ALCAN INC
Form 10-K
March 02, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

[√] **Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended
31 December 2006
OR
[ ] **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number 1-3677

Alcan Inc.

Incorporated in:	*I.R.S. Employer Identification No.:*
Canada	**Not applicable**
1188 Sherbrooke Street West, Montreal, Quebec, Canada H3A 3G2	Telephone: (514) 848-8000

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

Title of Each Class	*Name of Each Exchange on Which Registered*
Common Shares, without nominal or par value	New York Stock Exchange
Common Share Purchase Rights	New York Stock Exchange
47/8% Notes due 2012	New York Stock Exchange

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

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

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

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

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

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

Large accelerated filer √ Accelerated filer __ Non-accelerated filer __

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

The aggregate market value of the voting stock held by non-affiliates:	USD 17,606 million, as at 30 June 2006.
Common Stock of Registrant outstanding:	367,434,803 Common Shares, as at 26 February 2007.
Documents incorporated by reference:	Portions of the Proxy Circular for the Annual Meeting to be held on 26 April 2007 are incorporated by reference in Part III of this Form 10-K.

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In this report, unless the context otherwise requires, the following definitions apply:

Alcan , **Company** , **Registrant** or the **Issuer** means Alcan Inc. and, where applicable, one or more Subsidiaries,

Business Group refers to each of Alcan s business groups: Bauxite and Alumina, Primary Metal, Engineered Products and Packaging,

Board or **Board of Directors** means the board of directors of Alcan,

Director means a director of Alcan,

Dollars or **$** means US Dollars, unless otherwise specified,

Executive Officers means the President and Chief Executive Officer, the Executive Vice Presidents, the Senior Vice Presidents, the Vice Presidents, the Treasurer, the Controller and the Corporate Secretary of Alcan,

Financial Statements means Alcan s consolidated financial statements for the year ended 31 December 2006, included hereafter under Item 8 Financial Statements and Supplementary Data ,

Joint Venture means an association (incorporated or unincorporated) of companies jointly undertaking a commercial enterprise, but in which Alcan does not hold or exercise a controlling interest. Joint Ventures are accounted for using the equity method, except for joint ventures over which Alcan has an undivided interest in the assets and liabilities, which are consolidated to the extent of Alcan s participation,

LME means the London Metal Exchange,

Management s Discussion and Analysis means Alcan s management s discussion and analysis of financial condition and results of operations for the year ended 31 December 2006, included hereafter under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations ,

MW means megawatts; **MWh** means megawatthours; and **kWh** means kilowatthours,

Novelis means Novelis Inc., a corporation incorporated under the *Canada Business Corporations Act* and formed to acquire, pursuant to the Novelis Spin-off, the businesses contributed by Alcan,

Novelis Spin-off means the transfer to Novelis of certain aluminum rolled products businesses and Novelis becoming an independent publicly-traded company on 6 January 2005,

Proxy Circular means the management proxy circular prepared in connection with Alcan s Annual Meeting of Shareholders to be held on 26 April 2007, and any adjournment thereof, filed herewith under exhibit 99.1,

Pechiney means Pechiney, a Subsidiary of the Company following its acquisition in 2003, now know as Alcan France SAS,

Related Company means a company in which Alcan owns, directly or indirectly, 50% or less of the voting stock and in which Alcan has significant influence over management,

Share or **Common Share** means a common share in the capital of Alcan,

Shareholder or **Common Shareholder** means a holder of the Shares,

Subsidiary means a company controlled, directly or indirectly, by Alcan,

tonne means a metric tonne of 1,000 kilograms or 2,204.6 pounds; **kt** means kilotonne; **Mt** means millions of tonnes; **kt/y** means kilotonne per year; and **Mt/y** means millions of tonnes per year, and

US GAAP means US generally accepted accounting principles.

Unless otherwise expressly indicated, the financial and other information given in this report is presented on a consolidated basis.

Certain information called for by Items of this Form 10-K report is incorporated by reference to the Proxy Circular, which is filed herewith as exhibit 99.1 to this report. Such information is specifically identified herein, including by the reference See Proxy Circular . With the exception of information specifically incorporated by reference from the Proxy Circular, such Proxy Circular is not to be deemed filed as part of this Form 10-K report. Information incorporated by reference is considered to be part of this report, and information in reports filed later with the Securities and Exchange Commission (SEC) will automatically update and supersede this information.

Information contained in or otherwise accessed through the Company s website, or any other website referred to in this Form 10-K report, does not form part of this Form 10-K report and any website addresses contained herein are inactive textual references only.

Special Note Regarding Forward-Looking Statements

Certain statements made or incorporated by reference in this report are forward-looking statements within the meaning of securities legislation, in particular the United States *Private Securities Litigation Reform Act of 1995*. Terms such as believes , expects , may , will , could , should , anticipates , estimates , intends and p negatives of and variations on terms such as these signify forward-looking statements. All statements that address the Company s expectations or projections about the future including statements about the Company s growth, cost reduction goals, expenditures and financial results are forward-looking statements. Because these forward-looking statements include risks and uncertainties, readers are cautioned that actual results may differ materially from the results expressed in or implied by the statements.

For a listing of certain factors that could, among others, cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements, please refer to Item 1A of this Form 10-K.

Additional information concerning factors that could cause actual results to differ materially from those in forward-looking statements include, but are not necessarily limited to, those discussed under the heading Risks and Uncertainties in Management s Discussion and Analysis in Item 7 of this Form 10-K.

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, nor does Alcan undertake any obligation to update on an interim basis the risk factors that could cause actual results to differ materially from those in forward-looking statements.

Alcan files annual, quarterly and special reports and other information with the SEC. Any document so filed can be viewed at the SEC s public reference room at 100 F Street, N. E., Washington, D. C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the SEC s public reference room. The SEC maintains a website at www.sec.gov that contains our annual, quarterly and current reports, proxy and information statements, and other information Alcan files electronically with the SEC. Such documents, and amendments thereto, filed or furnished pursuant to Section 13(a) or 15(d) of the *Securities Exchange Act of 1934*, are also available, as soon as reasonably practicable, after Alcan has electronically filed such materials, through its website at www.alcan.com. Alcan s website also includes the Charters of its Board of Directors and of its four Committees of the Board of Directors: the Corporate Governance, the Audit, the Human Resources and the Environment, Health & Safety Committees, as well as its *Worldwide Code of Employee and Business Conduct*, available in 12 languages.

PART I

ITEM 1 *BUSINESS*

Alcan is the parent company of an international group involved in many aspects of the aluminum, engineered products and packaging industries. Through Subsidiaries, Joint Ventures and Related Companies around the world, the activities of Alcan include bauxite mining, alumina refining, production of specialty alumina, aluminum smelting, manufacturing and recycling, engineered products, flexible and specialty packaging, as well as related research and development.

On 31 December 2006, Alcan employed approximately 64,700 people in 61 countries and regions, excluding 3,300 people employed in Joint Ventures.

A. OVERVIEW OF OPERATING SEGMENTS

The Company operates through four Business Groups, each responsible for the different business units of which they are comprised. 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. The operating segments of the Company are:

1.1 ***Bauxite and Alumina***, headquartered in Montreal (Canada), this Business Group comprises Alcan s worldwide activities related to bauxite mining and refining into smelter-grade and specialty alumina, owning, operating or having interests in six bauxite mines and deposits in five countries, five smelter-grade alumina plants in four countries and six specialty alumina plants in three countries and providing engineering and technology services;

1.2 ***Primary Metal***, also headquartered in Montreal, this Business Group comprises smelting operations, power generation, production of primary value-added ingot, manufacturing of smelter anodes, smelter cathode blocks and aluminum fluoride, smelter technology and equipment sales, engineering services and trading operations for aluminum, operating or having interests in 22 smelters in 11 countries, 12 power facilities in four countries and 12 technology and equipment sales centres and engineering operations in ten countries;

1.3 ***Engineered Products***, headquartered in Paris (France), this Business Group produces engineered and fabricated aluminum products including rolled, extruded and cast aluminum products, engineered shaped products and structures, including cable, wire, rod, as well as composite materials such as aluminum-plastic, fibre reinforced plastic and foam-plastic in 55 plants located in 12 countries. Also part of this Business Group are 33 service centres in 11 countries and 32 sales offices in 27 countries and regions; and

1.4 ***Packaging***, also headquartered in Paris, this Business Group consists of Alcan s worldwide food, pharmaceutical and medical, beauty and personal care, and tobacco packaging businesses operating 130 plants in 30 countries and regions. This Business Group produces packaging from a number of different materials, including plastics, aluminum, paper, paperboard and glass.

B. HISTORY / RECENT DEVELOPMENTS

Alcan is a limited liability Canadian company, incorporated on 3 June 1902, with its headquarters and registered office in Montreal, Canada, to establish a smelter and hydroelectric power facility in Shawinigan, Canada. In 1928, Alcan became an independently-traded company. During the Second World War, substantial expansion of

hydroelectric and smelting capacity took place in Quebec to supply aluminum for the war effort. In the 1950s, Alcan added hydroelectric and smelting capacity in British Columbia. During the post-war period, Alcan expanded internationally and invested in fabricating activities. Alcan continued its international expansion with the acquisitions of Alusuisse Group Ltd. in 2000 and Pechiney in 2003, both of which significantly increased the Company s presence in the packaging industry. In 2005, the majority of the Company s rolled products businesses were spun-off into a new independent company, Novelis.

1. Alcan s Recent Developments

In the past year, Alcan reported the major events related to its business and corporate governance described below.

On 3 January 2006, the Company announced that Alcan Packaging Mexico SA de CV, a wholly-owned Subsidiary, had acquired the packaging assets and business of Recubrimientos y Laminaciones de Papel, SA de CV of Monterrey (Mexico). The asset purchase includes a plant in Monterrey (Nuevo León).

On 12 January 2006, the Company announced that it would begin the closure process of its 44 kt per year aluminum smelter in Steg (Switzerland).

On 27 February 2006, the Company announced that it had reached an agreement to sell selected assets of its North American plastic bottle packaging business to Ball Corporation for $180 million. The sale included operations in Batavia (Illinois), Bellevue (Ohio), Newark (California, US) and Brampton (Ontario, Canada).

On 6 March 2006, the Company announced that it had reached an agreement in principle for the sale of its Chambéry (France) Rollbond panel manufacturing operation to Compagnia Generale Alluminio SpA.

On 13 March 2006, the Company announced that Richard B. Evans had been appointed the Company s President and Chief Executive Officer (CEO) replacing Travis Engen, who had retired.

On 4 April 2006, the Company announced that it had sold its German automotive casting activity to AluCast GmbH, a company controlled by Parter Capital, a private equity company based in Frankfurt (Germany).

On 9 May 2006, the Company announced the reorganization of its global specialty alumina business, entailing the gradual shut-down of the Company s specialty-calcined alumina plant in Jonquière (Quebec, Canada).

On 11 May 2006, the Company announced that it had secured 40% of the energy required for a potential expansion of its ISAL smelter in Iceland. The agreement with Reykjavik Energy, which calls for the purchase of 200 MW of geothermal power beginning in 2010, would supply an expanded smelting facility with potential future total capacity of 460 kt per year.

On 22 June 2006, the Company announced that it had entered into a Memorandum of Understanding with the Republic of Ghana for the creation of a joint venture between Alcan and Ghana to explore the feasibility of developing a bauxite mine and alumina refinery, with an initial capacity of 1.5 to 2.0 Mt/y. The joint venture will be 51% owned by Alcan. Alcan and Ghana are to undertake a preliminary concept study that is expected to be completed by early 2007, which, if successful, could then lead to feasibility studies.

On 22 June 2006, the Company announced that it had successfully launched its new advanced aerospace plate installation and equipment at its Issoire (France) Aerospace, Transportation and Industry facility.

On 30 June 2006, the Company announced that its Quebec employees represented by the Canadian Auto Workers union had ratified a new collective labour agreement. The agreement covers an initial five-year period with an additional four-year term available.

On 4 July 2006, the Company announced the opening of its AUD 20 million Stelvin® aluminum wine closure facility in Adelaide (Australia).

On 12 July 2006, the Company announced that it had begun consultations with union and employee representatives for a proposed sale of selected assets at the Company s Affimet aluminum recycling plant in Compiègne (France).

On 12 July 2006, the Company announced that it would close two UK sites: the Workington Aerospace, Transportation and Industry hard alloy extrusion plant and the Midsomer Norton food packaging plant.

On 21 July 2006, the Company announced the opening of the Packaging Group s $33 million labels plant in Edgewood (New York, US).

On 24 July 2006, the Company s Packaging Business Group announced that it had signed an agreement to sell its Cebal Aerosol business to its current management team and to Natexis Investissement Partners.

On 2 August 2006, the Company announced that it was raising its quarterly dividend from $0.15 to $0.20 per Common Share.

On 14 August 2006, the Company announced its intention to modernize its Kitimat (British Columbia, Canada) smelter through an approximate $1.8 billion investment subject to final Board approval and to the condition of obtaining a new labour agreement, environmental permits and regulatory approval of the British Columbia Utilities Commission (BCUC) of the amended and restated Long-Term Energy Purchase Agreement between Alcan and BC Hydro. On 22 January 2007, the Company announced that it had filed leave to appeal the BCUC s decision of 29 December 2006 to reject the amended and restated Long-Term Electricity Purchase Agreement.

On 24 August 2006, the Company officially opened its new $42.6 million packaging facility in Reidsville Industrial Park (North Carolina, US) which produces printed packaging, including folding cartons and labels, for key customers in Alcan Packaging s global tobacco business.

On 14 September 2006, the Company announced that the Queensland government had given approval for the commencement of mining operations on Alcan s Ely bauxite deposit near Weipa, on Australia s Western Cape York Peninsula. The deposit has a reserve of close to 50 Mt which is expected to be mined over a period of approximately 25 years.

On 29 September 2006, the Company announced that it will build a $180 million aluminum spent pot lining recycling plant in Quebec s Saguenay Lac-Saint-Jean region. The plant is expected to begin pot lining treatment operations in the second quarter of 2008.

On 3 October 2006, the Company announced that its Board of Directors had authorized a share repurchase program of up to 5% of the Company s total outstanding Common Shares.

On 23 October 2006, the Company announced that its Pechiney Nederland NV Subsidiary will conduct a strategic review of alternatives, including the potential sale of the aluminum smelter in Vlissingen (Netherlands), in which it holds an 85% interest.

On 30 October 2006, the Company announced the appointments of Michel Jacques, 54, as President, Alcan Primary Metal Group and Christel Bories, 42, as President, Alcan Engineered Products, a post that was previously occupied by Mr. Jacques. Mr. Jacques replaced Cynthia Carroll who announced her resignation on 24 October 2006.

On 6 November 2006, the Company announced the appointment of Ilene Gordon, 53, as a Senior Vice President of Alcan Inc. and President, Alcan Packaging. Ms. Gordon, who was previously President of Alcan s Food Packaging Americas business unit, succeeds Christel Bories.

On 9 November 2006, the Company announced that it had signed a Memorandum of Understanding with Access Madagascar Sarl, a Malagasy company holding exploration rights in Madagascar s south eastern Manantenina District, to jointly study the development of a bauxite mine and alumina refinery, which would have an initial capacity of 1 to 1.5 Mt/y of alumina.

