

ALCAN INC  
Form 10-Q  
May 10, 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 March 31, 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)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

At May 9, 2005 the registrant had 370,145,350 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)**

**Three months ended March 31**

**2005**

2004

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

**Sales and operating revenues**

**5,172**

6,005

**Costs and expenses**

Cost of sales and operating expenses, excluding depreciation and

amortization noted below

**4,084**

4,958

Depreciation and amortization

**272**

336

Selling, administrative and general expenses

**379**

395

Research and development expenses

**49**

61

Interest

**85**

93

Other expenses (income) - net (note 11)

**25**

(2)

**4,894**

5,841

Income from continuing operations before income taxes and other items

**278**

164

Income taxes (note 9)

**98**

41

Income from continuing operations before other items

**180**

123

Equity income

**29**

16

Minority interests

**(1)**

(6)

**Income from continuing operations**

**208**

133

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Income (Loss) from discontinued operations (note 3)

**10**

(27)

**Net income**

**218**

106

Dividends on preference shares

**2**

2

**Net income attributable to common shareholders**

**216**

104

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

Basic:

Income from continuing operations

**0.56**

0.36

Income (Loss) from discontinued operations

**0.02**

(0.07)

**Net income per common share - basic**

**0.58**

0.29

Diluted:

Income from continuing operations

**0.56**

0.35

Income (Loss) from discontinued operations

**0.02**

(0.07)

**Net income per common share - diluted**

**0.58**

0.28

**Dividends per common share**

**0.15**

0.15

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

ALCAN INC.

**INTERIM CONSOLIDATED BALANCE SHEET** (unaudited)

**March 31, 2005**

December 31, 2004

*(in millions of US\$)*

**ASSETS**

**Current assets**

Cash and time deposits



**205**

184

Trade receivables (net of allowances of \$61 in 2005 and \$99 in 2004)

**2,865**

3,232

Other receivables

**1,234**

1,272

Deferred income taxes

**199**

214

Inventories (note 12)

**2,840**

4,029

Current assets held for sale (note 3)

**403**

817

**Total current assets**

**7,746**

9,748

Deferred charges and other assets

**2,497**

2,877

Deferred income taxes

**728**

870

Property, plant and equipment

Cost (excluding Construction work in progress)

**15,826**

21,922

Construction work in progress

**586**

816

Accumulated depreciation

**(5,611)**

(9,445)

**10,801**

13,293

Intangible assets (net of accumulated amortization of \$163 in 2005

and \$172 in 2004)

**1,086**

1,230

Goodwill

**5,116**

5,496

Long-term assets held for sale (note 3)

**138**

163

**Total assets**

**28,112**

33,677

*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)**

**March 31, 2005**

December 31, 2004

*(in millions of US\$)*

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current liabilities**

Payables and accrued liabilities

**4,747**

5,800

Short-term borrowings

**354**

2,486

Debt maturing within one year

**409**

569

Deferred income taxes

**6**

23

Current liabilities of operations held for sale (note 3)

**570**

714

**Total current liabilities**

**6,086**

9,592

Debt not maturing within one year

**5,971**

6,345

Deferred credits and other liabilities

**4,401**

4,975

Deferred income taxes

**1,279**

1,543

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

**52**

260

Minority interests

**96**

236

**Shareholders' equity**

Redeemable non-retractable preference shares

**160**

160

Common shareholders' equity

Common shares

**6,098**

6,670

Additional paid-in capital

**689**

112

Retained earnings

**3,241**

3,362

Common shares held by a subsidiary

**(31)**

(35)

Accumulated other comprehensive income

**70**

457

**10,067**

10,566

**10,227**

10,726

Commitments and contingencies (note 15)

**Total liabilities and shareholders' equity**

**28,112**

33,677

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

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**ALCAN INC.**

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

**Three months ended March 31**

**2005**

2004

*(in millions of US\$)*

**OPERATING ACTIVITIES**

Net income

**218**

106

Loss (Income) from discontinued operations



**(10)**

27

Income from continuing operations

**208**

133

Adjustments to determine cash from operating activities:

Depreciation and amortization

**272**

336

Deferred income taxes

**61**

(28)

Equity income, net of dividends

**(27)**

(16)

Asset impairment provisions

**8**

5

Gain on sale of businesses and investments - net

**(1)**

-

Stock option compensation

**5**

2

Change in operating working capital

Change in receivables

**(186)**

(380)

Change in inventories

**5**

53

Change in payables and accrued liabilities

**(266)**

185

Change in deferred charges, other assets,

deferred credits and other liabilities - net

**(76)**

(18)

Other - net

**(23)**

(2)

Cash from (used for) operating activities in continuing operations

**(20)**

270

Cash from operating activities in discontinued operations

**41**

20

**Cash from operating activities**

**21**

290

**FINANCING ACTIVITIES**

Proceeds from issuance of new debt

**386**

541

Debt repayments

**(636)**

(220)

Short-term borrowings - net

**(2,022)**

(228)

Common shares issued

**4**

25

Dividends - Alcan shareholders (including preference)

**(58)**

(57)

- Minority interests

-

(2)

Cash from (used for) financing activities in continuing operations

**(2,326)**

59

Cash used for financing activities in discontinued operations

**(37)**

(3)

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

**(2,363)**

56

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

ALCAN INC.

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

**Three months ended March 31**

**2005**

2004

*(in millions of US\$)*

**INVESTMENT ACTIVITIES**

Purchase of property, plant and equipment

**(292)**

(252)

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Business acquisitions and purchase of investments

-

(368)

Net proceeds from disposal of businesses, investments and other assets

**9**

44

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

**2,565**

-

Cash from (used for) investment activities in continuing operations

**2,282**

(576)

Cash used for investment activities in discontinued operations

**(57)**

(14)

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

**2,225**

(590)

Effect of exchange rate changes on cash and time deposits

(18)

(27)

**Decrease in cash and time deposits**

(135)

(271)

Cash and time deposits - beginning of period

**340**

778

Cash and time deposits - end of period in continuing operations

**205**

408

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

-

99

Cash and time deposits - end of period

**205**

507

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

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**

**Retained Earnings**

**Common Shares Held by a Subsidiary**

**Accumulated Other Comprehensive Income**

**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**

**(281)**

**(68)**

**(353)**

Net income - Q1 2005

**218**

**218**

Other comprehensive loss (note 16)

(319)

(319)

Dividends:

Preference

(2)

(2)

Common

(56)

(56)

Stock option expense

5

5

Exercise of stock options

1

(1)

-

Common shares held by a subsidiary

4

4

Common shares issued for cash:

Executive share option plan

**3**

**3**

Dividend reinvestment and share

purchase plans

**1**

**1**

Other

(1)

1

-

**Balance at March 31, 2005**

**160**

**6,098**

**689**

**3,241**

**(31)**

**70**

**10,227**

*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**

**March 31, 2005**

**(unaudited)**

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

**1. ACCOUNTING POLICIES**

**Basis of Presentation**

Alcan had historically prepared and filed its financial statements in accordance with Canadian generally accepted accounting principles (GAAP) with a reconciliation to United States (U.S.) GAAP. On January 1, 2004, the Company adopted U.S. GAAP as its primary reporting standard for presentation of its consolidated financial statements. Historical consolidated financial statements are presented in accordance with the guidance provided under U.S. GAAP. Note 20 - Differences Between United States and Canadian Generally Accepted Accounting Principles (GAAP) provides an explanation and reconciliation of differences between U.S. and Canadian GAAP.

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 U.S. GAAP and therefore should be read in conjunction with the Company's 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 three months ended March 31, 2004 include the operations transferred to Novelis. Alcan's consolidated financial statements as at and for the three months ended March 31, 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. 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 does not anticipate that its

financial statements will be significantly impacted by this interpretation.

### **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 the 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 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. The transaction, which will be ultimately subject to relevant regulatory authorities' approvals, is expected to be completed in the second quarter of 2005.

#### 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 and expects the sale to be completed in the second quarter of 2005. 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 in France. The Company is actively pursuing potential purchasers and expects the sales to be completed by the end of 2005. These businesses have been classified in discontinued operations and assets held for sale during the fourth quarter of 2004.

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 announced the sale of these service centres to Amari Metal France Ltd., which specializes in distributing aluminum, stainless steel and cuprous metal products.

#### 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 are 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. The Boxal Group comprises three manufacturing facilities in France, the Netherlands and Switzerland as well as a sales office in Germany. Suner Cartons comprises a facility in Spain. 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.

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

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### 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 current management team, and sold the assets of its zinc and lead metal trading business to Trafigura Ltd., an independent commodity trading company.

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 quarter ended March 31, 2005 (2004: \$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:

*Three months ended March 31*

**2005**

2004

Sales

**201**

436

Income (Loss) from operations

**4**

(21)

Gain on disposal - net

**9**

-

Asset impairment provisions

-

(6)

Pre-tax income (loss)

Conditional Asset Retirement Obligations



**13**

(27)

Income tax expense

**(3)**

-

Income (Loss) from discontinued operations

**10**

(27)

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

**March 31, 2005**

December 31, 2004

Current assets held for sale:

Cash and time deposits

-

156

Trade receivables

**154**

323

Other receivables

**34**

40

Deferred income taxes

-

2

Conditional Asset Retirement Obligations

Inventories

**215**

296

**403**

817

Long-term assets held for sale:

Deferred charges and other assets

**35**

21

Deferred income taxes

**9**

6

Property, plant and equipment, net

**94**

86

Intangible assets, net

-

50

**138**

163

Current liabilities of operations held for sale:

Payables and accrued liabilities

Conditional Asset Retirement Obligations

**552**

709

Short-term borrowings

**18**

5

**570**

714

Long-term liabilities of operations held for sale:

Deferred credits and other liabilities

**49**

121

Deferred income taxes

**3**

4

Minority interests

-

135

**52**

260

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**4. EARNINGS PER SHARE - BASIC AND DILUTED**

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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.

