides a summary of the type or nature of the company's obligations associated with operating activities that exceed $5 annually or $10 in total over the contract life. Unconditional purchase obligations represent long-term contracts that require the purchase of electricity, natural gas, or other utilities. Long-term purchase obligations are principally for raw materials and utilities. A majority of the raw material purchase obligations will be completed in 12 to 24 months. Purchase obligations for utilities are generally longer term in nature, with expiration dates ranging from 12 months to 17 years. Operating leases represent multi-year obligations for rental of facilities and equipment.

Estimated pension funding and postretirement benefit payments are based on actuarial estimates using current assumptions for discount rates, expected return on long-term assets, rate of compensation increases, and health care cost trend rates. Cash outlays for pension funding are estimated to be $100 for 2004 and 2005 and $150 in 2006. In 2007 and 2008, pension funding requirements are estimated to range between $500 to $600 in each year as prior pension funding credits are projected to be fully used during 2006. Postretirement benefit payments are expected to range from $350 to $450 annually. See Note V to the Consolidated Financial Statements for additional information.

Deferred revenue arrangements require Alcoa to deliver aluminum and alumina over the specified contract period. While these obligations are not expected to result in cash payments, they represent contractual obligations for which the company would be obligated if the specified product deliveries could not be made.

Obligations for Financing Activities

Cash outlays for financing activities consist primarily of long-term debt repayments and dividend payments to shareholders. The company has historically paid quarterly dividends to shareholders. Shareholder dividends are subject to quarterly approval by the company's Board of Directors and are currently at a rate of $515 annually.

Obligations for Investing Activities

The company typically spends approximately $1,000 – $1,400 annually for capital expenditures, primarily related to facility expansion, health and safety, and environmental control. Alcoa expects annual capital expenditures in the future will be within this range.

In 2003 and 2002, Alcoa made announcements indicating its intention to participate in several significant expansion projects. These projects include the expansion of alumina refineries at Pinjarra, Australia and Suriname, South America; the construction of a smelter in Iceland; the investment in and future expansion of a smelter in Bahrain, as well as a smelter joint venture project in China; the expansion and upgrade of smelters in Canada; the investment in several hydroelectric power construction projects in Brazil; and the development of a lignite mine in Texas to fuel the adjacent power plant and smelter. These projects are in various stages of development and, depending on business and/or regulatory circumstances, may not be completed. The total anticipated costs of these projects, if all were completed, is approximately $4,000 and will require funding over a number of years through 2010. The amounts included in the table above for capital projects represent the amounts which have been approved by management for these projects as of December 31, 2003. Funding levels vary in future years based on anticipated construction schedules of the projects.

It is anticipated that significant expansion projects will be funded through various sources, including cash provided from operations, proceeds from the divestitures of certain businesses, borrowing activities, and other structured financing activities such as project financing. In addition, Alcoa also announced its intention to evaluate other investments that may result in material financing requirements if ultimately committed. Alcoa anticipates that financing required to execute all of these investments will be readily available to it over the time frame required.

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

Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

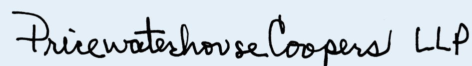
The Section 302 certifications of the Chief Executive Officer and the Chief Financial Officer of Alcoa have been filed as Exhibits 31 and 32, respectively, in Alcoa's Form 10-K for the fiscal year ended December 31, 2003.

Report of Independent Auditors

To the Shareholders and Board of Directors of Alcoa Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Alcoa Inc. and its subsidiaries (Alcoa) at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Alcoa's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note C to the consolidated financial statements, Alcoa changed its method of accounting for asset retirement obligations in 2003. As discussed in Notes A and E to the consolidated financial statements, Alcoa changed its method of accounting for long-lived asset impairments and goodwill and other intangibles in 2002.



Pittsburgh, Pennsylvania
January 8, 2004

Statement of Consolidated Income

(in millions, except per-share amounts)

For the year ended December 31	2003	2002	2001
Sales (A and P)	$21,504	$20,351	$22,576
Cost of goods sold	17,138	16,327	17,611
Selling, general administrative, and other expenses	1,295	1,157	1,264
Research and development expenses	194	214	203
Provision for depreciation, depletion, and amortization (A and E)	1,194	1,111	1,237
Impairment of goodwill (E)	—	44	—
Special items (D)	(26)	425	566
Interest expense (U)	314	350	371
Other income, net (N)	(274)	(179)	(309)
	19,835	19,449	20,943
Income from continuing operations before taxes on income	1,669	902	1,633
Provision for taxes on income (S)	404	291	521
Income from continuing operations before minority interests' share	1,265	611	1,112
Less: Minority interests' share	231	135	208
Income from continuing operations	1,034	476	904
(Loss) income from discontinued operations (B)	(49)	(90)	4
Cumulative effect of accounting change (C and E)	(47)	34	—
Net Income	$ 938	$ 420	$ 908
Earnings (loss) per Share (R)			
Basic:			
Income from continuing operations	$ 1.21	$ .56	$ 1.05
(Loss) income from discontinued operations	(.06)	(.11)	.01
Cumulative effect of accounting change	(.06)	.04	—
Net income	$ 1.09	$ .49	$ 1.06
Diluted:			
Income from continuing operations	$ 1.20	$ .56	$ 1.04
(Loss) income from discontinued operations	(.06)	(.11)	.01
Cumulative effect of accounting change	(.06)	.04	—
Net income	$ 1.08	$ .49	$ 1.05

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

Consolidated Balance Sheet

(in millions)

December 31	2003	2002
Assets		
Current assets:		
Cash and cash equivalents (W)	$ 576	$ 344
Receivables from customers, less allowances: 2003–$105; 2002–$124	2,521	2,361
Other receivables	350	171
Inventories (G)	2,524	2,414
Deferred income taxes (S)	267	469
Prepaid expenses and other current assets	502	506
Total current assets	6,740	6,265
Properties, plants, and equipment, net (H)	12,557	12,110
Goodwill (E and F)	6,549	6,379
Other assets (I)	5,316	4,438
Assets held for sale (B)	549	618
Total Assets	$31,711	$29,810
Liabilities		
Current liabilities:		
Short-term borrowings (W)	$ 56	$ 39
Accounts payable, trade	1,976	1,621
Accrued compensation and retirement costs	948	936
Taxes, including taxes on income	703	814
Other current liabilities	878	966
Long-term debt due within one year (K and W)	523	83
Total current liabilities	5,084	4,459
Long-term debt, less amount due within one year (K and W)	6,692	8,366
Accrued postretirement benefits (V)	2,220	2,319
Other noncurrent liabilities and deferred credits (J)	3,389	2,867
Deferred income taxes (S)	804	520
Liabilities of operations held for sale (B)	107	59
Total liabilities	18,296	18,590
Minority Interests (L)	1,340	1,293
Commitments and Contingencies (M)		
Shareholders' Equity		
Preferred stock (Q)	55	55
Common stock (Q)	925	925
Additional capital	5,831	6,101
Retained earnings	7,850	7,428
Treasury stock, at cost	(2,017)	(2,828)
Accumulated other comprehensive loss	(569)	(1,754)
Total shareholders' equity	12,075	9,927
Total Liabilities and Equity	$31,711	$29,810

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

Statement of Consolidated Cash Flows

Alcoa and subsidiaries

(in millions)

For the year ended December 31	2003	2002	2001
Cash from Operations			
Net income	$ 938	$ 420	$ 908
Adjustments to reconcile net income to cash from operations:			
Depreciation, depletion, and amortization	1,202	1,119	1,250
Impairment of goodwill (E)	—	44	—
Change in deferred income taxes	128	(179)	(25)
Equity income, net of dividends	(94)	(40)	(56)
Noncash special items (D)	(26)	412	526
Gains from investing activities—sale of assets (N)	(37)	(52)	(114)
Provision for doubtful accounts	11	16	78
Loss (income) from discontinued operations (B)	49	90	(4)
Accounting changes (C and E)	47	(34)	—
Minority interests	231	135	208
Other	116	8	9
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:			
(Increase) reduction in receivables	(137)	373	526
Reduction (increase) in inventories	104	156	(4)
Reduction (increase) in prepaid expenses and other current assets	59	31	(71)
Reduction in accounts payable and accrued expenses	(150)	(263)	(438)
Reduction in taxes, including taxes on income	(263)	(219)	(29)
Cash received on long-term aluminum supply contract	440	—	—
Net change in noncurrent assets and liabilities	(246)	(234)	(439)
Reduction in net assets held for sale	54	128	67
Cash provided from continuing operations	2,426	1,911	2,392
Cash provided from (used for) discontinued operations	4	(72)	19
Cash from operations	2,430	1,839	2,411
Financing Activities			
Net changes to short-term borrowings	13	(382)	(2,570)
Common stock issued for stock compensation plans	98	55	552
Repurchase of common stock	—	(224)	(1,452)
Dividends paid to shareholders	(516)	(509)	(518)
Dividends paid to minority interests	(207)	(197)	(251)
Net change in commercial paper	(665)	445	(1,290)
Additions to long-term debt	387	1,636	3,343
Payments on long-term debt	(823)	(231)	(941)
Cash (used for) provided from financing activities	(1,713)	593	(3,127)
Investing Activities			
Capital expenditures	(863)	(1,264)	(1,172)
Capital expenditures of discontinued operations	(4)	(6)	(5)
Acquisitions, net of cash acquired (F and O)	(9)	(1,253)	(159)
Proceeds from the sale of assets	164	127	2,507
Additions to investments	(11)	(112)	(270)
Sale of investments (F)	129	—	—
Changes in short-term investments	19	(54)	41
Changes in minority interests	—	26	6
Other	52	(8)	(9)
Cash (used for) provided from investing activities	(523)	(2,544)	939
Effect of exchange rate changes on cash	38	(56)	(26)
Net change in cash and cash equivalents	232	(168)	197
Cash and cash equivalents at beginning of year	344	512	315
Cash and cash equivalents at end of year	$ 576	$ 344	$ 512

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

Statement of Shareholders' Equity

(in millions, except per-share amounts)

December 31	Comprehensive income	Preferred stock	Common stock	Additional capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total shareholders' equity
Balance at end of 2000		$56	$925	$5,927	$7,127	$(1,717)	$ (896)	$11,422
Comprehensive income — 2001:								
Net income — 2001	$ 908				908			908
Other comprehensive income (loss):								
Change in minimum pension liability, net of $27 tax benefit	(51)							
Unrealized translation adjustments	(241)							
Unrecognized gains/(losses) on derivatives, net of tax and minority interests of $124 (W):								
Cumulative effect of accounting change	(4)							
Net change from periodic revaluations	(175)							
Net amount reclassified to income	75							
Net unrecognized losses on derivatives	(104)						(396)	(396)
Comprehensive income	$ 512							
Cash dividends: Preferred @ $3.75 per share					(2)			(2)
Common @ $.60 per share					(516)			(516)
Treasury shares purchased						(1,452)		(1,452)
Stock issued: compensation plans				187		463		650
Balance at end of 2001		56	925	6,114†	7,517	(2,706)	(1,292)	10,614
Comprehensive loss — 2002:								
Net income — 2002	$ 420				420			420
Other comprehensive income (loss):								
Change in minimum pension liability, net of $421 tax benefit	(851)							
Unrealized translation adjustments	309							
Unrealized losses on available-for-sale securities, net of $13 tax benefit	(25)							
Unrecognized gains on derivatives, net of tax and minority interests of $(106) (W):								
Net change from periodic revaluations	60							
Net amount reclassified to income	45							
Net unrecognized gains on derivatives	105						(462)	(462)
Comprehensive loss	$ (42)							
Cash dividends: Preferred @ $3.75 per share					(2)			(2)
Common @ $.60 per share					(507)			(507)
Treasury shares purchased		(1)				(224)		(225)
Stock issued: compensation plans				(13)		102		89
Balance at end of 2002		55	925	6,101†	7,428	(2,828)	(1,754)	9,927
Comprehensive income — 2003:								
Net income — 2003	$ 938				938			938
Other comprehensive income (loss):								
Change in minimum pension liability, net of $21 tax benefit	(39)							
Unrealized translation adjustments	818							
Unrealized gains on available-for-sale securities, net of $183 tax expense (W)	340							
Unrecognized gains/(losses) on derivatives, net of tax and minority interests of $(53) (W):								
Net change from periodic revaluations	115							
Net amount reclassified to income	(49)							
Net unrecognized gains on derivatives	66							
Comprehensive income	$2,123						1,185	1,185
Cash dividends: Preferred @ $3.75 per share					(2)			(2)
Common @ $.60 per share					(514)			(514)
Stock issued: Alcoa Aluminio minority interest acquisition (F)				(193)		603		410
Stock issued: compensation plans				(77)		208		131
Balance at end of 2003		$55	$925	$5,831†	$7,850	$(2,017)	$ (569) *	$12,075

* Comprised of minimum pension liability of $(951), unrealized gains on available-for-sale securities of $315, and unrecognized gains/(losses) on derivatives of $67, net of tax

† Includes stock to be issued under options of $130 in 2003, $130 in 2002, and $138 in 2001.

