

ALCAN INC  
Form 10-Q  
November 09, 2005

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, 2005**

Commission file number 1-3677

**ALCAN INC.**

(Exact name of registrant as specified in its charter)

**CANADA**

Inapplicable

(State or Other Jurisdiction of

(I.R.S. Employer Identification No.)

Incorporation or Organization)

**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.

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Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

Yes  No

At November 8, 2005 the registrant had 370,691,124 shares of common stock (without nominal or par value) outstanding.

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**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**

**2005**

2004

**2005**

2004

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

**Sales and operating revenues**

**4,887**

6,184

**15,271**

18,412

**Costs and expenses**

Cost of sales and operating expenses, excluding depreciation

and amortization noted below

**3,921**

4,997

**12,141**

14,887

Depreciation and amortization

**266**

322

**806**

982

Selling, administrative and general expenses

**331**

398

**1,056**

1,159

Research and development expenses

**66**

54

**164**

173

Interest

**92**

73

**267**

253

Other expenses (income) - net (note 11)

**55**

49

**152**

100

**4,731**

5,893

**14,586**

17,554

Income from continuing operations before income taxes and

other items

**156**

291

**685**

858

Income taxes (note 9)

**101**

134

**269**

300

Income from continuing operations before other items

**55**

157

**416**

558

Equity income

**16**

13

**73**

46

Minority interests

**1**

1

**(1)**

(14)

**Income from continuing operations**

**72**

171

**488**

590

Income (Loss) from discontinued operations (note 3)

**9**

(4)

**2**

14

**Net income**

**81**

167

**490**

604

Dividends on preference shares

**2**

1

5

4

**Net income attributable to common shareholders**

**79**

166

**485**

600

**Earnings (Loss) per share** (note 4)

Basic:

Income from continuing operations

**0.19**

0.46

**1.30**

1.60

Income (Loss) from discontinued operations

**0.02**

(0.01)

**0.01**

0.03

**Net income per common share - basic**

**0.21**

0.45

**1.31**

1.63

Diluted:

Income from continuing operations

**0.19**

0.46

**1.30**

1.59

Income (Loss) from discontinued operations

**0.02**

(0.01)

**0.01**

0.03

**Net income per common share - diluted**

**0.21**

0.45

**1.31**

1.62

**Dividends per common share**

**0.15**

0.15

**0.60**



0.60

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

**ALCAN INC.**

**INTERIM CONSOLIDATED BALANCE SHEET** (unaudited)

**September 30, 2005**

December 31, 2004

*(in millions of US\$)*

**ASSETS**

**Current assets**

Cash and time deposits

**236**

184

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Trade receivables (net of allowances of \$70 in 2005 and \$99 in 2004)

**2,490**

3,247

Other receivables

**925**

936

Deferred income taxes

**125**

214

Inventories (note 12)

**2,805**

4,040

Current assets held for sale (note 3)

**176**

791

**Total current assets**

**6,757**

9,412

Deferred charges and other assets

**2,334**

2,877

Deferred income taxes

**964**

870

Property, plant and equipment

Cost (excluding Construction work in progress)

**16,706**

21,595

Construction work in progress

**1,439**

1,177

Accumulated depreciation

**(7,097)**

(9,478)

**11,048**

13,294

Intangible assets (net of accumulated amortization of \$194 in 2005

and \$172 in 2004)

**884**

1,230

Goodwill

**4,958**

5,496

Long-term assets held for sale (note 3)

**28**

162

**Total assets**

**26,973**

33,341

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

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**ALCAN INC.**

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

**September 30, 2005**

December 31, 2004

*(in millions of US\$)*

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current liabilities**

Payables and accrued liabilities

**4,386**

5,843

Short-term borrowings

**284**

2,486

Debt maturing within one year

**841**

569

Deferred income taxes

**28**

23

Current liabilities of operations held for sale (note 3)

**75**

335

**Total current liabilities**

**5,614**

9,256

Debt not maturing within one year

**5,503**

6,345

Deferred credits and other liabilities

**4,307**

4,986

Deferred income taxes

**1,349**

1,543

Long-term liabilities of operations held for sale (note 3)

**4**

249

Minority interests

**73**

236

**Shareholders' equity**

Redeemable non-retractable preference shares

**160**

160

Common shareholders' equity

Common shares

**6,110**

6,670

Additional paid-in capital

**695**

112

Retained earnings

**3,340**

3,362

Common shares held by a subsidiary

**(31)**



(35)

Accumulated other comprehensive income (loss) (note 16)

(151)

457

**9,963**

10,566

**10,123**

10,726

Commitments and contingencies (note 15)

**Total liabilities and shareholders' equity**

**26,973**

33,341

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

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS** (unaudited)

Third Quarter

Nine Months

**Periods ended September 30**

**2005**

2004

**2005**

2004

*(in millions of US\$)*

**OPERATING ACTIVITIES**

Net income

**81**

167

**490**

604

Loss (Income) from discontinued operations

**(9)**

4

**(2)**

(14)

Income from continuing operations

**72**

171

**488**

590

Adjustments to determine cash from operating activities:

Depreciation and amortization

**266**

322

**806**

982

Deferred income taxes

**86**

(17)

**128**

(3)

Equity income, net of dividends

**(5)**

(11)

**(29)**

(28)

Asset impairment provisions

**5**

10

**40**

20

Loss (Gain) on sale of businesses and investments - net

**(5)**

(2)

**11**

(44)

Stock option compensation

**4**

3

**14**

7

Change in operating working capital

Change in receivables

**125**

9

**(228)**

(509)

Change in inventories

**26**

(1)

**(88)**

43

Change in payables and accrued liabilities

**104**

60

**(168)**

259

Change in deferred charges, other assets,

deferred credits and other liabilities - net

**53**

131

**(19)**

28

Other - net

**(34)**

38

**(119)**

68

Cash from operating activities in continuing operations

**697**

713

**836**

1,413

Cash from operating activities in discontinued operations

**4**

31

**54**

82

**Cash from operating activities**

**701**

744

**890**

1,495

**FINANCING ACTIVITIES**

Proceeds from issuance of new debt - net of issuance costs

**21**

743

**1,187**

1,461

Debt repayments

**(210)**

(1,017)

**(1,406)**

(1,471)

Short-term borrowings - net

**(52)**

(42)

**(2,045)**

(417)

Common shares issued

**6**

19

**16**

52

Dividends - Alcan shareholders (including preference)

**(58)**

(57)

**(173)**

(170)

- Minority interests

**(1)**

(1)

**(2)**

(5)

Cash used for financing activities in continuing operations

**(294)**

(355)

**(2,423)**

(550)

Cash used for financing activities in discontinued



operations

**(59)**

(4)

**(55)**

(35)

**Cash used for financing activities**

**(353)**

(359)

**(2,478)**

(585)

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

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**ALCAN INC.**

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

Third Quarter

Nine Months

**Periods ended September 30**

**2005**

2004

**2005**

2004

*(in millions of US\$)*

**INVESTMENT ACTIVITIES**

Purchase of property, plant and equipment

**(447)**

(272)

**(1,192)**

(789)

Business acquisitions and purchase of investments

**(31)**

(37)

**(73)**

(460)

Net proceeds from disposal of businesses, investments and

other assets

**141**

5

**176**

25

Settlement of amounts due from Novelis - net (note 5)

-

-

**2,535**

-

Cash from (used for) investment activities in continuing

operations

**(337)**

(304)

**1,446**

(1,224)

Cash from (used for) investment activities in discontinued

operations

**(1)**

(9)

**63**

(13)

**Cash from (used for) investment activities**

**(338)**

(313)

**1,509**

(1,237)

Effect of exchange rate changes on cash and time deposits

**4**

24

**(25)**

(4)

**Increase (Decrease) in cash and time deposits**

**14**

96

**(104)**

(331)

Cash and time deposits - beginning of period

**222**

351

**340**

778

Cash and time deposits - end of period in continuing operations

**236**

318

**236**

318

Cash and time deposits - end of period in current assets held

for sale

-

129

-

129

Cash and time deposits - end of period

**236**

447

**236**

447

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

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**ALCAN INC.**

**INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)**

*(in millions of US\$)*

**Preference Shares - Series C and E**

**Common Shares**

**Additional Paid-In Capital**



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**Retained Earnings**

**Common Shares Held by a Subsidiary**

**Accumulated Other Comprehensive Income (Loss)**

**Total Shareholders' Equity**

Balance at December 31, 2004

160

6,670

112

3,362

(35)

457

10,726

Spin-off of Novelis (note 5)

**(576)**

**572**

**(285)**

**(71)**

**(360)**

Net income - nine months ended

September 30, 2005

490

490

Other comprehensive loss (note 16)

(537)

(537)

Dividends:

Preference

(5)

(5)

Common

(222)

(222)

Stock option expense

14

14

Exercise of stock options

3

(3)

-

Common shares held by a subsidiary

4

4

Common shares issued for cash:

Executive share option plan

9

9

Dividend reinvestment and share

purchase plans

7

7

Other

(3)

(3)

**Balance at September 30, 2005**

**160**

**6,110**

**695**

**3,340**

**(31)**

**(151)**

**10,123**

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

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**ALCAN INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2005**

**(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 interim 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, applied on a consistent basis. The results reported in these interim consolidated financial statements are not necessarily indicative of the results that may be expected for the entire year.