*Three months ended March 31*

**2005**

2004

**Numerator:**

Income from continuing operations

**208**

133

Less: dividends on preference shares

**(2)**

(2)

Income from continuing operations attributable to

common shareholders

**206**

131

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

Weighted average of outstanding shares - basic

**370**

367

Effect of dilutive stock options

**1**

Conditional Asset Retirement Obligations

2

Adjusted weighted average of outstanding shares - diluted

**371**

369

**Earnings per common share - basic****0.56**

0.36

**Earnings per common share - diluted****0.56**

0.35

In the first quarter of 2005, options to purchase 3,418,126 common shares (2004: 353,000) at a weighted average grant price of CAN\$51.82 per share (2004: CAN\$64.25) 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 March 31, 2005, there were 370,067,814 (2004: 368,002,482) common shares outstanding.

**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.

**TABLE OF CONTENTS****5. SPIN-OFF OF ROLLED PRODUCTS BUSINESSES (cont'd)****Carrying amount of spun-off businesses:**

Current assets

2,935

Non-current assets

2,802

Conditional Asset Retirement Obligations

37

Current liabilities

(3,160)

Non-current liabilities

(2,197)

Accumulated other comprehensive income

(68)

Total

312

Derivatives(1)

(31)

Total amount recorded in retained earnings

281

(1) 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 \$353 by way of a reduction in common shares of \$576, an increase in additional paid-in capital of \$572, a reduction in retained earnings of \$281 and a reduction in accumulated other comprehensive income of \$68. 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.

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

### Q1 2005 Restructuring Activities

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 United States. These charges consist principally of severance costs. In relation to these activities, the Company expects to incur additional charges of \$2 consisting primarily of severance and equipment relocation costs.

### 2004 Restructuring Activities

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

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

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. The Company expects to incur \$3 of additional charges in 2005 relating principally to additional lease exit costs. 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. The Company expects to incur an additional \$2 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 \$21 (Q1: \$1; Q2: nil; Q3: \$2; Q4: \$18) relating to the closure of certain non-strategic packaging facilities located in the United States and France. These charges consist of severance costs of \$11 (Q1: \$1; Q2: nil; Q3: nil; Q4: \$10), asset impairment charges of \$8 (Q1: nil; Q2: nil; Q3: nil; Q4: \$8) and other charges of \$2 (Q1: nil; Q2: nil; Q3: \$2; Q4: nil). The Company expects to incur additional charges of \$3 in relation to these plant closures. In addition, the Company recorded \$18 (Q1: \$5; Q2: \$1; Q3: \$1; Q4: \$11) of restructuring charges relating to exit activities at certain packaging facilities located primarily in Europe. These charges comprise \$12 (Q1: \$4; Q2: \$1; Q3: nil; Q4: \$7) of severance costs, \$3 (Q1: nil; Q2: nil; Q3: nil; Q4: \$3) of asset impairment charges and \$3 (Q1: \$1; Q2: nil; Q3: \$1; Q4: \$1) of other costs. In the first quarter of 2005, the Company incurred additional severance costs of \$2 relating to the exit activities of certain packaging facilities in Europe. The Company expects to incur additional charges of \$3 in relation to these exit activities.

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

In early 2004, the Company permanently halted production at its Jonquière Söderberg primary aluminum facility in Saguenay, Quebec (Primary Metal). As a result, the Company recorded charges of \$14 (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 \$11 in relation to this activity.

**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 United States (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 recoveries (charges)

-

(30)

8

(22)

Provision balance as at December 31, 2004

206

-

52

258

**Q1 2005:**

**Provisions transferred to Novelis**

(31)

-

(14)

(45)

**Charges recorded in the statement of income**

10

4

3

17

**Cash payments - net**

(29)

-

(4)

(33)

**Non-cash recoveries (charges)**

(15)

(4)

(1)

(20)

**Provision balance as at March 31, 2005**

141

-

36

177

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

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

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

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

*Three months ended March 31, 2005*

**Severance Costs**

**Asset Impairment Provisions**

**Other**

**Total**

**Primary Metal**

-

-

1

1

**Engineered Products**

3

3

-

6

**Packaging**

5

1

2

8

**Other**

2

-

-

2

**Total**

10

4

3

17

## 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 its 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 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) as they are managed within each operating segment, with the adjustments for equity-accounted joint ventures 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.

### 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.

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

### Primary Metal

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Also headquartered in Montreal, this group comprises smelting operations, power generation, production of primary value-added ingot, manufacturing of smelter anodes and aluminum fluoride, technology sales, engineering operations 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 46 plants located in 11 countries. Four of these facilities are excluded from the operating segment information as they have been reclassified to discontinued operations and assets held for sale. Also included in Engineered Products are 50 service centres in 13 countries offering technical assistance, cutting, shaping, machining and assembling for smaller customers, and nearly 40 offices that sell and source products in 32 countries.

### Packaging

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 180 plants in 27 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.

Intersegment

Third Parties

*Three months ended March 31*

**2005**

2004

**2005**

2004

### **Sales and operating revenues**

Bauxite and Alumina

**357**

394

**373**

Conditional Asset Retirement Obligations

46

380

Primary Metal

**563**

924

**1,656**

1,073

Engineered Products

**114**

179

**1,554**

1,364

Packaging

**2**

16

**1,584**

1,510

Entities transferred to Novelis

-

89

-

1,666

Adjustments for equity-accounted joint ventures

-

-

**(9)**

2

Other

**(1,036)**

Conditional Asset Retirement Obligations

(1,602)

**14**

10

-

-

**5,172**

6,005

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

*Three months ended March 31*

**2005**

2004

**Business Group Profit (BGP)**

Bauxite and Alumina

**97**

88

Primary Metal

**431**

378

Engineered Products

**115**

106

Packaging

**154**

Conditional Asset Retirement Obligations



168

Entities transferred to Novelis

-

164

Adjustments for equity-accounted joint ventures

**(74)**

(53)

Adjustments for mark-to-market of derivatives

**(3)**

-

Depreciation and amortization

**(272)**

(336)

Intersegment, corporate offices and other

**(85)**

(258)

Equity income

**29**

16

Interest

**(85)**

(93)

Income taxes

**(98)**

(41)

Minority interests

**(1)**

(6)

**Income from continuing operations**

**208**

133

**March 31, 2005**

December 31, 2004

**Total Assets**

Bauxite and Alumina

**3,517**

3,427

Primary Metal

**10,555**

10,411

Engineered Products

**4,826**

4,574

Packaging

**8,143**

8,255

Entities transferred to Novelis

-

5,434

Adjustments for equity-accounted joint ventures

**(352)**

(313)

Conditional Asset Retirement Obligations

Other

**882**

909

Assets held for sale:

Bauxite and Alumina

-

63

Primary Metal

**455**

823

Engineered Products

**80**

90

Packaging

**6**

4

Total assets held for sale

**541**

980

**28,112**

33,677

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Alcan Executive Share Option Plan

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

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shares. Changes in the number of shares under options as well as the average exercise price, due to the spin-off of options to Novelis and the conversion of the remaining Alcan options, are summarized below:

**Number of Shares Under Options**

**(in thousands)**

**Weighted Average Exercise Price**

**(CAN\$)**

**Outstanding - January 1, 2005**

10,410

50.96

Exercised prior to spin-off date

(14)

44.25

Alcan options cancelled and replaced with Novelis options

(1,356)

52.85

Impact of spin-off on remaining option holders\*

1,269

Exercised subsequent to spin-off date

(91)

38.54

Forfeited subsequent to spin-off date

(24)

42.48

**Outstanding - March 31, 2005**

10,194

44.50

**Exercisable - March 31, 2005**

Conditional Asset Retirement Obligations

4,709

40.39

\* 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 quarter ended March 31, 2005, the stock-based compensation expense was \$5 (2004: \$2), of which \$1 (2004: nil) was 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

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.

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

#### 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 quarter ended March 31, 2005, the stock-based compensation (income) expense for arrangements that can be settled in cash was (\$2) (2004: \$1).

**9. INCOME TAXES**

*Three months ended March 31*

**2005**

2004

Current

**37**

69

Deferred

**61**

(28)

**98**

41

The composite of the applicable statutory corporate income tax rates in Canada is 32% (2004: 32%).

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**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 in Alcan's consolidated financial statements as at December 31, 2004.

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

*Three months ended March 31*

**2005**

2004

Restructuring and other costs (recoveries), net

**17**

18

Conditional Asset Retirement Obligations

Asset impairment provisions

**8**

8

Gain on disposal of businesses and investments - net

**(1)**

-

Environmental provisions

**3**

-

Derivatives losses (gains)

**18**

(1)

Interest revenue

**(19)**

(2)

Pechiney integration

**6**

2

Exchange gains

**(16)**

(12)

Other

**9**

(15)

**25**

(2)

**12. INVENTORIES**

**March 31, 2005**

December 31, 2004

**Aluminum operating segments**

Aluminum

**910**

1,873

Raw materials

**669**

731

Other supplies

**401**

575

**1,980**

3,179

**Packaging operating segments**

Raw materials and other supplies

**339**

347

Work in progress

**159**

147

Conditional Asset Retirement Obligations



Finished goods

**362**

356

**860**

850

**2,840**

4,029

### **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 March 31, 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.

