

ALCOA INC
Form 10-K
February 15, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2007

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
(State of incorporation)

25-0317820
(I.R.S. Employer Identification No.)

390 Park Avenue, New York, New York 10022-4608
(Address of principal executive offices) (Zip code)

Registrant's telephone numbers:

Investor Relations----- (212) 836-2674

Office of the Secretary----- (212) 836-2732

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, par value \$1.00

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No .

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer 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 .

The aggregate market value of the outstanding common stock, other than shares held by persons who may be deemed affiliates of the registrant, as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$35 billion. As of February 12, 2008, there were 814,370,863 shares of common stock, par value \$1.00 per share, of the registrant outstanding.

Documents incorporated by reference.

Parts I, II and IV of this Form 10-K incorporate by reference certain information from the registrant's 2007 Annual Report to Shareholders (Annual Report). Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement for its 2008 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A (Proxy Statement).

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Note on Incorporation by Reference	

In this Form 10-K, selected items of information and data are incorporated by reference to portions of the Annual Report and Proxy Statement. Unless otherwise provided herein, any reference in this report to disclosures in the Annual Report or Proxy Statement shall constitute incorporation by reference of only that specific disclosure into this Form 10-K.

Table of Contents**ALCOA INC.**

Formed in 1888, Alcoa Inc. is a Pennsylvania corporation with its principal office in New York, New York. In this report, unless the context otherwise requires, Alcoa or the company means Alcoa Inc. and all subsidiaries consolidated for the purposes of its financial statements.

The company's Internet address is <http://www.alcoa.com>. Alcoa makes available free of charge on or through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (SEC). The SEC maintains an Internet site that contains these reports at <http://www.sec.gov>.

PART I**Item 1. Business.****Description of the Business**

Information describing Alcoa's businesses can be found in the Annual Report at the indicated pages:

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Overview

Alcoa is the world leader in the production and management of primary aluminum, fabricated aluminum, and alumina combined, through its active and growing participation in all major aspects of the industry: technology, mining, refining, smelting, fabricating, and recycling. Aluminum is a commodity that is traded on the London Metal Exchange (LME) and priced daily based on market supply and demand. Aluminum and alumina represent approximately three-fourths of Alcoa's revenues, and the price of aluminum influences the operating results of Alcoa. Nonaluminum

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products include precision castings, industrial fasteners, consumer products, food service and flexible packaging products, plastic closures, and electrical distribution systems for cars and trucks. Alcoa's products are used worldwide in aircraft, automobiles, commercial transportation, packaging, consumer products, building and construction, and industrial applications.

Alcoa is a global company operating in 44 countries. Based upon the country where the point of sale occurred, North America and Europe generated 57% and 25%, respectively, of Alcoa's sales. In addition, Alcoa has investments and activities in Australia, Brazil, China, Iceland, Jamaica, Guinea, and Russia, all of which present opportunities for substantial growth. Governmental policies and other economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates, affect the results of operations in these countries.

Alcoa's operations consist of six worldwide segments: Alumina, Primary Metals, Flat-Rolled Products, Extruded and End Products, Engineered Solutions, and Packaging and Consumer.

The Alumina segment primarily consists of a series of affiliated operating entities referred to as Alcoa World Alumina and Chemicals (AWAC). Alcoa owns 60% and Alumina Limited owns 40% of these individual entities. For more information on AWAC, see Exhibit Nos. 10 (a) through 10(f)(1) to this report.

Recent Developments

In October 2007, Alcoa announced that it had reviewed strategic alternatives related to its Electrical and Electronic Solutions business (formerly the Alcoa Fujikura Limited wire harness business) and approved a targeted restructuring plan to improve future returns and profitability.

In November 2007, Alcoa completed the sale of its automotive castings business to Compass Automotive Group, LLC, a portfolio company of Monomoy Capital Partners, L.P. The Alcoa business had 2006 revenues of approximately \$150 million and employed approximately 530 employees in two operating locations: Fruitport, MI and Farsund, Norway. Alcoa will continue to operate its other automotive businesses globally, including its facility in Soest, Germany.

In December 2007, Alcoa agreed to sell its packaging and consumer businesses to New Zealand's Rank Group Limited for \$2.7 billion in cash. The transaction is expected to be completed by the end of the first quarter 2008. Alcoa's packaging and consumer businesses include Closure Systems International, Consumer Products, Flexible Packaging and Reynolds Food Packaging. These businesses generated approximately \$3.3 billion in revenues in 2007 and employed approximately 9,300 employees in 22 countries around the world. Alcoa will continue to operate its flat-rolled can sheet products business serving the packaging market.