On 9 November 2006, the Company announced that it had entered into an agreement to sell its Wheaton Science products business in New Jersey (US) to River Associates Investments, LLC, a private equity group.

On 24 November 2006, the Company announced that it had secured a long-term supply agreement with South African energy firm, ESKOM Holdings Limited, for the purchase of up to 1,340 MW of electricity for its proposed 720 kt

greenfield Coega aluminum smelter project, which will have a total estimated cost of $2.7 billion.

On 29 November 2006, the Company announced that it will invest $27.5 million for an expansion project in its Pharma Center in Shelbyville (Kentucky, US).

On 6 December 2006, the Company announced that it had completed the acquisition of the remaining 70% stake of Carbone Savoie that it did not already own, and certain related technology and equipment, from GrafTech International Ltd. for $135 million less certain price adjustments.

On 14 December 2006, the Company announced plans to build a $550 million pilot plant at its Complexe Jonquière site in Canada to develop the Company s proprietary AP50 smelting technology. The pilot plant, which is

expected to produce 60 kt of aluminum annually, is the first step in a planned $1.8 billion investment program in Quebec s Saguenay Lac-Saint-Jean region. On the same date, the Company also announced the launch of a research and development initiative centred at its R&D centre in Voreppe (France), and focused on the AP series aluminum smelting technology.

On 27 December 2006, the Company announced that it had signed a collective labour agreement with the United Steelworkers union representing the Alma primary aluminum smelter in Quebec. The agreement covers an initial five year term.

On 22 January 2007, the Company revised its cost estimate for the expansion of the Gove alumina refinery in Australia s Northern Territory to $2.3 billion and indicated that the start-up date would be in the second quarter of 2007, reflecting limited availability of labour and materials in the Australian construction market, the appreciation of the Australian dollar, additional construction requirements and weather-related delays. On 22 September 2006, the Company announced that it expected a 20 to 25% increase over the original $1.5 billion cost. Expanded production is expected to start progressively during the second quarter of 2007 and continue through the first quarter of 2008, at which time the refinery is expected to attain its full expanded capacity of 3.8 Mt.

C. ALCAN BUSINESS GROUPS

Alcan has four Business Groups: Bauxite and Alumina, Primary Metal, Engineered Products and Packaging.

1. Bauxite and Alumina

A recognized leader and supplier of alumina refinery technology, the Bauxite and Alumina Business Group comprises all Alcan bauxite mines and deposits, smelter-grade alumina refineries and specialty alumina plants.

1.1 Products and Services / Business Units

1.1.1 ***Bauxite:*** Aluminum is one of the most abundant metals in the earth s crust but is never naturally found in its pure form. Bauxite is the basic aluminum-bearing ore, mostly found in tropical and sub-tropical regions of the world. Once extracted, bauxite is sent to alumina plants.

1.1.2 ***Smelter-Grade Alumina:*** Alumina (aluminum oxide) is produced by a chemical process. Crushed bauxite is mixed with caustic soda under pressure at high temperatures to create sodium aluminate. Seeded with pure alumina trihydrate, the sodium aluminate is agitated and, through precipitation, the caustic soda is separated and re-used. The resulting product is heated to extract water and becomes calcined alumina. Depending upon quality, between four and five tonnes of bauxite are required to produce approximately two tonnes of alumina.

1.1.3 ***Specialty Alumina:*** Alcan produces specialty aluminas including products for a wide array of applications such as fire retardant products, refractory bricks, zeolite, alum, solid surface products, absorbents and ceramics.

1.1.4 ***Services:*** Alcan generates additional revenues through the sale of engineering, technology and other services relating to bauxite and alumina to both internal customers and third parties.

In 2006, Alcan used 11.4 Mt of bauxite to produce 4.9 Mt of smelter-grade alumina, which were either transferred to its current smelting operations through direct intersegment sales, or sold to third parties directly or through swap agreements. The balance of the smelter requirements, 1.7 Mt of alumina, was purchased from third parties. Alcan also produced and sold 600 kt of specialty aluminas to third parties.

In 2006, the Bauxite and Alumina Business Group had third party sales and operating revenues of approximately $1.8 billion, representing approximately 7.8% of Alcan s 2006 sales and operating revenues.

For further information concerning the Bauxite and Alumina Business Group s sales, business group profit, and total assets, see note 33 Information by Operating Segments to the Financial Statements, prepared in accordance with US GAAP, as well as Management s Discussion and Analysis Operating Segment Review Bauxite and Alumina.

1.2 Alumina Plants

With respect to smelter-grade alumina and specialty alumina, Alcan operates the following production facilities:

Smelter-Grade Alumina Refineries

Locations		% of Ownership by Alcan	Annual Capacity (in kt)	2006 Production (in kt)
Australia	Gladstone, Queensland (QAL)	41.4	1,640*	1,601*
	Gove, Northern Territory	100	2,000	1,615
Brazil	São Luis (Alumar)	10	145*	144*
Canada	Jonquière, Quebec	100	1,300	1,305
France	Gardanne	100	200	191
Total Smelter-Grade Alumina			5,285	4,856

* Represents Alcan s share.

Specialty Alumina Plants

Locations		% of Ownership by Alcan	Annual Capacity (in kt)	2006 Production (in kt)
Canada	Brockville, Ontario	100	20	16
	Jonquière, Quebec*	100	80**	169
France	Gardanne	100	435	445
	Beyrède	100	28	25
	La Bâthie	100	31	27
Germany	Teutschenthal	100	28	24
Total Specialty Alumina			622	706

***** Decision taken in 2006 to shut down part of production capacity.

****** Capacity is at 31 December 2006.

1.3 Source Materials

1.3.1 ***Bauxite Mines / Deposits***

Alcan produces bauxite through its Subsidiaries, Joint Ventures and consortium companies. The Company also obtains bauxite from third party suppliers. In 2006, the Company produced 13.9 Mt of bauxite, while consuming 12.8 Mt to produce smelter-grade alumina and specialty alumina. Based on bauxite deposits in numerous locations around the world, Alcan has more than sufficient bauxite reserves to meet its needs and does not believe that availability of bauxite will constrain its operations in the foreseeable future.

Bauxite Mines / Deposits

Locations		% of Ownership by Alcan	Annual Capacity (in kt)	2006 Production (in kt)
Australia	Gove, Northern Territory	100	6,000	4,767
	Ely, Queensland	100	0**	0**
Brazil	Porto Trombetas (MRN)	12.5	2,100*	2,130*
Ghana	Awaso	80	1,000*	793*
Guinea	Conakry (CBG)	22.9	6,200*	6,205*
India	Orissa (UTKAL)	45	N/A***	0***
Total Bauxite			15,300	13,895

* Represents Alcan s Share.

** Operations commenced in January 2007.

*** Bauxite extraction not yet in operation.

Approximately 6.2 Mt of the bauxite produced at Conakry are reserved for Alcan s needs.

Bauxite processed into alumina at the Gove refinery is shipped to the QTX and Kitimat smelters. Bauxite from CBG is processed at the Gardanne and Vaudreuil refineries. Gardanne supplies alumina to the European smelters. MRN bauxite is processed at the Alumar refinery and at Vaudreuil. Bauxite from Ghana is also processed at Vaudreuil, which in turn supplies alumina to the Quebec smelters. Bauxite from Ely is processed at the QAL refinery, which supplies alumina to the QTX, Kitimat and Tomago smelters. The Company purchases both bauxite and alumina from third parties, sells bauxite from CBG and Ghana and sells alumina from all refineries.

1.3.2 ***Chemicals and Other Materials***

Certain chemicals and other materials required for the production of alumina, such as caustic soda, fuel oil, natural gas, lime and flocculents are purchased from third parties.

1.3.3 ***Services***

Alcan generates additional revenues through sale, to both internal and external customers, of technology and engineering services associated with bauxite and alumina processing. With an overarching focus on innovation, process sustainability and excellence in environment, health and safety, the Company s services range from modernization and optimization of existing refineries to comprehensive design of new ones.

1.4 Recent Developments

Australia: In September 2006, the Queensland government gave approval for the commencement of mining at Alcan s Ely bauxite mine in Cape York, Queensland, which has a reserve of close to 50 Mt and is expected to be mined over a period of approximately 25 years.

On 22 January 2007, the Company revised its cost estimate for the expansion of the Gove alumina refinery in Australia s Northern Territory to $2.3 billion and indicated that the start-up date would be in the second quarter of 2007, reflecting limited availability of labour and materials in the Australian construction market, the appreciation of the Australian dollar, additional construction requirements and weather-related delays. On 22 September 2006, the Company announced that it expected a 20 to 25% increase over the original cost of $1.5 billion. Expanded production is expected to start progressively during the second quarter of 2007 and continue through the first quarter of 2008, at which time the refinery is expected to attain its full expanded capacity of 3.8 Mt.

Brazil: Construction is currently under way on an expansion that should increase the annual capacity of the Alumar alumina refinery by 2.1 Mt. The Company s throughput is expected to come on stream in the second half of

2009. Alcan owns a 10% interest in Consorcio de Alumínio do Maranhão, the legal entity operating the Alumar alumina refinery in São Luis.

Canada: On 9 May 2006, the Company announced the reorganization of its global specialty alumina business, entailing the gradual shut-down of the Company s specialty-calcined alumina plant in Jonquière (Quebec, Canada).

Guinea: On 10 January 2007, a country-wide general strike was initiated, consequently disrupting mining operations at Compagnie des Bauxites de Guinée (CBG) in which the Company has an indirect 22.9% interest. The strike brought a stop to bauxite mining, drying, rail transportation and ship loading operations for a period of 18 days in January and for another four days in February. On 16 February, CBG bauxite mine operations resumed on a limited basis. The political unrest is yet to be resolved as negotiations are underway between union leaders and government officials.

Ghana: On 22 June 2006, the Company entered into a Memorandum of Understanding with the Republic of Ghana for the creation of a joint venture between Alcan and Ghana to explore the feasibility of developing a bauxite mine and alumina refinery, with an initial annual capacity of 1.5 to 2 Mt. The joint venture would be 51% owned by Alcan.

Madagascar: On 9 November 2006, the Company signed a Memorandum of Understanding with Access Madagascar Sarl, a Malagasy company holding exploration rights in Madagascar s south eastern Manantenina District, to jointly study the development of a bauxite mine and alumina refinery, which would have an initial capacity of 1 to 1.5 Mt/y of alumina.

2. Primary Metal

The Primary Metal Business Group represents all Alcan primary aluminum facilities and power generation installations worldwide, as well as technology sales, equipment sales and engineering operations. The Company is the second largest aluminum producer in the world, as well as a recognized leader and supplier of smelting technology. Approximately 50% of its primary metal is produced using Company-owned power.

2.1 Products and Services / Business Units

2.1.1 ***Power Operations:*** The smelting of one tonne of aluminum requires between 13.5 and 18.5 MWh of electric energy to separate the aluminum from the oxygen in alumina. Alcan produces electricity at its own generating plants in Canada, the UK and Norway. The Company also has an interest in a power plant in China.

2.1.2 ***Smelter Operations:*** Primary aluminum is produced through the electrolytic reduction of alumina. Approximately two tonnes of alumina yield one tonne of metal. Alcan operates and/or has interests in 22 smelters in 11 countries. Products include sheet ingot, extrusion billet, rod, foundry ingot and remelt ingot for conversion into fabricated products for end-use markets in consumer goods, transportation, building and construction as well as other industrial applications. Approximately 25% of the primary aluminum produced in Alcan s smelters was sold at market prices to Alcan s fabricating facilities, primarily in the form of sheet ingot, extrusion billet and molten metal. Approximately 25% of the primary aluminum produced in 2006 was sold to Novelis. The remainder was sold to third party customers in North America, Europe, Africa and Asia, in the form of value-added ingot, primarily extrusion billet, sheet ingot, rod, foundry ingot or remelt ingot.

Average ingot product realizations were $2,618 per tonne in 2006, compared to $2,036 per tonne in 2005, and $1,876 per tonne in 2004.

2.1.3 ***Trading:*** Alcan trading operations are conducted by wholly-owned Subsidiaries, which trade on behalf of other Subsidiaries. They also engage in limited aluminum and related trading activities for third parties. Trading services include several main activities: sales of excess raw materials, such as internal supplies, managing risk exposures through LME transactions, and managing the supply logistics between smelters and fabricating plants. The Company s third party trading function focuses on aluminum transactions.

2.1.4 ***Technology Sales, Equipment Sales and Engineering Services:*** This unit provides smelter technology, equipment and engineering services to third parties and Subsidiaries. The main areas of activity are:

Technology Sales: Aluval, which is located in Voreppe (France), provides advanced smelter technology in terms of productivity (production capacity and energy consumption), such as AP18-22 and the AP3X families of smelter technologies, and the newly-announced AP50 technology, to third parties. This sector is supported by a strong research and development program. The services include the sale of licenses of primary aluminum smelting technology, engineering and start-up support, and technical assistance;

Equipment Sales: Électricité Charpente Levage (ECL) is a major supplier of cranes and potroom equipment for the aluminum industry. In addition, it provides cranes for baking furnaces and rodding shop equipment. ECL operations are located in France, Canada, South Africa, Australia, Bahrain, the Netherlands, Mozambique, China and India; and

Engineering Services: Alcan Alesa Engineering (Alesa) provides services and custom-made engineering solutions on a global basis to Subsidiaries as well as third parties. Alesa subsidiaries maintain engineering offices in Switzerland and Canada. The main areas of activity include raw materials technologies, materials handling technologies and process automation.

2.1.5 ***Other Production facilities:*** The Primary Metal Business Group carries on other related activities including the production of calcined coke, anodes, cathode blocks and aluminum fluoride, which are used in the production and recycling of aluminum, as well as the refining of high-purity aluminum.

In 2006, the Primary Metal Business Group recorded intersegment sales and operating revenues of approximately $2.5 billion and third party sales and operating revenues of approximately $8.7 billion, the latter representing 36.7% of Alcan s 2006 sales and operating revenues. For specifics on the percentage of the Business Group s sales and operating revenues attributable to Novelis, please see note 33 Information by Operating Segments to the Financial Statements. For a percentage of the Company s revenues by principal product type, please see the table Revenues by Market in Management s Discussion and Analysis.

For further information concerning the Primary Metal Business Group s sales, business group profit and total assets, see note 33 Information by Operating Segments to the Financial Statements, prepared in accordance with US GAAP, as well as Management s Discussion and Analysis Operating Segments Review Primary Metal.

2.2 Production Facilities and Sales Centres

2.2.1 ***Smelter Operations:*** As at 31 December 2006, Alcan operated and/or had interests in 22 primary aluminum smelters with a nominal rated capacity of 3,468 Mt/y (where ownership is shared, this number represents Alcan s share only).