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**14. SUPPLEMENTARY INFORMATION**

*Three months ended March 31*

**2005**

2004

**Income Statement**

Interest on long-term debt

**83**

74

Capitalized interest

**(5)**

(2)

**Statement of Cash Flows**

Interest paid

Continuing operations

**76**

82

Discontinued operations

-

1

Income taxes paid (refunded)

Continuing operations

**(21)**

157

Discontinued operations

**4**

-

**March 31, 2005**

December 31, 2004

**Balance Sheet**

Payables and accrued liabilities include the following:

Trade payables

**2,153**

2,804

Accrued liabilities

**2,594**

2,996

**15. COMMITMENTS AND CONTINGENCIES**

The Company has guaranteed the repayment of approximately \$8 of indebtedness by third parties. Alcan believes that none of these guarantees is likely to be invoked. These guarantees relate primarily to customer contracts, employee housing loans and potential environmental remediation at former Alcan sites.

Conditional Asset Retirement Obligations

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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 the environmental contingencies of Novelis Corporation, formerly 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 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

*Three months ended March 31*

**2005**

2004

Net income

**218**

106

Other comprehensive income (loss):

Net change in deferred translation adjustments

**(260)**

(94)

Conditional Asset Retirement Obligations

60

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Net change in excess of market value over book value of

"available-for-sale" securities

**(2)**

(1)

Valuation of derivatives (net of tax of \$16 and \$6 for 2005 and

2004, respectively)

Net change from periodic revaluations

**(41)**

(13)

Net amount reclassified to income

**8**

-

Net change in minimum pension liability (net of tax of (\$5) and \$1

for 2005 and 2004, respectively)

**(24)**

(3)

**(319)**

(111)

**Comprehensive Loss**

Conditional Asset Retirement Obligations

(101)

(5)

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**16. COMPREHENSIVE INCOME (cont'd)**

**March 31, 2005**

December 31, 2004

**Accumulated other comprehensive income**

Deferred translation adjustments

**700**

1,063

Unrealized gain on "available-for-sale" securities

**6**

8

Minimum pension liability

**(539)**

(550)

Derivatives

**(97)**

(64)

**Accumulated other comprehensive income**

**70**

457

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

**2005**

Conditional Asset Retirement Obligations

*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 make-up and skincare. Production will commence in the third quarter of 2005.

*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, following the approval of Polish and German anti-trust authorities.

On March 16, 2005, the Company announced that it reached an agreement to sell Guardian Espanola S.A. to its current local management team. Located in Vitoria, Spain, Guardian Espanola S.A. produces flexible packaging and promotional items.

*Other*

On January 11, 2005, the Company announced its investment of \$55 in the Russian packaging market, to build and equip two new plants located in the Moscow and St. Petersburg regions. The Moscow site will focus on flexible packaging for the confectionery and dairy markets and represents an initial investment of \$25. The St. Petersburg site will be dedicated to tobacco packaging and represents an initial investment of \$30.

**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 as at March 31, 2005 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*

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).

*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.

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

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.

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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 and take a leading role in the construction and operation of the smelter. Subject to successful completion of the project agreements and financing arrangements, construction is expected to commence in the second half 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	
<i>Three months ended March 31</i>		
	<b>2005</b>	
	2004	
	<b>2005</b>	
	2004	
Service cost		
<b>41</b>		
46		
<b>3</b>		
4		
Interest cost on benefit obligation		
<b>139</b>		
136		
<b>14</b>		
15		
Expected return on plan assets		



**(139)**

(129)

-

-

Amortization:

Actuarial (gains) losses

**24**

16

**(1)**

-

Prior service cost

**15**

18

-

-

Net periodic benefit cost

**80**

87

**16**

19

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 March 31, 2005, \$48 has

been contributed, and the Company expected to contribute an additional \$144 over the remainder of the year. The Company expected to pay in 2005 \$74 of unfunded pension benefits and lump sum indemnities from operating cash flows. As at March 31, 2005, \$17 has been paid, and the Company expects to pay an additional \$50 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). During this year, Novelis will decide whether it will transfer its share of pension assets and liabilities to a Novelis plan or retain them in the Alcan plans.
- 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.
- 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 shall be paid by Novelis.

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 quarter ended March 31, 2004 are \$8 and \$2 of pension and other benefits, respectively, related to Novelis. The expected contribution of \$206 to funded pension plans in 2005 includes \$14 to be paid by Novelis. The expected payment of \$74 of unfunded pension benefits and lump sum indemnities in 2005 includes \$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 foreign currency denominated debt and intercompany foreign currency denominated loans.

March 31, 2005

December 31, 2004

**Financial Instrument**

**Hedge**

**Fair Value**

Fair Value

Forward exchange contracts

Future firm net operating cash flows

**4**

(62)

Forward exchange contracts

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

**(3)**

(5)

Forward exchange contracts

To hedge € net equity investment

**(119)**

(167)

Forward exchange contracts

Future commitments (1)

**3**

5

Currency options

Future US\$ sales against € and £

**9**

15

Forward exchange contracts

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

Conditional Asset Retirement Obligations

6

31

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 and 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.

**March 31, 2005**

December 31, 2004

**Financial Instrument**

Forward contracts (principally forward sales contracts in 2005 and 2004) and physical trading contracts

Maturing principally in years

**2005 to 2006**

2005 to 2006

Fair value

**(98)**

(104)

Forward fixed price agreements

Maturing principally in years

**2005 to 2006**

-

Fair value

**(76)**

-

Call options purchased

Maturing principally in years

**2005**

2005

Fair value

**29**

36

Call options sold

Maturing principally in years

**2005**

2005

Fair value

**(29)**

(10)

Embedded derivatives

Maturing principally in years

**2005**

2005

Fair value

**1**

(10)

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

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

### **Recently Adopted Accounting Standards**

#### Consolidation of Variable Interest Entities

In 2004, the Company early adopted CICA guideline AcG-15, Consolidation of Variable Interest Entities. The guideline provides guidance as to when to apply consolidation principles to certain entities that are subject to control on a basis other than ownership of voting shares and thus determining when an enterprise includes the assets, liabilities and results of activities of such an entity (a variable interest entity) in its consolidated financial statements. The adoption of this guideline has the same impact as the adoption of FIN 46 under U.S. GAAP.

#### Hedging Relationships

On January 1, 2004, the Company adopted the CICA guideline AcG-13, Hedging Relationships, which establishes certain conditions regarding when hedge accounting may be applied. Each hedging relationship is subject to an effectiveness test on a regular basis for reasonable assurance that it is and will continue to be effective. The fair value of derivatives is recorded on the balance sheet and any derivative instrument that does not qualify for hedge accounting is reported on a mark-to-market basis in earnings.

#### Generally Accepted Accounting Principles

On January 1, 2004, the Company adopted the new standard of the CICA, Section 1100, Generally Accepted Accounting Principles. This standard establishes accounting standards for financial reporting in accordance with Canadian GAAP. It defines primary sources of Canadian GAAP and requires that the Company apply every relevant primary source.

#### General Standards of Financial Statement Presentation

On January 1, 2004, the Company adopted the CICA Section 1400, General Standards of Financial Statement Presentation. This standard clarifies what constitutes fair presentation in accordance with Canadian GAAP, which involves providing sufficient information in a clear and understandable manner about certain transactions or events of such size, nature and incidence that their disclosure is necessary to understand the Company's financial statements.

#### Stock-Based Compensation and Other Stock-Based Payments

On January 1, 2004, the Company retroactively adopted the provisions of the amendment to Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The amendment requires the recognition of an expense computed using the fair value method. The adoption of this amendment has the same impact as the adoption of the fair value method of accounting for stock-based compensation under U.S. GAAP.

#### Asset Retirement Obligations

On January 1, 2004, the Company retroactively adopted the new standard of the CICA, Section 3110, Asset Retirement Obligations. The adoption of this standard has the same impact as the adoption of SFAS No. 143 under U.S. GAAP.

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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**

*Three months ended March 31*

**2005**

2004

**As reported**

**Ref.**

**Amount**

**Canadian**

**GAAP**

As reported



Ref.