**Spin-off of Rolled Products Businesses - Basis of Presentation**

On January 6, 2005, Alcan completed the spin-off of Novelis Inc. (Novelis), as described in note 5 - Spin-off of Rolled Products Businesses. Prior to the spin-off, these businesses were owned by Alcan. Alcan's consolidated financial statements as at December 31, 2004 and for the third quarter and nine months ended September 30, 2004 include the operations transferred to Novelis. Alcan's consolidated financial statements as at and for the third quarter and nine months ended September 30, 2005 exclude the operations transferred to Novelis. Management concluded that all income earned and cash flows generated by Novelis entities from January 1 to 5, 2005, were insignificant, except as described in note 5 - Spin-off of Rolled Products Businesses.

**2. RECENTLY ISSUED ACCOUNTING STANDARDS**

**Conditional Asset Retirement Obligations**

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. FIN 47 clarifies that the term *conditional asset retirement obligation* as used in FASB Statement (SFAS) No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. According to FIN 47, uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of a liability when sufficient information exists rather than preclude the need to record a liability. This interpretation is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application for interim financial information is permitted but not required. The Company is studying this interpretation and has not yet determined its impact. The Company may have other asset retirement obligations (AROs) that may arise in the event of a plant closure. An ARO has not been recorded for these obligations due to the fact that the liability is not reasonably estimable, as the plant assets have indeterminate lives.

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## 2. RECENTLY ISSUED ACCOUNTING STANDARDS (cont'd)

### Accounting Changes and Error Corrections

In June 2005, the FASB issued 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. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

## 3. 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 and certain affiliated companies acquired from the Company a 53% equity position in AdG. The balance of the Company's interest in AdG, some 7.2%, may be sold by the Company to Mytilineos Holdings one year after closing pursuant to a three-month put option at a price equivalent to the selling price of the shares. Subsequently, Mytilineos Holdings will have a call option for six months to purchase any remaining interest, at a price equivalent to the selling price of the shares.

### Primary Metal

On December 30, 2004, the Company announced that it had reached agreement on the principal terms of a sale of Pechiney Électrométallurgie (PEM) to Ferroatlántica, S.L., of Spain. 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. On June 1, 2005, the Company completed the sale of PEM for net proceeds of \$150.

### Engineered Products

In the first quarter of 2004, the Company committed to a plan to sell certain non-strategic assets that are not part of its core operations. The assets are used to supply castings and components to the automotive industry. The Company is actively pursuing potential purchasers. These assets are classified as held for sale and are included in discontinued operations.

Following a detailed assessment subsequent to the Pechiney acquisition, the Company began restructuring efforts at certain European sites in the fourth quarter of 2004. As a result of this restructuring, the Company committed to a plan to sell two high purity businesses, Mercus and Froges, in France. These businesses were classified in discontinued operations and assets held for sale during the fourth quarter of 2004. In the second quarter of 2005, the Company announced a change in its strategy of selling the businesses due to changes in market and economic conditions. The Company envisions suspending one of two activities at the Mercus high purity metal processing mill and closing the Froges rolling mill. As a result of the change in strategy, these two businesses no longer meet the criteria for discontinued operations and, accordingly, have been reclassified to assets held and used and are included in continuing operations (refer to note 22 - Subsequent Events).

Also in the fourth quarter of 2004, the Company committed to a plan to sell its service centres in France that are 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.



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

Packaging

In the second quarter of 2003, the Company committed to a plan to sell certain non-strategic operations (Fibrenyle, Boxal Group, and Suner Cartons), as the businesses were not part of its core operations. These businesses were classified as held for sale and were included in discontinued operations. In the fourth quarter of 2003, the Company recorded the sale of Fibrenyle, in the U.K., for proceeds of \$29. In the second quarter of 2004, the Company recorded the sale of the Boxal Group and Suner Cartons, for proceeds of \$6 and \$19, respectively. As at June 30, 2004, the Company had sold all of the assets of the non-strategic packaging businesses previously classified as held for sale in the second quarter of 2003.

Other

In the second quarter of 2004, the Company classified in discontinued operations its copper and ores and concentrates trading businesses. In the fourth quarter of 2004, the Company sold certain assets of its ores and concentrates trading division to its then current management team, and sold the assets of its zinc and lead metal trading business to Trafigura Ltd., an independent commodity trading company. Following the end of the third quarter of 2005, a decision was taken to close the Company's copper trading business during the fourth quarter 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.

An impairment charge of nil for the third quarter and nine months ended September 30, 2005 (2004: nil and \$6) was recorded in discontinued operations to reduce the carrying values of these businesses to estimated fair values less costs to sell.

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

Third Quarter

Nine Months

*Periods ended September 30*

**2005**

2004

**2005**

2004

Sales

**37**

362

**313**

1,188

Income (Loss) from operations

**3**

(7)

**11**

10

Gain (Loss) on disposal - net

**8**

5

**(2)**

32

Asset impairment provisions

-

-

-

(6)

Pre-tax income (loss)

**11**

(2)

**9**

36

Income tax expense

**(2)**

(2)

**(7)**

(22)

Income (Loss) from discontinued operations

**9**

(4)

**2**

14

---

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

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

**September 30, 2005**

December 31, 2004

Current assets held for sale:

Cash and time deposits

-

156

Trade receivables

**44**

308

Other receivables

**51**

40

Deferred income taxes

-

2

Inventories

**81**

285

**176**

791

Long-term assets held for sale:

Conditional Asset Retirement Obligations

Deferred charges and other assets

**17**

21

Deferred income taxes

**1**

6

Property, plant and equipment - net

**10**

85

Intangible assets - net

-

50

**28**

162

Current liabilities of operations held for sale:

Payables and accrued liabilities

**74**

330

Short-term borrowings

**1**

5

**75**

Conditional Asset Retirement Obligations

335

Long-term liabilities of operations held for sale:

Deferred credits and other liabilities

-

101

Deferred income taxes

4

7

Minority interests

-

141

4

249

#### 4. 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*

**2005**

2004

**2005**

2004

**Numerator:**

Income from continuing operations

**72**

171

**488**

590

Less: dividends on preference shares

**(2)**

(1)

**(5)**

(4)

Income from continuing operations attributable to

common shareholders

**70**

170

**483**

586

**Denominator (number of common shares in millions):**

Weighted average of outstanding shares - basic

**370**

368

**370**

368

Effect of dilutive stock options

-

1

**1**

1

Adjusted weighted average of outstanding shares - diluted

**370**

369

**371**

369

**Earnings per common share - basic**

**0.19**

0.46

**1.30**

1.60

**Earnings per common share - diluted**

**0.19**

0.46

**1.30**

1.59

In the third quarter and for the first nine months of 2005, options to purchase 8,245,958 and 5,065,224 common shares, respectively (2004: 3,680,200 and 3,663,700) at a weighted average grant price of CAN\$46.23 and CAN\$49.66 per share,



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respectively (2004: CAN\$58.93 and CAN\$58.94) 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, 2005, there were 370,419,460 (2004: 368,737,410) common shares outstanding.

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**5. SPIN-OFF OF ROLLED PRODUCTS BUSINESSES**

On January 6, 2005, Alcan completed the spin-off of Novelis to its shareholders. Alcan shareholders received one Novelis common share for every five Alcan common shares held. Novelis consists of substantially all of the aluminum rolled products businesses held by Alcan prior to its 2003 acquisition of Pechiney, together with some of Alcan's alumina and primary metal-related businesses in Brazil, which are fully integrated with the rolled products operations there, as well as four former Pechiney rolling facilities in Europe.

The effect of the spin-off on the Company's balance sheet is described in the table below. The net assets were transferred at their historical cost.