Primary Metal Smelter Locations

Locations		% of Ownership by Alcan	Annual Capacity (in kt)	2006 Production (in kt)
Australia	Tomago, New South Wales	51.5	268(1)	268(1)
Cameroon	Edea (Alucam)(2)	46.7	47(1)	42(1)
Canada	Alma, Quebec	100	415	410
	Sept-Iles, Quebec (Alouette)	40	229(1)	228(1)
	Beauharnois, Quebec	100	52	52
	Bécancour, Quebec	25	101(1)	101(1)
	Kitimat, British Columbia	100	277	238
	Grande-Baie, Quebec	100	207	206
	Laterrière, Quebec	100	228	227
	Shawinigan, Quebec	100	99	98
	Arvida, Quebec	100	166	165
China	Qingtongxia	50	76(1)	77(1)
France	Dunkerque	100	259	259
	Lannemezan(3)	100	50	47
	Saint-Jean-de-Maurienne	100	135	134
Iceland	Reykjavik (ISAL)	100	179	168
Netherlands	Vlissingen(4)	85	181(1)	179(5)
Norway	Husnes (SORAL)	50	82(1)	82(1)
Oman	Sohar	20	N/A(6)	0(6)
Switzerland	Steg(7)	100	N/A(7)	12
United Kingdom	Lynemouth	100	178	173
	Lochaber	100	43	43
United States	Sebree, Kentucky	100	196	194
Total Smelting Operations			3,468	3,403

(1) Represents Alcan s share.

(2) Alcan s direct ownership in Edea is 46.7%; however, the Company obtains 70 to 80% of the production of the plant as the major industrial shareholder.

(3) In the process of being closed.

(4) Strategic review underway See sub-heading 2.4 Recent Developments hereunder.

(5) Represents 100% of the Vlissingen smelter s production.

(6)

Smelter not yet in operation; Alcan s 20% proportionate share of the smelter s expected capacity of 350 kt/y would be 70 kt/y.

(7) Closed during the course of 2006.

2.2.2 ***Technology Sales, Equipment Sales Centres (ECL) and Engineering Services:***

Technology and Equipment Sales Centres and Engineering Services

Country	Location	Business
Australia	Eagle Farm, Queensland	ECL
Bahrain	Bahrain	ECL
Canada	Quebec City, Quebec	ECL
	Montreal, Quebec	Engineering Services
China	Shanghai	ECL
France	Ronchin	ECL
	Voreppe	Technology Sales
India	Bhubaneshwar	ECL
Mozambique	Matola	ECL
Netherlands	Ritthem	ECL
South Africa	Richards Bay	ECL
Switzerland	Zurich	Engineering Services

2.2.3 ***Other Production Facilities:***

Other Production Facilities

Locations		Output/Type of Facility	% of Ownership by Alcan
Canada	Dubuc, Quebec	Engineered cast products	100
	Strathcona, Alberta	Calcined coke	61
	Arvida, Quebec	Calcined coke and cathode blocks	100
	Vaudreuil, Quebec	Fluoride plant	100
France	Compiègne*	Recycling	100
	Carbone Savoie	Cathodes	100
Netherlands	Rotterdam	Anode facility	58.5
Norway	Vigelands	High purity metal refinery	50
Sweden	Helsingborg	Fluoride plant	50

* In the process of being closed.

2.2.4 ***Other Aluminum Sources:*** Other sources of aluminum include the following: purchases of primary aluminum under contracts and spot purchases, purchases of aluminum scrap for recycling and purchases of customer scrap returned against ingot or semi-fabricated product sales contracts. Such purchases are mainly from third party smelters, traders and, in the case of scrap, from customers and dealers.

2.3 Source Materials

The following items, in addition to alumina, are the major source materials for the production of aluminum. The Company does not believe that the availability of the foregoing materials will be materially constrained in the foreseeable future.

2.3.1 ***Electrical Power:*** In Canada, Alcan s plants have an aggregate installed generating capacity of 3,583 MW, of which about 2,830 MW may be considered to be hydraulically available over the long-term. These facilities supply electricity to Alcan s Canadian smelters. All water rights pertaining to Alcan s hydroelectric installations are owned by Alcan, except for those relating to the Peribonka River in Quebec which are leased. In 1984, Alcan and the Quebec Government signed a lease extending the Company s water rights relating to the Peribonka River to 31 December 2033 against an annual charge based on sales realizations of aluminum ingot, with an option to extend the term to 2058. On 13 December 2006, the Company and the Quebec Government amended

the Peribonka lease to specify that the terms and conditions of the lease extension would be the same as those applicable for the lease s initial term. Moreover, the lease amendment states that the electricity generated by the power plant subject to the lease would be used to supply Alcan s industrial needs in Quebec or sold to Hydro-Quebec (a provincially-owned electric utility) at a price to be approved by the Quebec Government. In Quebec, royalties are payable to the Quebec Government based on total energy generation, escalating at the same rate as the Consumer Price Index in Canada. In British Columbia, water rentals for electricity used in smelting and related purposes are directly tied to the sales realizations of aluminum produced at the Kitimat smelter. For electricity sold to third parties, Alcan pays provincial water rentals at rates that are fixed by the British Columbia Government, similar to those paid by BC Hydro (a provincially-owned electric utility). Any electricity that is surplus to Alcan s needs under the agreements is sold to neighbouring utilities or customers under both long-term and short-term arrangements.

One-third of Alcan s installed hydroelectric capacity in Canada was constructed prior to 1943, another third between 1943 and 1956 and the remainder between 1956 and 1968. All these facilities, which are regularly maintained and upgraded, are expected to remain fully operational over the foreseeable future.

In Canada, in addition to electricity generated at its own plants, as described above, Alcan is a party to a long-term agreement with Hydro-Quebec for the annual supply to Alcan of up to three billion KWh of electrical energy beginning in 2001. On 13 December 2006, the Company and Hydro-Quebec agreed to enter into an additional long-term electricity agreement for the supply of two billion KWh per year, effective in 2010. The Alouette smelter, which is 40% owned by Alcan, purchases its electricity from Hydro-Quebec pursuant to two long-term supply contracts. The Aluminerie de Bécancour smelter, which is 25% owned by Alcan, also purchases its electricity from Hydro-Quebec.

For smelters located outside of Canada, electricity is obtained from a variety of sources. The smelters in England and Scotland operate their own coal-fired and hydroelectric generating plants, respectively. In Norway, the Vigelands metal refinery (50% owned by Alcan) obtains its power from the Vigelands hydroelectric power stations owned by Alcan. The smelter in the US purchases electricity under a long-term contract as well as through short-term contracts. The smelter in Iceland is supplied with hydroelectric power from Iceland s national power company under a long-term contract. The two smelters in France (Dunkerque and Saint-Jean-de-Maurienne) are supplied with power under long-term contracts. The smelter in the Netherlands, which is 85% owned by Alcan, has a number of short-term contracts for energy supply. The Australian smelter, which is 51.5% owned by Alcan, purchases its power needs under two long-term contracts. The smelter in Cameroon, which is 46.7% owned by Alcan, is also supplied with hydroelectric power under a long-term contract. The smelter in China, which is 50% owned by Alcan, is supplied by a coal-fired power plant that is 43.5% owned by the Qingtongxia Joint Venture in which Alcan has a 50% participation. In regards to the smelter under construction in Oman, in which Alcan owns a 20% interest, a new gas-fired power plant will provide a dedicated long-term supply of power.

Power Generation

Locations		% of Ownership by Alcan	Installed Capacity (MW)
Canada	Quebec Power Stations Isle-Maligne Chute-à-Caron Shipshaw Chute du Diable Chute à la Savane Chute-des-Passes	100	2,687
	Kemano, British Columbia	100	896
China	Daba power plant (coal-fired)	21.8	261*
Norway	Vigelands	100	26
United Kingdom	Lynemouth (coal-fired)	100	420
	Highlands Power Stations Lochaber Kinlochleven	100	80
Total Power Generation			4,370

* Represents Alcan s share, through its Joint Venture interest.

2.3.2 ***Anodes:*** Anodes are used and consumed in the smelting process. Most of Alcan s smelters produce their anodes at their own on-site facilities. Anodes are also produced in a stand-alone facility, Aluminium & Chemie Rotterdam BV, located in the Netherlands (Aluchemie). Alcan directly holds 53% of Aluchemie while Sor-Norge Aluminium AS (SORAL), a Joint Venture in which Alcan has a 50% participation, owns a further 11%. The remainder of the shares are held by Hydro Aluminium AS. Each of the shareholders in Aluchemie is entitled to a volume of anodes corresponding to its participation at prices determined by formula. Alcan s share of anodes produced by Aluchemie is currently used at the ISAL (Iceland) and SORAL smelters or sold to third party customers.

The main raw materials for anode production are calcined petroleum coke and pitch. The production process involves the mixing of the raw materials followed by cold shaping of the anode and baking of the anode at elevated temperatures.

2.3.3 ***Cathodes:*** Cathode blocks are one of the main components of the cell-lining materials used in the aluminum smelting process. The cathode blocks are used as a refractory container for molten aluminum and electrolyte and as an electricity conductor in the smelting process. The cathode blocks are made from a mix of carbon aggregates and pitch binder. At Alcan, the cathode materials are produced in Arvida (Canada) and at Carbone Savoie s stand-alone facilities in Notre-Dame-de-Briançon and Vénissieux (France). As of 1 December 2006, Alcan acquired the remaining 70% stake in Carbone Savoie and all related technology and equipment required for the production of a full range of cathode products. Carbone Savoie is a major producer of cathode materials (graphitized, semi-graphitic cathode blocks, as well as sidewall blocks and ramming paste) required by the aluminum industry. Approximately 25% of the production from Carbone Savoie is dedicated to Alcan s plants and 75% is sold to third parties.

2.3.4 ***Chemicals and Other Materials:*** Certain chemicals and other materials (e.g. aluminum fluoride, caustic soda, fuel oil, fluorspar and petroleum coke) required for the production of aluminum at Alcan s smelters are produced by its chemical operations or purchased from third parties.

2.4 Recent Developments

Canada: On 14 August 2006, the Company announced its intention to modernize its Kitimat smelter through an approximate $1.8 billion investment. The modernization would increase Kitimat s current annual production levels by more than 60% to approximately 400 kt, thereby increasing Alcan s global primary aluminum production

by more than 4% and making Kitimat one of the three largest smelters in North America. The modernized facility would use the latest smelting technology within the AP35 series. The investment is subject to final Board approval and is conditional upon obtaining a new labour agreement, environmental permits and regulatory approval of acceptable terms for the sale of power to BC Hydro. On 29 December 2006 the British Columbia Utilities Commission s (BCUC) decided to reject the amended and restated Long-Term Energy Purchase Agreement between Alcan and BC Hydro. The Company announced on 22 January 2007 that it had filed leave to appeal this decision.

On 29 September 2006, the Company announced that it will build a $180 million aluminum spent pot lining recycling plant in Quebec s Saguenay Lac-Saint-Jean region. The plant is expected to begin pot lining treatment operations in the second quarter of 2008.

On 14 December 2006, the Company announced plans to build a $550 million pilot plant smelter at its Complexe Jonquière site to develop the Company s proprietary AP50 smelting technology. The pilot plant is expected to produce 60 kt of aluminum annually. Engineering for the pilot plant is ongoing and construction is expected to begin in 2008.

The AP50 pilot plant is the first step in a planned ten-year $1.8 billion investment program in Quebec s Saguenay Lac-Saint-Jean region, involving up to an additional 390 kt of new smelting capacity by 2015, developed by Alcan with the support of the Quebec Government. The Government in an agreement has provided financial support by means of research and development tax incentives and loans, and has made available up to two billion KWh per year of additional power to support the investment program. Support from the Government of Canada is expected to be provided through existing research and development incentive programs. The agreement with the Quebec Government also reinforces Alcan s electrical power position through the long-term extension of hydraulic leases and new power contracts which, taken together with Alcan s proprietary generation system, provide a secure supply of approximately 2,600 MWh of low-cost power through the year 2045.

In connection with the above-mentioned agreement with the Company, the Quebec Government has retained various rights which allow it to cancel some or all of the new entitlements and benefits relating to water and power, including the financial support contemplated thereby, should there be either an acquisition of control of Alcan or a change in the location of its headquarters which has a negative impact on its commitment to or presence in Quebec. The Board of Directors has, however, a significant role in the management of any process relating to the determination of any such negative impact.

France: On 6 December 2006, the Company announced that it had completed the acquisition of the remaining 70% stake of Carbone Savoie that it did not already own, and certain related technology and equipment, from GrafTech International Ltd. for $135 million less certain price adjustments.

Also on 14 December 2006, the Company announced the launch of a research and development initiative based at its R&D centre in Voreppe (France), and focused on the AP series aluminum smelting technology with a target of developing a 20% more energy efficient and environmentally friendly cell through the accelerated introduction of new innovative technologies.

Iceland: On 11 May 2006, the Company announced that it had secured 40% of the energy required for a potential expansion of its ISAL smelter in Iceland. The agreement with Reykjavik Energy, which calls for the purchase of 200 MW of geothermal power beginning in 2010, would supply an expanded smelting facility with potential future total capacity of 460 kt/y.

Netherlands: On 23 October 2006, the Company announced that its Pechiney Nederland NV Subsidiary will conduct a strategic review of alternatives, including the potential sale of the aluminum smelter in Vlissingen, in which it holds an 85% interest.

South Africa: On 24 November 2006, the Company secured a long-term supply agreement with South African firm ESKOM Holdings Limited, for the purchase of up to 1,340 MW of electricity for the Company s proposed 720 kt greenfield Coega aluminum smelter project, which is expected to have a total cost of $2.7 billion. Should this project proceed, Alcan currently plans to retain between 25 to 40% of the equity. The definitive position

of the Company on the size of any retained interest, which may be greater, will necessarily depend on its final assessment of the various opportunities offered by the project.

3. Engineered Products

3.1 Products / Business Units

Alcan s Engineered Products Business Group manufactures engineered or fabricated aluminum products, including rolled, extruded and cast aluminum products, wire and cable as well as composites materials for a broad range of applications for customers in the automotive, mass transportation, aerospace, marine and beverage container markets. It also supplies the architectural, electrical and building markets as well as the markets for electrical industrial and electromechanical applications and the display, leisure and wind-power industries. Also part of this group are 33 service centres in 11 countries that supply customers with products as well as advanced fabrication tailored to their requirements, and 32 sales offices in 27 countries and regions selling and sourcing specialty products and materials for industrial applications.

The Engineered Products Business Group s product range is divided into the following business units:

3.1.1 ***Aerospace, Transportation & Industry (ATI):*** ATI supplies high value-added plate, sheet, extruded and precision cast products for customers in the aerospace, marine, automotive and mass transportation markets and engineering industry. It offers a comprehensive range of products and services, including technical assistance, design and delivery of cast, rolled, extruded, rolled pre-cut or shaped parts, and the recycling of customers machining scrap metal. ATI is also a key supplier of new alloy solutions, such as Aluminum-Lithium. ATI includes Alcan Rolled Products Ravenswood.

3.1.2 ***Composites:*** This business unit manufactures and sells lightweight multi-material composites that are made using a combination of technologies and materials, including aluminum, plastic, foam board, paper and balsa wood. An example is a sandwich panel made of two aluminum faces and a plastic core material. Principal applications for composites include building facades, transportation, displays for visual communication, signage and wind power installations, for which composites have a number of advantages over more traditional materials because of their low weight-to-rigidity ratio, ease of application, design and surface variety.