On February 1, 2008, Alcoa announced that the company joined with the Aluminum Corporation of China to acquire 12% of the U.K. common stock of Rio Tinto plc (RTP) for approximately \$14 billion. Of this amount, Alcoa contributed \$1.2 billion on February 6, 2008. The investment was made through a special purpose vehicle called Shining Prospect Pte. Ltd. (SPPL), which is a private limited liability company, created for the purpose of acquiring the RTP shares. The RTP shares were purchased on the open market through an investment broker.

Bauxite Interests

Aluminum is one of the most plentiful elements in the earth's crust. Aluminum is produced primarily from bauxite, an ore containing aluminum in the form of aluminum oxide, commonly referred to as alumina. Aluminum is made by extracting alumina from bauxite and then removing oxygen from the alumina. Alcoa processes most of the bauxite that it mines into alumina. The company obtains bauxite from resources held by AWAC, from the company's interests in the countries listed in the chart below, and under both long-term and short-term contracts and mining leases. In 2007, Alcoa consumed 34.8 million metric tons (mt) of bauxite from its own resources, 5.9 million mt from related third

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parties and 3.5 million mt from unrelated third parties. Alcoa's present sources of bauxite are sufficient to meet the forecasted requirements of its alumina refining operations for the foreseeable future. The following table provides information regarding the company's bauxite interests:

Alcoa Active Bauxite Interests¹

			Expiration
			Date of
			Mining
Country	Project	Owners Mining Rights (% Entitlement)	Rights
Australia	Darling Range Mines	Alcoa of Australia Limited (AofA) ² (100%)	2045
Brazil	Poços de Caldas	Alcoa Alumínio S.A. (Alumínio) (100%)	2020 ³
	Trombetas	Mineração Rio do Norte S.A. (MRN) ⁴ (100%)	2046 ³
Guinea	Boké	Compagnie des Bauxites de Guinée (CBG) ⁵ (100%)	2038 ⁶
Jamaica	Clarendon/Manchester	Alcoa Minerals of Jamaica, L.L.C. ⁷ (55%)	
	Plateau	Clarendon Alumina Production Ltd. ⁸ (45%)	2042
Suriname	Caramacca	BHP Billiton (45%)	
		Suriname Aluminum Company, L.L.C. (Suralco) ⁷ (55%)	2012 ⁹
	Coermotibo	BHP Billiton (45%)	
		Suralco (55%)	2033 ⁹
	Kaimangrasi	BHP Billiton (45%)	
		Suralco (55%)	2033 ⁹
	Klaverblad	BHP Billiton (45%)	
		Suralco (55%)	2033 ⁹

¹ Alcoa also has interests at the following locations that are bauxite resources or do not currently produce bauxite: Cape Bougainville and Mitchell Plateau in Australia and Juruti in Brazil (currently scheduled for completion in late 2008 and expected to initially produce 2.6 million mt per year (mtpy)) as well as Brownsberg, Coermotibo DS, Lely Mountains, and Nassau, all in eastern Suriname.

² AofA is part of the AWAC group of companies and is owned 60% by Alcoa and 40% by Alumina Limited.

³ Brazilian mineral legislation does not establish the duration of mining concessions. The concession remains in force until the complete exhaustion of the deposit. The company estimates that (i) the concessions at Poços de Caldas will last at least until 2020 and (ii) the concessions at Trombetas will last until 2046. Depending, however, on actual and future needs, the rate at which the deposits are explored and government approval, the concessions may be extended to (or expire at) a later (or an earlier) date.

⁴ Alumínio holds an 8.6% interest, Abalco S.A. (Abalco) holds a 4.6% interest and Alcoa World Alumina LLC (AWA LLC) holds a 5% interest in MRN. Abalco and AWA LLC are both part of the AWAC group of companies and are owned 60% by Alcoa and 40% by Alumina Limited. MRN is jointly owned with affiliates of Rio Tinto Alcan Inc. (formerly Alcan Inc.), Companhia Brasileira de Alumínio, Companhia Vale do Rio Doce, BHP Billiton Plc (BHP Billiton) and Norsk Hydro. Alumínio, Abalco, and AWA LLC purchase bauxite from MRN under long-term supply contracts.