Share Activity

(number of shares)

	Preferred stock	Common stock – Issued	Common stock – Treasury	Common stock – Net outstanding
Balance at end of 2000	557,649	924,574,538	(59,057,298)	865,517,240
Treasury shares purchased			(39,348,136)	(39,348,136)
Stock issued: compensation plans			21,412,772	21,412,772
Balance at end of 2001	557,649	924,574,538	(76,992,662)	847,581,876
Treasury shares purchased	(11,625)		(6,313,100)	(6,313,100)
Stock issued: compensation plans			3,550,686	3,550,686
Balance at end of 2002	546,024	924,574,538	(79,755,076)	844,819,462
Stock issued: Alcoa Aluminio minority interest acquisition (F)			17,773,541	17,773,541
Stock issued: compensation plans			5,897,683	5,897,683
Balance at end of 2003	546,024	924,574,538	(56,083,852)	868,490,686

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

Notes to the Consolidated Financial Statements

(dollars in millions, except per-share amounts)

A. Summary of Significant Accounting Policies

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

Principles of Consolidation. The Consolidated Financial Statements include the accounts of Alcoa and companies more than 50% owned. Intercompany transactions have been eliminated. Investments in other entities are accounted for principally on the equity basis.

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

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

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

Goodwill and Other Intangible Assets. Alcoa adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002. Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized. Prior to 2002, goodwill and indefinite-lived intangible assets were amortized over periods not exceeding 40 years. Intangible assets with finite useful lives are amortized generally on a straight-line basis over the periods benefited, with a weighted average useful life of ten years.

The carrying values of goodwill and other intangible assets with indefinite useful lives are tested at least annually for impairment. If the carrying value of goodwill or an intangible asset exceeds its fair value, an impairment loss is recognized. The evaluation of impairment involves comparing the current fair value of the business to the recorded value (including goodwill). The company uses a discounted cash flow model (DCF model) to determine the current fair value of the business. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market share, sales volumes and prices, costs to produce, and working capital changes. Management considers historical experience and all available information at the time the fair values of its businesses are estimated. However, actual fair values that could be realized in an actual transaction may differ from those used to evaluate the impairment of goodwill. See Note E for additional information.

Revenue Recognition. Alcoa recognizes revenue when title, ownership, and risk of loss pass to the customer, in accordance with the provisions of Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements."

Alcoa periodically enters into long-term supply contracts with alumina and aluminum customers and receives advance payments for product to be delivered in future periods. These advance payments are recorded as deferred revenue, and revenue is recognized as shipments are made and title, ownership, and risk of loss pass to the customer during the term of the contracts.

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

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

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

dates in accordance with SFAS Nos. 123 and 148, "Accounting for Stock-Based Compensation."

	2003	2002	2001
Net income, as reported	$ 938	$420	$ 908
Less: compensation cost determined under the fair value method, net of tax	30	113	178
Pro forma net income	$ 908	$307	$ 730
Basic earnings per share:			
As reported	$1.09	$ .49	$1.06
Pro forma	1.06	.36	.85
Diluted earnings per share:			
As reported	1.08	.49	1.05
Pro forma	1.06	.36	.84

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:

	2003	2002	2001
Average risk-free interest rate	2.2%	3.5%	3.8%
Expected dividend yield	2.5	2.1	1.6
Expected volatility	38	42	43
Expected life (years):			
New option grants	3.0	3.0	2.5
Reload option grants	2.5	2.5	2.0

The weighted average fair value per option granted was $5.75 in 2003, $9.96 in 2002, and $9.54 in 2001. See Note Q for additional information.

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

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

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

Cash flows from financial instruments are recognized in the Statement of Consolidated Cash Flows in a manner consistent with the underlying transactions. See Notes K and W for additional information.

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

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

Discontinued Operations and Assets Held For Sale. Alcoa adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective January 1, 2002. This standard establishes accounting and reporting requirements for the impairment or disposal of long-lived assets. For those businesses where management has committed to a plan to divest, each business is valued at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. The fair values are estimated using accepted valuation techniques such as a DCF model, earnings multiples, or indicative bids, when available. A number of significant estimates and assumptions are involved in the application of these techniques, including the forecasting of markets and market share, sales volumes and prices, costs and expenses, and multiple other factors. Management considers historical experience and all available information at the time the estimates are made; however, the fair values that are ultimately realized upon the sale of the businesses to be divested may differ from the estimated fair values reflected in the financial statements.

Businesses to be divested are classified in the Consolidated Financial Statements as either discontinued operations or assets held for sale. For businesses classified as discontinued operations, the balance sheet amounts and income statement results are reclassified from their historical presentation to assets and liabilities of operations held for sale on the Consolidated Balance Sheet and to discontinued operations in the Statement of Consolidated Income for all periods presented. Additionally, segment information does not include the results of businesses classified as discontinued operations. Management does not expect any continuing involvement with these businesses following the sales.

For businesses classified as assets held for sale, the balance sheet amounts are reclassified from their historical presentation to assets and liabilities of operations held for sale. The income statement results continue to be reported in the historical income statement categories as income from continuing operations. The segment results include the results of businesses classified as assets held for sale for all periods presented. Management expects that Alcoa will have continuing involvement with these businesses following the sale, primarily in the form of ongoing aluminum or other significant supply contracts.

Recently Issued and Adopted Accounting Standards. Effective December 31, 2003, Alcoa adopted SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Post-retirement Benefits – an amendment of FASB Statements No. 87, 88, and 106." This standard requires additional disclosures about an employer's pension plans and postretirement benefit plans such as: the types of plan assets, investment strategy, measurement date, plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. See Note V for additional information.

Effective December 31, 2003, Alcoa adopted Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities – an Interpretation of ARB 51." Interpretation No. 46 addresses consolidation and disclosure by business enterprises of variable interest entities. This standard has no impact on Alcoa's financial statements.

Reclassification. Certain amounts in previously issued financial statements were reclassified to conform to 2003 presentations. See Note B for further information.

B. Discontinued Operations and Assets Held for Sale

Alcoa's financial statements in both 2003 and 2002 were significantly impacted by activities relating to the planned divestiture of a number of Alcoa's businesses.

During the fourth quarter of 2002, Alcoa performed a portfolio review of its businesses and the markets they serve. As a result of this review, Alcoa committed to a plan to divest certain noncore businesses that did not meet internal growth and return measures. In accordance with the accounting requirements, these businesses are classified as either discontinued operations or assets held for sale. See Note A for further information on these classifications.

At the end of 2003, businesses classified as discontinued operations included Alcoa's commodity automotive fasteners business, a packaging business in South America, and Alcoa's packaging equipment business, which are expected to be sold by mid-2004.

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

	2003	2002	2001
Sales	$224	$ 268	$283
(Loss) income from operations	(6)	(48)	8
Loss from impairment	(69)	(91)	—
Pretax (loss) income	(75)	(139)	8
Benefit (provision) for taxes	26	49	(4)
(Loss) income from discontinued operations	$ (49)	$ (90)	$ 4

At the end of 2003, businesses classified as assets held for sale included Alcoa's specialty chemicals business, certain architectural products businesses in North America, an extrusion facility in Europe, certain extrusion facilities in Latin America, and foil facilities in St. Louis, MO and Russellville, AR. These businesses are expected to be sold by mid-2004.

During 2003, there were a number of changes in the classification of businesses to be divested:

- In the third quarter of 2003, the protective packaging business, a part of the Ivex Packaging Corporation (Ivex) acquisition, was reclassified from discontinued operations to assets held and used as management discontinued the plan of sale due to market conditions. The results of operations of the protective packaging business have been reclassified and are included in income from continuing operations and in the Packaging and Consumer segment results beginning in July 2002 (date of the Ivex acquisition).
- In the fourth quarter of 2003, the Magnolia, AR and Plant City, FL fabricating businesses were reclassified from discontinued operations to assets held and used as management discontinued the plan of sale due to market conditions. The results of operations and $18 of losses (reflected in Special Items) in 2002 associated with adjustments to estimated fair values were reclassified to income from continuing operations. The results of operations, excluding the adjustments reflected in Special Items, are included in the Engineered Products segment.
- In the fourth quarter of 2003, Alcoa's packaging equipment business was reclassified from assets held and used to discontinued operations. The sale of this business was completed in January of 2004. The results of operations of this business are reported as discontinued operations in the Statement of Consolidated Income for all periods presented. Packaging and Consumer segment results do not include the results of operations of the packaging equipment business.
- In the fourth quarter of 2003, the specialty chemicals business was reclassified from assets held and used to assets held for sale. The sale of the specialty chemicals business is expected to close in the first quarter of 2004. The change in classification did not impact the Statement of Consolidated Income, and the results of the specialty chemicals business are included in the Alumina and Chemicals segment results.

The Statement of Consolidated Income in 2003 reflects charges of $45 (after tax) in discontinued operations related to a reduction in the estimated fair value of the automotive fastener business and $33 of net favorable adjustments in Special Items related to businesses classified as assets held for sale. The 2003 activity on assets held for sale, including income of $53 and losses of $20, is primarily comprised of:

- Reversal of estimated loss and recognition of a gain in the second and fourth quarters of 2003 on the sale of the Latin America PET business; and
- Recognition of losses in the second and fourth quarters of 2003 related to reductions in the estimated fair values of businesses included in assets held for sale.

The Statement of Consolidated Income in 2002 reflects charges of $232 in special items related to businesses classified as assets held for sale and charges of $59 (after tax) included in discontinued operations related to unfavorable adjustments to the estimated fair values on businesses to be divested.

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

December 31	2003	2002
Assets:		
Receivables	$153	$166
Inventories	142	155
Properties, plants, and equipment, net	208	263
Goodwill	—	—
Other assets	46	34
Total assets held for sale	$549	$618
Liabilities:		
Accounts payable and accrued expenses	$ 28	$ 27
Other liabilities	79	32
Total liabilities of operations held for sale	$107	$ 59

For all of the businesses to be divested, the fair values were estimated utilizing accepted valuation techniques. The fair values that are ultimately realized upon the sale of the businesses to be divested may differ from the estimated fair values reflected in the financial statements.