3.1.3 ***Cable:*** This business unit produces cable, whereby aluminum is cast and rolled into rod and then drawn into wire and stranded into cable. Its cable products are used for applications in the utility, commercial, institutional, industrial and residential construction markets. Its rod products are also used for mechanical applications such as screen, wire and other fine wire drawing applications. Its strip products are predominantly used for armouring electrical cables. The business unit also provides its customers with a complete wiring system from feeder to outlet in the commercial construction market.

3.1.4 ***Extruded Products:*** This business unit produces aluminum sections by the extrusion process, which involves forcing a hot cylindrical billet of aluminum alloy through a shaped die to create profiles. It supplies a variety of hard and soft alloy extrusions, including technically advanced products, to the automotive, electrical and building industries, and to manufacturers of mass transport vehicles and shipbuilders.

3.1.5 ***Engineered and Automotive Solutions (EAS):*** This business unit serves major automotive and transportation manufacturers with advanced technology and produces engineered shaped products including aluminum crash management systems, cockpit carriers, suspension parts, and other structural components. EAS serves customers in Europe and North America with innovative and cost-effective solutions based on aluminum extrusion, forging or casting and reinforced composites.

3.1.6 ***Alcan Service Centres:*** The service centres comprise a specialist added-value service and distribution network. They supply customers in the aerospace, building and facade, road transport and shipbuilding industries with products as well as advanced fabrication tailored to customer requirements. The service centres network offers various forms of fabricated aluminum including plates, extrusions and composite panels, and performs value-added services such as cutting, shaping, machining and assembling. The network currently has 33 service centres in 11 countries.

3.1.7 ***Alcan International Network (AIN):*** This sales organization comprises 32 offices in 27 countries and regions selling and sourcing specialty products and materials for industrial applications in 65 countries and regions. It provides marketing and sourcing services for both Alcan and its customers. AIN s product portfolio includes primary aluminum for the aluminum and steel industries, semi-fabricated products for the construction, transportation, general engineering, packaging and other industrial sectors, minerals for the glass, ceramics and refractories industries, and specialty chemicals for industrial and healthcare applications.

3.1.8 ***Specialty Sheet:*** This business unit provides coils and sheet to customers for beverage and closures, automotive, customized industrial sheet solutions, and high-quality bright surface products markets. It includes world-class rolling and recycling operations, as well as dedicated research and development capabilities.

In 2006, the Engineered Products Business Group had third party sales and operating revenues of approximately $7.1 billion, representing approximately 30.2% of Alcan s sales and operating revenues for the year.

The Engineered Products Business Group has relationships with certain major customers in the aerospace and beverage can industries, the loss of any of which could have a material impact on the operations of the Business Group.

For further information concerning the Engineered Products Business Group s sales, business group profit and total assets, see note 33 Information by Operating Segments to the Financial Statements, prepared in accordance with US GAAP, as well as Management s Discussion and Analysis Operating Segment Review Engineered Products.

3.2 Production and Services Facilities

Alcan s Engineered Products Business Group consists of 120 sites, including 55 production facilities, 33 service centres and 32 AIN commercial offices around the world.

Engineered Products Locations

Locations		**Products / Business Units**
Austria	Hallein	Service Centres
	St. Johann im Pongau	Service Centres
	Vienna	Alcan International Network; Service Centres
Belgium	Brussels	Alcan International Network; Service Centres
	Gent	Alcan International Network
Brazil	Camaçari	Composites
	São Paulo	Alcan International Network
Canada	Concord, Ontario	Cable
	Lapointe, Quebec	Cable
	Saguenay, Quebec	Engineered and Automotive Solutions
	Shawinigan, Quebec	Cable
China	Beijing	Alcan International Network
	Hong Kong	Alcan International Network
	Shanghai	Alcan International Network; Composites
	Taipei	Alcan International Network
Czech Republic	Dečin	Extruded Products

	Prague	Alcan International Network
	Strojmetal	Engineered and Automotive Solutions (Partnership)
Ecuador	Guayaquil	Composites
	Quevedo	Composites
	Santo Domingo de los Rios	Composites
	Manta	Composites
	Plantations Raw Materials	Composites

Locations		Products / Business Units
Engineered Products Locations (Cont d)		
Egypt	Cairo	Alcan International Network
France	Carquefou	Aerospace, Transportation & Industry
	Chassieu	Service Centres
	Ham	Extruded Products
	Issoire	Aerospace, Transportation & Industry
	Montreuil-Juigne	Aerospace, Transportation & Industry
	Nantes	Service Centres
	Neuf-Brisach	Specialty Sheet
	Nuits-Saint-Georges	Extruded Products
	Ozoir-la-Ferrière	Service Centres
	Paris	Alcan International Network
	Sabart	Aerospace, Transportation & Industry
	Saint-Florentin	Extruded Products
	Satma/Goncelin	Other
	Ussel	Aerospace, Transportation & Industry
Germany	Bad Salzungen	Service Centres
	Burg	Extruded Products
	Crailsheim	Extruded Products
	Dahenfeld	Engineered and Automotive Solutions
	Düsseldorf	Alcan International Network; Service Centres
	Fellbach	Service Centres
	Frankfurt	Service Centres
	Gera	Service Centres
	Gottmadingen	Engineered and Automotive Solutions
	Hamburg	Service Centres
	Hannover	Service Centres
	Hebsack	Service Centres
	Hohenacker	Service Centres
	Immendingen	Service Centres
	Landau	Extruded Products
	Köln	Service Centres
	Mannheim	Service Centres
	Munich	Service Centres
	Nürnberg	Service Centres
	Osnabrück	Composites
	Singen*	Composites; Extruded Products; Specialty Sheet; Engineered and Automotive Solutions
Greece	Athens	Alcan International Network
Hungary	Budapest	Alcan International Network; Service Centres
Italy	Bologna	Service Centres
	Florence	Service Centres
	Milan	Alcan International Network
	Padova	Service Centres
	Treviglio	Service Centres

Japan	Tokyo	Alcan International Network
Mexico	Mexico City	Alcan International Network
	Monterrey	Alcan International Network
Netherlands	Amsterdam	Alcan International Network
	Breda	Service Centres
Portugal	Lisbon	Alcan International Network
Romania	Bucharest	Alcan International Network
	Bihor	Service Centres

Locations		Products / Business Units
Engineered Products Locations (Cont d)		
Russia	Moscow	Alcan International Network
Singapore	Singapore	Alcan International Network
Slovakia	Levice**	Extruded Products
Slovenia	Koper	Engineered and Automotive Solutions (Joint Venture)
	Ljubljana	Service Centres
South Africa	Johannesburg (Sandton)	Alcan International Network
South Korea	Seoul	Alcan International Network
Spain	Barcelona	Alcan International Network; Service Centres
	Madrid	Alcan International Network; Service Centres
Switzerland	Altenrhein	Engineered and Automotive Solutions
	Dagmersellen	Service Centres
	Niederglatt	Service Centres
	Sierre***	Extruded Products; Aerospace, Transportation & Industry
	Sins	Composites
Sweden	Goteborg	Alcan International Network
Thailand	Bangkok	Alcan International Network
United Arab Emirates	Dubai	Alcan International Network
United Kingdom	Chelmsford	Composites
	Slough-Berkshire	Alcan International Network
	Workington****	Aerospace, Transportation & Industry
United States	Benton, Kentucky	Composites
	Chatsworth, California	Cable
	Glasgow, Kentucky	Composites
	Mt. Juliet, Tennessee	Composites
	Northvale, New Jersey	Composites
	Novi, Michigan	Engineered and Automotive Solutions
	Ravenswood, West Virginia	Aerospace, Transportation & Industry; Alcan Rolled Products Ravenswood
	Roseburg, Oregon	Cable
	Sedalia, Missouri	Cable
	St. Louis, Missouri	Composites
	Stamford, Connecticut	Alcan International Network
	Statesville, North Carolina	Composites
	Vernon, California****	Aerospace, Transportation & Industry
	Williamsport, Pennsylvania	Cable

* Shared site with the Packaging Business Group.

** Facility not yet in operation.

*** Shared site with Novelis.

**** Facility to be closed.

3.3 Source Materials

Aluminum used to produce engineered products is purchased from the Primary Metal Business Group and from third party suppliers, which include producers and traders. Recycled metal is also purchased from customers and third party suppliers, which include traders. The Company does not believe that any source material constraints will have a material impact on the Business Group s results.

4. Packaging

4.1 Products / Business Sectors

Alcan is a full-service packaging supplier, with a worldwide presence in food flexible, pharmaceutical and medical, beauty and personal care, and tobacco packaging. A broad technical and geographical range of packaging products is offered using plastics, engineered films, aluminum, paper, paperboard and other materials.

The Packaging Business Group is divided into six sectors:

4.1.1 ***Food Packaging Europe, Americas and Asia:*** In these three sectors, Alcan Packaging manufactures a wide range of packaging products for the food, meat, dairy and beverage industries, and is a leading producer of flexible and rigid specialty packaging in Europe, the Americas and Asia, converting plastics, plastic film, foil and paper materials into value-added packaging. Alcan Packaging benefits from dedicated flexible food packaging research and development centres in North America and Europe. This allows Alcan Packaging to provide packaging solution expertise in wide ranging markets around the world including for products such as beverages, biscuits, cookies, cereals, confectionery, dairy products, fresh and frozen food, instant products, pet food, retorted foods and snacks. It also produces caps and over-caps for wine, champagne and liquor bottles.

The principal activities of these sectors are printing, coating, rolling and lamination of plastic film, aluminum foil, containers and paper to manufacture into primary packaging materials for food manufacturers. These sectors also produce their own engineered films. The main processes used are rotogravure and flexographic printing, lamination using adhesive, wax or plastic extrusion and various coating processes to add barrier properties, sealability or gloss. The Food Packaging sectors also produce capsules and closures in aluminum and tin.

4.1.2 ***Global Pharmaceutical and Medical Packaging:*** Alcan Packaging is a leading supplier of packaging to the pharmaceutical industry, with production sites and research and development expertise in Europe, Asia and the Americas. Products and services include flexible packaging, caps and closures, contract packaging, folding cartons, glass vials, ampoules and tubing products, medical flexible packaging and plastic bottles.

4.1.3 ***Global Beauty and Personal Care Packaging:*** This sector is a world leader in the manufacture and supply of beauty packaging products for the make-up, fragrance and personal care markets, including collapsible tubes, mascara and lipstick packaging and beauty promotional items.

4.1.4 ***Global Tobacco Packaging:*** Alcan Packaging is a leading supplier to the global tobacco industry with manufacturing operations around the world. Tobacco packaging products include folding cartons and flexible packaging.

Packaging sales to third parties were approximately $6.0 billion in 2006. The Packaging Business Group s sales and operating revenues represented approximately 25.2% of Alcan s 2006 sales and operating revenues.

For further information concerning the Packaging Business Group s sales to third parties, business group profit and total assets, see note 33 Information by Operating Segments to the Financial Statements, prepared in accordance with US GAAP, as well as Management s Discussion and Analysis Operating Segment Review Packaging.

4.2 Production Facilities

Alcan has 130 packaging plants in 30 countries and regions.

Eight plants are shared between the Global Pharmaceutical and Medical Packaging and the Food Packaging business sectors: one in each of France, Germany, Italy, Spain, Switzerland, the US and two in China.

Packaging Plants

Locations		Packaging Sector
Argentina	Chivilcoy	Food Americas
Australia	Adelaide, South Australia	Food Europe
Belgium	Grace-Hollogne (Veramic)	Pharmaceutical and Medical
Brazil	Diadema, São Paulo	Pharmaceutical and Medical
	Maua, São Paulo	Food Americas
	Mogi das Cruzes, São Paulo	Beauty and Personal Care
	São Paulo, São Paulo	Beauty and Personal Care
	Suape, Pernambuco	Beauty and Personal Care
Canada	Baie d Urfe, Quebec	Pharmaceutical and Medical
	Brampton, Ontario	Beauty and Personal Care
	Lachine, Quebec	Tobacco
	Saint-Cesaire, Quebec	Food Europe
	Weston, Ontario	Food Americas
	Woodbridge, Ontario	Pharmaceutical and Medical
Chile	Santiago de Chile	Food Europe
China	Beijing	Food Asia
	Chengdu	Food Asia
	Foshan	Beauty and Personal Care
	Huizhou	Food Asia; Pharmaceutical and Medical
	Jiangyin	Food Asia; Pharmaceutical and Medical
	Suzhou	Beauty and Personal Care
	Zhongshan	Beauty and Personal Care
Czech Republic	Skrivany	Food Europe
France	Albertville	Beauty and Personal Care
	Arras	Food Europe
	Aumale	Pharmaceutical and Medical
	Authon-du-Perche (2 plants)	Pharmaceutical and Medical
	Bernaville	Beauty and Personal Care
	Challes	Beauty and Personal Care
	Chalon-sur-Saone	Food Europe
	Dax	Food Europe
	Dijon	Food Europe
	Froges	Food Europe
	Lucenay-les-Aix	Pharmaceutical and Medical
	Mareuil-sur-Ay	Food Europe
	Montreuil-Bellay	Pharmaceutical and Medical
	Moreuil	Food Europe
	Plouhinec	Beauty and Personal Care
	Sainte-Menehoud (2 plants)	Beauty and Personal Care
	Saint-Maur	Pharmaceutical and Medical
	Saint-Seurin-sur-l Isle	Food Europe
	Sarrebourg	Food Europe
	Sélestat	Food Europe; Pharmaceutical and Medical

	Uchaux	Food Americas
	Vandieres	Beauty and Personal Care
	Vienne-le-Chateau	Beauty and Personal Care
Germany	Neumunster	Tobacco
	Schesslitz	Beauty and Personal Care
	Singen	Food Europe; Pharmaceutical and Medical
	Teningen	Food Europe
Indonesia	Demak	Beauty and Personal Care
	Tangerang	Food Asia

Locations		Packaging Sector
Packaging Plants (Cont d)		
Ireland	Dublin	Food Europe
Italy	Arenzano	Food Europe
	Lainate	Food Europe
	Lugo di Vicenza	Food Europe; Pharmaceutical and Medical
	Tortona	Beauty and Personal Care
	Verderio Superiore	Beauty and Personal Care
Kazakhstan	Almatinskaya Oblast	Tobacco
Malaysia	Rawang	Tobacco
Mexico	Matamoros, Tamaulipas	Beauty and Personal Care
	Mexico City	Beauty and Personal Care
	Monterrey, Nuevo Leon	Food Americas
	Reynosa, Tamaulipas	Beauty and Personal Care
	Tlaquepaque, Jalisco	Food Americas
	Zacapu, Michoacan de Ocampo	Food Americas
Morocco	Mohammedia	Food Europe
Netherlands	Brabant (Bergen Op Zoom)	Tobacco
	Zutphen	Food Europe
New Zealand	Wellington	Food Asia
Philippines	Cainta	Tobacco
Poland	Lodz	Beauty and Personal Care
	Zlotow	Food Europe
Portugal	Carvalhos	Food Europe
Puerto Rico	Cayey	Pharmaceutical and Medical
Russia	Moscow*	Food Europe
	St. Petersburg*	Tobacco
Spain	Alzira	Food Europe; Pharmaceutical and Medical
	Barcelona	Beauty and Personal Care
Switzerland	Kreuzlingen	Food Europe; Pharmaceutical and Medical
	Rorschach	Food Europe
Thailand	Bangplee	Food Asia
	Phetchaburi	Food Asia
	Sriracha	Food Asia
Turkey	Istanbul	Food Europe
	Izmir	Tobacco
United Kingdom	Bristol	Tobacco
	Cramlington	Pharmaceutical and Medical
	Midsommer Norton**	Food Europe
	Workington (Cumbria)	Food Europe

Locations		Packaging Sector
Packaging Plants (Cont d)		
United States	Akron, Ohio	Food Americas
	American Canyon, California	Food Europe
	Asheville, North Carolina	Pharmaceutical and Medical
	Atlanta, Georgia	Tobacco
	Batavia, Illinois	Food Americas
	Bellwood, Illinois	Food Americas
	Bethlehem, Pennsylvania	Pharmaceutical and Medical
	Boscobel, Wisconsin (2 plants)	Food Americas
	Chase City, Virginia	Pharmaceutical and Medical
	Commerce, California	Pharmaceutical and Medical
	Des Moines, Iowa	Food Americas
	Des Plaines, Illinois	Pharmaceutical and Medical
	Edgewood, New York	Food Americas
	Joplin, Missouri	Food Americas
	Lincoln Park, New Jersey**	Beauty and Personal Care
	Marshall, North Carolina	Pharmaceutical and Medical
	Menasha, Wisconsin	Food Americas
	Millville, New Jersey (4 plants)	Pharmaceutical and Medical
	Milwaukee, Wisconsin	Pharmaceutical and Medical
	Minneapolis, Minnesota	Food Americas
	Morristown, Tennessee	Beauty and Personal Care
	Neenah, Wisconsin	Food Americas
	Newark, California	Food Americas
	New Hyde Park, New York	Food Americas
	Reidsville Industrial Park, North Carolina	Tobacco
	Richmond, Virginia	Tobacco
	Russellville, Arkansas	Food Americas
	Shelbyville, Kentucky	Food Americas; Pharmaceutical and Medical
	Shelbyville, Tennessee	Beauty and Personal Care
	St. Louis Park, Minnesota***	Food Americas
	Syracuse, Nebraska	Pharmaceutical and Medical
	Tulsa, Oklahoma	Food Americas
	Washington, New Jersey	Beauty and Personal Care
	Westport, Indiana	Pharmaceutical and Medical
	Youngsville, North Carolina	Pharmaceutical and Medical

* Greenfield facility.