Adjusted

Original

Amounts(1)

Amounts

**Carrying amount of spun-off businesses:**

Current assets

2,935

2,935

Non-current assets

2,802

2,802

Current liabilities

(3,129)

(3,160)

Non-current liabilities

(2,221)

(2,197)

Accumulated other comprehensive income

(71)

(68)

Total

316

312

Derivatives(2)

(31)

(31)

Total amount recorded in retained earnings

285

281

(1) The agreements giving effect to the spin-off provide for various post-transaction adjustments and the resolution of outstanding matters, which are expected to be carried out by the parties by the end of 2005.

(2) Alcan is the counterparty to certain derivative contracts with Novelis; prior to the spin-off, these derivatives were eliminated in the consolidated financial statements. Subsequent to the spin-off, the derivatives are presented in the balance sheet at their fair value. The amount of (\$31) represents the mark-to-market adjustment to the derivatives for the period from January 1 to 5, 2005. As described in note 1 - Accounting Policies - Spin-Off of Rolled Products Businesses - Basis of Presentation, all income earned and cash flows generated by Novelis entities during the period from January 1, 2005 to the spin-off date of January 6, 2005 were attributed to Novelis due to immateriality. In addition, the transactions between Alcan and Novelis during this period were also immaterial, with the exception of a net derivative gain as described above.

The spin-off of Novelis reduced total shareholders' equity by \$360 (Q1: \$353; Q2: \$354) by way of a reduction in common shares of \$576 (Q1 and Q2: \$576), an increase in additional paid-in capital of \$572 (Q1 and Q2: \$572), a reduction in retained earnings of \$285 (Q1: \$281; Q2: \$279) and a reduction in accumulated other comprehensive income of \$71 (Q1: \$68; Q2: \$71).

Following the spin-off, the Company settled amounts due from Novelis and used the net proceeds of \$2.6 billion to settle third party debt, as described in note 10 - Long-Term Debt, and to cover a preliminary payment of \$100 made by the Company to Novelis in accordance with a separation agreement between the parties.

## 6. RESTRUCTURING PROGRAMS

### 2005 Restructuring Activities

Pechiney

In the third quarter of 2005, the Company incurred \$13 of restructuring costs in connection with the exit of certain non-strategic Pechiney activities as a result of changing market conditions and changes in strategy. The charges consist of severance costs of \$5, asset impairment charges of \$4, and other costs of \$4 principally related to the closure of certain packaging facilities located in the U.S. and Europe, and costs incurred to consolidate certain corporate functions (Other).

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**6. RESTRUCTURING PROGRAMS** (cont'd)

In the second quarter of 2005, the Company incurred \$34 of restructuring costs in connection with the exit of certain Pechiney activities as a result of changing market conditions and changes in strategy. These charges consist principally of severance costs of \$32, consisting of \$13 related to the suspension of one of two activities at the Mercus high-purity-metal processing mill and the closure of the Froges rolling mill in France (Engineered Products), and \$19 related principally to an organizational realignment of the European Tubes sites of the Packaging Beauty business, mainly in France and Germany, as well as other charges of \$2 relating principally to the consolidation of certain corporate functions (Other) and the exit of certain packaging facilities in Mexico. The Company expects to incur \$2 of additional charges in 2005 and \$11 in 2006 relating to these restructuring activities.

Other 2005 Restructuring Activities

On September 14, 2005, the Company announced that its subsidiary, Société Générale de Recherches et d'Exploitations Minières (Sogerem) (Bauxite and Alumina), has 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. The discussions will focus on identifying solutions for all those that would be affected by the potential conclusion of its fluorspar mining operations 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 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. The Company incurred \$27 of restructuring charges relating principally to severance costs. The Company expects to incur \$4 of additional charges in 2005 and \$5 in 2006 relating to these restructuring activities.

In the second quarter of 2005, the Company recorded a severance provision of \$1 in relation to the closure of a Balsa composites plant in Guayaquil, Ecuador (Engineered Products).

In the first quarter of 2005, the Company incurred \$1 of restructuring charges relating to costs to centralize certain packaging operations at two facilities located in Canada and the U.S. In the second quarter of 2005, the Company incurred an additional \$1 of restructuring charges in relation to these activities, consisting primarily of severance costs and costs to relocate equipment. In the third quarter of 2005, the Company incurred an additional \$1 of restructuring charges related principally to equipment relocation costs.

**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 (Q1: nil; Q2: \$79; Q3: \$21; Q4: \$93) 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 of Pechiney. These costs principally comprise severance costs of \$121 (Q1: nil; Q2: \$79; Q3: nil; Q4: \$42) 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 (Q1: nil; Q2: nil; Q3: \$21; Q4: \$33), principally comprising \$21 relating to a plant closure in Barcelona, Spain (Packaging), \$17 relating to a planned plant closure in Flemalle, Belgium, \$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 has been transferred to Novelis in 2005 following the spin-off.

In the first quarter of 2005, the Company incurred additional restructuring costs of \$8 in relation to the exit of certain Pechiney activities. These costs consist of severance costs of \$3 relating principally to the termination of Pechiney employees in France and Italy (Packaging and Other), asset impairment charges of \$3 relating principally to the impairment of assets at a Pechiney facility in China (Engineered Products), and other costs of \$2 relating principally to the closure of the Barcelona and Garbagnate facilities (Packaging). In the second quarter of 2005, the Company incurred additional severance costs of \$3 and other costs of \$3 relating principally to the closure of packaging facilities in Barcelona, as well as other Engineered Products facilities in the U.K. In the third quarter of 2005, the Company incurred an additional \$5 in other costs, relating principally to costs to dismantle the Barcelona facility (Packaging). All restructuring costs incurred in 2005 are recorded in the statement of income.

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## 6. RESTRUCTURING PROGRAMS (cont'd)

### 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, \$2 of decommissioning and environmental costs and \$1 of other charges. These entities and the related restructuring provision of \$5 have been transferred to Novelis in 2005 following the spin-off.

In 2004, the Company incurred restructuring charges of \$7 (Q1: nil; Q2: \$6; Q3: \$2; Q4: (\$1)) relating to the closure of two corporate offices in the U.K. and Germany (Other). The charges include \$4 (Q1: nil; Q2: nil; Q3: \$2; Q4: \$2) related to severance costs and \$3 (Q1: nil; Q2: \$6; Q3: nil; Q4: (\$3)) related to lease exit costs and costs to consolidate facilities. In the first quarter of 2005, the Company incurred additional severance charges of \$1 in relation to the closure of its corporate office in the U.K., and incurred an additional \$3 of severance and other exit costs in the second quarter of 2005. The restructuring provision of \$3 related to the closure of the corporate office in Germany has been 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. The Company incurred restructuring charges of \$5 consisting of \$4 of asset impairment charges, and \$1 of other charges in the fourth quarter of 2004. In the first quarter of 2005, the Company incurred additional severance charges of \$2 and asset impairment charges of \$1 relating to the downsizing of this business. During the second quarter of 2005, the Company incurred an additional \$1 of severance costs. During the third quarter of 2005, the Company incurred an additional \$1 of severance costs and expects to incur an additional \$1 of charges in relation to the downsizing of Alcan Mass Transportation Systems.

In addition, the Engineered Products group incurred restructuring charges of \$9 (Q1: \$2; Q2: \$1; Q3: \$1; Q4: \$5) relating to both the closure of a composites facility in the U.S., and process reengineering at certain facilities in Switzerland and Germany. These charges consist of severance costs of \$6 (Q1: nil; Q2: \$1; Q3: \$1; Q4: \$4), asset impairment charges of \$2 (Q1: \$1; Q2: nil; Q3: nil; Q4: \$1) and other costs of \$1 (Q1: \$1; Q2: nil; Q3: nil; Q4: nil). In the first quarter of 2005, the Company incurred additional severance costs of \$1 relating to the process reengineering at its Switzerland facility.

In 2004, the Company incurred restructuring charges of \$39 (Q1: \$6; Q2: \$1; Q3: \$3; Q4: \$29) relating to exit costs incurred in connection with certain non-strategic packaging facilities located in the U.S. and Europe. These charges consist of severance costs of \$23 (Q1: \$5; Q2: \$1; Q3: nil; Q4: \$17), asset impairment charges of \$11 (Q1: nil; Q2: nil; Q3: nil; Q4: \$11) and other charges of \$5 (Q1: \$1; Q2: nil; Q3: \$3; Q4: \$1). In the first quarter of 2005, the Company incurred additional severance costs of \$2 relating to these activities. In the second quarter of 2005, the Company incurred additional costs of \$19 relating to severance costs of \$2, asset impairment charges of \$16 and other costs of \$1. In the third quarter of 2005, the Company incurred additional costs of \$4 relating to severance costs of \$1 and other charges of \$3. The Company expects to incur additional charges of \$1 in relation to these restructuring activities.