Amount

Canadian

GAAP

**Statement of Income**

**Sales and operating revenues**

5,172

(g)

3

5,175

6,005

(g)

(8)

5,997

**Cost and expenses**

Cost of sales and operating expenses

**4,084**

(a)

7

**4,036**

4,958

(a)

(7)

4,889

excluding depreciation and

(g)

**(55)**

(g)

(62)

amortization noted below

Cost and expenses

Depreciation and amortization

**272**

(f)

1

**299**

336

(f)

1

363

(g)

**26**

(g)

26

Selling, administrative and general

expenses

**379**

(g)

**2**

**381**

395

(g)

1

396

Research and development expenses

**49**

-

**49**

61

-

61

Interest

**85**

(g)

**4**

**89**

93

Cost and expenses

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(g)

3

96

Other expenses (income) - net

**25**

(a)

(3)

4

(2)

(a)

(3)

(5)

(g)

(18)

**4,894**

(36)

**4,858**

5,841

Cost and expenses

(41)

5,800

Income from continuing operations before

income taxes and other items

**278**

**39**

**317**

164

33

197

Income taxes

**98**

(a)

(2)

**111**

41

(a)

2

Cost and expenses

52

(g)

15

(g)

9

Income from continuing operations

before other items

180

26

206

123

22

Cost and expenses

79

145

Equity income

**29**

(g)

(29)

-

16

(g)

(15)

1

Minority interests

(1)

-

(1)

(6)

-

(6)

**Income from continuing operations**

**208**

(3)

**205**

133

7

140

Cost and expenses



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Income (Loss) from discontinued operations

**10**

-

**10**

(27)

-

(27)

**Net income**

**218**

(3)

**215**

106

7

113

Dividends on preference shares

**2**

-

**2**

2

-

2

Net income

**Net income attributable to**

**common shareholders**

**216**

**(3)**

**213**

104

7

111

- (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

Net income attributable to

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

**Earnings Per Share - Canadian GAAP**

*three months ended March 31*

**2005**

2004

**Earnings (Loss) Per Share**

Basic:

Income from continuing operations

**0.55**

0.38

Income (Loss) from discontinued operations

**0.02**

(0.07)

**Net income per common share - basic**

**0.57**

0.31

Diluted:

Net income attributable to

Income from continuing operations

**0.55**

0.37

Income (Loss) from discontinued operations

**0.02**

(0.07)

**Net income per common share - diluted**

**0.57**

0.30

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

*Three months ended March 31*

**2005**

2004

**Retained earnings - beginning of period**

**3,379**

3,350

Net income

**215**

113

Spin-off of Novelis

**(274)**

Dividends

**Common**

(56)

(55)

**Preference**

(2)

(2)

**Retained earnings - end of period**

**3,262**

3,406

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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)**

**March 31, 2005**

December 31, 2004

**As reported**

**Ref.**

**Amount**

**Canadian**

**GAAP**

As reported

Ref.

Amount

Canadian

GAAP

**Balance Sheet**

Current assets

Cash and time deposits

**205**

(g)

**52**

**257**

**184**

(g)

**53**

**237**

Trade receivables

**2,865**

(g)

**20**

**2,885**

Balance Sheet

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3,232

(g)

(133)

3,099

Other receivables

**1,234**

(a)

**134**

1,272

(a)

103

1,449

(g)

**70**

**1,438**

(g)

74

Deferred income taxes

**199**

(a)

**(36)**

**163**

214

Balance Sheet



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(a)

(34)

180

Inventories

**2,840**

(g)

**131**

**2,971**

4,029

(g)

153

4,182

Current assets held for sale

**403**

-

**403**

817

-

817

**Total current assets**

**7,746**

**371**

**8,117**

9,748

216

9,964

Deferred charges and other assets

**2,497**

(a)

**40**

**989**

2,877

(a)

21

1,272

(c)

(6)

(c)

(8)

(g)

**(1,542)**

(g)

(1,618)

Deferred income taxes

**728**

-

**728**

870

(g)

3

873

Property, plant and equipment

Cost (excluding Construction work

in progress)

**15,826**

(g)

**1,474**

**17,300**

21,922

(g)

2,343

24,265

Construction work in progress

**586**

(g)

**13**

**599**

816

(g)

16

832

Accumulated depreciation

**(5,611)**

(g)

**(617)**

**(6,228)**

(9,445)

(g)

(1,180)

(10,625)

10,801

870

11,671

13,293

1,179

14,472

Intangible assets, net of accumulated

amortization

1,086

(a)

4

990

1,230

(a)

4

1,105

(d)

(244)

(d)

(253)

(f)

45

(f)

46

(g)

99

(g)

78

Goodwill

5,116

(g)

Balance Sheet

850

5,966

5,496

(g)

837

6,333

Long-term assets for sale

138

-

138

163

-

163

Total assets

28,112

487

28,599

33,677

505

34,182

Current liabilities

Payables and accrued liabilities

**4,747**

(a)

(9)

**4,858**

5,800

(a)

(11)

5,853

(g)

**120**

(g)

64

Short-term borrowings

**354**

(g)

**1**

**355**

Balance Sheet



2,486

-

2,486

Debt maturing within one year

**409**

(g)

**99**

**508**

569

(g)

81

650

Deferred income taxes

**6**

-

**6**

23

(a)

(2)

27

(g)

6

Current liabilities of operations held for sale

**570**

-

**570**

714

-

714

Total current liabilities

**6,086**

**211**

**6,297**

9,592

138

9,730

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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)**

**March 31, 2005**

December 31, 2004

**As reported**

**Ref.**

**Amount**

**Canadian**

**GAAP**

As reported

Ref.

Amount

Canadian

GAAP

Debt not maturing within one year

**5,971**

**(g)**

**140**

**6,111**

6,345

**(g)**

198

6,543

Deferred credits and other liabilities

**4,401**

**(a)**

**18**

**3,450**

4,975

**(a)**

21

4,033

**(d)**

**(1,002)**

(1,036) (d)

**33** (g)

73 (g)

Deferred income taxes  
**1,279**

**31** (a)  
**1,701**

1,543 (a)  
9  
2,005

**219** (d)

(d)

233

(f)

15

(f)

16

(g)

157

(g)

204

Long-term liabilities of operations

held for sale

**52**

-

**52**

260

-

260

Minority interests

**96**

-

**96**

236

-

236

**Shareholders' equity**

Redeemable non-retractable

preference shares

**160**

-

**160**

160

Shareholders' equity



-

160

Common shareholders' equity:

Common shares

**6,098**

-

**6,098**

6,670

-

6,670

Additional paid-in capital

**689**

-

**689**

112

Shareholders' equity

-

112

Retained earnings

**3,241**

(a)

**33**

**3,262**

3,362

(a)

42

3,379

(b)

**(42)**

(b)

(55)

(f)

**30**

(f)

30

Shareholders' equity

Common shares held by a subsidiary

(31)

-

(31)

(35)

-

(35)

Deferred translation adjustments

-

(a)

(28)

714

-

(a)

(29)

1,089

(b)

42

(b)

55

Shareholders' equity

700 (e)

1,063 (e)

Accumulated other

comprehensive income

70 (a)

97

-

457 (a)

64

-

Shareholders' equity

(6) (c)

(8) (c)

539 (d)

550 (d)

(700) (e)

(1,063) (e)

10,067

665

10,732

10,566

649

11,215

10,227

665

10,892

10,726

649

11,375

**Total liabilities and shareholders' equity**

28,112

487

28,599

33,677

505

34,182

Shareholders' equity

**21. PRIOR YEAR AMOUNTS**

Certain prior year amounts have been reclassified to conform with current period presentation.

**22. SUBSEQUENT EVENTS**

On April 1, 2005, the Company announced the sale of its aluminum tubes business to its 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). In divesting this business the Company is continuing its strategy to direct its investments into markets with higher expected growth rates. In the second quarter of 2005, these businesses will be included in discontinued operations.

On April 18, 2005, the Company announced its acquisition of the tobacco packaging interests of CM Printing Sdn Bhd in Malaysia. 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.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*(In millions of US\$, except per share amounts, aluminum prices and as otherwise stated)*

*Prior period information has been restated to reflect the reclassification of certain businesses as discontinued operations. All prior year amounts in this report include Alcan's former rolled products business, which was spun-off on 6 January 2005.*

**Overview**

The company reported first quarter income from continuing operations of \$208 or \$0.56 per common share, up from \$133 or \$0.36 per common share a year earlier and a loss of \$337 or \$0.92 per share in the fourth quarter of 2004. The improvement over the year-ago quarter reflected higher aluminum prices, better pricing and mix as well as contributions from synergies, a smaller charge for Other Specified Items (OSIs) and a higher gain from foreign currency balance sheet translation. These benefits were partially offset by the negative impact of the weaker U.S. dollar, higher costs for energy and raw materials and the impact of the rolled products business spin-off. The improvement over the fourth quarter of 2004 reflected higher aluminum prices, improved volumes and better pricing and mix, foreign currency balance sheet translation gains and a smaller charge for OSIs which more than offset increased costs for energy and raw materials and the impact of the rolled products business spin-off. The terms "Other Specified Items" and "foreign currency balance sheet translation" are defined under "Definitions" at the end of Management's Discussion and Analysis.

Income from continuing operations for the first quarter of 2005 included a primarily non-cash, after-tax gain of \$30, or \$0.08 per common share, for the effects of foreign currency balance sheet translation, compared to an after-tax gain of \$9, or \$0.03 per common share, in the year-ago quarter and an after-tax loss of \$102, or \$0.28 per common share, in the fourth quarter of 2004. The gain in the first quarter of 2005 is due to the strengthening of the U.S. dollar, principally against the Canadian dollar. Although these effects are primarily non-cash in nature, they can have a significant impact on the company's net income. Also included in income from continuing operations for the first quarter was a net after-tax charge of \$45, or \$0.12 per common share, for OSIs, as compared to a net after-tax charge of \$64, or \$0.18 per common share, in the corresponding period of 2004 and a net after-tax charge of \$346, or \$0.94 per common share, in the fourth quarter of 2004.