** To be closed.

*** Counted as part of the Minneapolis facility.

4.3 Source Materials

Packaging is made from a variety of materials including aluminum, plastics, paper, paper board and glass. Aluminum foil stock used in packaging is in part purchased from other Business Groups. Other source materials are purchased from many third party suppliers. The Company does not believe that the availability of source materials will be materially constrained in the foreseeable future.

D. INFORMATION BY GEOGRAPHIC AREAS

See note 32 Information by Geographic Areas to the Financial Statements for financial information by geographic area.

E. RESEARCH AND DEVELOPMENT

Alcan s research and development (R&D) comprises a system of research laboratories, applied engineering centres and plant technical departments covering all major markets and regions. Alcan invested $220 million, $227 million and $239 million in R&D in 2006, 2005 and 2004, respectively.

With the acquisition of Pechiney in 2003, the Company s R&D capability was significantly strengthened by the addition of specialized laboratories and a leading R&D presence in the aerospace sector.

Alcan s R&D laboratories collaborate on projects with leading universities in various parts of the world and the Company s scientists and engineers regularly publish articles on research topics in peer-reviewed journals. The Company also funds research activities at several universities.

1.1 Research laboratories performing work for the Bauxite and Alumina Business Group are located in Gardanne (France), Saguenay (Quebec, Canada) and Brisbane (Australia).

1.2 Research laboratories performing work for the Primary Metal Business Group are located in Saguenay (Quebec, Canada), Voreppe and Saint-Jean-de-Maurienne (France). To support the new $550 million AP50 pilot plant announced by the Company on 14 December 2006 (see section C.2.4), the Arvida Research and Development Centre in Saguenay will lead the ongoing R&D related to the industrialization of the Company s proprietary AP50 smelting technology. Since its acquisition of Pechiney, Alcan has continued to develop this technology at its Saint-Jean-de-Maurienne R&D facility. The Company intends to move its AP50 technology from the research phase to industrial development. The Company s R&D centre in Voreppe will continue to focus on the AP series with a target of developing more energy-efficient and environmentally-friendly aluminum smelting technology.

1.3 Research laboratories performing work for the Engineered Products Business Group are located in Neuhausen (Switzerland) and Voreppe (France). Applied engineering centres specialized in the automotive industry are located in Detroit (Michigan, US) and Singen (Germany). A technical centre dedicated to aluminum cable is located in Williamsport (Pennsylvania, US). These applied engineering and technical centres, which support Alcan s research activities, focus on product applications and provide technical development support to customers. The centres draw extensively on the resources and specific competencies of the central laboratories.

1.4 Research laboratories performing work for the Packaging Business Group are located in Neenah (Wisconsin, US), Gennevilliers (France) and Neuhausen (Switzerland).

In addition to innovations from operations personnel, the central laboratories are complemented by the technical departments in various plants as well as by technical and applied engineering centres located close to key markets and operating divisions.

F. ENVIRONMENT, HEALTH AND SAFETY/ALCAN INTEGRATED MANAGEMENT SYSTEM

Alcan is subject to a broad range of environmental laws and regulations in each of the jurisdictions in which it operates. These laws and regulations, as interpreted by relevant agencies and the courts, impose increasingly stringent environmental protection standards regarding, among other things, air emissions, wastewater storage, treatment and discharges, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination. The costs of complying with these laws and regulations, including participation in assessments and remediation of sites, could be significant. In addition, these standards can create the risk of

substantial environmental liabilities, including liabilities associated with divested assets and past activities. Currently, Alcan is involved in a number of compliance efforts and legal proceedings concerning environmental matters.

Alcan competes against other producers who may not be subject to the same environmental laws and regulations or who may not have the same high environmental standards and practices.

In 2003, Alcan implemented the Alcan Integrated Management System built on four key components, namely Value-Based Management, Continuous Improvement, *EHS FIRST* and People Advantage, intended to ensure that

the same focus on value, improvement, environment, health and safety, and employees is found in each of the Company s operations.

EHS FIRST represents a focus on environment, health and safety throughout the Company and requires certification according to ISO 14001, a globally accepted environmental standard, and OHSAS 18001, an international occupational health and safety certification. By the end of 2006, 100% of the sites were ISO 14001 and OHSAS 18001 certified. Newly acquired facilities are required to be fully compliant with all corporate and Business Group standards within two years of their acquisition. EHS capital expenditures in 2006 were $145 million and are projected to be $267 million and $116 million in 2007 and 2008, respectively. Expenditures charged against income for environmental protection were $193 million in 2006, and are expected to be $189 million and $187 million in 2007 and 2008, respectively.

In addition to the certification requirements mentioned above, *EHS FIRST* provides a diverse platform of tools which form the basis for performance and risk management. Over the past six years, Alcan has seen a reduction of 77% in its Recordable Case Rate, which includes a reduction of 79% in the rate of lost time injuries. Serious injuries have been reduced by 15% in the last year. Health promotion and environmental management are also key aspects of *EHS FIRST* against which Alcan sets standards and measures performance.

Continuous Improvement initiatives at Alcan were formalized under a common system in 2003 with the aim of maximizing opportunities by improving the Company s competitive position and efficiency. Alcan s Continuous Improvement system integrates two complementary approaches, Lean Manufacturing and Six Sigma, and is applied in many *EHS FIRST* projects throughout the Company.

G. EMPLOYEES

Alcan has approximately 23,000 employees in North America, 29,500 in Europe, 2,700 in South America, 7,200 in Asia/Pacific, 1,600 in Australia and 700 in Africa and the Middle East. A majority of the shop-floor employees are represented by labour unions.

There are 26 collective labour agreements in effect in Canada. Labour agreements for unionized employees at Alcan facilities in Quebec were renewed in 2006 and are set to expire in December 2011, with a possible extension until December 2015. In British Columbia, the collective labour agreement at Kitimat was renewed in 2005 and is now set to expire in 2008.

Following the acquisition of Pechiney in 2003, Alcan has a large number of employees in France. Employment conditions are defined by French law and by four national collective agreements relating to various industrial sectors: chemicals, mechanics, plastic transformation and cardboard transformation. Additional specific agreements exist at each individual company. Pension liabilities are not included in collective agreements, as pensions in France mostly result from a compulsory system managed at the national level. Complementary pensions for some individuals result from their specific contracts.

In all other locations, collective agreements are negotiated on a site, regional or national level, and are of varying durations.

H. PATENTS, LICENSES AND TRADEMARKS

Alcan owns, directly or through Subsidiaries, a large number of patents in the US, the European Union, Canada and Australia as well as in other countries, which relate to the products, uses and processes of its businesses. The life of a patent is most commonly 20 years from the filing date of the patent application. Alcan is continually filing new patent

applications. All significant patents will be maintained until their formal expiration. Therefore, at any point in time, the range of life of the Company s patents will be from one to 20 years.

Alcan owns a number of trademarks that are used to identify its businesses and products. The Company s trademarks have a term of three to ten years. As a result, at any point in time, the Company will have trademarks at the end of their term while other trademarks will be at the beginning of a full ten-year term. At the end of their term, significant trademarks will be renewed for a further three to ten years.

Alcan has also acquired certain intellectual property rights under licenses from others for use in its businesses.

Alcan s patents, licenses and trademarks constitute valuable assets; however, the Company does not regard any single patent, license or trademark as being material to its sales and operations viewed as a whole. The Company has no material licenses or trademarks the duration of which cannot, in the judgment of management, be extended or renewed as necessary.

I. COMPETITION AND GOVERNMENT REGULATIONS

The aluminum, engineered products and packaging businesses are highly competitive in price, quality and service. The Company experiences competition from a number of companies in all major markets. In particular, the primary aluminum business is concentrated in the hands of a small number of first-tier producers, including the Company. In addition, aluminum products face competition from products fabricated from several other materials such as plastic, steel, iron, copper, glass, wood, zinc, lead, tin, titanium, magnesium, cement and paper. The Company believes that its competitive standing in aluminum production is enhanced by its primary metal technology and by its ability to supply its own power to many smelters at low cost.

The operations of the Company, like those of other international companies, including its access to and cost of raw materials and repatriation of earnings, may be affected by such matters as fluctuations in monetary exchange rates, currency and investment controls, withholding taxes and changes in import duties and restrictions. Imports of ingot and other aluminum products into certain markets may be subject to import duties and regulations. These affect the Company s sales realizations and may affect the Company s competitive position. Shipments of the Company s products are also subject to the anti-dumping laws of some importing countries, which prohibit sales of imported merchandise at less than defined fair values.

ITEM 1A *RISK FACTORS*

The following factors, among others, could cause actual results or outcomes to differ from the results expressed or implied by forward-looking statements and could adversely affect the Company s financial performance and, consequently, the value of the Shares:

Alcan is exposed to volatility in the aluminum industry and in aluminum end-use markets, which may adversely affect its financial results because such volatility may significantly reduce revenues without resulting in corresponding cost savings.

Alcan is an important global producer of aluminum and aluminum fabricated products. The aluminum industry is highly cyclical, with prices subject to worldwide market forces of supply and demand and other influences. Prices have been historically volatile and Alcan expects such volatility to continue. Although Alcan may use contractual arrangements with customers, employ certain measures to manage its exposure to the volatility of LME-based prices, and is product and segment diversified to a significant extent, Alcan s results of operations could be materially adversely affected by material adverse changes in economic or aluminum industry conditions generally.

Fluctuations in currency exchange rates may negatively affect Alcan s financial results and cost structure.

Economic factors, including foreign currency exchange rates, could affect Alcan s revenues, expenses and results of operations. A substantial portion of Alcan s revenue is determined in US dollars while a significant portion of Alcan s costs related to those revenues are incurred in Canadian and Australian dollars and in Euros. Fluctuations in exchange rates between the US dollar and these currencies give rise to currency exposure.

Alcan conducts operations and owns assets worldwide and transacts business in a variety of currencies. Adverse changes in the relative values of currencies can impact Alcan s ability to sell its products or increase the cost of imports, and can reduce the value of Alcan s assets in relative terms.

Alcan s operations are energy-intensive and, as a result, its profitability may be adversely affected by rising energy costs or by energy supply interruptions.

Alcan consumes substantial amounts of energy in its operations. Although Alcan generally expects to meet the energy requirements for its aluminum smelters and alumina refineries from internal sources or from long-term contracts, the following factors could materially adversely affect Alcan s energy position:

the unavailability of hydroelectric power due to droughts;

significant increases in the costs of supplied electricity or other energy;

interruptions in energy supply due to equipment failure or other causes; or

the inability to extend contracts for the supply of energy on economical terms upon expiration.

Alcan obtains significant amounts of electricity and other energy under contracts that Alcan may not be able to renew or replace on comparable terms following their expiry.

Alcan s profitability could be adversely affected by increases in the costs of and disruptions in the availability of raw materials.

The raw materials that Alcan uses in manufacturing its products include alumina, aluminum, caustic soda, plastics, calcinated petroleum coke and resin. The prices of many of the raw materials Alcan uses depend on supply and demand relationships at a worldwide level, and are therefore subject to continuous volatility.

Prices for the raw materials that Alcan requires may increase from time to time and, if they do, Alcan may not be able to pass on the entire cost of the increases to its customers or offset fully the effects of higher raw material costs through productivity improvements, which may cause Alcan s profitability to decline. In addition, there is a potential time lag between changes in prices under Alcan s purchase contracts and the point when Alcan can implement a corresponding change under its sales contracts with its customers. As a result, Alcan may be exposed to fluctuations in raw material prices since, during the time lag period, Alcan may have to temporarily bear the additional cost of the change under its purchase contracts, which could have a negative impact on its profitability.

Alcan participates in highly competitive markets.

Alcan is a participant in the market for packaging materials. The acquisition of Pechiney increased the importance of the packaging business to Alcan s overall results. The packaging market is highly competitive, with competition based on cost and innovation. Alcan s operating results could be adversely affected if Alcan cannot compete effectively in this market or if the market experiences weakness.

Alcan is subject to risks caused by changes in interest rates.

Increases in benchmark interest rates will likely increase the interest cost associated with Alcan s variable interest rate debt in a rising rate environment and will increase the cost of future borrowings, which could harm Alcan s financial condition and results of operations.

Alcan could be required to make large contributions to its defined benefit pension plans as a result of adverse changes in interest rates and the equity markets.

Alcan sponsors defined benefit pension plans for its employees in Canada, the US, the UK, Switzerland and certain other countries. Alcan s pension plan assets consist primarily of listed stocks and bonds. Alcan s estimates of liabilities and expenses for pensions and other post-retirement benefits incorporate significant assumptions, including expected long-term rates of return on plan assets and interest rates used to discount future benefits. Alcan s results of operations, liquidity or shareholders equity in a particular period could be materially adversely affected by equity market returns that are less than their expected long-term rate of return or a decline of the rate used to discount future benefits.

If the assets of Alcan s pension plans do not achieve expected investment returns for any fiscal year, such deficiency would result in one or more charges against earnings. In addition, changing economic conditions, poor

pension investment returns or other factors may require Alcan to make substantial cash contributions to the pension plans in the future, preventing the use of such cash for other purposes.

