ALCAN INC
Form 10-Q
November 09, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

Commission file number 1-3677

ALCAN INC.
(Exact name of registrant as specified in its charter)

CANADA	**Inapplicable**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1188 Sherbrooke Street West, Montreal, Quebec, Canada H3A 3G2
(Address of Principal Executive Offices and Postal Code)

(514) 848-8000
(Registrant's Telephone Number, including Area Code)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes **Ö** No ___

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

Large accelerated filer **Ö** Accelerated filer ___ Non-accelerated filer ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ___ No **Ö**

At November 1, 2006, the registrant had 376,407,559 shares of common stock (without nominal or par value) outstanding.

PART I. FINANCIAL INFORMATION

In this report, all dollar amounts are stated in U.S. dollars and all quantities in metric tons, or tonnes, unless indicated otherwise. A tonne is 1,000 kilograms, or 2,204.6 pounds. The word "Company" refers to Alcan Inc. and, where applicable, one or more of its consolidated subsidiaries.

Item 1. Financial Statements

ALCAN INC.

INTERIM CONSOLIDATED STATEMENT OF INCOME (unaudited)

	Third Quarter		Nine Months	
Periods ended September 30	**2006**	2005	**2006**	2005
(*in millions of US$, except per share amounts)*				
Sales and operating revenues	**5,769**	4,887	**17,422**	15,271
Costs and expenses				
Cost of sales and operating expenses, excluding depreciation and amortization noted below	**4,454**	3,921	**13,228**	12,141
Depreciation and amortization	**273**	266	**782**	806
Selling, administrative and general expenses	**327**	331	**1,057**	1,056
Research and development expenses	**50**	66	**157**	164
Interest	**63**	92	**208**	267
Restructuring charges - net (note 6)	**22**	32	**130**	142
Other expenses (income) - net (note 10)	**11**	23	**(18)**	10
	5,200	4,731	**15,544**	14,586
Income from continuing operations before income taxes and other items	**569**	156	**1,878**	685
Income taxes (note 9)	**146**	101	**610**	269
Income from continuing operations before other items	**423**	55	**1,268**	416
Equity income	**41**	16	**106**	73
Minority interests	**(4)**	1	**(6)**	(1)
Income from continuing operations	**460**	72	**1,368**	488
Income (Loss) from discontinued operations (note 4)	**(4)**	9	**-**	2
Income before cumulative effect of accounting change	**456**	81	**1,368**	490
Cumulative effect of accounting change, net of income taxes of $2 (nil in 2005) (note 2)	**-**	-	**(4)**	-
Net income	**456**	81	**1,364**	490

Dividends on preference shares	**3**	2	**8**	5
Net income attributable to common shareholders	**453**	79	**1,356**	485
Earnings (Loss) per share (note 5)				
Basic:				
Income from continuing operations	**1.21**	0.19	**3.63**	1.30
Income (Loss) from discontinued operations	**(0.01)**	0.02	**-**	0.01
Cumulative effect of accounting change	**-**	-	**(0.01)**	**-**
Net income per common share - basic	**1.20**	0.21	**3.62**	1.31
Diluted:				
Income from continuing operations	**1.21**	0.19	**3.62**	1.30
Income (Loss) from discontinued operations	**(0.01)**	0.02	**-**	0.01
Cumulative effect of accounting change	**-**	-	**(0.01)**	-
Net income per common share - diluted	**1.20**	0.21	**3.61**	1.31
Dividends per common share	**0.20**	0.15	**0.50**	0.60

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

ALCAN INC.

INTERIM CONSOLIDATED BALANCE SHEET (unaudited)

(*in millions of US$*)	**September 30, 2006**	December 31, 2005
ASSETS		
Current assets		
Cash and time deposits	**158**	181
Trade receivables (net of allowances of $57 in 2006 and $56 in 2005)	**2,944**	2,308
Other receivables	**1,205**	946
Deferred income taxes	**192**	150
Inventories (note 11)	**3,104**	2,734
Current assets held for sale (note 4)	**15**	119
Total current assets	**7,618**	6,438
Deferred charges and other assets	**1,233**	1,052
Investments	**1,491**	1,511
Deferred income taxes	**862**	863
Property, plant and equipment		
Cost (excluding Construction work in progress)	**17,529**	16,990
Construction work in progress	**2,673**	1,604
Accumulated depreciation	**(8,369)**	(7,561)
	11,833	11,033
Intangible assets (net of accumulated amortization of $316 in 2006 and $233 in 2005)	**976**	1,013
Goodwill	**4,635**	4,713
Long-term assets held for sale (note 4)	**2**	15
Total assets	**28,650**	26,638

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

ALCAN INC.