C. Asset Retirement Obligations

Effective January 1, 2003, Alcoa adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." Under this standard, Alcoa recognized additional liabilities, at fair value, of approximately $136 at January 1, 2003, for asset retirement obligations (AROs), consisting primarily of costs associated with spent pot lining disposal, bauxite residue disposal, mine reclamation and landfills. These costs reflect the legal obligations associated with the normal operation of Alcoa's bauxite mining, alumina refining, and aluminum smelting facilities. Alcoa had previously recorded liabilities for certain of these costs. Additionally, Alcoa capitalized asset retirement costs by increasing the carrying amount of related long-lived assets, primarily machinery and equipment, and recorded associated accumulated depreciation from the time the original assets were placed into service. At January 1, 2003, Alcoa increased the following: net properties, plants, and equipment by $74, net deferred tax assets by $22, liabilities by $136 as noted above, and minority interests by $7.

The cumulative effect adjustment recognized upon adoption of this standard was $47, consisting primarily of costs to establish assets and liabilities related to spent pot lining disposal for pots currently in operation. Net income for the full year of 2002 would not have been materially different if this standard had been adopted effective January 1, 2002.

The changes in the carrying amount of AROs for the year ended December 31, 2003, and the pro forma impact for the year ended December 31, 2002, as if this standard had been adopted effective January 1, 2002, follow.

December 31	2003	(Pro forma) 2002
Balance at beginning of year	$224	$214
Accretion expense	16	12
Payments	(27)	(27)
Liabilities incurred	8	22
Translation and other	(4)	3
Balance at end of year	$217	$224

In addition to the AROs discussed above, Alcoa may have other obligations in the event of a permanent plant shutdown. However, these plant assets have indeterminate lives and, therefore, the associated AROs are not reasonably estimable and liabilities cannot be established.

D. Special Items

During 2003, Alcoa recorded income of $26 ($25 after tax and minority interests) for special items. The income recognized was comprised of the following components: $45 of charges recognized in 2003 for employee termination and severance costs associated with approximately 1,600 hourly and salaried employees (located primarily in Europe, the U.S., and Brazil), as the company continued to focus on cost reductions in businesses that continued to be impacted by market declines; $20 of charges recognized in 2003 related to a reduction in the estimated fair values of businesses included in assets held for sale; and $91 of income comprised of $53 primarily associated with the reversal of an estimated loss and recognition of a gain on the sale of the Latin America PET business in 2003, and $38 resulting from adjustments to prior year employee termination and severance cost reserves (in conjunction with the $38 reserve adjustment, there was a change in the number of employees to be terminated under the 2002 restructuring program from 8,500 to 6,700 employees).

As of December 31, 2003, approximately 1,100 of the 1,600 employees associated with the 2003 restructuring charges had been terminated, and approximately $20 of cash payments was made against the reserves.

During 2002, Alcoa recorded special items of $425 ($280 after tax and minority interests) for restructurings associated with the curtailment of aluminum production at three smelters, as well as restructuring operations for those businesses experiencing negligible growth due to continued market declines and the decision to divest certain businesses that have failed to meet internal growth and return measures.

The 2002 charges were comprised of $296 for asset write-downs, consisting of $113 of goodwill on businesses to be divested, as well as $183 for structures, machinery, and equipment; $105 for employee termination and severance costs related to approximately 6,700 salaried and hourly employees at over 70 locations, primarily in Mexico, Europe, and the U.S.; and charges of $31 for exit costs, primarily for remediation and demolition costs, as well as lease termination costs.

As part of the 2002 restructuring program, Alcoa temporarily curtailed aluminum production at its Badin, NC plant and permanently closed its Troutdale, OR plant as well as approximately 25% of the capacity at its Rockdale, TX facility. Alcoa recognized a restructuring charge of $39 associated with these curtailments. The remaining carrying value and results of operations related to these facilities were not material. The restructuring of operations of businesses serving the aerospace, automotive, and industrial gas turbine markets, and in the U.S. smelting system resulted in a charge of $154. The remaining $232 of special items was related to losses recognized on assets held for sale, as detailed in Note B.

As of December 31, 2003, approximately 6,400 of the 6,700 employees associated with the 2002 restructuring charges had been terminated. Alcoa expects to complete substantially all actions relative to the restructuring charges by the end of 2004.

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

During 2001, Alcoa recorded charges of $566 ($355 after tax and minority interests) as a result of a restructuring plan based on a strategic review of the company's primary products and fabricating businesses aimed at optimizing and aligning its manufacturing systems with customer needs, while positioning the company for stronger profitability. These charges consisted of costs associated with the shutdown of 18 facilities in the U.S. and Europe and were comprised of asset write-downs of $372, employee termination and severance costs of $178 related to workforce reductions of approximately 10,400 hourly and salaried employees, primarily located outside of the U.S., and other exit costs of $16 related to the shutdown of facilities.

As of December 31, 2003, the 2001 restructuring program was substantially complete, with the exception of approximately $60 in reserves for ongoing site remediation work and employee layoff costs that consist of monthly payments being made over an extended period of time.

Activity and reserve balances related to special items in 2001, 2002, and 2003 are as follows:

	Asset write-downs	Employee termination and severance costs	Other	Total
2001:				
2001 restructuring charges	$ 372	$ 178	$ 16	$ 566
Cash payments	(3)	(32)	(5)	(40)
Noncash charges	(288)	—	—	(288)
Reserve balances at December 31, 2001	81	146	11	238
2002:				
Cash payments	(17)	(74)	(13)	(104)
2002 restructuring charges	296	105	31	432
Noncash charges in 2002	(296)	—	—	(296)
Additions to 2001 restructuring charges	9	9	—	18
Reversals of 2001 restructuring reserves	(10)	(20)	(2)	(32)
Reserve balances at December 31, 2002	63	166	27	256
2003:				
Cash payments	(16)	(120)	(17)	(153)
2003 restructuring charges	—	45	—	45
Additions to 2002 restructuring charges	20	—	—	20
Reversals of 2002 restructuring charges	(53)	(38)	—	(91)
Noncash additions/ reversals to the reserves in 2003	24	—	—	24
Reserve balances at December 31, 2003	$ 38	$ 53	$ 10	$ 101

E. Goodwill and Other Intangible Assets

The following table details the changes in the carrying amount of goodwill.

December 31	2003	2002
Balance at beginning of year	$6,379	$5,604
Intangible assets reclassified to goodwill	—	28
Impairment loss recognized in cumulative effect adjustment	—	(15)
Additions during the period	84	765
Impairment loss	—	(44)
Translation and other adjustments	86	41
Balance at end of year	$6,549	$6,379

Goodwill increased $84 during 2003 primarily due to the acquisition of the remaining 40.9% interest in Alcoa Aluminio (see Note F), as well as adjustments to preliminary purchase price allocations from prior periods. The impact to the segments follows: Alumina and Chemicals $13, Primary Metals $27, Flat-Rolled Products $8, Engineered Products $40, and the Other group $(8). The impact to corporate was $4.

During 2002, in accordance with the provisions of SFAS No. 141, "Business Combinations," Alcoa transferred $28 of customer base intangibles, initially recorded in the Reynolds acquisition, to goodwill (Packaging and Consumer segment). Upon adoption of SFAS No. 142

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

Intangible assets, which are included in other assets on the Consolidated Balance Sheet, totaled $812, net of accumulated amortization of $363, at December 31, 2003, and $742, net of accumulated amortization of $349, at December 31, 2002. At December 31, 2003 and 2002, $192 of the net balance of intangibles represents trade name intangibles with indefinite useful lives that are not being amortized. The remaining intangibles relate to customer relationships, computer software, patents, and licenses. Amortization expense for intangible assets for the years ended December 31, 2003, 2002, and 2001 was $84, $67, and $68, respectively. Amortization expense is expected to range from approximately $85 to $70 each year between 2004 and 2008. The increase in intangibles and amortization expense in 2003 is primarily due to the implementation of an enterprise business solution within Alcoa to drive common systems among all businesses.

The effects of adopting SFAS Nos. 141 and 142 on net income and diluted earnings per share for the years ended December 31, 2003, 2002, and 2001 follow.

	2003	2002	2001
Net income	$ 938	$420	$ 908
Less: cumulative effect income from accounting change for goodwill	—	(34)	—
Income excluding cumulative effect	938	386	908
Add: goodwill amortization	—	—	171
Income excluding cumulative effect and goodwill amortization	$ 938	$386	$1,079
Diluted earnings per common share:			
Net income	$1.08	$ .49	$ 1.05
Less: cumulative effect income from accounting change for goodwill	—	(.04)	—
Income excluding cumulative effect	1.08	.45	1.05
Add: goodwill amortization	—	—	.20
Income excluding cumulative effect and goodwill amortization	$1.08	$ .45	$ 1.25

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

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

F. Acquisitions and Divestitures

In August of 2003, Alcoa acquired the remaining 40.9% shareholding in Alcoa Aluminio (Aluminio) held by Camargo Correa Group (Camargo Group) since 1984. Alcoa issued to the Camargo Group 17.8 million shares of Alcoa common stock, with a fair value of approximately $410, in exchange for the Camargo Group's holdings. The agreement also provides for contingent payments over the next five years based on the performance of the South American operations. The maximum amount of contingent payments is $235. The contingent payments will be reduced by appreciation on the Alcoa shares issued in the transaction, as specified in the agreement. The preliminary purchase price allocation resulted in goodwill of approximately $50. The final allocation of the purchase price will be based upon valuations.

In October of 2003, Alcoa expanded its aluminum alliance with Kobe Steel Ltd. (Kobe) in Japan on the joint development of aluminum products for the automotive market. As part of this arrangement and due to changes in the business environment, Alcoa and Kobe discontinued their association in three can sheet joint ventures: KAAL Australia, KAAL Japan, and KAAL Asia. Based on terms of the agreement, Alcoa acquired from Kobe the remaining 50% interest in KAAL Australia, as well as the remaining 20% interest in KAAL Asia. In turn, Kobe purchased a 47% interest in KAAL Japan from Alcoa. These transactions, which were recorded at fair value, resulted in net cash proceeds to Alcoa of $9 and recognition of a gain of $17. Also, Alcoa and Kobe amended an existing aluminum supply agreement related to the KAAL Japan operations, which resulted in an acceleration of the delivery term of the agreement to two years.

In October of 2003, Alcoa completed the sale of its Latin America PET business to Amcor PET Packaging for $75, subject to working capital adjustments. Alcoa also sold investments for approximately $129, comprised primarily of its interest in Latasa, a Latin America aluminum can business.

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

The Ivex transaction was valued at approximately $790, including debt assumed of $320, and the purchase price allocation resulted in goodwill of approximately $470. Ivex is part of Alcoa's Packaging and Consumer segment. Alcoa paid $650 in cash for Fairchild, and the purchase price allocation resulted in goodwill of approximately $330. Fairchild is part of the Engineered Products segment. Pro forma results of the company, assuming all acquisitions had been made at the beginning of each period presented, would not have been materially different from the results reported.

In connection with certain acquisitions made during 2002, Alcoa could be required to make additional payments of approximately $90 from 2004 through 2006 based upon the achievement of various financial and operating targets.

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

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

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

In April of 2001, Alcoa completed the sale of Thiokol Propulsion (Thiokol), a business acquired in the Cordant Technologies, Inc. transaction, to Alliant Techsystems Inc. for net proceeds of $698 in cash, which included a working capital adjustment, and recognized a $55 pretax gain that was included in other income.