*(US\$ millions, except where indicated)*

**First Quarter**

Fourth

Quarter

2004

**2005**

2004



**Sales & operating revenues**

**5,172**

6,005

6,518

**Shipments (thousands of tonnes)**

Ingot products\*

**745**

493

549

Aluminum used in engineered products & packaging

**312**

371

341

Subtotal

**1,057**

864

890

Rolled products

-

Overview

668

695

Total aluminum volume

**1,057**

1,532

1,585

Ingot product realizations (US\$ per tonne)

**2,015**

1,790

2,021

Average London Metal Exchange 3-month price (US\$ per tonne)

**1,887**

1,666

1,814

**Included in income from continuing operations are:**

Foreign currency balance sheet translation

**30**

9

(102)

Other Specified Items (OSIs)

**(45)**

(64)

(346)

**Income (Loss) from continuing operations**

**208**

133

(337)

Income (Loss) from discontinued operations

**10**

(27)

(9)

**Net income (Loss)**

**218**

106

(346)

**Earnings (Loss) per common share (US\$ per common share)**

Overview

Income (Loss) from continuing operations

**0.56**

0.36

(0.92)

Net income (Loss)

**0.58**

0.29

(0.94)

**Average number of common shares outstanding (millions)**

**370.0**

367.1

369.4

*\* Includes primary and secondary ingot and scrap aluminum.*

*Prior period information includes Novelis but has been restated to reflect the reclassification of certain businesses as discontinued operations.*

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The principal items included in OSIs in the first quarter produced a net after-tax charge of \$45 compared to a net after-tax charge of \$64 in the year ago quarter. The principal items included in OSIs in the first quarter of 2005 were non-cash tax charges of \$27 mainly related to 2005 restructurings necessary to complete the spin-off of Novelis, expenses of \$24 related to the spin-off of Novelis, a favourable adjustment of \$8 related to an insurance claim at the Ravenswood facility and synergy costs of \$7. The most significant item in OSIs in the year-ago first quarter was a one-time purchase accounting adjustment of \$56 related to the Pechiney inventory revaluation. OSIs in the fourth quarter of 2004 included a goodwill impairment charge of \$154, an asset impairment charge of \$65 related to two rolling mills in Italy, purchase accounting and related adjustments of \$45, expenses of \$31 related to the spin-off of Novelis and synergy costs of \$32. Purchase accounting for the Pechiney acquisition was finalized during the fourth quarter of 2004. OSIs are detailed in the table below.

*(US\$ millions)*

**First Quarter**

**Fourth**

Quarter

2004

**2005**

**2004**

**Other Specified Items**

**Synergy costs**

(7)

(8)

(32)

**Restructuring charges**

(3)

(5)

(14)

**Asset impairment**

-

-

(65)

**Goodwill impairments**

-

-

(154)

**Gains from non-routine sales of assets, businesses and**

**Investments**

1

5

3

Tax adjustments

(27)

3

10

**Novelis costs**

(24)

(5)

-

(31)

**Legal and environmental provisions**

-

-

(6)

**Pechiney financing-related losses**

-

(2)

-

**Purchase accounting and related adjustments**

-

(56)

(45)

**Insurance recovery**

8

-

-

**Other**

7

(1)

(12)

**Other Specified Items**

(45)

-

(64)

(346)

***Prior period information includes Novelis but has been restated to reflect the reclassification of certain businesses as discontinued operations.***

### **Continuing Operations**

Sales and operating revenues were \$5.2 billion in the first quarter, down \$0.8 billion from the year-ago quarter reflecting the spin-off of the rolled products business on January 6, 2005. Excluding the impact of the spin-off of the rolled products business, sales and operating revenues increased mainly due to higher prices, improved volumes and the stronger euro. Revenues were down \$1.3 billion from the fourth quarter of 2004, reflecting the inclusion of the rolled products businesses in the prior quarter. Excluding the impact of the spin-off, sales and operating revenues increased due to higher LME prices.

Total aluminum volume, at 1,057 thousand tonnes (kt), was down 475kt from a year earlier and 528kt from the fourth quarter of 2004 due to spin-off of the rolled products businesses on 6 January 2005. The increase in ingot product shipments in the first quarter mainly reflects volumes sold to Novelis that were previously classified as inter-company sales.

Ingot product realizations, at \$2,015 per tonne, were \$225 per tonne higher than in the year-ago quarter and \$6 per tonne lower than in the fourth quarter. Local market premia remain at historically high levels.

Income from continuing operations for the first quarter of 2005 included a pre-tax gain of \$2, or \$0.01 per common share after tax, arising from the marking to market of derivatives as compared to a pre-tax loss of \$2, or nil per common share after tax, in the year-ago quarter, and a pre-tax loss of \$24, or \$0.09 per common share after tax, in the fourth quarter of 2004.

Results for the first quarter of 2005 included non-cash pre-tax expenses of \$5 for stock options as compared to \$2 in the year-ago quarter and \$4 in the fourth quarter of 2004.

For the first quarter, the average number of common shares outstanding was 370.0 compared to 367.1 in the comparable year-ago quarter and 369.4 in the fourth quarter of 2004. As at March 31, 2005, there were 370.1 shares outstanding.

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#### **Synergies**

Included in income from continuing operations for the first quarter were pre-tax synergy benefits of about \$60 associated with the integration of Pechiney. On a cumulative basis, realized savings have reached \$125 since the program began at the start of 2004. The annualized synergy run-rate at the end of the first quarter of 2005 was \$232, well on track to reach the total target of \$360 by year end.

#### **Discontinued Operations**

The results of discontinued operations in the first quarter of 2005 include the Pechiney Électrométallurgie (PEM) ferroalloy business, most of the company's interest in Aluminium de Grèce (AdG) which was sold in March 2005 as well as the copper trading activities and certain non-core engineered products operations. Collectively, discontinued operations recorded an after-tax gain of \$10 in the first quarter. In the year-ago first quarter, discontinued operations recorded an after-tax loss of \$27, with no after-tax impact from mark-to-market adjustments on derivatives. In the fourth quarter of 2004, discontinued operations recorded an after-tax loss of \$9, which included an after-tax mark-to-market loss on derivatives of \$6.

After including the results of discontinued operations, the company reported net income of \$218, or \$0.58 per common share, compared to net income of \$106, or \$0.29 per common share, a year earlier, and a loss of \$346, or \$0.94 per common share, in the fourth quarter of 2004.

(64)



**Operating Segment Review**

The term "Business Group Profit" (BGP) is defined under "Definitions" at the end of Management's Discussion and Analysis. Financial information for individual business groups includes the results of certain joint ventures on a proportionately consolidated basis, which is consistent with the way the business groups are managed. However, the BGP of these joint ventures is removed from total BGP for the company and the net after-tax results are reported as equity income.

The change in the fair market value of derivatives has been removed from individual business group results and is shown on a separate line within total BGP. 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.

*(US\$ millions)*

**First Quarter**

Fourth Quarter

**2005**

2004

2004

**Business Group Profit (BGP)**

Bauxite and Alumina

**97**

88

122

Primary Metal

**431**

378

295

Synergies

**121**

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Engineered Products		<b>115</b>
		106
		91
Packaging		<b>154</b>
		168
		157
Equity accounted joint venture eliminations		<b>(74)</b>
		(53)
		(83)
Change in fair market value of derivatives		<b>(3)</b>
		-
		(26)
Subtotal		<b>720</b>
		687
		556
Novelis entities		-
		164
Synergies		122

	145
	<b>720</b>
	851
	701
<b>Corporate Items</b>	
Intersegment, corporate offices and other	
	<b>(85)</b>
	(258)
	(368)
Depreciation and amortization	
	<b>(272)</b>
	(336)
	(355)
Interest	
	<b>(85)</b>
	(93)
	(93)
Income taxes	
	<b>(98)</b>
	(41)
Synergies	123

	(75)
Equity income	
	<b>29</b>
	16
	8
Minority interests	
	<b>(1)</b>
	(6)
	(1)
Goodwill impairment	
	-
	-
	(154)
<b>Income (Loss) from continuing operations</b>	
	<b>208</b>
	133
	(337)

*Prior period information includes Novelis but has been restated to reflect the reclassification of certain businesses as discontinued operations.*

On 6 January 2005, Alcan completed the spin-off of its rolled products business, now named Novelis Inc. Prior-period business group information has been retroactively adjusted to reflect the impact of the transaction.

**Bauxite and Alumina:** BGP for the first quarter was \$97, up \$9 from the year-ago quarter. This improvement mainly reflected benefits from higher alumina prices, partially offset by lower shipment volumes and higher energy and maritime freight costs. Compared to the fourth quarter of 2004, BGP decreased \$25. The favourable impact of balance sheet translation and the benefits of higher prices for LME linked alumina contracts were more than offset by reduced spot sales, the disposition of a favourable alumina contract with the sale of AdG and lower shipment volumes. Continuing strong metal prices and higher expected shipments should provide support for similar results in the second quarter of 2005.

**Primary Metal:** BGP for the first quarter was \$431, an increase of \$53 from the year-ago quarter. The year-over-year improvement mainly reflects the benefits from higher metal price realizations and an improved product mix, offset in part by the adverse impact of the weaker U.S. dollar on operating costs, higher costs for certain raw materials, including energy, and the impact of the Arvida Soderberg shutdown, which was completed in April 2004. On a sequential quarter basis, BGP increased by \$136. Benefits from higher metal price realizations, improved product mix, balance sheet translation effects and lower operating costs were slightly offset by higher costs for alumina and energy and lower smelter equipment sales. Results for the second quarter are expected to remain firm, as higher raw material and operating costs are offset by benefits from higher shipment volumes.