INTERIM CONSOLIDATED BALANCE SHEET (cont'd)(unaudited)

(in millions of US$)	**September 30, 2006**	December 31, 2005
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Payables and accrued liabilities (note 12)	**4,992**	4,608
Short-term borrowings	**346**	348
Debt maturing within one year	**40**	802
Deferred income taxes	**28**	25
Current liabilities of operations held for sale (note 4)	**11**	62
Total current liabilities	**5,417**	5,845
Debt not maturing within one year	**5,399**	5,265
Deferred credits and other liabilities	**1,753**	1,608
Post-retirement benefits	**3,224**	3,037
Deferred income taxes	**1,337**	1,172
Minority interests	**67**	67
Shareholders' equity		
Redeemable non-retractable preference shares	**160**	160
Common shareholders' equity		
Common shares	**6,381**	6,181
Additional paid-in capital	**673**	683
Retained earnings	**4,208**	3,048
Common shares held by a subsidiary	**(31)**	(31)
Accumulated other comprehensive income (loss) (note 14)	**62**	(397)
	11,293	9,484
	11,453	9,644
Commitments and contingencies (note 13)		
Total liabilities and shareholders' equity	**28,650**	26,638

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

ALCAN INC.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Periods ended September 30 (*in millions of US$*)	Third Quarter **2006**	2005	Nine Months **2006**	2005
OPERATING ACTIVITIES				
Net income	**456**	81	**1,364**	490
Cumulative effect of accounting change	**-**	-	**4**	-
Loss (Income) from discontinued operations	**4**	(9)	**-**	(2)
Income from continuing operations	**460**	72	**1,368**	488
Adjustments to determine cash from operating activities:				
Depreciation and amortization	**273**	266	**782**	806
Deferred income taxes	**73**	86	**300**	128
Equity income, net of dividends	**(17)**	(5)	**(35)**	(29)
Asset impairment charges	**12**	5	**57**	40
Loss (Gain) on disposal of businesses and investments - net	**(4)**	(5)	**(8)**	11
Stock option compensation	**3**	4	**39**	14
Change in operating working capital				
Change in receivables	**151**	325	**(605)**	(250)
Change in inventories	**(164)**	26	**(273)**	(88)
Change in payables and accrued liabilities	**(4)**	(72)	**126**	(391)
Change in deferred charges, other assets, deferred credits and other liabilities, and post-retirement benefits - net	**21**	(13)	**188**	137
Other - net	**(1)**	(34)	**(3)**	(119)
Cash from operating activities in continuing operations	**803**	655	**1,936**	747
Cash from operating activities in discontinued operations	**1**	4	**9**	54
Cash from operating activities	**804**	659	**1,945**	801
FINANCING ACTIVITIES				
Proceeds from issuance of new debt - net of issuance costs	**9**	21	**380**	1,237
Debt repayments	**(250)**	(210)	**(1,086)**	(1,456)

Short-term borrowings - net	**(13)**	(52)	**(13)**	(2,045)
Common shares issued	**3**	6	**152**	16
Dividends - Alcan shareholders (including preference)	**(78)**	(58)	**(195)**	(173)
- Minority interests	**(1)**	(1)	**(2)**	(2)
Cash used for financing activities in continuing operations	**(330)**	(294)	**(764)**	(2,423)
Cash used for financing activities in discontinued operations	**-**	(59)	**-**	(55)
Cash used for financing activities	**(330)**	(353)	**(764)**	(2,478)

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

ALCAN INC.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)(unaudited)