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 (Q1: \$5; Q2: \$6; Q3: \$1; Q4: \$2) in 2004 comprising \$5 (Q1: \$1; Q2: \$2; Q3: nil; Q4: \$2) of severance costs, \$5 (Q1: \$4; Q2: \$1; Q3: nil; Q4: nil) of asset impairment charges, and \$4 (Q1: nil; Q2: \$3; Q3: \$1; Q4: nil) of other costs. In the first quarter of 2005, the Company incurred additional dismantling costs of \$1 relating to the closure of this facility. The Company expects to incur an additional \$4 of severance and other costs in 2005 and \$4 in 2006 in relation to this restructuring activity.

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**6. RESTRUCTURING PROGRAMS** (cont'd)

**2001 Restructuring Program**

In 2001, the Company implemented a restructuring program aimed at safeguarding its competitiveness, resulting in a series of plant sales, closures and divestments throughout the organization. In the context of the Company's objective of value maximization, a detailed business portfolio review was undertaken in 2001 to identify high cost operations, excess capacity and non-core products. Impairment charges arose as a result of negative projected cash flows and recurring losses. These charges related principally to buildings, machinery and equipment and some previously capitalized project costs. This program was essentially completed in 2003.

In 2004, the Company recorded charges related to the 2001 restructuring program of \$7 (Q1: nil; Q2: \$1; Q3: \$3; Q4: \$3) relating principally to the closure of facilities in the U.K. (Bauxite and Alumina) and the closure of cable operations in Canada and the U.S. (Engineered Products), and recorded recoveries of \$14 (Q1: \$7; Q2: nil; Q3: \$7; Q4: nil) relating principally to the sale of assets related to the closure of facilities in Glasgow, U.K. and other recoveries related to the closure of facilities in the U.K. (Bauxite and Alumina). Following the spin-off, \$16 of the restructuring provision has been transferred to Novelis.

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

**Severance Costs**

**Asset Impairment Provisions\***

**Other**

**Total**

Provision balance as at January 1, 2004

86

-

46

132

**2004:**

Charges recorded in the statement of income

44

30

13

87

Charges recorded in the allocation of the

Pechiney purchase price

175

-

18

193

Cash payments

(99)

-

(33)

(132)

Non-cash items

-

(30)

8

(22)

Provision balance as at December 31, 2004

206

-

52

258

**Nine months, 2005:**

**Provisions transferred to Novelis**

(31)

-

(14)

(45)

**Charges recorded in the statement of income**

87

25

23

135

**Cash payments - net**

(79)

-

(26)

(105)

**Non-cash items**

(26)

(25)

(9)

(60)

**Provision balance as at September 30, 2005**

157

-

26

183

\* Fair value of assets was determined using discounted future cash flows.

The schedule below shows details of the charges by operating segment:

**Charges (recoveries) recorded in the statement of income in Other expenses (income) - net**

*Quarter ended September 30, 2005*

**Severance Costs**

**Asset Impairment Provisions**

**Other**

**Total**

**Bauxite and Alumina**

6

1

2

9

**Engineered Products**

1

-



-

1

**Packaging**

6

4

12

22

**Other**

-

-

1

1

**Total**

13

5

15

**6. RESTRUCTURING PROGRAMS** (cont'd)

*Nine months ended September 30, 2005*

**Severance Costs**

**Asset Impairment Provisions**

**Other**

**Total**

**Bauxite and Alumina**

6

1

2

9

**Primary Metal**

-

-

1

1

**Engineered Products**

48

3

-

51

**Packaging**

31

21

21

73

**Other**

2

-

(1)

1

**Total**

87

25

23

135

For the third quarter and nine months ended September 30, 2005, \$21 and \$84, respectively, of the restructuring charges above are excluded from the measurement of the profitability of the Company's operating segments (Business Group Profit), as they relate to major corporate-wide acquisitions or initiatives. See note 7 - Information by Operating Segment.

**7. INFORMATION BY OPERATING SEGMENT**

The following presents selected information by operating segment, viewed on a stand-alone basis. Subsequent to the spin-off of substantially all of the Company's rolled products businesses to Novelis, the operating management structure is comprised of four operating segments. The four operating segments are Bauxite and Alumina; Primary Metal; Engineered Products; and Packaging. Prior to the spin-off, there were two additional operating segments: Rolled Products Americas and Asia and Rolled Products Europe. All prior periods have been restated to reflect the new operating management structure. The Company's measure of the profitability of its operating segments is referred to as business group profit (BGP). BGP comprises earnings before interest, income taxes, minority interests, depreciation and amortization and excludes certain items, such as corporate costs, restructuring costs (relating to major corporate-wide acquisitions or initiatives), impairment and other special charges, and pension actuarial gains, losses and other adjustments, that are not under the control of the business groups or are not considered in the measurement of their profitability. These items are generally managed by the Company's corporate head office, which focuses on strategy development and oversees governance, policy, legal, compliance, human resources and finance matters. The change in fair market value of derivatives is removed from individual BGP and is shown on a separate line in the reconciliation to income from continuing operations. This presentation provides a more accurate portrayal of underlying business group results and is in line with the Company's portfolio approach to risk management. Transactions between operating segments are conducted on an arm's-length basis and reflect market prices. Thus, earnings from the Primary Metal group represent mainly profit on metal produced by the Company, whether sold to third parties or used in the Company's fabricating operations. Earnings from the

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Engineered Products and Packaging groups represent only the fabricating profit on their respective products.

The accounting principles used to prepare the information by operating segment are the same as those used to prepare the consolidated financial statements of the Company, except for the following two items:

(1) The operating segments include the Company's proportionate share of joint ventures (including joint ventures accounted for using the equity method) and certain other equity-accounted investments as they are managed within each operating segment, with the adjustments for equity-accounted joint ventures and certain investments shown on a separate line in the reconciliation to Income from continuing operations; and

(2) Pension costs for the operating segments are based on the normal current service cost with all actuarial gains, losses and other adjustments being included in Intersegment and other.

The operating segments are described below.

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### 7. INFORMATION BY OPERATING SEGMENT (cont'd)

#### Bauxite and Alumina

Headquartered in Montreal, Canada, this group comprises Alcan's worldwide activities related to bauxite mining and refining into smelter-grade and specialty aluminas, owning and/or operating six bauxite mines and deposits in five countries, five smelter-grade alumina plants in four countries and six specialty alumina plants in three countries. This group also comprises sales of alumina technology and technical assistance and a bauxite and alumina trading business.

#### Primary Metal

Also headquartered in Montreal, this group comprises smelting operations, power generation, production of primary value-added ingot, manufacturing of smelter anodes and cathodes, as well as aluminum fluoride, smelter technology and equipment sales, engineering services and trading operations for aluminum, operating or having interests in 22 smelters in 11 countries.

#### Engineered Products

Headquartered in Paris, France, this group produces extruded, rolled and cast aluminum products, engineered shaped products and structures, including cable, wire and rod, as well as composite materials such as aluminum-plastic, fibre reinforced plastic and foam-plastic in 49 plants located in 11 countries. Also included in Engineered Products are 37 service centres in 11 countries offering technical assistance, cutting, shaping, machining and assembling for smaller customers, and nearly 33 offices that sell and source products in 32 countries.

#### Packaging

Also headquartered in Paris, this group consists of the Company's worldwide food, pharmaceutical and medical, beauty and personal care and tobacco packaging businesses, operating approximately 150 plants in 30 countries.

#### Intersegment and other

This classification includes the deferral or realization of profits on intersegment sales of aluminum and alumina, corporate office costs as well as other non-operating items.