**Engineered Products:** BGP for the first quarter was \$115, up \$9 from the year-ago quarter. Higher aerospace volumes, synergies from the Pechiney acquisition and lower operating costs resulting from restructuring activities in 2004 more than offset higher costs for energy and fuel-related inputs. Compared to the fourth quarter of 2004, which was affected by seasonal slowing, BGP improved by \$24 due to strong performances from the extrusion, aerospace, composite, and cable businesses. With business conditions expected to remain supportive in the second quarter, results should be in line with the group's first-quarter performance.

**Packaging:** BGP for the first quarter was \$154, down \$14 from the comparable year-ago quarter. Results reflected the impact of higher raw material prices, which have increased sharply since mid-2004, and a generally softer business environment in Europe. Increased raw material costs have been partly offset by price pass-throughs, the achievement of merger synergies in excess of target and favourable currency exchange movements. Compared with the fourth quarter, results were little changed as a seasonal pick-up in demand was offset by margin pressure from raw materials. While market conditions in Europe continue to be soft, results for the second quarter should benefit from an increase in food flexible volumes in Europe and North America, continued progress on the pass-through of higher raw material costs and benefits from the ongoing realization of merger synergies.

**Change in fair market value of derivatives:** For the first quarter of 2005, BGP included mark-to-market losses of \$3 and Intersegment, corporate offices and other included a gain of \$5. The company uses derivatives to hedge specific, underlying exposures which will offset these largely non-cash, mark-to-market losses over time.

#### **Reconciliation to Net Income**

The Intersegment, corporate offices and other expense category includes the elimination of profits on intersegment sales of aluminum, corporate head office costs as well as other non-operating items. In the first quarter of 2005, non-operating items were \$22 and were related to Novelis spin-off costs and synergy costs, partially offset by insurance recoveries and a non-recurring exchange gain.

Depreciation and amortization expenses, at \$272, were \$64 lower than in the year-ago quarter and \$83 lower than in the prior quarter primarily reflecting the impact of the rolled products business spin-off.

Interest expense, at \$85 in the first quarter, was \$8 lower than in both the prior-year quarter and fourth quarter of 2004, reflecting the reduced level of debt after the rolled products business spin-off.

Investments in entities over which Alcan has significant influence but not control are accounted for using the equity method. Equity income was \$29 in the first quarter, \$13 higher than in the year-ago quarter, and \$21 higher than in the fourth quarter of 2004.

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The Company's effective tax rate on income from continuing operations was 35% for the quarter. Increasing the effective tax rate were non-cash tax charges of \$27 mainly related to 2005 restructurings necessary to complete the spin-off of Novelis (included in OSIs), partially offset by the impact of a weakening in the Canadian dollar.

**Liquidity and Capital Resources**

***Operating Activities***

Cash from operating activities in continuing operations was negative \$20 in the first quarter of 2005 compared to positive \$270 a year earlier. The reduction in operating cash flow largely reflected higher working capital levels due to an increase in trade accounts receivable, which resulted from the partial termination of a securitization program, and a reduction in trade accounts payable. After dividends of \$58 and capital expenditures of \$292, free cash flow from continuing operations was negative \$370 for the first quarter of 2005. The term "Free cash flow" is defined under "Definitions" at the end of Management's Discussion and Analysis. In the year-ago quarter, after dividends of \$59 and capital expenditures of \$252, free cash flow from continuing operations was negative \$41. Capital expenditures for the quarter included \$133 for the Gove alumina refinery expansion, which is progressing according to schedule and on budget, and \$40 for the completion of the Alouette smelter expansion.

***Financing Activities***

The term "Debt as a percentage of invested capital" is defined under "Definitions" at the end of Management's Discussion and Analysis.

Debt as a percentage of invested capital at March 31, 2005 was 40%, down from 46% at the end of the fourth quarter and 48% at the end of the prior-year quarter. The decline in the debt ratio is due to the reduction of debt resulting from the rolled products business spin-off.

Approximately \$2.6 billion of debt was repaid in the first quarter of 2005 using the net proceeds from the spin-off of the rolled products business.

***Debt as a Percentage of Invested Capital***

*(US\$ millions)*

**31 March**

31 December

**2005**

2004

2004

**Debt**

Short-term borrowings

**354**

1,472

2,486

Debt maturing within one year

**409**

198

569

Debt not maturing within one year

**5,971**

7,901

6,345

Debt of operations held for sale

**18**

2

5

**Total debt**

**6,752**

9,573

9,405

**Equity**

Minority interests

**96**

Debt

182

236

Redeemable non-retractable preference shares

**160**

160

160

Common shareholders' equity

**10,067**

10,165

10,566

**Total equity****10,323**

10,507

10,962

**Total invested capital****17,075**

20,080

20,367

**Debt as a percent of invested capital (%)****40%**

48%

46%

***Investment Activities***

Capital expenditures during the first quarter of 2005 were \$292 compared to \$252 a year earlier. Capital expenditures were higher in the current year's quarter as a result of the spending on the Gove alumina refinery expansion. Capital expenditures for the full year are expected to be above depreciation expense. The spin-off of the rolled products business generated net proceeds of about \$2.6 billion which were used to repay debt.

***Liquidity***



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Alcan has access to \$3.1 billion of committed credit facilities, which are used primarily to support Alcan's commercial paper programs. As at the date of this report, 10 May 2005, Alcan has \$1.8 billion of commercial paper outstanding, and as a result, the unused portion of the credit facilities was \$1.3 billion. The Company believes that the cash from continuing operations together with available credit facilities will be more than sufficient to meet the cash requirements of operations, planned capital expenditures, dividends and any short-term debt refinancing requirements. In addition, the Company believes that its ability to access global capital markets, considering its investment grade credit rating, provides any additional liquidity that may be required to meet unforeseen events. During 2004 and for the first quarter of 2005, Standard & Poor's Rating Services maintained its rating on Alcan's long-term debt at A- and its rating on short-term debt at A2. Ratings from Moody's Investors Services were Baa1 and P2, respectively.

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#### **Contractual Obligations**

The Company has future obligations under various contracts relating to debt payments, capital and operating leases, long-term purchase arrangements, pensions and other post-employment benefits, and guarantees. The table below provides a summary of these contractual obligations (based on undiscounted future cash flows) as at March 31, 2005. There are no material off-balance sheet arrangements.

#### ***Contractual Obligations***

*(in millions of US\$)*

#### **Payments due by period**

	<b>Total</b>
	Less than 1 year
	1 - 3 years
	3 - 5 years
	More than 5 years

Long-term debt (1)

**6,380**

Payments due by period

129

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	409
	883
	1,802
	3,286
Capital lease obligations	
	<b>21</b>
	3
	6
	4
	8
Operating leases	
	<b>319</b>
	62
	115
	61
	81
Purchase obligations	
	<b>6,171</b>
	686
	759
	744
	3,982
Unfunded pension plans (3)	
	<b>2,322</b>
	67
	136
	140
	1,979
Payments due by period	130

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Other post-employment benefits (3)	2,327
	64
	130
	142
	1,991
Funded pension plans (3) (4)	(4)
	192
	392
	404
	(4)
Guarantees (2)	8
	8
	-
	-
	-
<b>Total</b>	<b>1,491</b>
	<b>2,421</b>
	<b>3,297</b>

(1) Refer to note 10, Long-Term Debt, of the accompanying financial statements.

(2) Refer to note 15, Commitments and Contingencies, of the accompanying financial statements.

(3) Refer to note 18, Post-Retirement Benefits, of the accompanying financial statements.

Total 131

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(4) Pension funding generally includes the contribution required to finance the annual service cost, except where the plan is largely overfunded, and amortization of unfunded liabilities over periods of 15 years, with larger payments made over the initial period where required by pension legislation. Contributions depend on actual returns on pension assets and on deviations from other economic and demographic actuarial assumptions. Based on management's long-term expected return on assets, annual contributions for years after 2009 are projected to be in the same range as in prior years and to grow in relation with payroll.

### Selected Annual Information

Selected unaudited financial data for each of the company's three most recently completed financial years is as follows:

31 December

*(US\$ millions, unless otherwise noted)*

**2004**

**2003**

**2002**

Sales and operating revenues

24,885

13,850

12,483

Income from continuing operations

252

262

421

Total

132

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Net income (Loss)

258

64

(348)

Total assets

33,677

31,948

17,761

Total long-term debt

6,914

7,778

3,369

*(US\$ per common share)*

Total

133

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Income from continuing operations per share - basic and diluted

0.67	
	0.79
1.29	

Net income (Loss) per share - basic and diluted

0.69	
	0.18
(1.10)	

Dividends per common share

0.60	
	0.60
0.60	
Total	134

**Selected Quarterly Information**

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Selected unaudited financial data for each of the company's eight most recently completed quarters is as follows:

*(US\$ millions, unless otherwise noted)*

**Q1-05**

**Q4-04**

**Q3-04**

**Q2-04**

**Q1-04**

**Q4-03**

**Q3-03**

**Q2-03**

Sales and operating revenues

5,172

6,518

6,169

6,193

6,005

3,567

Selected Quarterly Information

136



3,529

3,505

Income (Loss) from continuing operations

208

(337)

171

285

133

115

108

23

Net income (Loss)

218

(346)

167

331

106

96

87

(92)

*(US\$ per common share)*

Income (Loss) from continuing operations per share - basic

0.56

(0.92)

0.46

0.77

0.36

0.36

0.32

0.07

Income (Loss) from continuing operations per share - diluted

0.56

(0.91)

0.46

0.77

0.35

0.36

0.32

0.07

Net income (Loss) per share - basic

0.58

(0.94)

0.45

0.89

0.29

0.30

0.26

(0.29)

Net income (Loss) per share - diluted

0.58

Selected Quarterly Information

141

(0.93)

0.45

0.89

0.28

0.30

0.26

(0.29)

### **Commitments and Contingencies**

The company's commitments and contingencies are described in note 15 to the Consolidated Financial Statements.