	Third Quarter		Nine Months	
Periods ended September 30	**2006**	2005	**2006**	2005
(*in millions of US$*)				
INVESTMENT ACTIVITIES				
Purchase of property, plant and equipment	**(576)**	(405)	**(1,471)**	(1,103)
Business acquisitions and purchase of investments, net of cash and time deposits acquired	**(8)**	(31)	**(48)**	(73)
Net proceeds from disposal of businesses, investments and other assets	**27**	141	**234**	176
Settlement of amounts due from Novelis - net	**-**	-	**-**	2,535
Other	**58**	-	**70**	-
Cash from (used for) investment activities in continuing operations	**(499)**	(295)	**(1,215)**	1,535
Cash from (used for) investment activities in discontinued operations	**-**	(1)	**5**	63
Cash from (used for) investment activities	**(499)**	(296)	**(1,210)**	1,598
Effect of exchange rate changes on cash and time deposits	**1**	4	**6**	(25)
Increase (Decrease) in cash and time deposits	**(24)**	14	**(23)**	(104)
Cash and time deposits - beginning of period	**182**	222	**181**	340
Cash and time deposits - end of period	**158**	236	**158**	236

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

ALCAN INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

(unaudited)

(in millions of US$, except per share amounts)

1. ACCOUNTING POLICIES

Basis of Presentation

The unaudited interim consolidated financial statements are based upon accounting policies and methods of their application consistent with those used and described in the Company's annual financial statements as contained in the most recent annual report. The unaudited interim consolidated financial statements do not include all of the financial statement disclosures included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and therefore should be read in conjunction with the Company's most recent annual report.

In the opinion of management of the Company, the unaudited interim consolidated financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position and the results of operations and cash flows in accordance with U.S. GAAP. The results reported in these unaudited interim consolidated financial statements are not necessarily indicative of the results that may be expected for the entire year.

2. ACCOUNTING CHANGES

SFAS No. 123(R) - Share-Based Payment

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, which is a revision to SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) requires all share-based payments to employees to be recognized in the financial statements based on their fair values. The fair value of options granted after January 1, 2006 is determined using a lattice model, whereas the fair value of options granted prior to that date was determined using the Black-Scholes valuation model. The Company had previously adopted the fair-value based method of accounting for stock options using the retroactive restatement method described in SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, effective January 1, 2004. This method is accepted under SFAS No. 123(R).

On January 1, 2006, the Company recorded an after-tax charge of $4, using the modified prospective application method, in Cumulative effect of accounting change, to record all outstanding liability awards, previously measured at their intrinsic value, at their fair value. See note 8 - Stock Options and Other Stock-Based Compensation.

SFAS No. 151 - Inventory Costs

On January 1, 2006, the Company adopted the provisions of SFAS No. 151, Inventory Costs, on a prospective basis. This statement amends the guidance in Accounting Research Bulletin (ARB) No. 43, Chapter 4, “Inventory Pricing”, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). ARB 43 previously stated that these expenses may be so abnormal as to require treatment as current period charges. SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal”. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of this standard did not impact the Company’s financial statements.

2. ACCOUNTING CHANGES (cont'd)

SFAS No. 154 - Accounting Changes and Error Corrections

On January 1, 2006, the Company adopted the provisions of SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. This statement applies to all voluntary changes in accounting principle and changes the requirements for accounting for and reporting of a change in accounting principle. The statement requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle versus including the cumulative effect of changing to the new accounting principle in net income. SFAS No. 154 carries forward many provisions of APB Opinion No. 20 without change, including the provisions related to the reporting of a change in accounting estimate, a change in the reporting entity, and the correction of an error. The adoption of this standard did not impact the Company's financial statements.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

SFAS No. 156 - Accounting for Servicing of Financial Assets

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156, Accounting for Servicing of Financial Assets. The new standard, which is an amendment to SFAS No. 140, requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable and permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. If an entity uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities, it can simplify its accounting since SFAS No. 156 permits income statement recognition of the potential offsetting changes in fair value of those servicing assets and servicing liabilities and derivative instruments in the same accounting period. SFAS No. 156 is effective for all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006. The Company does not anticipate that its financial statements will be significantly impacted by this statement.