G. Inventories

December 31	2003	2002
Finished goods	$ 742	$ 735
Work in process	788	743
Bauxite and alumina	337	330
Purchased raw materials	448	431
Operating supplies	209	175
	$2,524	$2,414

Approximately 46% of total inventories at December 31, 2003 were valued on a LIFO basis. If valued on an average-cost basis, total inventories would have been $558 and $514 higher at the end of 2003 and 2002, respectively. During 2002, LIFO inventory quantities were reduced, which resulted in a partial liquidation of the LIFO basis. The impact of this liquidation increased net income by $40 in 2002.

H. Properties, Plants, and Equipment, at Cost

December 31	2003	2002
Land and land rights, including mines	$ 445	$ 424
Structures	5,805	5,271
Machinery and equipment	17,489	15,927
	23,739	21,622
Less: accumulated depreciation and depletion	12,240	10,708
	11,499	10,914
Construction work in progress	1,058	1,196
	$12,557	$12,110

I. Other Assets

December 31	2003	2002
Equity investments	$1,347	$1,333
Other investments	659	145
Intangibles, net of accumulated amortization of $363 in 2003 and $349 in 2002	812	742
Deferred income taxes	1,343	1,013
Prepaid pension benefit	89	133
Deferred charges and other	1,066	1,072
	$5,316	$4,438

Other investments are primarily comprised of Alcoa's 8% interest in Aluminum Corporation of China (Chalco). The increase in 2003 is primarily due to unrealized appreciation in value of the Chalco investment which was recorded in accumulated other comprehensive income.

J. Other Noncurrent Liabilities and Deferred Credits

December 31	2003	2002
Deferred alumina sales revenue	$ 187	$ 195
Deferred aluminum sales revenue	384	104
Environmental remediation	330	368
Deferred credits	108	89
Accrued pension benefit liability	1,580	1,547
Other noncurrent liabilities	800	564
	$3,389	$2,867

In 2003, Alcoa received a partial advance payment of $440 (approximately $70 was classified as current) related to a long-term aluminum supply contract with a customer. Each month for a six-year period, the customer will purchase and Alcoa is required to deliver 7,500 tons of aluminum at market prices. Alcoa has deposited $7 into a cash collateral account to satisfy one month's delivery obligation under the aluminum supply contract.

K. Debt

December 31	2003	2002
Commercial paper, variable rate,		
(1.4% average rate)	$ —	$ 665
9% Bonds, due 2003	—	21
Floating-rate notes, due 2004		
(1.5% and 2.1% average rates)	467	500
6.125% Bonds, due 2005	200	200
7.25% Notes, due 2005	500	500
5.875% Notes, due 2006	500	500
4.25% Notes, due 2007	800	800
6.625% Notes, due 2008	150	150
7.375% Notes, due 2010	1,000	1,000
6.5% Notes, due 2011	1,000	1,000
6% Notes, due 2012	1,000	1,000
5.375% Notes, due 2013	600	600
6.5% Bonds, due 2018	250	250
6.75% Bonds, due 2028	300	300
Tax-exempt revenue bonds ranging from		
5.7% to 8.3%, due 2004–2031	49	323
Medium-term notes, due 2004–2013		
(7.6% and 7.9% average rates)	176	212
Alcoa Aluminio		
7.5% Export notes, due 2008	89	144
Fair value adjustments	104	244
Other	30	40
	7,215	8,449
Less: amount due within one year	523	83
	$6,692	$8,366

The amount of long-term debt maturing in each of the next five years is $523 in 2004, $798 in 2005, $584 in 2006, $871 in 2007, and $207 in 2008.

During 2003, Standard and Poor's Rating Services lowered its long-term debt rating of Alcoa to A– from A and its short-term rating to A-2 from A-1 due to, among other things, unfunded post-retirement benefit obligations. Moody's Investors Service long-term debt rating of Alcoa and its rated subsidiaries is A2 and its short-term debt rating of Alcoa is Prime–1.

In April 2003, Alcoa refinanced its $2,000 revolving-credit agreement that expired in April 2003 into a $2,000 revolving-credit agreement that expires in April 2004. Additionally, Alcoa refinanced its $1,000 revolving-credit agreement that expired in August 2003 into a $1,000 revolving-credit agreement that expires in April 2008. Alcoa also has a $1,000 revolving-credit facility that expires in April 2005. Under these agreements, a certain ratio of indebtedness to consolidated net worth must be maintained. Commercial paper of $665 at December 31, 2002 was classified as long-term debt because it was backed by the revolving-credit facility. There were no amounts outstanding under the revolving-credit facilities at December 31, 2003. The interest rate on these facilities, if drawn upon, is Libor plus 19 basis points, which is subject to adjustment if Alcoa's credit rating changes, to a maximum interest rate of Libor plus 40 basis points.

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

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

The fair value adjustments result from changes in the carrying amounts of certain fixed-rate borrowings that have been designated as being hedged. Of the $104 in 2003, $(75) relates to outstanding hedges and $179 relates to hedges on outstanding debt that were settled early. Of the $244 in 2002, $80 related to outstanding hedges and $164 related to hedges on outstanding debt that were settled early. These adjustments will be recognized as reductions of interest expense over the remaining maturity of the related hedged debt (through 2013). For additional information on interest rate swaps, see Note W.

L. Minority Interests

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

December 31	2003	2002
Alcoa of Australia	$ 676	$ 510
Alcoa Aluminio	—	124
Alcoa World Alumina LLC	208	208
Alcoa Fujikura Ltd.	297	269
Other majority-owned companies	159	182
	$1,340	$1,293

In 2003, Alcoa acquired the remaining 40.9% interest in Alcoa Aluminio from the Camargo Group. See Note F for further information.

M. Commitments and Contingencies

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

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

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

Completed projects	Date completed	Investment participation	Share of output	Debt guarantee	Debt guarantee through 2013
Machadinho	2002	27.23%	22.62%	35.53%	$106

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

Committed projects	Scheduled completion date	Share of output	Investment participation	Total estimated project costs	Aluminio's share of project costs	Performance bond guarantee
Barra Grande	2006	42.20%	42.20%	$471	$199	$ 5
Serra do Facão	2006	39.50%	39.50%	$223	$ 88	$ 4
Pai-Querê	2008	35.00%	35.00%	$273	$ 96	$ 2
Estreito	2009	19.08%	19.08%	$589	$112	$10

These projects were committed to during 2001 and 2002, and the Barra Grande project commenced construction in 2002. In the third quarter of 2003, approximately 20% of the long-term financing for the Barra Grande project was obtained, of which Aluminio guaranteed 42.20% based on its investment participation. The plans for financing the other projects have not yet been finalized. It is anticipated that a portion of the project costs will be financed with third parties. Aluminio may be required to provide guarantees of project financing or commit to additional investments as these projects progress.

During the second quarter of 2003, the participants in the Santa Isabel project formally requested the return of the performance bond related to the license to construct the hydroelectric project. This project has been terminated.

Aluminio accounts for the Machadinho and Barra Grande hydroelectric projects on the equity method. Its total investment was $136 and $88 at December 31, 2003 and 2002, respectively. There have been no significant investments made in any of the other projects.

Alcoa of Australia (AofA) is party to a number of natural gas and electricity contracts that expire between 2004 and 2020. Under these take-or-pay contracts, AofA is obligated to pay for a minimum amount of natural gas or electricity even if these commodities are not delivered. Commitments related to these contracts total $262 in 2004, $249 in 2005, $235 in 2006, $210 in 2007, $201 in 2008, and $2,018 thereafter. Expenditures under these contracts totaled $266 in 2003, $178 in 2002, and $179 in 2001.

Alcoa has standby letters of credit related to environmental, insurance, and other activities. The total amount committed under these letters of credit, which expire at various dates in 2004 through 2009, was $258 at December 31, 2003.

N. Other Income, Net

	2003	2002	2001
Equity income	$138	$ 72	$118
Interest income	38	46	61
Foreign currency translation losses	(81)	(30)	(11)
Gains on sales of assets	37	52	114
Other income	142	39	27
	$274	$179	$309

The changes in equity income for all years presented were primarily due to Alcoa's investment in Elkem. The gains on sales of assets in 2003 and 2002 were primarily associated with dispositions of office space and other smaller noncore business assets. The gains on sales of assets in 2001 were related to the sales of Thiokol, Alcoa Proppants, Inc., and Alcoa's interest in a Latin American cable business. The increase in other income in 2003 is primarily due to a $105 gain from insurance settlements of a series of historical environmental matters in the U.S. and an increase in the cash surrender value of employee life insurance.

O. Cash Flow Information

Cash payments for interest and income taxes follow.

	2003	2002	2001
Interest	$352	$329	$418
Income taxes	303	583	548

The details of cash payments related to acquisitions follow.

	2003	2002	2001
Fair value of assets acquired	$ 275	$1,944	$184
Liabilities assumed	(80)	(666)	(24)
Minority interests acquired	224	—	—
Stock issued	(410)	—	—
Cash paid	9	1,278	160
Less: cash acquired	—	25	1
Net cash paid for acquisitions	$ 9	$1,253	$159

P. Segment and Geographic Area Information

Alcoa is primarily a producer of aluminum products. Aluminum and alumina represent approximately two-thirds of Alcoa's revenues. Nonaluminum products include precision castings, industrial fasteners, vinyl siding, consumer products, food service and flexible packaging products, plastic closures, fiber-optic cables, and electrical distribution systems for cars and trucks. Alcoa's segments are organized by product on a worldwide basis. Alcoa's management reporting system evaluates performance based on a number of factors; however, the primary measure of performance is the after-tax operating income (ATOI) of each segment. Nonoperating items such as interest income, interest expense, foreign currency trans-

lation gains/losses, the effects of LIFO inventory accounting, minority interests, special items, discontinued operations, and accounting changes are excluded from segment ATOI. In addition, certain expenses, such as corporate general administrative expenses, and depreciation and amortization on corporate assets, are not included in segment ATOI. Segment assets exclude cash, cash equivalents, short-term investments, and all deferred taxes. Segment assets also exclude items such as corporate fixed assets, LIFO reserves, goodwill allocated to corporate, assets held for sale, and other amounts.

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

Alcoa's products are used worldwide in packaging, consumer products, transportation (including aerospace, automotive, truck trailer, rail and shipping), building and construction, and industrial applications. Total exports from the U.S. from continuing operations were $1,646 in 2003, $1,609 in 2002 and $2,050 in 2001.