### **Related Party Transactions**

The only related party transactions are those with the joint ventures accounted for under the equity method. These transactions are undertaken on an arm's length, negotiated basis. For more details, refer to note 13 to the Consolidated Financial Statements in the most recent form 10-K.

### **Accounting Policies**

The preparation of financial statements in conformity with GAAP in Canada and the United States requires management to make estimates, judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates are associated with the critical accounting policies relating to post-retirement

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benefits; environmental liabilities; property, plant and equipment; goodwill; income taxes; and business combinations. These critical accounting policies are those that are both most important to the portrayal of the company's financial condition and results and require management's most difficult, subjective or complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The company's critical accounting policies are more fully described in note 3 to the Consolidated Financial Statements and Management's Discussion and Analysis, contained in the most recent Form 10-K.

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#### Reconciliation of Canadian to U.S. GAAP

A reconciliation of Alcan's Consolidated Statement of Income and Consolidated Balance Sheet between U.S. GAAP and Canadian GAAP is contained in note 20 to the Consolidated Financial Statements. The impact of material differences is discussed below.

	<b>First Quarter</b>	
	First Quarter	
GAAP		
	<b>2005</b>	
	2004	
<i>(US\$ per common share)</i>		
	<b>Cdn</b>	
	<b>U.S.</b>	
	Cdn	
	U.S.	
Income from continuing operations per share - basic		
	<b>0.55</b>	
		<b>0.56</b>
	0.38	
		0.36
Net income per share - basic		
Accounting Policies		143

0.57

0.58

0.31

0.29

Net income per common share under Canadian GAAP was \$0.57 compared to \$0.58 under U.S. GAAP for the quarter ended March 31, 2005. The difference relates principally to accounting for derivatives. For the quarter ended March 31, 2004, net income per common share under Canadian GAAP was \$0.31 compared to \$0.29 under U.S. GAAP. The principal reason for the difference was derivatives. The differences in net income had no material impact on the discussion of results of operations for the periods presented.

### ***Joint Ventures***

The major ongoing difference between U.S. GAAP and Canadian GAAP deals with the accounting for joint ventures. Under U.S. GAAP, joint ventures, other than those over which Alcan has an undivided interest in the assets, are accounted for using the equity method while under Canadian GAAP, joint ventures are accounted for using the proportionate consolidation method. This different accounting treatment affects only the display and classification of financial statement items and has no impact on net income or shareholders' equity. This difference had no material impact on the discussion of the results of operations. The major impact of the difference in accounting treatment on the balance sheet was to increase operating working capital from continuing operations at March 31, 2005 by \$101 (\$30 at December 31, 2004) under Canadian GAAP compared to U.S. GAAP. Under Canadian GAAP, net property, plant and equipment at March 31, 2005 was \$870 higher than under U.S. GAAP (\$1,179 at December 31, 2004). Under Canadian GAAP, goodwill was higher by \$850 at March 31, 2005 (\$837 at December 31, 2004). Under Canadian GAAP, deferred charges and other assets (which include investments accounted for under the equity method) were \$1,542 lower (\$1,618 at December 31, 2004) as compared to U.S. GAAP.

Debt as a percentage of invested capital as at March 31, 2005 and December 31, 2004 was the same under Canadian GAAP as under U.S. GAAP. For the quarter ended March 31, 2005, interest expense under Canadian GAAP was higher than under U.S. GAAP by \$4 compared to \$3 for the quarter ended March 31, 2004.

### ***Accounting for Derivatives***

Beginning in 2004, Canadian GAAP is aligned with U.S. GAAP with respect to the criteria to be met for hedge accounting. For certain derivatives as at December 31, 2003, that do not qualify for hedge accounting in 2004 under Canadian GAAP but qualified for hedge accounting prior to 2004 under Canadian GAAP but not under U.S. GAAP, there will be an impact on the company's Canadian GAAP income for a transitional period ending with the maturities of the derivatives. Under U.S. GAAP, these derivatives had been marked-to-market prior to December 31, 2003.

In addition, Canadian GAAP does not permit the recognition of embedded derivatives.

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The impact of the different accounting treatments for derivatives was to decrease net income under Canadian GAAP by \$2 for the quarter ended March 31, 2005 (increase of \$8 to net income for the quarter ended March 31, 2004). This difference had no material impact on the discussion of results for the periods presented.

In addition, because Canadian GAAP does not have the concept of Other Comprehensive Income, certain amounts related to cash flow hedges classified in shareholders' equity on the balance sheet under U.S. GAAP were reclassified to various asset and liability accounts under Canadian GAAP.



### **Minimum Pension Liability**

Canadian GAAP does not require the recognition of a minimum pension liability if the accumulated benefit obligation exceeds the market value of plan assets. This difference had no impact on net income but did result in shareholders' equity under Canadian GAAP being higher by \$539 at March 31, 2005 (\$550 at December 31, 2004). At March 31, total assets were lower by \$244 (\$253 at December 31, 2004) and total pension liabilities were lower by \$1,002 (\$1,036 at December 31, 2004) under Canadian GAAP.

### **Cautionary Statement**

Statements made in this quarterly report which describe the company's or management's objectives, projections, estimates, expectations or predictions of the future may be "forward-looking statements" within the meaning of securities laws, which can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "estimates," "anticipates" or the negative thereof or other variations thereon. The company cautions that, by their nature, forward-looking statements involve risk and uncertainty and that the company's actual actions or results could differ materially from those expressed or implied in such forward-looking statements or could affect the extent to which a particular projection is realized. Important factors which could cause such differences include global supply and demand conditions for aluminum and other products, aluminum ingot prices and changes in raw materials' costs and availability, changes in the relative value of various currencies, cyclical demand and pricing within the principal markets for the company's products, changes in government regulations, particularly those affecting environmental, health or safety compliance, economic developments, relationships with and financial and operating conditions of customers and suppliers, the effects of integrating acquired businesses and the ability to attain expected benefits and other factors within the countries in which the company operates or sells its products and other factors relating to the company's ongoing operations including, but not limited to, litigation, labour negotiations and fiscal regimes.

Alcan undertakes no obligation to release publicly the results of any future revisions it may make to forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

### **Definitions**

"Business Group Profit" (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.

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"Debt as a percentage of invested capital" does not have a uniform definition. Because other issuers may calculate debt as a percentage of invested capital differently, Alcan's calculation may not be comparable to other companies' calculations. The reconciliation presented earlier explains the calculation. The figure is calculated by dividing borrowings by total invested capital. Total invested capital is equal to the sum of borrowings and equity, including minority interests. The company believes that debt as a percentage of invested capital can be a useful measure of its financial leverage as it indicates the extent to which it is financed by debt holders. The measure is widely used by the investment community and credit rating agencies to assess the relative amounts of capital put at risk by debt holders and equity investors.

"Foreign currency balance sheet translation" effects largely arise from translating monetary items (principally deferred income taxes and long-term liabilities) denominated in Canadian and Australian dollars into U.S. dollars for reporting purposes. Although these effects are primarily non-cash in nature, they can have a significant impact on the company's net income.

"Free cash flow" consists of cash from operating activities in continuing operations less capital expenditures and dividends. Management believes that free cash flow is relevant to investors as it provides a measure of the cash generated internally that is available for investment opportunities and debt service.

"GAAP" means generally accepted accounting principles.

"Other Specified Items" (OSIs) include, for example: restructuring charges; asset impairment charges; unusual environmental charges; gains and losses on non-routine sales of assets, businesses or investments; gains and losses from legal claims; gains

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and losses on the redemption of debt; income tax reassessments related to prior years and the effects of changes in income tax rates; and other items that, in Alcan's view, do not typify normal operating activities.

"Synergy run-rate" is the annualized rate of savings resulting from actions taken to date.

All tonnages are stated in metric tonnes, equivalent to 2,204.6 pounds.

All figures are unaudited.

Additional information on Alcan is available on the company's website at [www.alcan.com](http://www.alcan.com) and the company's regulatory filings can be viewed on the Canadian Securities Administrators' site at [www.sedar.com](http://www.sedar.com) and on the U.S. Securities and Exchange Commission's site at [www.sec.gov](http://www.sec.gov). All website addresses contained in this report are textual references and information from referenced websites is not incorporated by reference into this report. The number of common shares outstanding as at May 10, 2005 is 370,145,350.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

(in millions of US\$, except LME prices)

Changes in interest rates, foreign exchange rates and the market price of aluminum are among the factors that can impact the Company's cash flow. See risk factors on page 4 of the Company's annual report on Form 10-K for the year ended December 31, 2004.