FIN 48 - Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). This interpretation prescribes a more likely than not recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of a tax position, classification of a liability for unrecognized tax benefits, accounting for interest and penalties, accounting in interim periods, and expanded income tax disclosures. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of this interpretation on its financial statements.

SAB 108 - Guidance for Quantifying Financial Statement Misstatements

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108 (SAB 108) in order to address the observed diversity in quantification practices with respect to annual financial statements. In SAB 108, the SEC staff establishes an approach that requires quantification of financial statement errors based on the effects of the error on each of the Company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it essentially requires quantification of errors under both the iron-curtain and the roll-over methods. The iron curtain method focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement in the period of correction. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements, but can lead to the accumulation of misstatements in the balance sheet. The provisions of SAB 108 are effective for the Company's December 31, 2006 annual financial statements. The Company does not anticipate that its financial statements will be significantly impacted by this bulletin.

3. RECENTLY ISSUED ACCOUNTING STANDARDS (cont'd)

SFAS No. 157 - Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, to increase consistency and comparability in fair value measurements and to expand their disclosures. The new standard includes a definition of fair value as well as a framework for measuring fair value. The standard is effective for fiscal periods beginning after November 15, 2007 and should be applied prospectively, except for certain financial instruments where it must be applied retrospectively as a cumulative-effect adjustment to the balance of opening retained earnings in the year of adoption. The Company is currently evaluating the impact of this standard on its financial statements.

SFAS No. 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment to FASB Statements No. 87, 88, 106, and 132(R). The standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet with an offsetting amount in accumulated other comprehensive income and to recognize changes in that funded status in the year in which the changes occur. SFAS No. 158 also expands the required annual disclosures. SFAS No. 158 is effective for fiscal years ending after December 15, 2006 and must be applied prospectively. Based on the funded status of the Company's pension and postretirement benefit plans as reported in the December 31, 2005 Annual Report, the adoption of this standard is expected to reduce the Company's total assets by approximately $470, increase total liabilities by approximately $700, and reduce Shareholders' equity by approximately $1,170 on a pre-tax basis. The ultimate impact is contingent on plan asset returns and the assumptions that will be used to measure the funded status of each of the Company's pension and postretirement benefit plans as of December 31, 2006.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Bauxite and Alumina and Primary Metal

On December 29, 2004, the Company announced that, following an extensive evaluation of the Company's operations subsequent to the Pechiney acquisition, it had entered into a binding agreement for the sale of its controlling interest in Aluminium de Grèce S.A. (AdG), as well as the transfer of certain related contracts, to Mytilineos Holdings S.A. of Greece. The Company classified this business in discontinued operations and assets held for sale during the fourth quarter of 2004. The Company owned approximately 13 million shares in AdG, representing a 60.2% equity interest. The transaction was completed on March 15, 2005 at a value of $104. Under the terms of this agreement, Mytilineos Holdings S.A. and certain affiliated companies acquired from the Company a 53% equity position in AdG. On March 31, 2006, the balance of the Company's interest in AdG of 7.2% was sold by the Company to Mytilineos Holdings S.A. for net proceeds of $13.

Primary Metal

On June 1, 2005, the Company completed the sale of Pechiney Électrométallurgie to Ferroatlántica, S.L. of Spain for net proceeds of $150. The Company classified this business in discontinued operations and assets held for sale during the fourth quarter of 2004. The Company's decision to sell this business was based on an extensive evaluation of the Company's operations subsequent to the Pechiney acquisition and is consistent with the Company's strategy of divesting non-core activities.

Engineered Products

In the first quarter of 2004, the Company committed to a plan to sell certain non-strategic assets that were not part of its core operations. The assets were used to supply castings and components to the automotive industry. On March 31, 2006, the Company sold these assets to AluCast GmbH for net proceeds of approximately nil.

Also in the fourth quarter of 2004, the Company committed to a plan to sell its service centres in France that were not part of its core operations. These assets were classified as held for sale and were included in discontinued operations. On April 20, 2005, the Company completed the sale of these service centres for net proceeds of $4 to Amari Metal France Ltd., which specializes in distributing aluminum, stainless steel and cuprous metal products.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (cont'd)

Other

In the fourth quarter of 2005, a decision was taken to close the Company's copper trading business. The closure was substantially completed by the end of 2005.