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

Segment information	Alumina and Chemicals	Primary Metals	Flat-Rolled Products	Engineered Products	Packaging and Consumer	Other	Total
2003							
Sales:							
Third-party sales	$2,002	$3,229	$4,815	$5,589	$3,215	$2,654	$21,504
Intersegment sales	1,021	3,098	66	24	—	—	4,209
Total sales	$3,023	$6,327	$4,881	$5,613	$3,215	$2,654	$25,713
Profit and loss:							
Equity income (loss)	$ —	$ 55	$ (1)	$ —	$ 10	$ 3	$ 67
Depreciation, depletion, and amortization	147	310	192	235	146	90	1,120
Income taxes	161	256	70	60	109	32	688
ATOI	415	657	221	155	214	51	1,713
Assets:							
Capital expenditures	$ 173	$ 169	$ 149	$ 129	$ 81	$ 40	$ 741
Equity investments	163	489	13	—	2	188	855
Goodwill	30	945	172	2,587	876	304	4,914
Total assets	3,077	7,398	3,380	6,244	3,099	1,752	24,950
2002							
Sales:							
Third-party sales	$1,743	$3,174	$4,640	$5,150	$2,838	$2,806	$20,351
Intersegment sales	955	2,655	68	34	—	—	3,712
Total sales	$2,698	$5,829	$4,708	$5,184	$2,838	$2,806	$24,063
Profit and loss:							
Equity income (loss)	$ 1	$ 44	$ (4)	$ —	$ 17	$ 4	$ 62
Depreciation, depletion, and amortization	139	300	192	219	130	82	1,062
Income taxes	130	266	87	50	100	17	650
ATOI	315	650	220	105	197	(9)	1,478
Assets:							
Capital expenditures	$ 156	$ 248	$ 227	$ 203	$ 89	$ 66	$ 989
Equity investments	163	411	50	—	134	177	935
Goodwill	16	910	153	2,488	869	307	4,743
Total assets	2,615	7,166	3,266	6,337	3,164	1,876	24,424
2001							
Sales:							
Third-party sales	$1,908	$3,432	$4,999	$5,910	$2,625	$3,702	$22,576
Intersegment sales	1,021	2,849	64	35	—	—	3,969
Total sales	$2,929	$6,281	$5,063	$5,945	$2,625	$3,702	$26,545
Profit and loss:							
Equity income (loss)	$ 1	$ 52	$ (2)	$ —	$ 28	$ 16	$ 95
Depreciation, depletion, and amortization	144	327	191	255	134	113	1,164
Income taxes	184	434	94	111	79	—	902
ATOI	471	905	262	173	181	47	2,039
Assets:							
Capital expenditures	$ 112	$ 209	$ 221	$ 260	$ 94	$ 84	$ 980
Equity investments	164	319	47	—	128	317	975
Goodwill	19	929	143	2,200	331	271	3,893
Total assets	2,555	7,122	3,368	5,731	2,300	1,883	22,959

Alumina and Chemicals. This segment consists of Alcoa's worldwide alumina and chemicals system that includes the mining of bauxite, which is then refined into alumina. Alumina is sold directly to internal and external smelter customers worldwide or is processed into industrial chemical products. Alcoa's alumina operations in Australia are a significant component of this segment. Approximately three-quarters of the third-party sales from this segment are derived from alumina. The sale of Alcoa's specialty chemicals business is expected to close in the first quarter of 2004.

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

Flat-Rolled Products. This segment's principal business is the production and sale of aluminum plate, sheet, and foil. This segment includes rigid container sheet (RCS), which is sold directly to customers in the packaging and consumer market and is used to produce aluminum beverage cans. This segment also includes sheet and plate used in the transportation and distributor markets. Approximately 60% of the third-party sales in this segment are derived from sheet and plate, and foil used in industrial markets, while the remaining 40% of third-party sales consists of RCS.

Engineered Products. This segment includes hard- and soft-alloy extrusions, including architectural extrusions, super-alloy castings, steel and aluminum fasteners, aluminum forgings, and wheels. These products serve the aerospace, automotive, commercial transportation, industrial gas turbine, building and construction, and distributor markets.

Packaging and Consumer. This segment includes consumer, foodservice, and flexible packaging products; food and beverage closures; plastic sheet and film for the packaging industry; and imaging and graphic communications for the packaging industry. The principal products in this segment include aluminum foil; plastic wraps and bags; plastic beverage and food closures; flexible and protective packaging products; design and prepress services; gravure and flexographic image carrier products; thermoformed plastic containers and extruded plastic sheet and film. Consumer products are marketed under brands including Reynolds Wrap®, Diamond®, Baco®, and Cut-Rite® wax paper.

Other. This group includes other Alcoa businesses that are not included in the segments previously mentioned. This group includes Alcoa Fujikura Ltd., which produces electrical components for the automotive industry, and it produces fiber-optic cable and provides services to the telecommunications industry; the residential building products operations, Alcoa Home Exteriors; and automotive parts businesses.

The following reconciles segment information to consolidated totals.

	2003	2002	2001
Sales:			
Total sales	$25,713	$24,063	$26,545
Elimination of intersegment sales	(4,209)	(3,712)	(3,969)
Consolidated sales	$21,504	$20,351	$22,576
Net income:			
ATOI	$ 1,713	$ 1,478	$ 2,039
Impact of intersegment profit eliminations	9	(6)	(20)
Unallocated amounts (net of tax):			
Interest income	24	31	40
Interest expense	(204)	(227)	(242)
Minority interests	(231)	(135)	(208)
Corporate expense	(287)	(234)	(261)
Special items	26	(304)	(397)
Discontinued operations	(49)	(90)	4
Accounting changes	(47)	34	—
Other	(16)	(127)	(47)
Consolidated net income	$ 938	$ 420	$ 908
Assets:			
Total segment assets	$24,950	$24,424	$22,959
Elimination of intersegment receivables	(382)	(285)	(309)
Unallocated amounts:			
Cash, cash equivalents, and short-term investments	606	413	527
Deferred tax assets	1,610	1,482	854
Corporate goodwill	1,635	1,637	1,710
Corporate fixed assets	810	593	513
LIFO reserve	(558)	(514)	(605)
Assets held for sale	549	618	1,025
Other	2,491	1,442	1,681
Consolidated assets	$31,711	$29,810	$28,355

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

	2003	2002	2001
Revenues:			
U.S.	$13,185	$12,942	$14,746
Australia	1,615	1,250	1,350
Spain	1,119	999	1,011
United Kingdom	745	763	899
Brazil	616	676	707
Germany	785	656	720
Other	3,439	3,065	3,143
	$21,504	$20,351	$22,576
Long-lived assets:			
U.S.	$12,434	$12,646	$12,123
Canada	2,628	2,708	2,789
Australia	2,050	1,543	1,345
United Kingdom	849	752	682
Brazil	708	372	571
Germany	265	225	174
Other	2,061	1,899	1,388
	$20,995	$20,145	$19,072

Q. Preferred and Common Stock

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

Common Stock. There are 1.8 billion shares authorized at a par value of $1 per share. As of December 31, 2003, 100.9 million shares of common stock were reserved for issuance under the long-term stock incentive plans.

Stock options under the company's stock incentive plans have been granted, generally at not less than market prices on the dates of grant. Stock option features based on date of original grant are as follows:

Date of original grant	Vesting	Term	Reload feature
2002 and prior	One year	10 years	One reload over option term
2003	3 years (1/3 each year)	10 years	One reload in 2004 for 1/3 vesting in 2004
2004	3 years (1/3 each year)	6 years	None

Beginning in January of 2004, in addition to stock option awards, the company has granted stock awards and performance share awards that vest in three years from the date of grant.

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

	2003	2002	2001
Outstanding, beginning of year:			
Number of options	81.6	73.5	74.8
Weighted average exercise price	$33.19	$32.02	$29.29
Granted:			
Number of options	16.8	17.3	28.9
Weighted average exercise price	$24.93	$36.10	$36.19
Exercised:			
Number of options	(8.0)	(7.1)	(29.0)
Weighted average exercise price	$23.29	$26.77	$29.03
Expired or forfeited:			
Number of options	(2.6)	(2.1)	(1.2)
Weighted average exercise price	$32.58	$37.50	$32.50
Outstanding, end of year:			
Number of options	87.8	81.6	73.5
Weighted average exercise price	$32.50	$33.19	$32.02
Exercisable, end of year:			
Number of options	71.6	68.8	58.6
Weighted average exercise price	$34.22	$32.68	$31.88
Shares reserved for future options	13.1	25.6	21.0

The following tables summarize certain stock option information at December 31, 2003: (shares in millions)

Options Outstanding

Range of exercise price	Number	Weighted average remaining life	Weighted average exercise price
$ 0.125	0.1	employment career	$0.125
$ 4.38–$12.15	1.1	1.87	10.59
$12.16–$19.93	2.3	3.28	16.62
$19.94–$27.71	20.9	6.88	22.55
$27.72–$35.49	17.4	5.41	31.64
$35.50–$45.59	46.0	5.66	38.72
Total	87.8	5.79	32.50

Options Exercisable

Range of exercise price	Number	Weighted average exercisable price
$ 0.125	0.1	$0.125
$ 4.38–$12.15	1.1	10.59
$12.16–$19.93	2.3	16.59
$19.94–$27.71	7.5	22.50
$27.72–$35.49	16.7	31.59
$35.50–$45.59	43.9	38.78
Total	71.6	34.22

R. Earnings Per Share

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

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

	2003	2002	2001
Income from continuing operations	$1,034	$476	$904
Less: preferred stock dividends	2	2	2
Income from continuing operations available to common shareholders	$1,032	$474	$902
Average shares outstanding—basic	853.4	845.4	858.0
Effect of dilutive securities:			
Shares issuable upon exercise of dilutive stock options	3.2	4.4	8.6
Average shares outstanding—diluted	856.6	849.8	866.6

Options to purchase 51 million shares of common stock at an average exercise price of $38 per share were outstanding as of December 31, 2003 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.

S. Income Taxes

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

	2003	2002	2001
U.S.	$ 322	$ (406)	$ (28)
Foreign	1,347	1,308	1,661
	$1,669	$ 902	$1,633

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

	2003	2002	2001
Current:			
U.S. federal*	$ (51)	$ 95	$ (20)
Foreign	310	358	521
State and local	17	17	45
	276	470	546
Deferred:			
U.S. federal*	132	(205)	(33)
Foreign	(4)	11	3
State and local	—	15	5
	128	(179)	(25)
Total	$404	$ 291	$521

*Includes U.S. taxes related to foreign income

The exercise of employee stock options generated a tax benefit of $23 in 2003, $34 in 2002, and $90 in 2001. This amount was credited to additional capital and reduced current taxes payable.

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

	2003	2002	2001
U.S. federal statutory rate	35.0%	35.0%	35.0%
Taxes on foreign income	(7.4)	(5.9)	(8.4)
State taxes net of federal benefit	0.9	2.4	1.1
Minority interests	1.1	1.4	1.8
Permanent differences on asset disposals	(0.1)	2.6	(1.4)
Goodwill impairment and amortization	—	1.1	2.4
Adjustments to prior years' accruals	(4.1)	(3.8)	1.5
Other	(1.2)	(0.5)	(0.1)
Effective tax rate	24.2%	32.3%	31.9%

In 2003, taxes on foreign income included a 1.3% reduction for recently enacted tax legislation.

The components of net deferred tax assets and liabilities follow.

	2003		2002	
December 31	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Depreciation	$ —	$1,599	$ —	$1,490
Employee benefits	1,452	—	1,484	—
Loss provisions	380	—	373	—
Deferred income/expense	249	155	364	157
Tax loss carryforwards	449	—	308	—
Tax credit carryforwards	258	—	176	—
Unrealized gains on available-for-sale securities	—	169	—	—
Other	163	181	293	279
	2,951	2,104	2,998	1,926
Valuation allowance	(159)	—	(179)	—
	$2,792	$2,104	$2,819	$1,926

Of the total deferred tax assets associated with the tax loss carryforwards, $165 expires over the next ten years, $69 over the next 20 years, and $215 is unlimited. Of the tax credit carryforwards, $150 is unlimited with the balance expiring over the next ten years. A substantial portion of the valuation allowance relates to the loss carryforwards because the ability to generate sufficient foreign taxable income in future years is uncertain. In 2003, the net reduction in the valuation allowance included a change in circumstances that resulted in the recognition of a $49 benefit from foreign net operating losses. Approximately $40 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 $6,154 at December 31, 2003. 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.

T. Lease Expense

Certain equipment, warehousing and office space, and oceangoing vessels are under operating lease agreements. Total expense from continuing operations for all leases was $241 in 2003, $214 in 2002, and $198 in 2001. Under long-term operating leases, minimum annual rentals are $180 in 2004, $155 in 2005, $124 in 2006, $101 in 2007, $85 in 2008, and a total of $392 for 2009 and thereafter.