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- ⁵ AWA LLC owns a 45% interest in Halco (Mining), Inc. Halco owns 100% of Boké Investment Company, a Delaware company, which owns 51% of CBG. The Guinean Government owns 49% of CBG, which has the exclusive right through 2038 to develop and mine bauxite in certain areas within a 10,000 square-mile perimeter in northwestern Guinea.
- ⁶ AWA LLC has a bauxite purchase contract with CBG that will provide Alcoa with bauxite through 2011.
- ⁷ This entity is part of the AWAC group of companies and is owned 60% by Alcoa and 40% by Alumina Limited.
- ⁸ Clarendon Alumina Production Ltd. is a wholly-owned subsidiary of the Government of Jamaica.
- ⁹ In addition to the other named Suriname interests, Lelydorp was an active site until the mine was exhausted and closed in February 2007. While mining rights at Caramacca extend until 2012 and rights at the remaining Suriname locations extend until 2033, it is likely that all Suriname bauxite resources will also be exhausted within the next several years. Alcoa is evaluating alternate sources of bauxite including resources located in western Suriname.

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Alcoa is the world's leading producer of alumina. Alcoa's alumina refining facilities and its worldwide alumina capacity are shown in the following table:

Alcoa Worldwide Alumina Refining Capacity

Country	Facility	Owners (% of Ownership)	Alcoa	
			Nameplate Capacity ¹ (000 MTPY)	Consolidated Capacity ² (000 MTPY)
Australia	Kwinana	AofA ³ (100%)	2,150	2,150
	Pinjarra	AofA (100%)	4,234 ⁴	4,234
	Wagerup	AofA (100%)	2,500	2,500
Brazil	Poços de Caldas	Aluminio (100%)	390	390
	São Luís (Alumar)	Abalco ³ (18.9%)		
		Rio Tinto Alcan Inc. ⁵ (10%)		
		Aluminio (35.1%)		
Jamaica	Jamalco	BHP Billiton ⁵ (36%)	1495	807
		Alcoa Minerals of Jamaica, L.L.C. ³ (55%)		
Spain	San Ciprián	Clarendon Alumina Production Ltd. ⁶ (45%)	1421	784
		Alúmina Española, S.A. ³ (100%)	1,500	1,500
Suriname	Suralco	BHP Billiton ⁵ (45%)		
U.S.	Point Comfort, TX	Suralco ³ (55%)	2,207	1,214
		Alcoa World Alumina LLC ³ (100%)	2,305 ⁷	2,305
TOTAL			18,202	15,884

¹ Nameplate capacity is an estimate based on design capacity and normal operating efficiencies and does not necessarily represent maximum possible production.

² The figures in this column reflect Alcoa's share of production from these facilities. For facilities owned by AWAC entities, Alcoa takes 100% of the production.

³ This entity is part of the AWAC group of companies and is owned 60% by Alcoa and 40% by Alumina Limited.

⁴ In 2004, Alcoa received the Western Australian Government's environmental approval for its previously announced Pinjarra alumina refinery efficiency upgrade, which increased production at the facility by 657,000 mtpy. Full production was achieved in the fourth quarter of 2006. Ramp up to full production at the Pinjarra refinery was impacted in December 2006 and 2007 due to a power failure at the refinery and de-bottlenecking requirements related to the upgrade.

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- ⁵ The named company or an affiliate holds this interest.
- ⁶ In August 2007, production at the Clarendon refinery was temporarily curtailed as part of safety precautionary measures in advance of Hurricane Dean. The bauxite mine and refinery suffered little damage from the storm, but the refinery was temporarily shut down due to loss of power. The Rocky Point port from which Jamalco ships alumina sustained substantial damage and required significant repairs, as well as temporary logistical support for shipping alumina while repair work was completed. Repair work included preparing storage for alumina which resulted in limiting production from the facility to 50 percent of capacity. Alcoa declared force majeure to its customers. The refinery has restarted and is expected to achieve pre-shutdown production levels in the 2008 first quarter. The port has been temporarily repaired and shipments are currently being made from that facility. Permanent repairs to the port are expected to be completed during 2008.
- ⁷ Production at Point Comfort was temporarily affected during the first quarter 2007 due to a general labor disturbance in Guinea that closed the port from which the Guinea Boké mine supplies this facility with bauxite.
- In January 2005, Alcoa and the Government of the Republic of Ghana announced the signing of a Memorandum of Understanding (MOU), under which the parties would evaluate the possible development of an integrated aluminum industry in Ghana, including bauxite mining, alumina refining, aluminum production, and rail transportation infrastructure upgrades. The parties are no longer pursuing the contemplated projects.