Fair values were determined based on either discounted cash flows or expected selling price. Certain financial information has been reclassified in the prior periods to present these businesses as discontinued operations on the statement of income, as assets held for sale and liabilities of operations held for sale on the balance sheet and as cash flows from (used for) discontinued operations on the statement of cash flows.

Selected financial information for the businesses included in discontinued operations is reported below:

	Third Quarter		Nine Months	
Periods ended September 30	**2006**	2005	**2006**	2005
Sales	**-**	37	**55**	313
Income (Loss) from operations	**-**	3	**(1)**	11
Gain (Loss) on disposal - net	**(3)**	8	**(2)**	(2)
Pre-tax income (loss)	**(3)**	11	**(3)**	9
Income tax (expense) recovery	**(1)**	(2)	**3**	(7)
Income (Loss) from discontinued operations	**(4)**	9	**-**	2

The major classes of Assets held for sale and Liabilities of operations held for sale are as follows:

	September 30, 2006	December 31, 2005
Current assets held for sale:		
Trade receivables	**8**	30
Other receivables	**4**	51
Deferred income taxes	**3**	2
Inventories	**-**	36
	15	119
Long-term assets held for sale:		
Deferred charges and other assets	**-**	13
Property, plant and equipment - net	**2**	2
	2	15
Current liabilities of operations held for sale:		
Payables and accrued liabilities	**11**	62
	11	62

5. EARNINGS PER SHARE - BASIC AND DILUTED

Basic and diluted earnings per share are based on the weighted average number of shares outstanding during the period. The treasury stock method for calculating the dilutive impact of stock options is used. The following table outlines the calculation of basic and diluted earnings per share on income from continuing operations.

	Third Quarter		Nine Months	
Periods ended September 30	**2006**	2005	**2006**	2005
Numerator:				
Income from continuing operations	**460**	72	**1,368**	488
Less: dividends on preference shares	**(3)**	(2)	**(8)**	(5)
Income from continuing operations attributable to common shareholders	**457**	70	**1,360**	483
Denominator (number of common shares in millions):				
Weighted average of outstanding shares - basic	**376**	370	**375**	370
Effect of dilutive stock options	**1**	-	**1**	1
Adjusted weighted average of outstanding shares - diluted	**377**	370	**376**	371
Earnings per common share - basic	**1.21**	0.19	**3.63**	1.30
Earnings per common share - diluted	**1.21**	0.19	**3.62**	1.30

In the third quarter and nine months ended September 30, 2006, options to purchase 3,214,739 and 402,561 common shares, respectively (2005: 8,245,958 and 5,065,224) at a weighted average grant price of CAN$51.88 and CAN$56.34 per share, respectively (2005: CAN$46.23 and CAN$49.66) were outstanding during the period but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average price of the common shares.

As at September 30, 2006, there were 376,155,267 (2005: 370,419,460) common shares outstanding.

In the third quarter of 2006, the Company announced a 33% increase in the quarterly dividend from $0.15 to $0.20. The dividend of $0.20 per common share was paid on September 20, 2006 to shareholders of record at the close of business on August 18, 2006.

6. RESTRUCTURING PROGRAMS

2006 Restructuring Activities

During the third quarter of 2006, the Company incurred charges of $6 relating to early retirement incentives accepted by employees at a research facility in France (Engineered Products). These charges are included in severance costs. In addition, the Engineered Products group incurred other restructuring costs of $1.

During the third quarter of 2006, the Company incurred severance charges of $2 due to the restructuring of a trading operation in Switzerland (Primary Metal). No further charges are expected to be incurred as a result of this activity.

On May 9, 2006, the Company announced the reorganization of its global specialty aluminas business (Bauxite and Alumina), entailing the gradual, yet permanent shut-down of the Company's Specialty-Calcined Alumina plant ("UPCA") in Jonquière, Quebec, by year end. In relation to this activity, the Company recorded restructuring charges of $12 comprising $1 of severance costs and $11 of asset impairment charges during the second quarter of 2006. The Company expects to incur additional charges of $2 related to site remediation costs in the first quarter of 2007.