U. Interest Cost Components

	2003	2002	2001
Amount charged to expense	$314	$350	$371
Amount capitalized	21	22	22
	$335	$372	$393

V. 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 percentage of medical expenses, reduced by deductibles and other coverages. These plans are generally unfunded, except for certain benefits funded through a trust. Life benefits are generally provided by insurance contracts. Alcoa retains the right, subject to existing agreements, to change or eliminate these benefits. All U.S. salaried and certain hourly employees hired after January 1, 2002 will not have postretirement health care benefits.

Alcoa uses a December 31 measurement date for the majority of its plans.

Obligations and Funded Status

December 31	Pension benefits 2003	2002	Postretirement benefits 2003	2002
Change in benefit obligation				
Benefit obligation at beginning of year	$ 9,360	$ 8,488	$ 3,661	$ 3,177
Service cost	194	176	31	25
Interest cost	609	593	237	224
Amendments	20	20	(31)	(52)
Actuarial losses	540	659	120	608
Acquisitions	17	7	—	18
Divestitures	—	(1)	—	—
Participants' contributions	31	18	—	—
Benefits paid	(687)	(656)	(357)	(339)
Exchange rate	184	56	—	—
Benefit obligation at end of year	$10,268	$ 9,360	$ 3,661	$ 3,661
Change in plan assets				
Fair value of plan assets at beginning of year	$ 7,531	$ 8,434	$ 119	$ 123
Actual return on plan assets	1,254	(376)	18	(4)
Acquisitions	20	1	—	—
Employer contributions	87	59	—	—
Participants' contributions	31	18	—	—
Benefits paid	(667)	(634)	—	—
Administrative expenses	(17)	(21)	—	—
Exchange rate	147	50	—	—
Fair value of plan assets at end of year	$ 8,386	$ 7,531	$ 137	$ 119
Funded status	$ (1,882)	$(1,829)	$(3,524)	$(3,542)
Unrecognized net actuarial loss	1,775	1,803	916	843
Unrecognized net prior service cost (benefit)	160	126	(1)	(7)
Net amount recognized	$ 53	$ 100	$(2,609)	$(2,706)
Amounts recognized in the Consolidated Balance Sheet consist of:				
Prepaid benefit	$ 89	$ 133	$ —	$ —
Accrued benefit liability	(1,580)	(1,547)	(2,609)*	(2,706)*
Intangible asset	84	102	—	—
Accumulated other comprehensive loss	1,460	1,412	—	—
Net amount recognized	$ 53	$ 100	$(2,609)	$(2,706)

*Includes current portion of $389 and $387 at December 31, 2003 and 2002, respectively.

The accumulated benefit obligations for all defined benefit pension plans was $9,771 and $8,888 at December 31, 2003 and 2002, respectively.

The aggregate benefit obligation and fair value of plan assets for the pension plans with benefit obligations in excess of plan assets were $10,047 and $8,093, respectively, as of December 31, 2003, and $9,121 and $7,310, respectively, as of December 31, 2002. The aggregate pension accumulated benefit obligation and fair value of plan assets with accumulated benefit obligations in excess of plan assets were $9,554 and $8,087, respectively, as of December 31, 2003, and $8,712 and $7,300, respectively, as of December 31, 2002.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. As of December 31, 2003, Alcoa will recognize the effects of the Act in the measure of its Accumulated Postretirement Benefit Obligation (APBO) for certain retiree groups in accordance with FASB Staff Position No. FAS 106-1.

Recognition of the subsidy for certain retiree groups as an offset to plan costs results in a $190 reduction in the APBO. The reduction in APBO will be included with other deferred actuarial gains and losses. The 2004 and subsequent net periodic postretirement benefit costs will be adjusted to reflect the lower interest cost due to the lower APBO. To the extent that the deferred gains and losses are outside the corridor, the excess will be recognized as prescribed under SFAS 106. For other retiree groups, the impact of the potential subsidy benefit has not been calculated because those amounts could not be reasonably estimated.

Alcoa has not reflected any changes in participation in the company plan as a result of the Act. The reduction in APBO represents the value of the 28% subsidy and does not reflect any other changes. The subsidy is estimated to reduce the prescription drug portion of the per capita cost by 24%.

Currently, Alcoa pays a portion of the prescription drug cost for certain retirees. The benefits for certain retirees were determined to be actuarially equivalent based on an analysis of Alcoa's existing prescription drug plan provisions and claims experience as compared to the Medicare Part D prescription drug benefit that will be effective in 2006.

More specific authoritative guidance on the accounting of the federal subsidy is pending and, when issued, could require the company to change previously reported information.

Components of Net Periodic Benefit Costs (Income)

	Pension benefits			Postretirement benefits		
December 31	2003	2002	2001	2003	2002	2001
Service cost	$ 194	$ 176	$ 162	$ 31	$ 25	$ 25
Interest cost	609	593	578	237	224	220
Expected return on plan assets	(727)	(776)	(781)	(11)	(11)	(11)
Amortization of prior service cost (benefit)	38	38	34	(32)	(32)	(33)
Recognized actuarial loss (gain)	8	4	(26)	40	5	(2)
Net periodic benefit costs (income)	$ 122	$ 35	$ (33)	$265	$211	$199

An increase in the minimum pension liability resulted in a charge to shareholders' equity of $39 in 2003 and $851 in 2002.

Assumptions

Weighted average assumptions used to determine benefit obligations at December 31:

	2003	2002
Discount rate	6.25%	6.75%
Rate of compensation increase	5.00	5.00

Weighted average assumptions used to determine the net cost for years ended December 31:

	2003	2002	2001
Discount rate	6.75%	7.25%	7.75%
Expected long-term return on plan assets	9.00	9.50	9.50
Rate of compensation increase	5.00	5.00	5.00

The expected return on plan assets is based on historical performance as well as expected future rates of return on plan assets considering the current investment portfolio mix and the long-term investment strategy.

Assumed health care cost trend rates at December 31:

	2003	2002	2001
Health care cost trend rate assumed for next year	9.0%	11.0%	9.5%
Rate to which the cost trend rate gradually declines	5.0%	5.0%	5.0%
Year that the rate reaches the rate at which it is assumed to remain	2009	2008	2006

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	$ (12)
Effect on postretirement benefit obligations	182	(144)

Plan Assets

Alcoa's pension and postretirement plans' investment policy, weighted average asset allocations at December 31, 2003 and 2002, and target allocations for 2004, by asset category, are as follows:

	Policy	Plan assets at December 31		Target %
Asset category	Range	2003	2002	2004
Equity securities	35–60%	52%	45%	50%
Debt securities	30–55%	36	42	38
Real estate	5–15%	6	7	6
Other	0–15%	6	6	6
Total		100%	100%	100%

The basic goal underlying the pension plan investment policy is to ensure that the assets of the plan, along with expected plan sponsor contributions, will be invested in a prudent manner to meet the obligations of the plan as those obligations come due. Investment practices must comply with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and any other applicable laws and regulations.

Numerous asset classes with differing expected rates of return, return volatility, and correlations are utilized to reduce risk by providing diversification. Debt securities comprise a significant portion of the portfolio due to their plan-liability-matching characteristics and to address the plan's cash flow requirements. Additionally, diversification of investments within each asset class is utilized to further reduce the impact of losses in single investments. The use of derivative instruments is permitted where appropriate and necessary for achieving overall investment policy objectives.

Cash Flows

Alcoa expects to contribute $100 to its pension plans in 2004.

Alcoa also sponsors a number of defined contribution pension plans. Expenses were $107 in 2003, $101 in 2002, and $103 in 2001.

W. Other Financial Instruments and Derivatives

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

	2003		2002	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 576	$ 576	$ 344	$ 344
Short-term investments	30	30	69	69
Noncurrent receivables	23	23	74	74
Available-for-sale investments	639	639	135	135
Short-term debt	579	579	122	122
Long-term debt	6,692	7,372	8,366	8,936

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

Cash and Cash Equivalents, Short-Term Investments, and Short-Term Debt. The carrying amounts approximate fair value because of the short maturity of the instruments.

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

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

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

Derivatives. Alcoa uses derivative financial instruments for purposes other than trading. Details of the fair value gains (losses) of the significant instruments follow.

December 31	2003	2002
Aluminum	$ 70	$(14)
Interest rates	(74)	80
Foreign currency	(6)	57
Other commodities	73	51

Fair Value Hedges

Aluminum. Customers often require Alcoa to enter into forward-dated, fixed-price commitments. These commitments expose Alcoa to the risk of fluctuating aluminum prices between the time the order is committed and the time that the order is shipped. Alcoa's aluminum commodity risk management policy is to manage, through the use of futures contracts, the aluminum price risk associated with a portion of its fixed-price firm commitments. These contracts cover known exposures, generally within three years.

Interest Rates. Alcoa uses interest rate swaps to help maintain a strategic balance between fixed- and floating-rate debt and to manage overall financing costs. The company has entered into pay floating, receive fixed interest rate swaps to effectively convert the interest rate from fixed to floating on $4,150 of debt, through 2013. For additional information on interest rate swaps and their effect on debt and interest expense, see Note K.

Currencies. Aluminio uses cross-currency interest rate swaps that effectively convert its U.S. dollar denominated debt into Brazilian reais debt at local interest rates.

Hedges of these existing assets, liabilities, and firm commitments qualify as "fair value" hedges. As a result, the fair values of derivatives and changes in the fair values of the underlying hedged items are reported in the Consolidated Balance Sheet. Changes in the fair values of these derivatives and underlying hedged items generally offset and are recorded each period in sales, cost of goods sold, interest expense, or other income, consistent with the underlying hedged item. There were no transactions that ceased to qualify as a fair value hedge in 2003.

Cash Flow Hedges

Interest Rates. Alcoa also uses interest rate swaps to establish fixed interest rates on anticipated borrowings between June 2005 and June 2006. The anticipated borrowings have a high probability of occurrence because the proceeds will be used to fund debt maturities and anticipated capital expenditures. Alcoa has $1,000 of interest rate swaps outstanding that will establish fixed interest rates on anticipated borrowings of $500 of debt through 2016 and $500 of debt through 2036.

Currencies. Alcoa is subject to exposure from fluctuations in foreign currencies. Foreign currency exchange contracts may be used from time to time to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. Alcoa's foreign currency contracts were principally used to purchase Australian dollars, Brazilian reais, and Mexican pesos. The U.S. dollar notional amount of all foreign currency contracts was $203 and $798 as of December 31, 2003 and 2002, respectively.

Commodities. Alcoa anticipates the continued requirement to purchase aluminum and other commodities such as natural gas, fuel oil, and electricity for its operations. Alcoa enters into futures contracts to reduce volatility in the price of these commodities.

For these cash flow hedge transactions, the fair values of the derivatives are recorded on the Consolidated Balance Sheet. The effective portions of the changes in the fair values of these derivatives are recorded in other comprehensive income and are reclassified to sales, cost of goods sold, or interest expense in the period in which earnings are impacted by the hedged items or in the period that the transaction no longer qualifies as a cash flow hedge. There were no transactions that ceased to qualify as a cash flow hedge in 2003. These contracts cover periods commensurate with known or expected exposures, generally within three years. Assuming market rates remain constant with the rates at December 31, 2003, $33 of the $66 gain included in other comprehensive income is expected to be recognized in earnings over the next 12 months.

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

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

X. Environmental Matters

Alcoa participates in environmental assessments and cleanups at a number of locations. These include approximately 30 owned or operating facilities and adjoining properties, approximately 39 previously owned or operated facilities and adjoining properties, and approximately 67 Superfund and other waste sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. See Note A for additional information.

