ALCOA INC
Form 10-Q
October 20, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2011

OR

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

Commission File Number 1-3610

ALCOA INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA	**25-0317820**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
390 Park Avenue, New York, New York	**10022-4608**
(Address of principal executive offices)	**(Zip code)**

Investor Relations 212-836-2674

Office of the Secretary 212-836-2732

(Registrant s telephone number including area code)

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

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Alcoa and subsidiaries

Statement of Consolidated Operations (unaudited)

(in millions, except per-share amounts)

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

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

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

Alcoa and subsidiaries

Consolidated Balance Sheet (unaudited)

(in millions)

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

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

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

Alcoa and subsidiaries

Statement of Consolidated Cash Flows (unaudited)

(in millions)

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

INVESTING ACTIVITIES

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

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

Alcoa and subsidiaries

Statement of Changes in Consolidated Equity (unaudited)

(in millions, except per-share amounts)

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

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

Alcoa and subsidiaries

Statement of Changes in Consolidated Equity (unaudited), continued

(in millions, except per-share amounts)

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

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

Alcoa and subsidiaries

Statement of Consolidated Comprehensive (Loss) Income (unaudited)

(in millions)

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

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

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

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

Alcoa and subsidiaries

Notes to the Consolidated Financial Statements (unaudited)

(dollars in millions, except per-share amounts)

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

B. Recently Adopted and Recently Issued Accounting Guidance

Adopted

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

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

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

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

On January 1, 2011, Alcoa adopted changes issued by the FASB to the disclosure of pro forma information for business combinations. These changes clarify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. Also, the existing supplemental pro forma disclosures were expanded to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The adoption of these changes had no impact on the Consolidated Financial Statements.

Issued

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

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

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

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

The following table details selected financial information of discontinued operations:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11

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

Activity and reserve balances for restructuring charges were as follows:

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

* Other includes reversals of previously recorded restructuring charges and the effects of foreign currency translation. In 2010, Other for other exit costs also included a reclassification of the following restructuring charges: $30 in asset retirement and $14 in environmental obligations, as these liabilities are included in Alcoa s separate reserves for asset retirement obligations and environmental remediation, respectively.

The remaining reserves are expected to be paid in cash during 2011, with the exception of approximately $60 to $65, which is expected to be paid over the next several years for ongoing site remediation work, special termination benefit payments, and lease termination costs.

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

F. Inventories

	September 30, 2011	December 31, 2010
Finished goods	$ 592	$ 470
Work-in-process	1,042	814

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

At September 30, 2011 and December 31, 2010, the total amount of inventories valued on a last in, first out (LIFO) basis was 37% and 36%, respectively. If valued on an average-cost basis, total inventories would have been $818 and $742 higher at September 30, 2011 and December 31, 2010, respectively.

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

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

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

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

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

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

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

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

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

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

H. Commitments and Contingencies

Litigation

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

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

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

In November 2006, in Curtis v. Alcoa Inc., Civil Action No. 3:06cv448 (E.D. Tenn.), a class action was filed by plaintiffs representing approximately 13,000 retired former employees of Alcoa or Reynolds Metals Company and spouses and dependants of such retirees alleging violation of the Employee Retirement Income Security Act (ERISA) and the Labor-Management Relations Act by requiring plaintiffs, beginning January 1, 2007, to pay health insurance premiums and increased co-payments and co-insurance for certain medical procedures and prescription drugs. Plaintiffs alleged these changes to their retiree health care plans violated their rights to vested health care benefits. Plaintiffs additionally alleged that Alcoa had breached its fiduciary duty to plaintiffs under ERISA by misrepresenting to them that their health benefits would never change. Plaintiffs sought injunctive and declaratory relief, back payment of benefits, and attorneys fees. Alcoa had consented to treatment of plaintiffs claims as a class action. During the fourth quarter of 2007, following briefing and argument, the court ordered consolidation of the plaintiffs motion for preliminary injunction with trial, certified a plaintiff class, bifurcated and stayed the plaintiffs breach of fiduciary duty claims, struck the plaintiffs jury demand, but indicated it would use an advisory jury, and set a trial date of September 17, 2008. In August 2008, the court set a new trial date of March 24, 2009 and, subsequently, the trial date was moved to September 22, 2009. In June 2009, the court indicated that it would not use an advisory jury at trial. Trial in the matter was held over eight days commencing September 22, 2009 and ending on October 1, 2009 in federal court in Knoxville, TN before the Honorable Thomas Phillips, U.S. District Court Judge. At the conclusion of evidence, the court set a post-hearing briefing schedule for submission of proposed findings of fact and conclusions of law by the parties and for replies to the same. Post trial briefing was submitted on December 4, 2009.