On June 30, 2006, the Company announced that it had signed a new collective labour agreement with its Quebec employees represented by the Canadian Auto Workers (C.A.W.) union. The agreement applies to C.A.W. employees at the Arvida, Beauharnois, Laterrière, Shawinigan and Vaudreuil Works sites, as well as those at Power Operations, Port Facilities, Alma Railway Operations and the Arvida Research and Development Centre (Bauxite and Alumina and Primary Metal). As part of this agreement, the Company has offered early retirement incentives to employees and has recorded severance charges of $3 during the third quarter of 2006 for employees who have accepted. The Company expects to incur additional severance charges of $8 as a result of this offer.

On July 12, 2006, the Company announced that it has begun consultations with unions and employee representatives for a proposed sale of selected assets at the Company's Affimet aluminum recycling plant in Compiègne, France (Primary Metal). In relation to this activity, the Company recorded restructuring charges of $44 comprising $14 of severance costs, $7 of other costs and $23 of asset impairment charges during the second quarter of 2006, as they met the criteria for recognition during the period. No further charges are expected to be incurred.

Also on July 12, 2006, the Company announced that it has begun consultations with unions and employee representatives for a proposed closure of two U.K. sites. The proposed reorganization would result in the closure of the Workington, U.K. hard alloy extrusion plant (Engineered Products) and the closure of the Midsomer Norton, U.K. food flexibles packaging plant (Packaging).

In relation to the Workington closure, the Company recorded restructuring charges of $9 comprised entirely of severance costs during the second quarter of 2006, as they met the criteria for recognition during the period. Production from Workington would be consolidated at Alcan's facilities in Issoire and Montreuil-Juigné, France. Workington is expected to cease production by the end of the second quarter of 2007. The Company expects to incur additional charges of $7 in 2007 related to this activity.

In relation to the Midsomer Norton closure, the Company recorded restructuring charges of $17 comprising $16 of severance costs and $1 of asset impairment charges during the second quarter of 2006, as they met the criteria for recognition during the period. The plant has been adversely affected by a declining demand in the U.K. market and high raw material costs. The site is expected to close by the end of 2006. The Company expects to incur additional charges of $3 in the fourth quarter of 2006 related to this activity.

In addition, the Company also recorded severance costs of $2 during the second quarter of 2006 related to the closure of Alcan Packaging Mohammedia's cookware activity. The Company expects to incur additional charges of $1 in the fourth quarter of 2006 related to this activity.

6. RESTRUCTURING PROGRAMS (cont'd)

2005 Restructuring Activities

As part of the continuing drive to reshape its portfolio, counter increasing competitive pressures in Western countries and improve margins, the Packaging Group is pursuing plans to restructure certain businesses, notably Global Beauty Packaging and Food Packaging Europe. A restructuring charge of $485 (Q1: $11; Q2: $45; Q3: $23; Q4: $406) was taken in 2005 to reflect the ongoing implementation of this strategy. This charge is comprised of severance costs of $94 (Q1: nil; Q2: $26; Q3: $7; Q4: $61), asset impairment charges of $331 (Q1: $7; Q2: $12; Q3: $3; Q4: $309) and other charges of $60 (Q1: $4; Q2: $7; Q3: $13; Q4: $36). In addition to these restructuring charges, other costs of $2 (Q1: nil; Q2: nil; Q3: nil; Q4: $2) were recorded in Cost of sales and operating expenses. In the first quarter of 2006, the Company incurred an additional $9 of restructuring charges. This charge is comprised of severance costs of $2, asset impairment charges of $5 and other charges of $2. In the second quarter of 2006, the Company incurred an additional $8 of restructuring charges. These charges are comprised of severance costs of $5 and other charges of $3. In the third quarter of 2006, the Company incurred an additional $13 of restructuring charges. These charges are comprised of asset impairment charges of $1 and other charges of $12. The Company expects to incur an additional $19 of charges related to the activities initiated and approved as of December 31, 2005, and these restructurings should be completed during the first half of 2007.