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

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

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

During 2000 and 2001, Alcoa completed certain studies and investigations on the river, including pilot tests of sediment-capping techniques, and other remediation technologies. In June 2002, Alcoa submitted a final Analysis of Alternatives Report based on these evaluations and included additional remedial alternatives required by the EPA. The range of costs associated with the remedial alternatives evaluated in the 2002 report is between $2 and $525. Alcoa believes that rational, scientific analysis supports a remedy involving the containment of sediments in place via natural or man-made processes. Based on an assessment of the EPA decision-making process at the end of 2002, Alcoa concluded that the selection of the $2 alternative, based on natural recovery only, was remote. In June 2003, based on river observations during the spring of 2003, the EPA requested that Alcoa gather additional field data to assess the potential for sediment erosion from winter river ice formation and breakup. Alcoa has collected a significant portion of the additional data and is in the process of data analysis and determining how this phenomenon should be factored into the range of remedial alternatives being considered. It is anticipated that a report of findings will be issued to the EPA in the second quarter of 2004. Subsequent to this submittal, a revised Analysis of Alternatives Report will be submitted at a date to be determined.

Alcoa continues to believe that alternatives involving the largest amounts of sediment removal should not be selected for the Grasse River remedy. Therefore, Alcoa believes that the alternatives that should reasonably be considered for selection range from engineered capping and natural recovery of $30 to a combination of moderate dredging, capping, and natural recovery of $90. Accordingly, Alcoa adjusted the reserve for the Grasse River to $30 at the end of 2002, representing the low end of the range of possible alternatives, as no one of the alternatives is more likely to be selected than any other.

The EPA's ultimate selection of a remedy could result in additional liability. However, as the process continues, it allows for input that can influence the scope and cost of the remedy that will be selected by the EPA in its issuance of the formal Record of Decision (ROD). Alcoa may be required to record a subsequent reserve adjustment at the time the ROD is issued.

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

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

Alcoa's remediation reserve balance at the end of 2003 and 2002 was $395 and $436 (of which $65 and $68 were classified as a current liability), respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. Of the 2003 reserve balance, approximately 31% relates to the Massena, NY and Sherwin, TX sites. Remediation expenses charged to the reserve were $32 in 2003, $50 in 2002, and $72 in 2001. These include expenditures currently mandated, as well as those not required by any regulatory authority or third party. In 2003, the reserve balance was reduced by approximately $9, primarily for adjustments based on recent assessments of remaining work required at certain sites. In 2002, the reserve balance was increased by approximately $55, primarily to cover anticipated future environmental expenditures at various sites, including Massena, and for acquisitions made.

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

Supplemental Financial Information

Quarterly Data (unaudited)

(dollars in millions, except per-share amounts)

	First	Second	Third	Fourth	Year
2003					
Sales	$5,140	$5,497	$5,335	$5,532	$21,504
Income from continuing operations	195	217	282	340	1,034
Income (loss) from discontinued operations (B)	3	(1)	(2)	(49)	(49)
Cumulative effect of accounting change (C)	(47)	—	—	—	(47)
Net income*	151	216	280	291	938
Earnings (loss) per share:					
Basic:					
Income from continuing operations	.23	.26	.33	.39	1.21
Loss from discontinued operations	—	—	—	(.06)	(.06)
Cumulative effect of accounting change	(.06)	—	—	—	(.06)
Net income	.17	.26	.33	.33	1.09
Diluted:					
Income from continuing operations	.23	.26	.33	.39	1.20
Loss from discontinued operations	—	—	—	(.06)	(.06)
Cumulative effect of accounting change	(.06)	—	—	—	(.06)
Net income	.17	.26	.33	.33	1.08

The financial information for all periods presented has been reclassified to reflect assets held for sale and discontinued operations. See Note B to the Consolidated Financial Statements for further information.

* After special charges reflecting income of $25 in the fourth quarter (Note D)

	First	Second	Third	Fourth	Year
2002					
Sales	$4,908	$5,173	$5,174	$5,096	$20,351
Income (loss) from continuing operations	184	237	201	(146)	476
Loss from discontinued operations (B)	—	(5)	(8)	(77)	(90)
Cumulative effect of accounting change (E)	34	—	—	—	34
Net income (loss)*	218	232	193	(223)	420
Earnings (loss) per share:					
Basic:					
Income (loss) from continuing operations	.22	.28	.24	(.17)	.56
Loss from discontinued operations	—	(.01)	(.01)	(.09)	(.11)
Cumulative effect of accounting change	.04	—	—	—	.04
Net income (loss)	.26	.27	.23	(.26)	.49
Diluted:					
Income (loss) from continuing operations	.22	.28	.24	(.17)	.56
Loss from discontinued operations	—	(.01)	(.01)	(.09)	(.11)
Cumulative effect of accounting change	.04	—	—	—	.04
Net income (loss)	.26	.27	.23	(.26)	.49

The financial information for all periods presented has been reclassified to reflect assets held for sale and discontinued operations. See Note B to the Consolidated Financial Statements for further information.

* After special charges of $23 in the third quarter, and special charges of $257 and impairment of goodwill of $20 in the fourth quarter (Notes D and E)

Number of Employees (unaudited)

	2003	2002	2001
U.S.	49,300	53,500	56,500
Other Americas	35,300	38,200	38,700
Europe	27,700	28,300	27,700
Pacific	7,700	7,000	6,100
	120,000	127,000	129,000

11-Year Summary of Financial and Other Data

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

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

	For the year ended December 31	2003	2002	2001
Operating Results	Sales	$21,504	$20,351	$22,576
	Cost of goods sold	17,138	16,327	17,611
	Selling, general administrative, and other expenses	1,295	1,157	1,264
	Research and development expenses	194	214	203
	Depreciation, depletion, and amortization	1,194	1,111	1,237
	Impairment of goodwill	—	44	—
	Special items—(income) expense	(26)	425	566
	Interest expense	314	350	371
	Other income, net	274	179	309
	Taxes on income	404	291	521
	Less: Minority interests' share	231	135	208
	Income from continuing operations	1,034	476	904
	(Loss) income from discontinued operations	(49)	(90)	4
	Cumulative effect of accounting change*	(47)	34	—
	Net income	938	420	908
	Alcoa's average realized price per pound for aluminum ingot	.70	.66	.72
	LME average 3-month price per pound for aluminum ingot	.65	.62	.66
Dividends Declared	Preferred stock	2	2	2
	Common stock	514	507	516
Financial Position	Working capital	1,656	1,806	1,527
	Properties, plants, and equipment, net	12,557	12,110	11,500
	Other assets (liabilities), net	5,894	5,670	5,284
	Total assets	31,711	29,810	28,355
	Long-term debt (noncurrent)	6,692	8,366	6,384
	Minority interests	1,340	1,293	1,313
	Shareholders' equity	12,075	9,927	10,614
Common Share Data	Basic earnings per share†	1.09	.49	1.06
(dollars per share)	Diluted earnings per share†	1.08	.49	1.05
	Dividends declared	.600	.600	.600
	Book value (based on year-end outstanding shares)	13.84	11.69	12.46
	Price range: High	38.92	39.75	45.71
	Low	18.45	17.62	27.36
	Shareholders (number)	278,400	273,000	266,800
	Average shares outstanding (thousands)	853,352	845,439	857,990
Operating Data	Alumina shipments	7,671	7,486	7,217
(thousands of metric tons)	Aluminum product shipments:			
	Primary	1,834	1,912	1,776
	Fabricated and finished products	3,213	3,324	3,216
	Total	5,047	5,236	4,992
	Primary aluminum capacity:			
	Consolidated	4,020	3,948	4,165
	Total, including affiliates' and others' share of joint ventures	4,969	4,851	5,069
	Primary aluminum production:			
	Consolidated	3,508	3,500	3,488
	Total, including affiliates' and others' share of joint ventures	4,360	4,318	4,257
Other Statistics	Capital expenditures	$867	$1,270	$1,177
	Number of employees	120,000	127,000	129,000

* Reflects the cumulative effect of the accounting change for asset retirement obligations in 2003, goodwill in 2002, and revenue recognition in 2000

†Represents earnings per share on net income

2000	1999	1998	1997	1996	1995	1994	1993
$22,755	$16,268	$15,280	$13,246	$12,936	$12,377	$ 9,816	$ 9,056
17,201	12,494	11,885	10,216	9,983	9,378	7,873	7,264
1,096	847	779	679	712	714	636	633
193	128	127	142	164	140	126	130
1,203	886	840	733	747	713	671	692
—	—	—	—	—	—	—	—
—	—	—	(96)	199	16	80	151
427	195	198	141	134	120	107	88
154	124	149	163	64	152	378	93
934	550	512	526	353	437	174	(10)
381	242	238	268	206	233	160	196
1,474	1,050	850	800	502	778	367	5
15	4	3	5	13	13	8	—
(5)	—	—	—	—	—	—	—
1,484	1,054	853	805	515	791	375	5
.77	.67	.67	.75	.73	.81	.64	.56
.71	.63	.63	.73	.70	.83	.68	.53
2	2	2	2	2	2	2	2
416	296	263	169	232	160	142	140
(658)	1,538	1,441	1,720	1,671	1,840	1,436	1,587
12,338	8,649	8,686	6,321	6,632	6,555	6,407	6,449
6,239	241	275	(726)	(535)	(1,128)	(1,134)	(1,630)
31,691	17,066	17,463	13,071	13,450	13,643	12,353	11,597
4,983	2,652	2,870	1,456	1,695	1,213	1,022	1,433
1,514	1,458	1,476	1,440	1,611	1,609	1,688	1,389
11,422	6,318	6,056	4,419	4,462	4,445	3,999	3,584
1.81	1.44	1.22	1.17	.74	1.11	.53	.01
1.79	1.41	1.21	1.15	.73	1.10	.52	.01
.500	.403	.375	.244	.333	.225	.200	.200
13.13	8.51	8.18	6.49	6.39	6.23	5.52	4.99
43.63	41.69	20.31	22.41	16.56	15.06	11.28	9.81
23.13	17.97	14.50	16.06	12.28	9.22	8.03	7.38
265,300	185,000	119,000	95,800	88,300	83,600	55,200	55,300
814,229	733,888	698,228	688,904	697,334	712,072	711,528	701,384
7,472	7,054	7,130	7,223	6,406	6,407	6,660	5,962
2,032	1,411	1,367	920	901	673	655	841
3,366	3,067	2,584	2,036	1,940	1,909	1,896	1,739
5,398	4,478	3,951	2,956	2,841	2,582	2,551	2,580
4,219	3,182	3,159	2,108	2,101	1,905	1,905	1,905
5,141	4,024	3,984	2,652	2,642	2,428	2,428	2,428
3,539	2,851	2,471	1,725	1,708	1,506	1,531	1,770
4,395	3,695	3,158	2,254	2,240	2,037	2,067	2,315
$1,102	$917	$931	$913	$996	$887	$612	$757
142,000	107,700	103,500	81,600	76,800	72,000	60,200	63,400

Directors

Alain J. P. Belda, 60, chairman of the board of Alcoa since January 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.

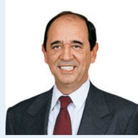
Kathryn S. Fuller, 57, president of the World Wildlife Fund U.S. (WWF), an independent organization dedicated to the conservation of nature, since 1989; various positions with the organization since 1982 including executive vice president, general counsel, and director of WWF's public policy and wildlife trade monitoring programs. Director of Alcoa since 2002.

Carlos Ghosn, 49, president and chief executive officer, Nissan Motor Company, Ltd., since 2001; chief operating officer 1999-2001. From 1996 to 1999 he was executive vice president of Renault S.A., and from 1979 to 1996 he served in various capacities with Compagnie Générale des Établissements Michelin. Director of Alcoa since 2002.