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In September 2005, Alcoa announced that its Board of Directors approved plans to make further investments in the company's Brazilian upstream operations. Investments include (i) a 2.1 million mtpy expansion of the Alumina consortium alumina refinery in São Luís, state of Maranhão (expected to increase the refinery's current capacity to approximately 3.5 million mtpy in 2009, with Alcoa's share of the total facility output more than doubling to 1.89 million mtpy based on its 54% ownership stake through Alumina and AWAC) and (ii) the modernization of the Poços de Caldas aluminum smelter, in the state of Minas Gerais.

In November 2005, Alcoa World Alumina LLC (AWA LLC) and Rio Tinto Alcan Inc. announced the signing of a Basic Agreement with the Government of Guinea that sets forth the framework for development of a 1.5 million mtpy alumina refinery in Guinea. The Basic Agreement was approved by the Guinean National Assembly in May of 2006 and was promulgated into law by decree of the President of Guinea in July of 2006.

In April 2006, AWAC signed an MOU with Vietnam National Coal-Minerals Industries Group (Vinacomin) under which the parties will explore the feasibility of creating a joint venture to develop a bauxite mine and alumina refinery in the Dak Nong province of Vietnam. The cooperation between AWAC and Vinacomin is subject to approval by the Government of Vietnam. The Government of Vietnam issued a Master Plan for the aluminum industry in November 2007. The investment model stipulated in the Master Plan is a Joint Stock Company. If established, the venture would be 51% owned by Vinacomin, with the ownership share of AWAC to be agreed.

In September 2006, Alcoa received environmental approval from the Government of Western Australia for expansion of the Wagerup alumina refinery to a maximum capacity of 4.7 million mtpy, a potential increase of over 2 million mtpy. This approval includes a variety of environmental conditions that must be satisfied before Alcoa can seek construction approval for the project. The environmental approval paves the way for Alcoa to proceed to the next stage of project design, the feasibility study. The pre-feasibility phase of the project has been extended into 2008.

In 2007, Jamalco completed the Early Works Program at its Clarendon, Jamaica refinery, which added 146,000 mtpy of production, increasing the total capacity to 1.421 million mtpy. As a result of the Early Works Program, AWAC's ownership in Jamalco has increased to approximately 55%, with the Government of Jamaica owning approximately 45%.

The 1.5 million mtpy planned expansion of Jamalco's Clarendon, Jamaica refinery is subject to supply of natural gas by the Government of Jamaica and acceptable market conditions. As of December 31, 2007, AWAC has capitalized approximately \$84 million of engineering costs related to this project (Alcoa's share of these costs is approximately \$50 million).

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The company's primary aluminum smelters and their respective capacities are shown in the following table:

Alcoa Worldwide Smelting Capacity

Country	Facility	Owners (% Of Ownership)	Nameplate Capacity ¹ (000 MTPY)	Alcoa
				Consolidated Capacity ² (000 MTPY)
Australia	Point Henry Portland	AofA (100%)	190	190 ₃
		AofA (55%)		
		CITIC (22.5%)		
Brazil	Poços de Caldas São Luís (Alumar)	Marubeni (22.5%)	358	197 ₃
		Aluminio (100%)	96	96
		Aluminio ⁴ (60%)		
Canada	Baie Comeau, Que. Bécancour, Que.	BHP Billiton (40%)	447	268
		Alcoa (100%)	438	438
		Alcoa (74.95%)		
Iceland	Deschambault, Que. Fjarðaál	Rio Tinto Alcan Inc. ⁵ (25.05%)	407	305
		Alcoa (100%)	254	254
		Alcoa (100%)	344	344 ₆
Italy	Fusina Portovesme	Alcoa (100%)	44	44
		Alcoa (100%)	150	150
Spain	Avilés La Coruña San Ciprián	Alcoa (100%)	93	93
		Alcoa (100%)	87	87
		Alcoa (100%)	228	228
U.S.	Evansville, IN (Warrick) Frederick, MD (Eastalco) Badin, NC Massena West, NY Massena East, NY Mount Holly, SC	Alcoa (100%)	309 ₇	309 ₇
		Alcoa (100%)	195 ₈	195 ₈
		Alcoa (100%)	60 ₉	60 ₉
		Alcoa (100%)	130	130
		Alcoa (100%)	125	125
		Alcoa (50.33%)		
		Century Aluminum Company (49.67%)	229	115
Alcoa, TN Rockdale, TX	Alcoa (100%)	215 ₁₀	215 ₁₀	
	Alcoa (100%)	267 ₁₁	267 ₁₁	