Third Quarter

Nine Months

*Periods ended September 30*

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**2005**

2004

**2005**

2004

**Sales and operating revenues - intersegment**

Bauxite and Alumina

**397**

362

**1,172**

1,151

Primary Metal

**466**

939

**1,460**

2,806

Engineered Products

**4**

176

**172**

547

Packaging

**3**

18

**5**

Conditional Asset Retirement Obligations

**61**

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	51
Entities transferred to Novelis	-
196	-
	388
Other	(870)
(1,691)	(2,809)
	(4,943)
	-
-	-
	-
<b>Sales and operating revenues - third parties</b>	
Bauxite and Alumina	352
	282
	1,094
	1,079
Primary Metal	1,695
Conditional Asset Retirement Obligations	62

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	1,121
	<b>5,030</b>
	3,257
Engineered Products	
	<b>1,393</b>
	1,388
	<b>4,542</b>
	4,204
Packaging	
	<b>1,439</b>
	1,483
	<b>4,601</b>
	4,494
Entities transferred to Novelis	
	-
	1,906
	-
	5,349
Adjustments for equity-accounted joint ventures and	
certain investments	
	<b>(5)</b>
	<b>(6)</b>
	<b>(35)</b>
	-
Conditional Asset Retirement Obligations	63

Other

13  
10  
39  
29  
  
4,887  
6,184  
15,271  
18,412

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**7. INFORMATION BY OPERATING SEGMENT** (cont'd)

Third Quarter

Nine Months

*Periods ended September 30*

**2005**

2004

**2005**

2004

**Business Group Profit (BGP)**

Bauxite and Alumina

**98**

Conditional Asset Retirement Obligations

64



124

**306**

338

Primary Metal

**364**

353

**1,220**

1,167

Engineered Products

**106**

81

**322**

291

Packaging

**157**

163

**488**

499

Entities transferred to Novelis

-

163

-

505

Adjustments for equity-accounted joint ventures and

certain investments

**(61)**

(54)

**(212)**

(159)

Adjustments for mark-to-market of derivatives

**(19)**

10

**11**

(2)

Depreciation and amortization

**(266)**

(322)

**(806)**

(982)

Intersegment, corporate offices and other

**(131)**

(154)

**(377)**

(546)

Equity income

**16**

13

**73**

46

Interest

**(92)**

(73)

**(267)**

(253)

Income taxes

**(101)**

(134)

**(269)**

(300)

Minority interests

**1**

1

**(1)**

(14)

**Income from continuing operations**

**72**

171

**488**

590

**September 30, 2005**

December 31, 2004

**Total Assets**

Bauxite and Alumina

**4,339**

3,496

Primary Metal

Conditional Asset Retirement Obligations

**10,450**

10,342

Engineered Products

**4,199**

4,601

Packaging

**7,443**

8,255

Entities transferred to Novelis

-

5,434

Adjustments for equity-accounted joint ventures and

certain investments

**(491)**

(313)

Other

**829**

573

Assets held for sale:

Bauxite and Alumina

-

63

Primary Metal

**156**

823

Engineered Products

**41**

63

Packaging

**7**

4

Total assets held for sale

**204**

953

**26,973**

33,341

Risk Concentration

The Company's consolidated sales and operating revenues for the third quarter and nine months ended September 30, 2005 include \$399 and \$1,544, respectively, arising from transactions with Novelis. These sales and operating revenues represent 8% and 10% of the consolidated sales and operating revenues for the third quarter and nine months ended September 30, 2005, respectively.

The following table includes sales and operating revenues to Novelis by business group:

*Periods ended September 30, 2005*

	<b>Third</b>
	<b>Quarter</b>
	<b>Nine</b>
	<b>Months</b>

Bauxite and Alumina

**10**

**35**

Primary Metal

**373**

1,429

Engineered Products

10

64

Packaging

6

16

Total

399

1,544

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## 8. STOCK OPTIONS AND OTHER STOCK-BASED COMPENSATION

### Alcan Executive Share Option Plan

On January 6, 2005, Alcan executive share options to purchase 1,355,535 shares, granted to Novelis employees who were Alcan employees immediately prior to the spin-off, were cancelled and replaced by Novelis with options to purchase Novelis' common shares.

As a result of the spin-off of Novelis, Alcan executive share options held prior to the spin-off of Novelis have been converted to new options, the number and exercise prices of which were based on the trading prices of Alcan shares immediately before and immediately after the effective date of the spin-off to preserve the economic value of the option grants. This amounts to a conversion ratio of one share under the original grants to 1.1404 shares under the new options and the exercise price per option was reduced accordingly.

Effective January 1, 2004, the Company retroactively adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation. The Black-Scholes valuation model is used to determine the fair value of the options granted. For the third quarter and nine months ended September 30, 2005, the stock-based compensation expense was \$4 and \$14, respectively (2004: \$3 and \$7), of which nil and \$2, respectively (2004: nil) were related to the incremental cost that arose as a result of the modification of certain stock option terms pursuant to the spin-off of Novelis.

### Shares Under Pechiney Options

As a result of the spin-off of Novelis, Pechiney options held prior to the spin-off have been converted in the same manner as described under the Alcan Executive Share Option Plan.

### **Compensation to be settled in cash**

#### Stock Price Appreciation Unit Plan

On January 6, 2005, 211,035 Stock Price Appreciation Units (SPAUs), representing SPAUs held by Novelis employees who were Alcan employees immediately prior to the spin-off, were cancelled and replaced by Novelis with Novelis' SPAUs. The remaining SPAUs were converted in the same manner as described under the Alcan Executive Share Option Plan.

#### Executive and Non-Executive Directors Deferred Share Unit Plan

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On January 6, 2005, Executive and Non-Executive Directors Deferred Share Units held prior to the spin-off of Novelis have been converted in the same manner as described under the Alcan Executive Share Option Plan.

### Total Shareholder Return Performance Plan

On January 6, 2005, all Novelis employees who were Alcan employees immediately prior to the spin-off ceased to actively participate in and accrue benefits under this plan. The accrued award amounts for these employees were converted by Novelis into restricted share units in Novelis. No cash payments were made to these employees as a result of the spin-off nor does Alcan have any liability to make future cash payments to these individuals.

### Restricted Stock Units

As a result of the spin-off, Restricted Stock Units held prior to the spin-off of Novelis have been converted in the same manner as described under the Alcan Executive Share Option Plan.

### Deferred Share Agreements

As a result of the spin-off of Novelis, 33,500 deferred shares held by a Novelis employee who was an Alcan employee immediately prior to the spin-off were cancelled and replaced by Novelis with Novelis deferred shares.

### Compensation Cost

For the third quarter and nine months ended September 30, 2005, the stock-based compensation expense (income) for arrangements that can be settled in cash was \$4 and \$(9), respectively (2004: \$21 and \$17).

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## 9. INCOME TAXES

Third Quarter

Nine Months

*Periods ended September 30*

**2005**

2004

**2005**

2004

Current

**15**

151

**141**

303

Deferred

Conditional Asset Retirement Obligations

86

(17)

128

(3)

101

134

269

300

The composite of the applicable statutory corporate income tax rates in Canada is 32% (2004: 32%). The increase in the effective tax rate in the third quarter of 2005 resulted from balance sheet translation losses due to the strengthening of the Canadian dollar.

#### 10. LONG-TERM DEBT

Following the spin-off, the Company settled amounts due from Novelis and received net proceeds of \$2.6 billion in the first quarter of 2005. In addition to these proceeds, approximately \$200 in debt was transferred to Novelis. These net proceeds were used to reduce two term loans and Alcan's commercial paper balance included in Short-term borrowings and Debt not maturing within one year as at December 31, 2004.

On May 31, 2005, the Company issued \$500 of 5.00% Notes due in 2015 and \$300 of 5.75% Notes due in 2035. The net proceeds of these offerings were used to repay outstanding commercial paper debt.

#### 11. OTHER EXPENSES (INCOME) - NET

Third Quarter

Nine Months

*Periods ended September 30*

**2005**

2004

**2005**

2004

Restructuring and other costs (recoveries) - net

30

15

121



60

Asset impairment provisions

**5**

10

**40**

20

Loss (Gain) on disposal of businesses

and investments - net

**(5)**

(2)

**11**

(44)

Provision for legal claims

**1**

3

**12**

5

Environmental provisions

-

-

**8**

-

Derivatives losses (gains) - net(1)

**16**

(28)

**21**

1

Interest revenue

**(7)**

(2)

**(37)**

(10)

Pechiney integration costs

-

11

**14**

24

Exchange losses (gains) - net

**31**

41

**(9)**

30

Other

**(16)**

1

**(29)**

14

**55**

49

**152**

100

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(1) On forward and fixed price contracts qualifying as cash flow hedges, there was hedge ineffectiveness of \$(13) and \$(9) for the third quarter and nine months ended September 30, 2005, respectively (2004: nil and nil).

### 12. INVENTORIES

September 30, 2005

December 31, 2004

#### Aluminum operating segments

Aluminum

**974**

1,881

Raw materials

**715**

733

Other supplies

**335**

576

**2,024**

3,190

#### Packaging operating segments

Raw materials and other supplies

**307**

347

Work in progress

Conditional Asset Retirement Obligations

153

147

Finished goods

321

356

781

850

2,805

4,040

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**13. SALE OF RECEIVABLES**

In March 2005, the Company entered into a new program to sell to a third party an undivided interest in certain trade receivables, with limited recourse, for maximum cash proceeds of \$200. The maximum credit exposure to the Company is held in reserve by the third party and is recorded in Deferred charges and other assets. The Company acts as a service agent and administers the collection of the receivables sold. As at September 30, 2005, the Company sold trade receivables of \$231 under this program, with \$31 held in reserve by the third party. This program replaces a \$300 program that was discontinued in January 2005 due to the spin-off of Novelis.