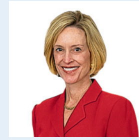
Joseph T. Gorman, 66, chairman and chief executive officer of Moxahela Enterprises, LLC, a venture capital firm, since 2001. He was chairman and chief executive officer of TRW Inc., a global company serving the automotive, space, and information systems markets, 1988-2001. Director of Alcoa since 1991.

Judith M. Gueron, 62, president of MDRC (formerly Manpower Demonstration Research Corporation), a nonprofit research organization, since 1986; executive vice president for research and evaluation 1978-1986. Director of Alcoa since 1988.

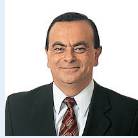
Sir Ronald Hampel, 71, former chairman of United Business Media, a U.K.-based media company, from 1999-2002; chairman of Imperial Chemical Industries plc (ICI) 1995-1999, and a director 1985-1999; deputy chairman and chief executive officer 1993-1995; chief operating officer 1991-1993. Director of Alcoa since 1995.



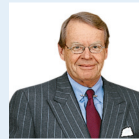
Alain J. P. Belda



Kathryn S. Fuller

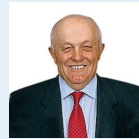


Carlos Ghosn



Joseph T. Gorman

Judith M. Gueron



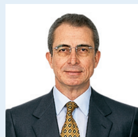
Sir Ronald Hampel

Klaus Kleinfeld

John P. Mulroney

Henry B. Schacht

Franklin A. Thomas



Ernesto Zedillo

Klaus Kleinfeld, 46, member of the Corporate Executive Committee of the Managing Board, Siemens AG, a global electronics and industrial conglomerate, since January 2004. Served as president and chief executive officer of Siemens Corporation, the U.S. arm of Siemens AG, 2002-2003 and member of the Managing Board of Siemens AG from December 2002 to December 2003; chief operating officer of Siemens Corporation from January to December 2001. From January to December 2000, he was executive vice president of Siemens Medical Engineering Group. For two years until December 1999, he was president of the angiography, fluoroscopy and X-ray systems businesses of Siemens Medical Group. Director of Alcoa since 2003.

John P. Mulroney, 68, president of the Opera Company of Philadelphia since 2003; executive director 1999-2003; former president and chief operating officer of Rohm and Haas Company, a specialty chemicals manufacturer, from 1986-1998. Director of Alcoa since 1987.

Henry B. Schacht, 69, director and senior advisor to Lucent Technologies Inc., a communications systems and services company, since February 2003. On unpaid leave from Warburg Pincus as managing director and partner. Served as chairman of Lucent Technologies Inc. from October 2000 to February 2003 and from 1996 to 1998; chief executive officer from October 2000 to January 2002 and from February 1996 to October 1997; and senior advisor from February 1998 to February 1999. Was managing director of Warburg Pincus from February 1999 until October 2000. Director of Alcoa since 1994.

Franklin A. Thomas, 69, consultant, TFF Study Group, a nonprofit institution assisting development in South Africa, since 1996; chairman, September 11 Fund since 2001; president and chief executive officer of The Ford Foundation 1979-1996. Director of Alcoa since 1977.

Ernesto Zedillo, 52, director, Yale Center for the Study of Globalization, since September 2002. Former president of Mexico, elected in 1994 and served until 2000; held various positions in the Mexican federal government from late 1987 to his election. Director of Alcoa since 2002.

Board Committees

Audit Committee

Joseph T. Gorman
Judith M. Gueron
Klaus Kleinfeld
Henry B. Schacht – Chair
Ernesto Zedillo

Compensation and Benefits Committee

Carlos Ghosn
Joseph T. Gorman – Chair
Sir Ronald Hampel
John P. Mulroney
Franklin A. Thomas

Executive Committee

Alain J. P. Belda – Chair
Joseph T. Gorman
Henry B. Schacht
Franklin A. Thomas

Governance and Nominating Committee

Kathryn S. Fuller
Sir Ronald Hampel
John P. Mulroney – Chair
Franklin A. Thomas

Public Issues Committee

Kathryn S. Fuller
Carlos Ghosn
Judith M. Gueron – Chair
Henry B. Schacht
Ernesto Zedillo

For information on Alcoa's corporate governance program, go to www.alcoa.com

Officers

(As of February 20, 2004)

Alain J. P. Belda
Chairman and
Chief Executive Officer

Robert T. Alexander
Vice President – Alcoa and
Chairman, Alcoa Fujikura, Ltd.

Ricardo E. Belda
Executive Vice President –
Alcoa and Group President,
Alcoa Europe

Julie A. Caponi
Assistant Controller

William F. Christopher
Executive Vice President – Alcoa
and Group President, Alcoa
Aerospace, Automotive and
Commercial Transportation

Michael Coleman
Vice President – ABS and
Quality and President,
Alcoa Rigid Packaging

Denis A. Demblowski
Assistant General Counsel

Ronald D. Dickel
Vice President – Tax

Janet F. Duderstadt
Assistant Secretary

Franklin L. Feder
Vice President – Analysis
and Planning

Veronica M. Hagen
Vice President – Alcoa and
Chief Customer Officer

Brenda A. Hart
Assistant Secretary

Cynthia E. Holloway
Assistant Treasurer

Rudolph P. Huber
Vice President – Alcoa
Global Business Services and
Chief Information Officer

Barbara S. Jeremiah
Executive Vice President –
Corporate Development

Richard B. Kelson
Executive Vice President and
Chief Financial Officer

Denise H. Kluthe
Assistant Controller

William E. Leahey, Jr.
Executive Vice President –
Alcoa and Group President,
Alcoa Packaging, Consumer,
Construction & Distribution
Group

Mario Longhi Filho
Vice President – Alcoa and
President, Howmet Castings

Charles D. McLane, Jr.
Vice President and
Corporate Controller

Thomas J. Meek
Assistant General Counsel

Colleen P. Miller
Assistant Secretary

L. Richard Milner
Vice President – Alcoa and
President, Alcoa Advanced
Transportation Systems

Joseph C. Muscari
Executive Vice President –
Alcoa and Group President,
Asia and Latin America

Judith L. Nocito
Secretary and Senior Counsel

William J. O'Rourke, Jr.
Vice President – Environment,
Health, and Safety and Audit

Dale C. Perdue
Assistant General Counsel

A. Hamish Petrie
Vice President – People and
Communications

William B. Plummer
Vice President and Treasurer

Russell W. Porter, Jr.
Vice President and Deputy
General Counsel

Lawrence R. Purtell
Executive Vice President
and General Counsel;
Chief Compliance Officer

Bernt Reitan
Vice President – Alcoa and
Group President, Primary
Products

Ricardo B. M. Sayao
Assistant Treasurer

Richard L. (Jake) Siewert, Jr.
Vice President – Global
Communications and Public
Strategy

Paul D. Thomas
Vice President – Alcoa and
Group President, North
American Fabricated Products

Kurt R. Waldo
Assistant General 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

Mohammad A. Zaidi
Vice President and
Chief Technical Officer

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Financial typography:
Hamilton Phototype
Printing: St. Ives Case-Hoyt

Special thanks to Alcoa employees worldwide who helped make this annual report possible.

Printed in USA 0402
Form A07-15008
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A portion of this annual report is printed on recycled paper; the entire report is printed with soy-based, low-VOC inks.

Shareowner Information

Annual Meeting

The annual meeting of shareowners will be at 9:30 a.m. Friday, April 30, 2004 at the Carnegie Music Hall in the Oakland section of Pittsburgh.

Company News

Visit www.alcoa.com for Securities and Exchange Commission (SEC) filings, quarterly earnings reports, and other company news.

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

Investor Information

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

Other Publications

For more information on Alcoa Foundation and Alcoa community investments, visit www.alcoa.com under "community."

For Alcoa's Sustainable Development report, visit www.alcoa.com or write Director – Sustainable Development, 390 Park Avenue, New York, NY 10022-4608 or email sustainability@alcoa.com.

Dividends

Alcoa's objective is to pay common stock dividends at rates competitive with other investments of equal risk and consistent with the need to reinvest earnings for long-term growth. To support this objective, Alcoa pays a quarterly dividend of 15 cents per common share and 93.75 cents per preferred share. Quarterly dividends are paid to shareowners of record at each quarterly distribution date.

Dividend Reinvestment

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

Direct Deposit of Dividends

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

Shareowner Services

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

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

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

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

For shareowner questions on other matters related to Alcoa, write to Judith Nocito, Office of the Secretary, 390 Park Avenue, New York, NY 10022-4608 or call 1 412 553 4707.

Stock Listing

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

Quarterly Common Stock Information

	2003			2002		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$24.75	$18.45	$.15	$39.75	$33.34	$.15
Second	27.22	18.86	.15	39.09	30.17	.15
Third	29.50	24.00	.15	33.80	18.35	.15
Fourth	38.92	26.27	.15	26.37	17.62	.15
Year	$38.92	$18.45	$.60	$39.75	$17.62	$.60

Common Share Data

	Estimated number of shareowners*	Average shares outstanding (000)
2003	278,400	853,352
2002	273,000	845,439
2001	266,800	857,990
2000	265,300	814,229
1999	185,000	733,888

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

Corporate Center

Alcoa
201 Isabella St. 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.

Vision

Alcoa aspires to
be the best company
in the world.

Values

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

Environment, Health and Safety
We work safely in a manner that protects and promotes the health and well-being of the individual and the environment.

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

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

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

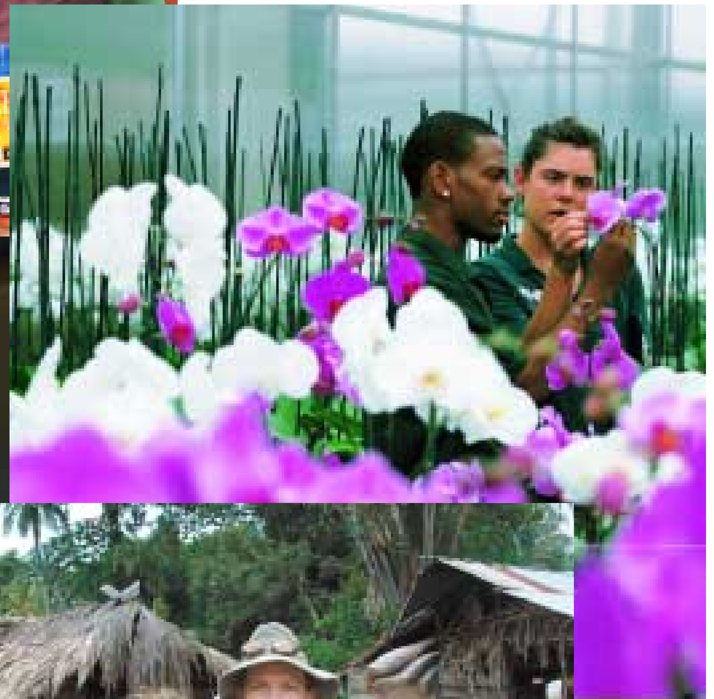
Profitability
We earn sustainable financial results that enable profitable growth and superior shareholder value.

Accountability
We are accountable – individually and in teams – for our behaviors, actions and results.

We live our Values and measure our success by the success of our customers, shareholders, communities and people.

Alcoa and Our Communities

Every hour, every day, somewhere in the world, Alcoa's community commitment is put into action. In 2003, Alcoa and Alcoa Foundation grants funded programs in hundreds of communities, big and small, around the world. In addition, Alcoans got directly involved through nearly 200,000 hours of giving, working, teaching, healing, conserving, building and, in many other ways, bringing our Values to life.



(Clockwise, from top)
Painting in Pinjarra, Australia;
Mentoring in Pittsburgh, USA;
Health care in Ditabiki, Suriname;
Planting trees in Itajubá, Brazil