Alcan has a unionized workforce, and union disputes and other employee relations issues could harm its financial results.

The majority of Alcan s shop-floor employees are represented by labour unions under a large number of collective labour agreements in various countries, including France, Canada and the US. Alcan may not be able to satisfactorily renegotiate its collective labour agreements when they expire. In addition, existing labour agreements may not prevent a strike or work stoppage at its facilities in the future, and any such work stoppage could have a material adverse effect on Alcan s financial condition and results of operations.

Alcan s operations are affected by conditions and events beyond its control in countries where Alcan has operations or sells products.

Economic and other factors in the many countries in which Alcan operates, including inflation, fluctuations in currency and interest rates, competitive factors, and civil unrest and labour problems, could affect its revenues, expenses and results of operations. Alcan s operations could also be adversely affected by government actions such as controls on imports, exports and prices, new forms of taxation, expropriation and increased government regulation in the countries in which Alcan operates or services customers.

Alcan is exposed to market and credit risks from its derivatives portfolio and trading activities.

Where judged appropriate, Alcan uses derivatives to hedge, among other things, exposure to changes in exchange rates, interest rates and metal prices. Alcan is engaged in trading activities in respect of alumina and metals. The Company uses derivatives as one way to protect against losses related to price fluctuations in trading activities. Alcan s use of derivatives makes it subject to certain market and credit risks. These risks could result in credit or derivative-related charges and losses independent of the relative strength of Alcan s core businesses. Alcan is therefore exposed to risks associated with trading activities and with the derivatives themselves, including counterparty credit risks and the risk of significant losses if prices move contrary to expectations or if Alcan s risk management procedures prove to be inadequate. The risks from its trading businesses may result in material losses which could adversely affect its results of operations, liquidity and financial position.

Alcan may be exposed to significant legal proceedings or investigations.

Alcan s results of operations or liquidity in a particular period could be affected by significant adverse legal proceedings or investigations, including environmental, product liability, health and safety and other claims, as well as commercial or contractual disputes with suppliers or customers.

Alcan is subject to a broad range of environmental laws and regulations in the jurisdictions in which it operates, and Alcan may be exposed to substantial environmental costs and liabilities.

Alcan is subject to a broad range of and increasingly stringent environmental laws and regulations in each of the jurisdictions in which it has operations. The costs of complying with these laws and regulations, including participation in assessments and remediation of sites and installation of pollution control facilities, could be significant. In addition, these standards can create the risk of substantial environmental liabilities, including liabilities associated with divested assets and past activities. Alcan is involved in a number of compliance efforts, remediation activities and legal proceedings concerning environmental matters.

Alcan may be subject to liability related to the use of hazardous substances in production.

Alcan uses a variety of hazardous materials and chemicals in its manufacturing processes, as well as in connection with Alcan s manufacturing facilities, including the maintenance thereof. In the event that any of these substances or related residues proves to be toxic, Alcan may be liable for certain costs, including, among others, costs for health-related claims or removal or retreatment of such substances.

Alcan is, and may be in the future, subject to suits regarding product liability, commercial disputes and claims by individuals, corporations and governmental entities related to its past and current activities and the activities of companies that Alcan has acquired and may acquire in the future.

Alcan is involved in the manufacture of numerous products, including complex component and finished products. The production of such products, used in a variety of end-uses and integrated into separately manufactured end products, entails an inherent risk of suit and liability relating to product operation and performance. Companies that Alcan has acquired and that Alcan may acquire in the future may be subject to similar risk of suit and to pending litigation. Alcan maintains product liability and other insurance to cover liability contingencies. Alcan s policies, however, are subject to deductibles and recovery limitations, as well as limitations on contingencies covered. Suits against Alcan could be resolved in a manner that materially and adversely affects its financial condition, and Alcan could be subject to future material product liability, tort or contractual suits, and to proceedings imposed by governmental entities.

Alcan may not be able to successfully implement productivity and cost-reduction initiatives.

Alcan has undertaken and may continue to undertake productivity and cost-reduction initiatives to improve performance. There can be no assurance that these initiatives will be completed or beneficial to Alcan or that any estimated cost savings from such activities will be realized.

Alcan has made significant capital expenditure commitments to expand and modernize production capacity.

Alcan commonly undertakes significant capital projects with respect to its own production capacity, and participates in the development of large capital projects with third parties. Recent activity involving large capital expenditure commitments includes the expansion of the Gove alumina refinery in Australia, the announced planned investments in Jonquière and Kitimat in Canada, and in Guinea, Cameroon, Iceland and South Africa, and the smelter project in Oman. Alcan s involvement in large capital investments subjects it to certain risks, including risks of unanticipated delays, complications and increased costs related to project execution. Alcan may be required to commit to capital spending for particular projects over the course of several years during which market conditions may change, which could reduce the attractiveness of the project relative to other potential investments.

Alcan is subject to risks related to the Novelis Spin-off.

Alcan derives significant cash flows under metal supply agreements and other arrangements with Novelis, an important customer whose operations encompass most of Alcan s former rolled products businesses that Alcan spun off to its shareholders in January 2005. Should Novelis business be subject to downturns or disruptions, Alcan s cash flows could be negatively affected.

Alcan does not control Novelis and cannot provide any assurance regarding its operations. Novelis may make strategic decisions that are disadvantageous to Alcan s ongoing commercial relationship with it or with third parties.

Alcan must compete with other market participants for continued business from Novelis. In addition, Novelis, and any acquirer of Novelis business operations, could become a competitor to Alcan.

Alcan could be adversely affected by changes in the business or financial condition of significant customers.

A significant downturn in the business or financial condition of its significant customers could materially adversely affect Alcan s results of operations. In addition, if Alcan s existing relationships with significant customers materially deteriorate or are terminated in the future, and Alcan is not successful in replacing business lost to such customers,

Alcan s results of operations may be harmed.

The markets for Alcan s products are highly competitive and the willingness of customers to accept substitutions for Alcan s products is high.

The markets for aluminum and packaging products are highly competitive. In addition, aluminum competes with other materials, such as steel, plastics and glass, among others, for various applications in Alcan s key customer sectors. The willingness of customers to accept substitutions for Alcan s products, the ability of large customers to apply buyer power in the marketplace to affect the pricing for fabricated aluminum or packaging products, or other developments could adversely affect Alcan s results of operations.

Future acquisitions or divestitures may adversely affect Alcan s financial condition.

Alcan has grown partly through the acquisition of other businesses including Pechiney. There are numerous risks commonly encountered in business combinations, including the risk that Alcan may not be able to effectively integrate businesses acquired or generate the cost savings and synergies anticipated. Failure to do so could have a material adverse effect on its costs, earnings and cash flows.

As part of its strategy for growth, Alcan may continue to make acquisitions, divestitures or strategic alliances, which may not be completed or may not be ultimately beneficial to Alcan.

Alcan may not be able to successfully develop and implement new technology required to achieve continued profitability.

Alcan has invested in and is involved with a number of technology and process initiatives. Several technical aspects of these initiatives are still unproven and the eventual commercial outcomes cannot be assessed with any certainty.

Unexpected events may increase Alcan s cost of doing business or disrupt Alcan s operations.

Unexpected events, including, but not limited to, supply disruptions, labour disputes, failure of equipment or processes to meet specifications, war or terrorist activities may increase the cost of doing business or otherwise impact Alcan s financial performance.

The above list of important factors is not all-inclusive or necessarily in order of importance.

ITEM 1B ***UNRESOLVED STAFF COMMENTS***

The Company has nothing to report under this Item.

ITEM 2 ***PROPERTIES***

Alcan believes that its properties, most of which are owned, are suitable for its operations. For additional information concerning specific properties, as broken down by Alcan Business Group, see Item 1 sub-headings 1.2 and 1.3 (Bauxite and Alumina), 2.2 and 2.3 (Primary Metal), 3.2 (Engineered Products) and 4.2 (Packaging).

ITEM 3 ***LEGAL PROCEEDINGS***

The Company is involved in various legal proceedings in either a defendant or plaintiff capacity. In certain circumstances, the amounts at stake in the proceedings, whether such proceedings are pending or potential, are not quantifiable for various reasons. Nothing set out below should, unless expressly stated to the contrary, be interpreted

as a confirmation or admission of liability on the part of either the Company or any Subsidiary. The outcome of any legal proceeding, whether pending or potential, will not, in management s opinion, have a material adverse effect on the financial position of the Company.

A. ENVIRONMENTAL MATTERS

1. Cases

Omega Chemical Site. In February 1996, the Company s UK Subsidiary, British Alcan Aluminium plc (British Alcan), sold its investment in Luxfer USA Limited. As part of the sale, British Alcan agreed to indemnify the purchaser for certain liabilities, including those arising out of the following proceeding. Luxfer is a participant in a joint defense group being sued by the US Environmental Protection Agency (EPA) in the District Court, Central District of California, in regard to waste Luxfer sent, from 1976 to 1991, to the Omega chemical waste Superfund site, a third party disposal site in Whittier (California, US). Large waste generators are cleaning up the site. Luxfer is a small contributor. In 2000, Luxfer and other members of the joint defense group entered into a consent decree with the EPA to complete the remediation. In addition, Howmet Corporation is also named as a potentially responsible party at this site (see Howmet Sites below). Both British Alcan and Howmet agreed to be parties to the Second Amendment to the Consent Decree.

Millville, New Jersey Plant. In 1997, Wheaton USA Inc., now Alcan Global Pharmaceutical Packaging Inc. (AGPP), a wholly-owned Subsidiary, began building new furnaces at its Millville (New Jersey, US) glass plant that were alleged to violate air emission regulations. The New Jersey Department of Environmental Protection (NJDEP) issued a citation for violation of permits. The EPA issued an information request to which Alcan responded. AGPP made modifications to the two furnaces, which are now covered by a Title V Air Permit.

Shulton, Mays Landing Landfill. Shulton, an adjacent manufacturing neighbour to AGPP s coated products operation in Mays Landing (New Jersey, US), alleged that in the 1970s AGPP had disposed of hazardous waste in a landfill area thereby causing leaching in other sites. After an investigation by the NJDEP, AGPP was required to perform remediation and monitoring at the site. The soil remediation has been completed. An investigation of ground water is continuing and could result in long-term monitoring of the site. Monitoring costs are not projected to be high.

Williams Landfill. Wheaton Industries, now AGPP, was sued in 1990 by the NJDEP involving a Superfund Site in Cape May County (New Jersey, US). The matter was resolved through a Consent Decree in 1999 which specifically excluded liability for natural resource damages. In June 2006, the New Jersey Attorney General s office contacted AGPP by telephone to inform the Company that NJDEP was planning on pursuing Natural Resource Damages. AGPP is waiting for a formal demand in this regard.

Clifton, New Jersey Facility. Lawson Mardon USA plc, now Alcan Packaging Food & Tobacco Inc. (APF&T), a wholly-owned Subsidiary, is undertaking a site investigation and clean-up of the land at its Clifton (New Jersey, US) plant, in compliance with a NJDEP permit. According to studies, off-site contamination was not a result of APF&T s operations. APF&T has reached an agreement with the NJDEP for alleged on-site contamination whereby APF&T would isolate the area and would monitor the ground water for two years. APF&T completed the remediation and ground water monitoring in 2004 and concluded an agreement with the NJDEP. In 2005, APF&T submitted a ground water remediation work plan to the NJDEP. Once the plan is approved, APF&T will have certain ground water treatment and monitoring to complete by 2012.

LM Trentesaux Site. In 1999, an investigation was carried out at a site owned by a Subsidiary, Lawson Mardon Trentesaux SA (LM Trentesaux), in Tourcoing (France). The land was found to be contaminated by solvent, fuel and chemical products resulting from engraving and packaging activities. An estimate of the clean-up costs was established. The investigation was also conducted to determine whether the contamination was the sole responsibility of LM Trentesaux and whether the migration of the contamination was possible. Ground contamination caused by

solvent was treated and further treatment for other substances may be required. The site was remeditated and sold in 2006.

Algoods Ontario Remediation. Beginning in 1995, environmental investigations have been conducted into the presence of oil, gasoline and volatile organic compounds (VOCs) in the soil and groundwater at the Algoods plant site in Ontario (Canada) and third party properties adjacent to this site. Algoods was sold in 1996 and under the terms of the agreement, the Company retains liability for this case. A remediation plan was approved with the Ontario Ministry of Environment (MOE) for the oil removal and an additional recovery well was installed in 2005. A gasoline recovery system was commissioned by Alcan and accepted by the owner of the affected property. MOE

requested and has received from Alcan a delineation study with respect to VOCs in the surrounding area. In 2004, MOE advised the Company that additional work was required. The remediation plan, which included the installation of recovery wells, was fully put in place by September 2005. Alcan continues remediation efforts at the site.

Howmet Sites. Under the stock purchase agreement between Pechiney and Blade Corporation for the divestiture of certain Pechiney subsidiaries (Pechiney Corporation, Howmet Corporation, Howmet Cercast) dated 12 October 1995, Pechiney agreed to indemnify Blade Corporation, without limitation in time or a ceiling on the indemnification amount, with respect to certain environmental matters that exceeded a reserve of $6 million on the pro-forma 1995 balance sheet of Pechiney. Alcoa, Inc., the legal successor in interest to Blade Corporation and beneficiary of the indemnification clause, asked Pechiney in 2002 to pay for the remediation costs exceeding the $6 million provision concerning the environmental risks at several sites (Howmet Sites). In addition to the Dover and Combe Fill South, New Jersey sites (see below), the Howmet Sites include the LaPorte Casting facility in Indiana, the Pellestar Superfund site in Michigan, as well as other sites in Connecticut, Texas and Wisconsin.

Dover, New Jersey Site. In 1997, Howmet notified Pechiney of high PCB readings at Dover (New Jersey, US). There are other possible environmental concerns at the Dover site as well. In April 1991, Howmet entered into an administrative order with the State of New Jersey for a remedial investigation/feasibility study. That process is not complete and a remedy has yet to be selected. Additionally, Howmet received oral notification in January 2004 that the State of New Jersey was seeking natural resources damages for alleged impact on the site ground water. The State of New Jersey is thus asking for money damages for the impact on the ground water separate and above the remediation costs. Pechiney submitted a Remedial Selection Report and met with the State of New Jersey in October 2006.

Combe Fill South Landfill. In 1998, the US Government and the NJDEP sued Howmet and other parties for damages and response costs in relation to the environmental conditions at the Combe Fill South Landfill in New Jersey. The governments claim both past and future costs for remediation. An alternative dispute resolution process is underway under the supervision of the US District Court for the District of New Jersey. Howmet submitted its position paper on allocation in January 2004. There are hundreds of parties involved in the suit; allocations are not yet final. The parties met in December 2006 to discuss settlement scenarios.

Holden Mine Site. In a 1993 settlement agreement, Pechiney had agreed to indemnify Alumax for certain claims, including in connection to environmental matters relating to the Holden Mine. Holden Mine was an underground copper mine that Howe Sound Company operated from 1936 until 1957. It is located in a remote wilderness area in the Wenatchee National Forest in the State of Washington. The US Forest Service, together with officials of the State of Washington and the EPA, requested a remedial investigation. An administrative order was entered in 1997. The remedial investigation identified several remedial scenarios with a wide range in cost. Total site costs (including investigation costs) and natural resource damages may exceed $30 million. Alcan submitted its final draft feasibility study in February 2004 and meetings took place at several times up to September 2005 without an agreement on remedy. A new proposal was submitted in November 2005.