**14. SUPPLEMENTARY INFORMATION**

Third Quarter

Nine Months

*Periods ended September 30*

**2005**

2004

**2005**

2004

**Income Statement**

Interest on long-term debt

**88**

67

**254**

213

Capitalized interest

**(8)**

(3)

**(18)**

(7)

**September 30, 2005**

December 31, 2004

**Balance Sheet**

Payables and accrued liabilities include the following:

Trade payables

**1,894**

2,816

Accrued liabilities

**2,492**

Conditional Asset Retirement Obligations

3,027

**15. COMMITMENTS AND CONTINGENCIES**

The Company has guaranteed the repayment of approximately \$183 of indebtedness by third parties. Alcan believes that none of these guarantees is likely to be invoked. These guarantees relate primarily to debt held by equity-accounted joint ventures, obligations related to businesses sold, customer contracts, employee housing loans and potential environmental remediation at former Alcan sites.

The Company carries insurance covering liability, including defence costs, of directors and officers of the Company, incurred as a result of their acting as such, except in the case of failure to act honestly and in good faith. The policy provides coverage against certain risks in situations where the Company may be prohibited by law from indemnifying the directors or officers. The policy also reimburses the Company for certain indemnity payments made by the Company to such directors or officers, subject to a \$10 deductible in respect of each insured loss.

Alcan, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. The Company is named as a defendant in relation to environmental contingencies at approximately 38 existing and former Alcan sites and third-party sites. Accruals have been made in specific instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. The Company has transferred to Novelis certain environmental contingencies of Alcan Aluminum Corporation, as described in Item 3(A) - Legal Proceedings - Environmental Matters of the Company's Form 10-K filed on March 16, 2005.

Alcan has agreed to indemnify Novelis and each of its directors, officers and employees against liabilities relating to:

- liabilities of the Company other than those of an entity forming part of Novelis or otherwise assumed by Novelis pursuant to its separation agreement with Novelis;
- any liability of the Company or its subsidiaries, other than Novelis, retained by Alcan under the separation agreement; and
- any breach by the Company of its separation agreement with Novelis or any of its ancillary agreements with Novelis.

Although there is a possibility that liabilities may arise in other instances for which no accruals have been made, the Company, further to reasonably diligent review, does not believe that any losses in excess of accrued amounts would be sufficient to significantly impair its operations, have a material adverse effect on its financial position or liquidity, or materially and adversely affect its results of operations for any particular reporting period, absent unusual circumstances.

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**16. COMPREHENSIVE INCOME**

Third Quarter

Nine Months

*Periods ended September 30*

**2005**

2004

**2005**

2004

Net income

**81**

167

**490**

604

Other comprehensive income (loss):

Net change in deferred translation adjustments

**4**

133

**(555)**

(19)

Net change in excess of market value over book value of

"available-for-sale" securities

-

1

**(4)**

(1)

Valuation of derivatives, net of tax of \$23 and \$(6),

respectively, for the quarter and nine months ended

September 30, 2005 (2004: \$7 and \$12)

Net change from periodic revaluations

**(55)**

(18)

**(12)**

(34)

Net amount reclassified to income

**6**

3

**26**

9

Net change in minimum pension liability, net of tax of

\$ (4) and \$ (16), respectively, for the quarter and nine



months ended September 30, 2005 (2004: \$1 and \$2)

**12**

(2)

**8**

(4)

**(33)**

117

**(537)**

(49)

**Comprehensive income (loss)**

**48**

284

**(47)**

555

**September 30, 2005**

December 31, 2004

**Accumulated other comprehensive income (loss)**

Deferred translation adjustments

**404**

1,063

Unrealized gain on "available-for-sale" securities

Conditional Asset Retirement Obligations

4

8

Minimum pension liability

**(509)**

(550)

Derivatives

**(50)**

(64)

**Accumulated other comprehensive income (loss)**

**(151)**

457

## **17. SALES AND ACQUISITIONS OF BUSINESSES AND INVESTMENTS**

### **2005**

#### *Canada*

On May 16, 2005, the Company announced that it had reached an agreement to purchase Interglass, a privately owned company located in Woodbridge, Ontario, Canada, specialized in the converting of glass tubing. The acquisition was completed on May 31, 2005 for a cost of \$9.

#### *United States*

On July 8, 2005, the Company announced its acquisition of Prewired Systems LLC based in Pacoima, California, a company specializing in manufactured wiring systems for the electrical industry for a cost of \$4.

#### *Asia and Other Pacific*

On March 22, 2005, the Company announced the creation of a new company in the Chinese Suzhou region, which will be equipped to fabricate packaging for beauty and personal care products. The Company has signed an agreement with the local government of the Mudu New District for the manufacturing site, which will initially produce plastic and aluminum packaging for cosmetics and skincare. Production will commence in the fourth quarter of 2005.

On April 18, 2005, the Company announced its acquisition of the tobacco packaging interests of CM Printing Sdn Bhd in Malaysia for a cost of \$2. Located at Rawang, Alcan Packaging Malaysia Sdn Bhd will incorporate modern equipment and infrastructure to further complement Alcan Packaging's existing tobacco and flexibles printing capability in South-East Asia.

On September 20, 2005, the Company announced its acquisition of the capsules and closures distribution businesses of Classic Packaging and Nellie Products, subsidiaries of Foster's Group, an Australian beer, wine and spirit producer, for a total cost of \$15.

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**17. SALES AND ACQUISITIONS OF BUSINESSES AND INVESTMENTS** (cont'd)*France, United Kingdom, Germany, Other Europe*

On February 15, 2005, the Company announced that it reached an agreement with the U.K. administrators of Parkside International, to acquire the assets of Parkside's flexible food packaging plant in Zlotow, Poland. The acquisition was completed on May 2, 2005 for a cost of \$14, following the approval of Polish and German anti-trust authorities.

On March 16, 2005, the Company completed the sale of Guardian Espanola S.A. to its current local management team. Located in Vitoria, Spain, Guardian Espanola S.A. produces flexible packaging and promotional items.

On April 1, 2005, the Company completed the sale of its aluminum tubes business for net proceeds of \$10 to its then current management team and 21 Centrale Partners, an investment fund specialized in high potential mid-size industrial companies. The sale consists of three plants located in Saumur (France), Kolin (Czech Republic) and Cividate al Piano (Italy).

On June 2, 2005, the Company announced that it has completed the sale of its airfreight container business, a minor part of its operations at its Singen, Germany, facility, to Driessen Aerospace Group in the Netherlands, a manufacturer of containers, trolleys and related products for the aerospace market. As at September 30, 2005, the sale was not recognized due to the Company's continuing involvement in the business.

On June 7, 2005, the Company completed the sale of Decoplast, its European Beauty blow-molded bottle business, to IPH Groupe Spid, a French leader in plastic conversion. IPH Groupe Spid is specialized in the injection of technical and design parts for the automotive, food and general packaging markets. The sale includes the two sites of Decoplast in La Roche sur Foron and Senlis (France).

On July 13, 2005, Alcan Service Centres, part of the Engineered Products business group, announced that it had taken full ownership of Almet AG by purchasing the outstanding 36.6% minority interest held by its current management team at a cost of \$10.

On August 5, 2005, the Company completed the sale of Pet Plas Packaging Ltd. food plastic bottles company to Esterform Packaging Limited, based in the U.K., for net proceeds of \$19.

On September 1, 2005, the Company completed the sale of Alcan Print Finishers Ltd., the U.K. decorative print finishing company, to Celloglas Holdings Limited for net proceeds of \$30.

On September 6, 2005, Alcan announced the sale of Alcan Packaging Sutton Ltd. in the U.K. and the Italian Laffon plant for net proceeds of \$51 and \$(1), respectively. Alcan Packaging Sutton Ltd. was sold to the Impress Group, an international provider of metal packaging for food, seafood, paints and coatings, and aerosols. The Laffon plant, located in Venegono, Italy, manufactures mass-market stock compacts and was sold to its General Manager, Luca Rossi.