**Interest Rates**

The impact of a 10% increase in interest rates on the Company's variable rate debt outstanding at March 31, 2005 net of its invested surplus cash and time deposits at March 31, 2005 would be to reduce net income for a 12-month period by \$3. The fixed rate debt will be held to maturity and the Company does not intend to refinance its fixed rate debt prior to maturity. Transactions in interest rate financial instruments for which there is no underlying interest rate exposure to the Company are prohibited. For accounting policies for interest rate swaps used to hedge interest costs on certain debt, see note 3 - Summary of Significant Accounting Policies on page 61 of the Company's annual report.

**Currency Derivatives**

The schedule below presents fair value information and contract terms relevant to determining future cash flows categorized by expected maturity dates of the Company's currency derivatives (principally forward and option contracts) outstanding as at March 31, 2005.

Total



**Nominal**

Fair

*(In US\$ millions, except contract rates)*

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**2005**

**2006**

**2007**

**2008**

**2009**

**2010**

**Amount**

Value





FORWARD CONTRACTS

**To purchase USD against the foreign currency**

CHF

Nominal amount

34

14

-

-

-

-

48

(2)

Average contract rate

1.214

1.250

-

-

-

-

GBP	
Nominal amount	
	33
	6
	-
	-
	-
	39
	(1)
Average contract rate	
	0.550
	0.570
	-
	-
	-
	-

JPY				
Nominal amount				
				3
				-
				-
				-
				-
				-
				3
				-
Average contract rate				
				106.9
				-
				-
				-
				-
				-

Other

Nominal amount

2

-

-

-

-

-

2

-

To sell USD against the foreign currency



AUD			
Nominal amount			
			23
			-
			-
			-
			-
			-
			23
-			
Average contract rate			
To sell USD against the foreign currency			161

1.300

-  
-  
-  
-  
-

GBP

Nominal amount

83

3

-  
-  
-  
-

86

To sell USD against the foreign currency

162

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-

Average contract rate

0.530

0.540

-

-

-

-

EUR

Nominal amount

194

51

22

-

To sell USD against the foreign currency

163

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	-
	-
	267
29	
Average contract rate	
	0.850
	0.960
	0.830
	-
	-
	-
CHF	
Nominal amount	
	5
To sell USD against the foreign currency	164

1

-

-

-

-

6

-

Average contract rate

1.143

1.313

-

-

-

-

Other

Nominal amount

2

-

-

-

-

-

2

-

**To sell EUR against the foreign currency**

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USD	
Nominal amount	
	447
	1,262
	24
	9
	-
	-
	1,742
(139)	
Average contract rate	
To sell EUR against the foreign currency	167

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1.265

1.200

1.222

1.090

-

-

CHF

Nominal amount

29

22

-

-

-

-

51

To sell EUR against the foreign currency

168



(1)

Average contract rate

1.517

1.495

-

-

-

-



Total



**Nominal**

Fair

*(In US\$ millions, except contract rates)*

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2005

2006

2007

2008

2009

2010

Amount

Value





GBP	
Nominal amount	
	11
	-
	-
	-
	-
	-
	11
-	
Average contract rate	
	0.705
	-
	-
	-
	-
	-
To sell EUR against the foreign currency	177

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ZAR		
Nominal amount		
		14
		1
		-
		-
		-
		-
		15
-		
Average contract rate		
		8.105
		8.043
		-
		-
To sell EUR against the foreign currency		178

-  
-

**To buy EUR against the foreign currency**

GBP	
Nominal amount	
	36
	9
	-
	-
	-
	-
	45
(1)	
Average contract rate	
To buy EUR against the foreign currency	180

0.708

0.715

-

-

-

-

AUD

Nominal amount

7

-

-

-

-

-

7

To buy EUR against the foreign currency

181

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-

Average contract rate

1.768

-

-

-

-

-

CHF

Nominal amount

5

-

-

-

To buy EUR against the foreign currency

182



	-
	-
	-
	-
	-
	6
	-
Average contract rate	136.5
	-
	-
	-
	-
	-



Other

Nominal amount

5

1

-

-

-

-

6

-

**To sell GBP against the foreign currency**

To buy EUR against the foreign currency

185

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CHF			
Nominal amount			
			2
			-
			-
			-
			-
			-
			2
-			
Average contract rate			
			2.223
			-
			-
			-
			-
To buy EUR against the foreign currency			186

**To buy CHF against the foreign currency**

To buy EUR against the foreign currency

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AUD				
Nominal amount				
				2
				-
				-
				-
				-
				-
				2
-				
Average contract rate				
				1.170
To buy EUR against the foreign currency				188

-  
-  
-  
-  
-

JPY

Nominal amount

2  
-  
-  
-  
-  
-  
2

-

To buy EUR against the foreign currency

189

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Average contract rate

89.86

-

-

-

-

-

Other

Nominal amount

1

-

-

-

-

To buy EUR against the foreign currency

190

-

**To sell CHF against the foreign currency**

**To buy EUR against the foreign currency**

Other

Nominal amount

3

-

-

-

-

-

3

-

**OPTIONS**

OPTIONS



To sell USD against the foreign currency

EUR	
Nominal amount	
	36
	-
	-
	-
	-
	-
	36

9

Average contract rate

OPTIONS

194

1.020

-  
-  
-  
-  
-

GBP

Nominal amount

2  
-  
-  
-  
-  
-

OPTIONS

195

Average contract rate

0.585

-  
-  
-  
-  
-

Any negative impact of currency movements on the currency contracts that the Company has entered into to hedge identifiable foreign currency commitments to purchase or sell goods and services, would be offset by an equal and opposite favourable exchange impact on the commitments being hedged. Transactions in currency related financial instruments for which there is no underlying foreign currency exchange rate exposure to the Company are prohibited. For accounting policies relating to currency contracts, see note 3 - Summary of Significant Accounting Policies on page 61 of the Company's annual report.

**Derivative Commodity Contracts**

The effect of a reduction of 10% in aluminum prices on the Company's aluminum forward and options contracts outstanding at March 31, 2005 would be to increase net income over the period ending December 2007 by approximately \$131 (\$92 in 2005, \$34 in 2006 and \$5 in 2007). These results reflect a 10% reduction from the March 31, 2005, three-month LME aluminum closing price of \$1,973 per tonne and assume an equal 10% drop has occurred throughout the aluminum forward price curve existing as at March 31, 2005. The Company's aluminum forward contract positions, producing the above results, are entered into to hedge anticipated future sales and future purchases of metal that are required for firm sales and purchase commitments to fabricated products customers. Consequently, any negative impact of movements in the price of aluminum on the forward contracts would be offset by an equal and opposite impact on the sales and purchases being hedged.

Transactions in metal-related financial instruments for which there is no underlying metal price exposure to the Company are prohibited, except for a small trading portfolio of metal forwards not exceeding 24,000 tonnes, which is marked-to-market.

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**Item 4. Controls and Procedures**

**a) Evaluation of Disclosure Controls and Procedures**

As at March 31, 2005, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

**b) Changes in Internal Control Over Financial Reporting**

Except as otherwise discussed herein, there have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company is evaluating the impact on its internal control over financial reporting of the following matters and will assess the effectiveness of its internal control over financial reporting in its Annual Report on Form 10-K for 2005.

During the first quarter of 2005, the Company completed the spin-off of its rolled products business to Novelis Inc. as described in Note 5 to the Financial Statements for the quarter ended March 31, 2005. There have been consequent changes to the Company's internal control over financial reporting as a result of this. In addition, further changes will be made as the terms of certain transitional service agreements between the Company and Novelis expire.

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, during the first quarter of 2005, the Company corrected the deficiency in controls specified in such Annual Report by making appropriate changes to the Company's documented accounting policies and procedures for the allocation of goodwill to reporting units acquired in a business combination.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Information called for by this Item is incorporated by reference to the first paragraph of Note 15 of Item 1, Part I of this quarterly report on Form 10-Q.

**Items 2. and 3.**

The registrant has nothing to report under these items.

**Item 4. Submission of Matters to a Vote of Security Holders**

The Annual Meeting of Shareholders of Alcan was held on April 28, 2005. At the Annual Meeting:

-

on a vote by show of hands, Messrs. Roland Berger, L. Denis Desautels, Travis Engen, L. Yves Fortier, Jean-Paul Jacamon, William R. Loomis, Jr., Yves Mansion, H. Onno Ruding, Guy Saint-Pierre, Gerhard Schulmeyer, Paul M. Tellier and Milton K. Wong, and Mrs. Christine Morin-Postel were elected as directors of Alcan to serve until the close of the next annual meeting or until they cease to hold office as such; -

on a vote by show of hands, PricewaterhouseCoopers LLP was appointed as Auditors to serve until the close of the next annual meeting; -

on a vote by ballot, the resolution re-confirming and amending the Shareholder Rights Plan was adopted, with 188,557,198 Shares voted for and 32,658,520 Shares voted against; and -

on a vote by ballot, the resolution amending the Alcan Executive Share Option Plan was adopted, with 193,480,049 Shares voted for and 27,761,796 Shares voted against.

**Item 5. Other Information**

The registrant has nothing to report under this item.

**Item 6. Exhibits**

(10.1) Amended Alcan Executive Share Option Plan

(31.1) Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.

(31.2) Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.

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- (32.1) Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  
- (32.2) Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALCAN INC.

Dated: 10 May 2005

By: /s/ Thomas J. Harrington

Thomas J. Harrington

Vice President and Controller

(A Duly Authorized Officer)



**EXHIBIT INDEX**

Exhibit

Number

Description

(10.1) Amended Alcan Executive Share Option Plan

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