Blackbird Mine. In 1994 and 1995, Pechiney signed a consent decree with the US Forest Service, National Oceanic and Atmosphere Administration, the EPA and the State of Idaho, as well as two administrative orders with the EPA for a remedial investigation/feasibility study and early action clean-up of the Blackbird Mine. Pechiney must pay a significant portion of the total cost of the Blackbird Mine clean-up. The US Government must pay a smaller portion of the remediation expenses with a cap. The removal actions, which began in 1995, are largely but not entirely complete. The US Government investigated arsenic contamination at neighboring Panther Creek Inn and a soil removal remediation was performed in 1998. In August 2002, the EPA issued its proposed remedial plan for Blackbird Mine, which included copper and cobalt actions. In Spring 2003, the EPA issued a Record of Decision (ROD). Negotiations with the various agencies concerning the ROD and the consent decree were held during 2003. The EPA issued a

unilateral administrative order which became effective on 10 August 2003. The EPA estimated the ROD remedy cost at $15.4 million in addition to what had already been spent. The parties have complied with a request by the EPA to supply $25 million in financial assurance. In 2005, the EPA decided that treatment for cobalt was not required. The parties negotiated regarding additional work in 2006 but did not reach an agreement.

Tungsten Mine Site. In April 2000, the North Carolina Department of Environment & Natural Resources, Division of Waste Management, sought cooperation for the removal of drummed hazardous substances and for the monitoring, testing, analyzing and reporting on the Tungsten Mine Site, in Vance County (North Carolina, US). Pechiney is the successor to Haile Mining Company, which it is believed mined the site from approximately 1945 through the late 1950s. A first meeting of potentially responsible parties took place in October 2001. In October 2004, the State of North Carolina met with the potentially responsible parties and presented a proposed remedial plan to which they must respond. In 2005, Pechiney submitted its own remedial plan. In August 2006, the State of North Carolina offered the parties an Administrative Agreement for State-directed remedial action. Howmet provided the State-suggested revisions to the Agreement in September 2006. The Agreement has not been finalized to date.

Pohatcong Valley Site. The US Department of Interior notified Pechiney Plastic Packaging Inc. (PPPI) on 19 November 1999 that it wanted to geophysically log certain wells at the Washington (New Jersey, US) facility as it sought to identify possible contributors of a specific contaminant trichloroethylene to the Pohatcong Valley Superfund Site. This matter involves both an on-site remediation of the Washington Plant, which is near completion, and a Superfund Site. Pursuant to a remedial investigation and ground water report, the EPA published a proposed plan calling for remedies that would cost $12.4 million. PPPI is working on alternative remedies that it believes would be more effective and cost substantially less. The EPA issued a Record of Decision on groundwater contamination in July 2006. In October 2006, PPPI representatives met with EPA representatives to continue negotiations for a PPPI-designed remedy.

High Point Sanitary Landfill. PPPI is one of four parties that had entered into a 1998 consent order with the NJDEP for the remediation of a former landfill in Franklin County (New Jersey, US). Negotiations continue between the parties and the NJDEP with respect to PPPI s share of remediation costs. Since 2001, the NJDEP has reduced PPPI s required funding share on several occasions. In 2006, the NJDEP approved a Work Plan for the new refuse area.

Spill at Port Installations. Alcan received two fine notices on 27 October 2006 from the Quebec Solicitor General regarding a caustic soda spill in the Saguenay River which occurred on 20 and 21 March 2006 during the unloading of cargo at Alcan s port facilities in La Baie (Quebec, Canada). Alcan pleaded not guilty and obtained disclosure of the evidence from the Province.

Guelph, Ontario. The Company maintained outdoor salt cake storage from 1985 to 1996 on a site it had purchased in 1979. In December 1996, Alcan sold the facility to Philip Enterprises, contractually retaining liability, which then sold the facility to Wabash Alloy in 1998. Alcan performed soil removal activities in 1998 and 1999 and established monitoring wells. In June 2006, the Ontario Ministry of the Environment agreed to Alcan s work plan to manage the sodium and chloride impacts on groundwater. The work plan includes installation of additional monitoring wells.

Muzin River. In September 2003, two agents of the local fishing council reported white traces of aluminum hydroxide on the Muzin River to the prosecuting attorney of Dijon (France). A hearing took place in December 2006, during which the prosecuting attorney sought to fine the Softal plant manager EUR 1,000. The plant manager has until early 2007 to accept the offer or face criminal proceedings. Pechiney Softal, a Subsidiary of the Company, may then be prosecuted. It is believed that the amount of aluminum hydroxide measured in the river is unlikely to have had any negative impact on the environment.

Centralia. In December 2006, AGPP received a letter form the Illinois Attorney General s office, threatening to file suit on 20 December 2006 to recover costs incurred in addressing the continued presence of hazardous substances at former Prior 1.2.3.4, Prior/Blackwell, and CESi Landfills located near Centralia (Illinois, US). AGPP is a relatively small contributor to the landfill sites.

2. Reviews and Remedial Actions

From time to time, the Company is subject to environmental reviews and investigations. The Company has established procedures for reviewing environmental investigations and any possible remedial action on a regular basis. Although the Company cannot reliably estimate all of the costs which may ultimately be borne by it, the Company has no reason to believe that any remedial action will materially impair its operations, materially affect its financial condition or materially affect the Company s liquidity.

ITEM 4 ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

The Company has not submitted any matter to a vote of security holders, through solicitations of proxies or otherwise, during the fourth quarter of the year ended 31 December 2006.

PART II

ITEM 5 ***MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

The principal markets for trading in Alcan s Common Shares are the New York and Toronto stock exchanges. The Common Shares are also traded on the London, Paris and Swiss stock exchanges. The transfer agents for the Common Shares are CIBC Mellon Trust Company in Montreal, Toronto, Regina, Calgary and Vancouver, and Mellon Investors Services LLC in New York. Common Share dividends, if declared, are paid quarterly in March, June, September and December to Shareholders of record in February, May, August and November, respectively.

The number of holders of record of Common Shares on 26 February 2007 was approximately 16,100.

While the Company currently intends to pursue a policy of paying quarterly dividends, the payment and level of future dividends will be determined by the Board of Directors in light of earnings from operations, capital requirements and the financial condition of the Company. The Company s cash flow is generated principally from operations and also by dividends and interest payments from Subsidiaries, Joint Ventures and Related Companies. These dividend and interest payments may be subject, from time to time, to regulatory or contractual restraints, withholding taxes and foreign governmental restrictions affecting repatriation of earnings.

On 2 August 2006, the Company announced that it was raising its quarterly dividend from $0.15 to $0.20 per Common Share.

Dividends paid on Common Shares held by non-residents of Canada will generally be subject to Canadian withholding tax which is levied at the basic rate of 25%, although this rate may be reduced depending on the terms of any applicable tax treaty. For residents of the US, the treaty-reduced rate is currently 15%.

All dividends received by shareholders of Alcan (including Common Shareholders and holders of preference shares) in 2006 and later are eligible dividends as defined in amendments to section 89 of the Canada *Income Tax Act* and, accordingly, entitle an individual Alcan shareholder resident in Canada to a higher dividend gross-up and dividend tax credit.

	Dividend ($)	New York Stock Exchange* ($)				Toronto Stock Exchange** (CAN$)			
		High	Low	Close	Avg. Daily Volume	High	Low	Close	Avg. Daily Volume
2006 Quarter									
First	0.150	51.55	40.64	45.73	1,567,674	59.25	47.05	53.43	1,534,425
Second	0.150	59.20	41.55	46.94	2,900,325	64.99	46.05	52.29	1,804,657
Third	0.200	48.50	37.48	39.87	975,374	54.95	41.78	44.55	1,335,986
Fourth	0.200	51.31	38.32	48.74	1,220,320	58.95	43.25	56.78	1,264,882
Year	0.700								

		High	Low	Close	Avg. Daily Volume	High	Low	Close	Avg. Daily Volume
2005 Quarter									
First	0.150	47.50	35.75	37.92	1,269,532	58.27	43.35	46.00	1,268,361
Second	0.150	39.13	28.75	30.00	1,207,673	47.89	36.56	36.78	1,468,538
Third	0.150	36.78	30.21	31.37	1,231,066	44.18	35.38	36.85	1,492,671
Fourth	0.150	41.92	29.49	40.95	1,233,368	48.60	34.86	47.76	1,678,781
Year	0.600								

* As reported by the New York Stock Exchange Consolidated Trading.

** As reported by the Toronto Stock Exchange.

Performance Graph

The information required is incorporated by reference to the Proxy Circular in the section entitled Performance Graphs on page 27.

Purchases of Equity Securities

Alcan established a share repurchase program that commenced on 2 November 2006 and will terminate at the latest on 1 November 2007. Under the program, the Company may purchase up to 18,800,000 Common Shares, representing approximately 5% of the outstanding Common Shares at 27 October 2006. Purchases may be made on the Toronto Stock Exchange and the New York Stock Exchange. The Common Shares purchased under the program will be cancelled.

The Company intends that the program comply with Rule 10b-18 under the US *Securities Exchange Act of 1934* and the Normal Course Issuer Bid rules of the Toronto Stock Exchange. A copy of the notice to the public of the plan, announced on 3 October 2006, is available at www.sedar.com or may be obtained by contacting the Corporate Secretary s Office.

The following table provides information on purchases of equity securities.

2006 Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
1 Oct. 31 Oct.	0		0	18,800,000
1 Nov. 30 Nov.	9,781,200	47.42	9,781,200	9,018,800
1 Dec. 31 Dec.	50,000	47.92	50,000	8,968,800
Total	9,831,200	47.42	9,831,200	

Sales of Unregistered Securities

In 2006, the Company issued 12,852 Common Shares to former holders of Pechiney options that resided outside the United States and Canada upon the exercise of such options. These Common Shares were not registered under the US *Securities Act of 1933*, as amended in reliance on Regulation S. The dates of sale and amounts of Common Shares in the fourth quarter of 2006 are set forth below:

Dates	Number of Shares
23 October 2006	2,596
8 November 2006	682
9 November 2006	723
20 November 2006	1,638
1 December 2006	405
12 December 2006	4,828
18 December 2006	1,980

The Pechiney options are described at page 30 of the Proxy Circular.

ITEM 6 ***SELECTED FINANCIAL DATA***

SELECTED HISTORICAL FINANCIAL DATA
(In millions of dollars, except for per share amounts)

	Years Ended December 31				
	2006	**2005**	**2004**	**2003**	**2002**
US GAAP					
Sales and operating revenues	23,641	20,320	24,948	13,850	12,483
Income (Loss) from continuing operations	1,786	155	243	262	421
Income (Loss) from discontinued operations	4	(26)	15	(159)	(21)
Cumulative effect of accounting changes	(4)			(39)	(748)
Net income (Loss)	1,786	129	258	64	(348)
Earnings (Loss) per share:					
Basic:					
Income (Loss) from continuing operations	4.75	0.40	0.64	0.79	1.29
Income (Loss) from discontinued operations	0.01	(0.07)	0.05	(0.49)	(0.07)
Cumulative effect of accounting changes	(0.01)			(0.12)	(2.32)
Net income (Loss) per share	4.75	0.33	0.69	0.18	(1.10)
Diluted:					
Income (Loss) from continuing operations	4.74	0.40	0.64	0.79	1.29

Income (Loss) from discontinued operations	0.01	(0.07)	0.05	(0.49)	(0.07)
Cumulative effect of accounting changes	(0.01)			(0.12)	(2.32)
Net income (Loss) per share	4.74	0.33	0.69	0.18	(1.10)
Cash dividends per share	0.70	0.60	0.60	0.60	0.60
Total assets	28,939	26,638	33,341	31,948	17,761
Long-term debt (including current portion)	5,512	6,067	6,914	7,778	3,369

On 1 January 2004, the Company adopted US GAAP as its primary reporting standard for presentation of its consolidated financial statements. Historical consolidated financial statements were restated in accordance with US GAAP.

On 6 January 2005, the Company completed the Novelis Spin-off. Unaudited pro-forma condensed consolidated financial information giving effect to the Novelis Spin-off as at 1 January 2004 for the statement of income and as at 31 December 2004 for the balance sheet is presented in note 6 Spin-off of Rolled Products Businesses of the Financial Statements included under Item 8, Financial Statements and Supplementary Data in this Form 10-K.

The accounting policies adopted by the Company during the years 2004 to 2006 are described in note 3 Accounting Changes of the Financial Statements.

In 2004, the Company retroactively adopted the fair value recognition provisions of Statement of Financial Accounting (SFAS) No. 123, Accounting for Stock-Based Compensation. Beginning 1 January 1999, all periods have been restated to reflect compensation cost as if the fair value method had been applied for awards issued after 1 January 1995.

In 2003, the Company retroactively adopted SFAS No. 143, Asset Retirement Obligations. An after-tax charge of $39 million for the cumulative effect of accounting change was recorded as a result of the new standard, relating primarily to costs for spent potlining disposal for pots currently in operation. See note 22 of the Financial Statements, prepared in accordance with US GAAP.

In 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. An after-tax charge of $748 million for the cumulative effect of accounting change was recorded as a result of the new standard, relating to impairment of goodwill.

The data presented above should also be read in conjunction with Management s Discussion and Analysis, included under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K.

Please also refer to the Financial Statements and the Notes to the Financial Statements, included under Item 8 Financial Statements and Supplementary Data in this Form 10-K.

ITEM 7 *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

INTRODUCTION

This Management s Discussion and Analysis (MD&A) provides management s perspective on the Company s operations, core businesses, performance and financial condition. The MD&A includes Alcan s operating and financial results for 2006, 2005 and 2004 and should be read in conjunction with the Financial Statements for the year ended 31 December 2006, which are prepared in accordance with US GAAP. Unless otherwise indicated, all amounts are in US dollars. Certain prior year data has been reclassified to conform with the current year s presentation.

In addition to the information contained in this MD&A, a brief description of the business can be found on page 6 as well as detailed descriptions of the Business Groups on pages 9 to 26 of this Form 10-K.

The aluminum market overview contained in this MD&A is based on research that includes information from sources believed to be reliable, but Alcan does not make any representation that it is accurate in every detail. The aluminum market overview represents the Company s views as at 28 February 2007.

Accounting Estimates and Assumptions

The Company believes that our estimates for determining the valuation of our assets and liabilities are appropriate. However, given the uncertainties involved, it is possible that they will be significantly revised in the future, which could have material adverse effects on the Company s reported earnings and financial condition. The Company s significant accounting policies are presented in note 2 Summary of Significant Accounting Policies to the Financial Statements. The critical accounting policies and estimates described on page 74 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 judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. They have been reviewed and approved by the Audit Committee, in

consultation with management, as part of their review and approval of our significant accounting policies and estimates.