**2004***Asia and Other Pacific*

On March 10, 2004, the Company announced that it had secured the necessary regulatory and government approvals to move forward with its previously announced definitive joint venture agreement, signed in October 2003, with the Qingtongxia Aluminium Group Company Limited and the Ningxia Electric Power Development and Investment Co. Ltd. Under the agreement, Alcan invested \$110 for a 50% participation and for a secure power supply in an existing 150-kilotonne (kt) modern pre-bake smelter located in the Ningxia autonomous region in the People's Republic of China. The agreement provides for the joint venture to obtain long-term access to dedicated power on competitive terms sufficient to meet the energy requirements of the smelter. The joint venture also gives Alcan a substantial operating role and the option to acquire, through additional investment, up to 80% of a new 250-kt potline, already under construction. The investment is accounted for using the equity method.

*Other Europe*

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In 2004, the Company recorded in Other expenses (income) - net a gain of \$46 (Q1: nil; Q2: \$42; Q3: nil; Q4: \$4) due to the dilution of its ownership interest in Aluminium & Chemie Rotterdam B.V. (Primary Metal).

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### 17. SALES AND ACQUISITIONS OF BUSINESSES AND INVESTMENTS (cont'd)

*All other*

On June 29, 2004, the Company announced that Alcan officials and a South African delegation are continuing to examine the best value-creating alternatives offered by the aluminum smelter project originally proposed by Pechiney in Coega, South Africa. On November 18, 2004, the Company announced that it will conduct a new feasibility study for the construction of a new aluminum smelter with the South African Government and Industrial Development Corporation.

On November 24, 2004, the Company announced that it had signed a protocol of negotiation with Alcoa World Alumina LLC (Alcoa) and the Government of the Republic of Guinea (the Government) for the development of a 1.5-million tonne per year alumina refinery in the West African nation. This protocol sets out the items and framework for the alumina refinery project, which will be negotiated with the Government during the upcoming months as part of the Memorandum of Understanding between the parties, announced in May, 2004.

Pursuant to a Memorandum of Understanding signed in June 2004, on February 23, 2005, the Company announced the signing of a Shareholders' Agreement with Oman Oil Company S.A.O.C. and the Abu Dhabi Water and Electricity Authority for a 20% equity interest in the development of a proposed 325-kt aluminum smelter project in Sohar, Oman. The Company has the option of acquiring up to 60% of a planned second potline for an additional 330 kt of aluminum. The agreement provides that the Company would license its AP35 smelter technology. Subject to successful completion of the project agreements and financing arrangements, construction is expected to commence in the fourth quarter of 2005 and result in the first metal production by 2008.

### 18. POST-RETIREMENT BENEFITS

Alcan and its subsidiaries have established pension plans in the principal countries where they operate, generally open to all employees. Most plans provide pension benefits that are based on the employee's service and highest average eligible compensation before retirement. Pension benefits are periodically adjusted for cost of living increases, either by Company practice, collective agreement or statutory requirement. Plan assets consist primarily of publicly-traded stocks and high-rated debt securities, excluding securities in Alcan, and include only small amounts in other categories, except for the Swiss plan, whose target allocation is evenly distributed between equity, bonds and real estate.

#### Components of Net Periodic Benefit Cost

##### **Pension benefits**

##### **Other Benefits**

Third Quarter

Nine Months

Third Quarter

Nine Months

*Periods ended September 30*

**2005**

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2004

**2005**

2004

**2005**

2004

**2005**

2004

Service cost

**42**

46

**124**

137

**3**

4

**9**

12

Interest cost on benefit obligation

**136**

136

**411**

406

**14**

15

**42**

45

Expected return on plan assets

**(137)**

(129)

**(412)**

(385)

-

-

-

-

Amortization:

Actuarial (gains) losses

**23**

17

**71**

51

-

-

**(2)**

-

Prior service cost

**16**

18

**46**

53

-

-

-

-

Curtailment/settlement gains

-

-

-

(23)

-

-

-

-

Net periodic benefit cost

**80**

88

**240**

239

**17**

19

**49**

57

The expected long-term rate of return on plan assets is 7% in 2005.

Employer Contributions

Alcan previously disclosed in its financial statements for the year ended December 31, 2004, that it expected to contribute \$206 to its funded pension plans in 2005. The contributions are expected to be fully comprised of cash. As at September 30, 2005, \$141 has been contributed, and the Company expects to contribute an additional \$60 over the remainder of the year. As previously disclosed in its financial statements for the year ended December 31, 2004, the Company expected to pay in 2005, \$76 of

unfunded pension benefits and lump sum indemnities from operating cash flows. As at September 30, 2005, \$48 has been paid, and the Company expects to pay an additional \$16 over the remainder of the year. The lower contributions are principally due to the spin-off of Novelis.

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## 18. POST-RETIREMENT BENEFITS (cont'd)

### Spin-off of Novelis

In 2005, the following transactions transpired related to existing Alcan pension plans covering Novelis employees:

- a) In the U.S., for Novelis employees previously participating in the Alcancorp Pension Plan and the Alcan Supplemental Executive Retirement Plan, Alcan agreed to recognize up to one year of additional service in its plan as long as such employee worked for Novelis and Novelis paid to Alcan the normal cost (in the case of the Alcancorp Pension Plan) and the current service cost (in the case of the Alcan Supplemental Executive Retirement Plan). Novelis decided that it will transfer in 2006 to a Novelis plan its share of pension assets and liabilities for past service for all active employees on December 31, 2005.
- b) In the U.K., the sponsorship of the Alusuisse Holdings U.K. Ltd Pension Plan was transferred from Alcan to Novelis. Employees who transferred from British Alcan Aluminium plc to Novelis continue to participate in the British Alcan Retirement Income Plan in 2005 and the contribution required to fund their additional service shall be paid by Novelis. Novelis decided that it will transfer in 2006 to a Novelis plan its share of pension assets and liabilities (for active employees who elect such a transfer) for benefits accrued in the Alcan Plan through December 31, 2005.
- c) In Switzerland, employees who transferred from Alcan to Novelis continue to participate in the Alcan retirement schemes in 2005 and the contribution required to fund their additional service is being paid by Novelis.
- d) In Canada, Novelis decided that it will transfer in 2006 to a Novelis plan its share of pension assets and liabilities (for active employees who elect such a transfer) for credited service in the Alcan Plan through December 31, 2004.

The benefit obligation at December 31, 2004 of pension benefits and other benefits of \$11,384 and \$1,050, respectively included \$550 and \$115 of pension and other benefit obligations, respectively, that were transferred to Novelis on January 6, 2005, as part of the spin-off of Novelis described in note 5 - Spin-off of Rolled Products Businesses. The market value of plan assets at December 31, 2004 of pension benefits of \$8,468 included \$290 that was transferred to Novelis. In addition, certain entities of Novelis, prior to the spin-off, participated in defined benefit pension plans in Canada, the U.S., the U.K., and Switzerland managed by Alcan. Included in the net periodic benefit cost for the third quarter and nine months ended September 30, 2004 are \$(5) and \$5 of pension and \$2 and \$6 of other benefits, respectively, related to Novelis. The expected contribution of \$206 to funded pension plans in 2005 included \$14 to be paid by Novelis. The expected payment of \$76 of unfunded pension benefits and lump sum indemnities in 2005 included \$7 to be paid by Novelis.

## 19. FINANCIAL INSTRUMENTS

In conducting its business, the Company uses various derivative and non-derivative instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates, aluminum prices and other commodity prices. Generally, such instruments are used for risk management purposes only. The Company is the counterparty to a number of such contracts with the businesses spun-off to Novelis. In 2004, these contracts represented intercompany balances and transactions and were eliminated in the consolidated financial statements. Subsequent to the spin-off of Novelis, these contracts represent third party balances and transactions and they have been included in the relevant disclosures below. Also, the Company's interest rate swaps and electricity derivatives outstanding as at December 31, 2004 were transferred to Novelis at the time of the spin-off.

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## 19. FINANCIAL INSTRUMENTS (cont'd)

### Derivatives – Currency

The Company enters into forward currency contracts and options that are designated as hedges of certain identifiable foreign currency revenue and operating cost exposures. Foreign currency forward contracts and swaps are also used to hedge certain



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foreign currency denominated debt and intercompany foreign currency denominated loans.