During the first quarter of 2006, the Company closed its Vernon, California, aluminum cast plate facility (Engineered Products) as a result of competitive pressures in a challenging economic environment. In the second quarter of 2006, the Company incurred additional other restructuring charges of $1 related to this activity. No further charges are expected to be incurred in connection with the Vernon closure. In addition to the Vernon closure, Engineered Products underwent continued restructuring in 2005. The Company recorded restructuring charges of $17 related to these activities consisting of severance costs of $13 and asset impairment charges of $4. In addition to these restructuring charges, $14 of additional pension costs related to the Vernon closure, and $4 of additional environmental costs related to other restructurings, were recorded in Cost of sales and operating expenses in the fourth quarter of 2005.

In the fourth quarter of 2005, the Company recorded restructuring charges of $115 related to the closure of its aluminum smelter in Lannemezan, France, and its Steg primary aluminum smelter in Switzerland (Primary Metal) due to escalating energy costs. The closure process for Lannemezan began in June 2006 and is expected to be completed, at the latest, during the course of 2008. The closure of Steg was completed in April 2006. These charges were comprised of severance costs of $43, asset impairment charges of $61, and other charges of $11. No further charges are expected to be incurred in connection with these closures.

On September 14, 2005, the Company announced that its subsidiary, Société Générale de Recherches et d'Exploitations Minières (Sogerem) (Bauxite and Alumina), had begun an information and consultation process with its employee representatives and local partners due to the exhaustion of mining resources in the Tarn region of France. Production at its fluorspar mining operations came to a close during the first half of 2006. In relation to this activity, the Company recorded restructuring charges of $9 comprising $6 of severance costs, $2 of other costs and $1 of asset impairment charges during the third quarter of 2005. In addition to the $9 of restructuring charges, $5 relating principally to additional asset retirement obligations were recorded, as a result of this activity, in Cost of sales and operating expenses. In the first quarter of 2006, the Company incurred additional other restructuring charges of $2. No further charges are expected to be incurred.

In the second quarter of 2005, the Company announced the restructuring of its Engineered Products facilities in Singen, Germany, and Sierre, Switzerland, in order to improve efficiency and ensure their long-term viability. Alcan will integrate its extrusion activities at the Singen and Sierre sites and restructure the automotive structures and composites into its operations at Singen. In 2005, the Company incurred $30 (Q1: $1; Q2: $27; Q3: nil; Q4: $2) of severance charges. During the third quarter of 2006, the Company reversed $4 of severance charges in Singen, Germany as certain affected employees were transferred to other businesses, and certain employees took advantage of voluntary severance and early retirement programs. This restructuring is expected to be completed in the short term.

6. RESTRUCTURING PROGRAMS (cont'd)

In 2005, the Company incurred $5 (Q1: nil; Q2: $14; Q3: nil; Q4: $(9)), mostly related to severance costs, in connection with the exit from the Mercus and Froges high-purity-metal processing operations in France (Engineered Products), which occurred during the first quarter of 2006. The Company expects to incur additional charges of $1 in the fourth quarter of 2006 related to this activity.

In 2005, the Company recorded other restructuring charges of $9 (Q1: $3; Q2: $2; Q3: $1; Q4: $3) consisting of severance costs of $6 (Q1: $1; Q2: $3; Q3: nil; Q4: $2) relating principally to additional Pechiney involuntary termination costs in Primary Metal and the closure of a balsa composites plant in Guayaquil, Ecuador (Engineered Products), asset impairment charges of $2 (Q1: $2; Q2: nil; Q3: nil; Q4: nil) related to a Pechiney facility in China (Engineered Products) and other costs of $1 (Q1: nil; Q2: nil; Q3: nil; Q4: $1) in Primary Metal. In the first quarter of 2006, the Company incurred additional severance charges of $1 in Primary Metal.

2004 Restructuring Activities

In line with the Company's objective of value maximization, the Company undertook various restructuring initiatives in 2004.