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

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

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

European Commission Matters

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

On November 19, 2009, the EC announced a decision in this matter stating that the extension of the tariff by Italy constituted unlawful state aid, in part, and, therefore, the Italian Government is to recover a portion of the benefit Alcoa received since January 2006 (including interest). The amount of this recovery will be based on a calculation that is being prepared by the Italian Government. Pending formal notification from the Italian Government, Alcoa estimates that a payment in the range of $300 to $500 will be required (the timing of such payment is uncertain). In late 2009, after discussions with legal counsel and reviewing the bases on which the EC decided, including the different considerations cited in the EC decision regarding Alcoa s two smelters in Italy, Alcoa recorded a charge of $250, including $20 to write off a receivable from the Italian Government for amounts due under the now expired tariff structure. On April 19, 2010, Alcoa filed an appeal of this decision with the General Court of the EU. Alcoa will pursue all substantive and procedural legal steps available to annul the EC s decision. On May 22, 2010, Alcoa also filed with the General Court a request for injunctive relief to suspend the effectiveness of the decision, but, on July 12, 2010, the General Court denied such request. On September 10, 2010, Alcoa appealed the July 12, 2010 decision to the European Court of Justice (ECJ).

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

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

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

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

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

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

Environmental Matters

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

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

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

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

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

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

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

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

In June 2003, the EPA requested that Alcoa gather additional field data to assess the potential for sediment erosion from winter river ice formation and breakup. The results of these additional studies, submitted in a report to the EPA in April 2004, suggest that this phenomenon has the potential to occur approximately every 10 years and may impact sediments in certain portions of the river under all remedial scenarios. The EPA informed Alcoa that a final remedial decision for the river could not be made without substantially more information, including river pilot studies on the effects of ice formation and breakup on each of the remedial techniques. Alcoa submitted to the EPA, and the EPA approved, a Remedial Options Pilot Study (ROPS) to gather this information. The scope of this study included sediment removal and capping, the installation of an ice control structure, and significant monitoring.

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

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

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

Sherwin, TX In connection with the sale of the Sherwin alumina refinery, which was required to be divested as part of the Reynolds merger in 2000, Alcoa agreed to retain responsibility for the remediation of the then existing environmental conditions, as well as a pro rata share of the final closure of the active waste disposal areas, which remain in use. Alcoa s share of the closure costs is proportional to the total

period of operation of the active waste disposal areas. Alcoa estimated its liability for the active disposal areas by making certain assumptions about the period of operation, the amount of material placed in the area prior to closure, and the appropriate technology, engineering, and regulatory status applicable to final closure. The most probable cost for remediation was reserved.

East St. Louis, IL In response to questions regarding environmental conditions at the former East St. Louis operations, Alcoa and the City of East St. Louis, the owner of the site, entered into an administrative order with the EPA in December 2002 to perform a remedial investigation and feasibility study of an area used for the disposal of bauxite residue from historic alumina refining operations. A draft feasibility study was submitted to the EPA in April 2005. The feasibility study included remedial alternatives that ranged from no further action to significant grading, stabilization, and water management of the bauxite residue disposal areas. As a result, Alcoa increased the environmental reserve for this location by $15 in 2005. The EPA s ultimate selection of a remedy could result in additional liability. Alcoa may be required to record a subsequent reserve adjustment at the time the EPA s Record of Decision is issued.

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

Investments

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

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

Alcoa Alumínio (Alumínio), a wholly-owned subsidiary of Alcoa, is a participant in several hydroelectric power construction projects in Brazil for purposes of increasing its energy self-sufficiency and providing a long-term, low-cost source of power for its facilities. Two of these projects, Machadinho and Barra Grande, were completed in 2002 and 2006, respectively.

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

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

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

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

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

I. Other Expenses (Income), Net

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

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

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

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

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

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

	Third quarter ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Total segment ATOI	$ 462	$ 328		