September 30, 2005

December 31, 2004

**Financial Instrument**

**Hedge**

**Fair Value**

Fair Value

Forward exchange contracts

Future firm net operating cash flows

**10**

(62)

Forward exchange contracts

To swap intercompany foreign currency denominated loans to US\$, € and CHF

**(19)**

(5)

Forward exchange contracts

To hedge € net equity investment

**(34)**

(167)

Forward exchange contracts

Future commitments (1)

**2**

5

Forward exchange contracts

To swap CAN\$ commercial paper borrowings to US\$

**8**

31

Currency options

Future US\$ sales against € and £

(1)

15

Cross currency interest swap

To swap US\$ third party borrowings to KRW

-

(8)

Cross currency interest swap

To swap € 21 million medium term notes to £14 million

1

2

Embedded derivatives

1

-

(1) Mainly Australian dollar, principally for the expansion of the Gove alumina refinery in Australia.

#### Derivatives and Commodity Contracts - Aluminum

Depending on supply and market conditions, as well as for logistical reasons, the Company may sell primary metal to third parties and may purchase primary and secondary aluminum on the open market to meet its fabricated products requirements. In addition, the Company may hedge certain commitments arising from pricing arrangements with some of its customers as well as the effects of price fluctuations on inventories. The Company may also hold for trading purposes physical metal purchase and sales contracts with third parties.

Through the use of forward purchase and sales contracts and options, the Company seeks to limit the negative impact of low metal prices.

**September 30, 2005**

December 31, 2004

#### Financial Instrument

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Forward contracts (principally forward sales contracts) and physical trading contracts

Maturing principally in years

**2006 to 2007**

2005 to 2006

Fair value

**(35)**

(104)

Forward fixed price sales agreements

Maturing principally in years

**2005 to 2006**

-

Fair value

**(39)**

-

Call options purchased

Maturing principally in years

**2006 to 2007**

2005

Fair value

**9**

36

Call options sold

Conditional Asset Retirement Obligations

Maturing principally in years

**2006 to 2007**

2005

Fair value

**(9)**

(10)

Embedded derivatives

Maturing principally in years

-

2005

Fair value

-

(10)

-26-

---

**20. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

The following material adjustments to the unaudited consolidated financial statements would be required to conform with accounting principles generally accepted in Canada (Canadian GAAP). Information on the nature of these adjustments is described in note 35 of the Company's 2004 annual report.

**Reconciliation of U.S. and Canadian GAAP**

*Periods ended September 30*

**Third Quarter, 2005**

Third Quarter, 2004

**As reported**

**Ref.**

**Amount**

**Canadian**

**GAAP**

As reported

Ref.

Amount

Canadian

GAAP

**Statement of Income**

**Sales and operating revenues**

4,887

(g)

1

4,888

6,184

-

6,184

**Cost and expenses**

Cost of sales and operating expenses

3,921

(a)

2

3,860

4,997

(a)

(2)

4,932

excluding depreciation and

(g)

(63)

Sales and operating revenues

(g)

(63)

amortization noted below

Depreciation and amortization

**266**

(f)

**1**

**290**

322

(f)

**1**

**349**

(g)

**23**

Cost and expenses

(g)

26

Selling, administrative and general

expenses

**331**

(g)

1

**332**

398

(g)

1

399

Research and development expenses

**66**

-

**66**

54

Cost and expenses



-

54

Interest

**92**

**(g)**

**4**

**96**

73

(g)

4

77

Other expenses (income) - net

**55**

**(a)**

**1**

**60**

49

(a)

30

81

**(g)**

**4**

(g)

Cost and expenses

2

**4,731**

**(27)**

**4,704**

5,893

(1)

5,892

Income from continuing operations before

income taxes and other items

**156**

**28**

**184**

291

1

Cost and expenses

292

Income taxes

**101**

**(a)**

**(1)**

**112**

134

(a)

1

148

**(g)**

**16**

(g)

13

**(h)**

**(4)**

Income from continuing operations

before other items

**55**

**17**

**72**

157

(13)

144

Equity income (loss)

**16**

**(g)**

**(16)**

-

13

**(g)**

(17)

(4)

Minority interests

Cost and expenses

1

-

1

1

-

1

**Income from continuing operations**

**72**

1

**73**

171

(30)

141

Income (Loss) from discontinued operations

**9**

-

**9**

(4)

-

(4)

**Net income**

**81**

**1**

**82**

167

(30)

137

Dividends on preference shares

**2**

-

**2**

1

-

1

**Net income attributable to**

**common shareholders**

Net income

79

1

80

166

(30)

136

- (a) Derivatives
- (b) Currency translation
- (c) Investments
- (d) Minimum pension liability
- (e) Deferred translation adjustments
- (f) Acquired in-process research and development
- (g) Joint ventures
- (h) Income taxes

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**20. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (cont'd)**

**Reconciliation of U.S. and Canadian GAAP**

*Periods ended September 30*

**Nine Months, 2005**

Nine Months, 2004

**As reported**

**Ref.**

**Amount**

**Canadian**

**GAAP**

As reported

Ref.

Amount

Canadian

GAAP

**Statement of Income**



**Sales and operating revenues**

15,271

(g)

20

15,291

18,412

(g)

(20)

18,392

**Cost and expenses**

Cost of sales and operating expenses

12,141

(a)

10

**11,987**

14,887

(a)

(18)

14,678

excluding depreciation and

(g)

**(164)**

(g)

(191)

amortization noted below

Depreciation and amortization

**806**

(f)

**3**

**880**

Cost and expenses

982

(f)

3

1,064

(g)

71

(g)

79

Selling, administrative and general

expenses

**1,056**

(g)

**3**

**1,059**

1,159

Cost and expenses

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(g)

4

1,163

Research and development expenses

**164**

(g)

1

**165**

173

-

173

Interest

**267**

(g)

12

**279**

253

(g)

10

263

Other expenses (income) - net

**152**

(a)

2

**133**

100

(a)

Cost and expenses

28

132

(g)

(21)

(g)

4

**14,586**

(83)

**14,503**

17,554

(81)

17,473

Income from continuing operations before

income taxes and other items

**685**

**103**

**788**

858

61

919

Income taxes

**269**

(a)

(5)

**306**

300

(a)

5

335

(f)

(1)

(f)

(1)

Cost and expenses

47

(g)

31

(g)

(4)

(h)

Income from continuing operations

before other items

Cost and expenses

416

66

482

558

26

584

Equity income

73

(g)

(71)

2

46

(g)

(43)

3

Minority interests

(1)

-

(1)

(14)

-

(14)

**Income from continuing operations**

488

Cost and expenses



(5)

483

590

(17)

573

Income from discontinued operations

2

-

2

14

-

14

**Net income**

490

(5)

485

604

(17)

587

Dividends on preference shares

5

Net income

-

5

4

-

4

**Net income attributable to**

**common shareholders**

485

(5)

480

600

(17)

583

**20. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (cont'd)**

**Earnings Per Share - Canadian GAAP**

	Third Quarter
	Nine Months
<i>Periods ended September 30</i>	
	<b>2005</b>
	2004
	<b>2005</b>
	2004

**Earnings (Loss) Per Share**

Basic:

Income from continuing operations

**0.19**

0.38

**1.29**

1.55

Net income attributable to

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Income (Loss) from discontinued operations

**0.02**

(0.01)

**0.01**

0.03

**Net income per common share - basic**

**0.21**

0.37

**1.30**

1.58

Diluted:

Income from continuing operations

**0.19**

0.38

**1.29**

1.54

Income (Loss) from discontinued operations

**0.02**

(0.01)

**0.01**

0.03

**Net income per common share - diluted**

**0.21**

0.37

Net income attributable to

1.30

1.57

**Consolidated Statement of Retained Earnings - Canadian GAAP**

*Nine months ended September 30*

**2005**

2004

**Retained earnings - beginning of period**

**3,379**

3,350

Net income

**485**

587

Spin-off of Novelis

**(278)**

-

Dividends

**Common**

**(222)**

(223)

Preference

(5)

(4)

Retained earnings - end of period

3,359

3,710

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---

**20. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (cont'd)**

**Reconciliation of U.S. and Canadian GAAP (cont'd)**

September 30, 2005

December 31, 2004

As reported

Ref.

Amount

Canadian

GAAP

As reported

Ref.

Amount

Canadian

GAAP

**Balance Sheet**

**Current assets**

Cash and time deposits

**236**

**(g)**

**49**

**285**

184

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(g)

53

237

Trade receivables

**2,490**

(g)

**34**

**2,524**

3,247

(g)

(133)

3,114

Other receivables

**925**

(a)

**17**

**985**

936

(a)

103

1,113

(g)

**43**

(g)

Current assets



74

Deferred income taxes

**125**

(a)

(13)

**112**

214

(a)

(34)

180

Inventories

**2,805**

(g)

**124**

**2,929**

4,040

(g)

153

4,193

Current assets held for sale

**176**

-

**176**

791

-

Current assets