Pechiney

In 2004, the Company recorded liabilities of $193 for restructuring costs in connection with the exit of certain operations of Pechiney, and these costs were recorded in the allocation of the purchase price. These costs relate principally to severance costs of $121 related to the involuntary termination of Pechiney employees in France (Primary Metal, Engineered Products, Packaging and Other), as well as other severance costs of $54, principally comprising $21 relating to a plant closure in Barcelona, Spain (Packaging), $17 relating to a planned plant closure in Flemalle, Belgium (Entities transferred to Novelis), $5 relating to a plant closure in Garbagnate, Italy (Packaging), and $1 relating to the downsizing of a plant in Kolin, Czech Republic (Packaging). A restructuring provision of $21 related to the plant closure in Flemalle was transferred to Novelis in 2005 following the spin-off.

Other 2004 restructuring activities

In the third quarter of 2004, the Company incurred restructuring charges of $19 relating to the consolidation of its U.K. aluminum sheet rolling activities in Rogerstone, Wales, in order to improve competitiveness through better capacity utilization and economies of scale. Production ceased at the rolling mill in Falkirk, Scotland, in December 2004. The charges include $6 of severance costs, $8 of asset impairment charges, $2 of pension costs, $3 of decommissioning, environmental costs and other charges. These entities and the related restructuring provision of $5 were transferred to Novelis in 2005 following the spin-off.

In 2004, the Company incurred restructuring charges of $7 relating to the closure of two corporate offices in the U.K. and Germany (Other). The charges include $4 related to severance costs and $3 related to lease exit costs and costs to consolidate facilities. In 2005, the Company incurred additional severance and exit costs of $2 (Q1: $3; Q2: $(3); Q3: nil; Q4: $2) in relation to the closure of its corporate office in the U.K. The restructuring provision of $3 related to the closure of the corporate office in Germany was transferred to Novelis in 2005 following the spin-off.

In November 2004, the Company announced the downsizing of its Alcan Mass Transportation Systems business unit in Zurich, Switzerland (Engineered Products), as a result of changing market conditions and business realities. In the fourth quarter of 2004, the Company incurred restructuring charges of $5 consisting of $4 of asset impairment charges, and $1 of other charges. In 2005, the Company incurred additional severance charges of $4 (Q1: $2; Q2: $1;

Q3: $1; Q4: nil), asset impairment charges of $1 (Q1: $1; Q2: nil; Q3: nil; Q4: nil) and other costs of $3 (Q1: nil; Q2: nil; Q3: nil; Q4: $3) relating to the downsizing of this business. In addition, the Engineered Products Group incurred restructuring charges of $9 in 2004 relating to both the closure of a composites facility in the U.S., and process reengineering at certain facilities in Switzerland and Germany. The 2004 charges consisted of severance costs of $6, asset impairment charges of $2 and other costs of $1.

In 2004, the Company incurred restructuring charges of $39 relating to exit costs incurred in connection with certain non-strategic packaging facilities located in the U.S. and France. These charges consist of severance costs of $23, asset impairment charges of $11 and other charges of $5.

6. RESTRUCTURING PROGRAMS (cont'd)

In early 2004, the Company permanently halted production at its Jonquière Söderberg primary aluminum facility in Saguenay, Quebec (Primary Metal). As a result, the Company recorded charges of $14 in 2004 comprising $5 of severance costs, $5 of asset impairment charges, and $4 of other costs. In 2005, the Company incurred additional restructuring charges of $5 (Q1: $1; Q2: nil; Q3: nil; Q4: $4) consisting of severance costs of $3 (Q1: nil; Q2: nil; Q3: nil; Q4: $3) and other costs of $2 (Q1: $1; Q2: nil; Q3: nil; Q4: $1). In the first quarter of 2006, the Company incurred additional other restructuring charges of $1. In the third quarter of 2006, the Company incurred additional severance charges of $1.

The schedule provided below shows details of the provision balances and related cash payments for the significant restructuring activities:

	Severance Costs	**Asset Impairment Charges***	**Other**	**Total**
Provision balance as at January 1, 2005	200	-	46	246
2005:				
Provisions transferred to Novelis	(31)	-	(14)	(45)
Charges recorded in the statement of income	204	400	81	685
Cash payments - net	(118)	-	(40)	(158)
Non-cash items	(12)	(400)	(16)	(428)
Provision balance as at December 31, 2005	243	-	57	300
Nine months, 2006:				
Charges recorded in the statement of income	**60**	**41**	**29**	**130**
Cash payments - net	(117)	**-**	(33)	(150