OVERVIEW

For Alcan, 2006 represented a landmark year in many respects. Driven by increased strength in aluminum fundamentals and a sharpened focus following several years of major portfolio transformation, the Company achieved record financial results and made significant advances in key strategic growth initiatives. All-time records were set as net income reached $1,786 million ($4.75 per Common Share), while cash from operating activities topped the $3-billion mark. The Company s long-term corporate financial targets, based on currency and metal forward rates as at September 2005, were all exceeded, in many cases by a healthy margin. In addition, the Company raised its quarterly dividend by a third and initiated a share repurchase program for up to 5% of its outstanding Common Shares.

Strategically, Alcan took several key steps toward securing a balanced alumina position and leveraging its technology and wholly-owned power advantages to ensure sustainable, low-cost growth in aluminum production. The 1.8-million tonne per year (Mt/y) expansion of the Gove alumina refinery in Australia continued at a strong pace, albeit in the face of substantial cost pressures due mainly to the overheated Australian construction sector. Meanwhile, as construction on the Company s smelting Joint Venture in Oman continued on schedule and on budget, announcements were made throughout the second half of the year concerning key smelting projects in British Columbia, South Africa and Quebec, which together with the Oman project represent a potential total capacity increase of close to 1 Mt/y, or around 30% of the Company s current capacity. In addition, the Quebec project incorporates the world s first industrial scale pilot smelter based on Alcan s proprietary AP50 technology, which is expected to generate incremental cost savings and superior environmental performance over the existing industry leading AP35 configuration.

At the macro-economic level, the first half of 2006 reflected very strong growth in most of the world s economies, including the four largest: the US, Japan, Germany and China. However, declining auto sales and production and a sharp downturn in the housing market combined to restrain the US economy as the year progressed. By the fourth quarter of 2006, softening conditions had become evident around the world, partly caused by reduced exports to the US. Even in China, industrial production growth slipped from over 17% in the first half of 2006 to under 15% in the fourth quarter of 2006, reflecting monetary restraints.

Boosted by the strong economic growth through much of 2006, global primary aluminum demand grew by almost 7%. World primary production grew at just over 6% due both to a limited number of expansions and to closures caused by high power prices in late 2005 and extremely high spot alumina prices in the first half of 2006. As a result, the market went from being balanced in 2005 to a 162-thousand tonne per year (kt/y) estimated deficit in 2006. In terms of weeks of Western World* shipments, unwrought inventories fell from an already low 5.8 weeks at the beginning of 2006 to a record low of 4.7 weeks late in the year. This, coupled with even greater price increases for other base metals, caused aluminum prices to soar. The benchmark 3-month price on the London Metal Exchange (LME) reached an all-time high of $3,310 per tonne in May 2006 and averaged a record $2,594 for the calendar year in nominal terms.

MARKET REVIEW

World Primary Aluminum Balance

Supply and Demand

World primary aluminum demand grew by about 6.9% in 2006 to 34.1 Mt/y; a much stronger pace than the 4.6% growth experienced in 2005. The highest growth rate of about 20% came from China, the largest consumer and producer of aluminum. Growth in Western World primary aluminum demand was under 1.5%.

* Defined as the world excluding the Commonwealth of Independent States (CIS), Eastern Europe and China.

World primary aluminum production growth eased slightly to 6.4% in 2006, reaching about 33.9 Mt/y. In the Western World, production grew only 1.7% as modest expansions in Brazil, Dubai, Iceland and India were partially offset by closures in Europe and the US in late 2005 and early 2006. In sharp contrast, Chinese production grew by over 20% to about 9.3 Mt/y. Plummeting spot alumina prices in the second half of 2006 led to major restarts of idled capacity and, by year-end, China was producing at a rate of over 10.5 Mt/y or about 30% of global output. Production in the CIS during 2006 was up about 2.5% over the prior year.

World Primary Aluminum Supply and Demand

Balance and Prices

After the balanced market in 2005, primary aluminum demand grew slightly faster than supply during 2006. As a result, unwrought inventories on the LME, New York Mercantile Commodities Exchange (COMEX) and held by aluminum producers declined by 162 kt/y during 2006 to reach 2.34 Mt/y or about five weeks of Western World supply. Including producer wrought stocks, total inventories fell 232 kt/y to 3.66 Mt/y. This along with higher production costs led to a record high nominal average price for the benchmark LME 3-months aluminum contract of $2,594 per tonne, up 37% from 2005. The benchmark LME contract also hit a record intra-day high of $3,310 on 11 May 2006. Prices of some other base metals rose even more, with zinc up 133%, copper 91% and nickel 59% in 2006.

Total Aluminum Inventories and Ingot Prices

* International Aluminium Institute

Outlook

After a year in which growth in consumption exceeded that for production, the situation is expected to reverse in 2007. Low prices for alumina, improved power availability in many parts of the world, and continuing high aluminum prices are encouraging smelter expansions and restarts. New smelter capacity in China, Russia, Iceland,

Dubai, and South America, along with restarts in the US and Western Europe are expected to boost primary production by almost 8%. Balancing this against an expected primary consumption growth rate only slightly less than the 2006 figure of 6.9%, mainly due to a slower US economy, should give rise to a primary surplus of approximately 200 kt, although inventories, especially in terms of weeks of shipments, will remain relatively low.

Total Aluminum Consumption

Total global aluminum consumption (including semi-fabricated aluminum, castings, forgings and the like) grew by an estimated 6.4% in 2006 to 45.5 Mt/y. Of this, about 34 Mt/y was sourced from primary aluminum with the other 11.5 Mt/y coming from secondary/recycled metal.

Total aluminum consumption growth continued to be strongest in China and the CIS at around 17% to 18% in 2006. China is the largest consumer at roughly 11.2 Mt/y or 25% of the world. For the Western World, consumption growth increased to 2.8% (from 2% in 2005) led by Asia and Latin America at over 5%. Total consumption increased by 3.2% in Western Europe, while North American consumption remained flat compared to 2005 due to declines in housing starts and automobile production, and has still not returned to the levels of 1999-2000.

Aluminum consumption was up in every end-use market. At between 6.3% and 9.4% year-over-year growth, the strongest sectors were packaging (mainly foil), machinery and equipment, transportation (heavy trucks, aerospace, buses, trains and ships) and electrical. In the two largest markets, building and construction, and automobiles, growth in 2006 was 5.5% to 6.0%, held back by the weak US market. Consumer durables were up about 4% and beverage cans 2%. The latter is a mature market with gains from substitution for tin-plated steel but losses to polyethylene terephalate (PET) bottles.

Total Global Consumption by End-Use Market

	2006	2005	2004
Containers and Packaging	***15%***	*16%*	*16%*
Building and Construction	***20%***	*20%*	*18%*
Electrical	***10%***	*10%*	*8%*
Transportation	***27%***	*27%*	*31%*
Consumer Durables	***7%***	*7%*	*6%*
Machinery and Equipment	***8%***	*8%*	*8%*
Other	***13%***	*12%*	*13%*
Total	***100%***	*100%*	*100%*

Total Global Consumption by Geographic Market

	2006	2005	2004
North America	***23%***	*24%*	*25%*
Western Europe	***21%***	*22%*	*22%*
Asia (excl. China)	***20%***	*21%*	*21%*
Latin America	***5%***	*5%*	*5%*

Africa and Oceania	***2%***	*2%*	*2%*
Western World	***71%***	*74%*	*75%*
China	***25%***	*22%*	*21%*
Eastern Europe	***2%***	*2%*	*2%*
CIS	***2%***	*2%*	*2%*
Total	***100%***	100%	100%

Alcan s Revenues by Geographic Market*

	2006	2005	2004
North America	***37%***	*36%*	*35%*
Europe	***45%***	*47%*	*45%*
Asia/Pacific/Africa	***17%***	*16%*	*16%*
South America	***1%***	*1%*	*4%*
Total	***100%***	*100%*	*100%*

* Point of destination

RESULTS OF OPERATIONS

Presentation of Financial Information

Novelis Spin-Off

Information for the year 2004 presented in this MD&A includes the results of operations for businesses transferred to Novelis on 6 January 2005.

Earnings Summary

Income from Continuing Operations

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

Net Income

	For the Year Ended		
	2006	2005	2004
	(In millions of US$)		
Included in income from continuing operations are:			
Foreign currency balance sheet translation	**(12)**	(86)	(153)
Other Specified Items:			
Synergy costs		(57)	(44)
Restructuring charges	**(115)**	(162)	(41)
Asset impairments	**(51)**	(314)	(66)
Goodwill impairment		(122)	(154)
Gains (losses) from non-routine sales of assets, businesses and investments, net	**(23)**	36	54
Tax adjustments	**79**	(37)	13
Novelis costs		(21)	(31)
Legal and environmental provisions			(7)
Pechiney financing-related losses			(2)
Purchase accounting and related adjustments			(122)
Other	**12**	7	(4)
Total Other Specified Items	**(98)**	(670)	(404)
Income from continuing operations	**1,786**	155	243
Income (Loss) from discontinued operations	**4**	(26)	15
Cumulative effect of accounting change	**(4)**		
Net Income	**1,786**	129	258

2006 vs. 2005

In 2006, income from continuing operations was $1,786 million, an increase of $1,631 million compared to 2005. The significant increase in income reflected improved results across most business segments, most notably Primary Metal due to higher aluminum prices (LME aluminum prices were up on average 37% compared to 2005 reflecting extremely strong industry fundamentals), as well as reduced charges for OSIs of $572 million and foreign currency balance sheet translation of $74 million, offset in part by increased costs for key inputs across all businesses and the negative effects of the weaker US dollar on operating costs. In 2006, the Company benefited not just from higher aluminum prices, but also from improved sales mix and pricing as well as increased volumes in the downstream businesses. As in 2005, cost pressures were most significant in the Packaging business where prices for raw materials, most notably aluminum, experienced a sharp increase. This effect continued to be mitigated by increases in selling prices and operational improvements in the Packaging business.

Included in income from continuing operations for 2006 were foreign currency balance sheet translation losses of $12 million, a decrease of $74 million compared to 2005. Foreign currency balance sheet translation effects arise from translating monetary items (principally deferred income taxes and long-term liabilities) denominated in Canadian and Australian dollars into US dollars for reporting purposes. Although balance sheet translation effects are primarily

non-cash in nature, they can have a significant impact on the Company s net income. At 31 December 2006, the closing value of the US dollar against the Canadian dollar was approximately the same compared to the value at 31 December 2005. At 31 December 2006, the closing value of the US dollar was 8% higher against the Australian dollar than the value at 31 December 2005.

Income from continuing operations for 2006 included a net after-tax charge of $98 million for OSIs, a decrease of $572 million compared to 2005. In 2006, OSIs included after-tax charges of $115 million mainly related to restructuring initiatives across all Business Groups, asset impairment charges of $51 million mainly related to the Affimet aluminum recycling plant in Compiègne (France) and the Gove alumina refinery in Australia, a net loss on

business divestments of $23 million principally in relation to the sale of the Packaging bottles business, partially offset by favourable tax adjustments of $79 million, principally related to a deferred tax benefit arising from a reduction in the Canadian federal tax rates enacted in June 2006 and a gain of $41 million arising on the sale of bankruptcy claims against Enron.

After including the results of discontinued operations and the cumulative effect of an accounting change, the Company s net income was $1,786 million in 2006, an increase of $1,657 million compared to 2005.

2005 vs. 2004

In 2005, income from continuing operations was $155 million, a decrease of $88 million compared to 2004. Lower results for 2005 reflected increased charges for OSIs of $266 million, offset in part by a positive year-over-year change in foreign currency balance sheet translation of $67 million. In 2005, the Company benefited from higher prices, an improved sales mix and increased volumes in the primary aluminum and engineered products businesses, as well as synergy gains associated with the Pechiney acquisition. LME aluminum prices were up on average 10% compared to 2004 reflecting further improvement in industry fundamentals. Offsetting these positive factors were substantially higher costs for key inputs across all businesses, the negative effects of the weaker US dollar on operating costs and the loss of contribution from the rolled products businesses spun-off into Novelis on 6 January 2005. Cost pressures were especially severe in the Packaging business where prices for raw materials, most notably resins and films, experienced a sharp increase since mid-2004. The Packaging Business Group was largely successful in mitigating the resulting pressure on margins through selling price increases and operational improvements.

Included in income from continuing operations for 2005 were foreign currency balance sheet translation losses of $86 million compared to losses of $153 million in 2004. While lower than in the previous year, the translation losses in 2005 reflected the continued weakening of the US dollar against the Canadian dollar, partially offset by the appreciation of the US dollar against the Australian dollar. At 31 December 2005, the closing value of the US dollar was 3% lower against the Canadian dollar than the value at 31 December 2004. At 31 December 2005, the closing value of the US dollar was 7% higher against the Australian dollar than the value at 31 December 2004.

Income from continuing operations for 2005 included a net after-tax charge of $670 million for OSIs compared to a charge of $404 million in 2004. In 2005, OSIs included restructuring and asset impairment charges of $162 million and $314 million respectively, mainly for the restructuring of certain Packaging businesses, notably Global Beauty Packaging and Food Packaging Europe, the closures of the Steg and Lannemezan smelters in Europe and the rationalization of certain Engineered Products operations, including the Vernon (California, US) cast plate facility. Also included in OSIs was a goodwill impairment charge of $122 million. As required under US GAAP, the Company annually tests for goodwill impairment. Due to an increasingly competitive environment for Global Beauty Packaging, the Company concluded that part of the goodwill associated with this business should be written down. OSIs also reflected costs of $57 million incurred in connection with the capture of Pechiney acquisition synergies.

The most significant OSIs in 2004 included: a goodwill impairment charge of $154 million mainly related to European fabricating assets in the Engineered Products group, acquired as part of Pechiney; purchase accounting and other adjustments related to Pechiney of $122 million, primarily on inventory; asset impairment charges of $66 million related to two rolling mills in Italy; restructuring charges of $41 million mainly related to the closures of two rolled products facilities in the UK and Belgium; synergy costs of $44 million related to the Pechiney and FlexPac acquisitions; gains of $54 million on the sale of assets and investments principally related to the dilution in the Company s interest in an anode-producing operation in the Netherlands; and expenses of $31 million related to the Novelis Spin-off.

After including the results of discontinued operations and the cumulative effect of an accounting change, the Company s net income was $129 million in 2005, a decrease of $129 million compared to 2004.

Sales and Operating Revenues

Revenues and Aluminum Volumes

* Includes ingot shipments (primary, secondary and scrap) and, in respect of 2004, rolled products shipments.

Sales Price Realizations

2006 vs. 2005

Sales and operating revenues were $23.6 billion in 2006, an increase of $3.3 billion, or 16%, compared to 2005. The increase principally reflected higher aluminum prices, improved sales mix and pricing as well as higher downstream volumes. LME aluminum prices were up on average 37% compared to 2005 reflecting extremely strong industry fundamentals. Improved sales mix and pricing were mainly attributable to price increases in the downstream businesses to recover raw material price escalation, most notably in respect of aluminum. Increased volumes across most Engineered Products businesses and the Food Americas and Tobacco Packaging businesses also contributed to higher revenues.

2005 vs. 2004

Sales and operating revenues were $20.3 billion in 2005, a decrease of $4.6 billion, or 19%, compared to 2004. The decrease reflected the impact of the Novelis Spin-off. Sales and operating revenues increased by 4% in 2005 compared to 2004 based on Alcan s pro forma 2004 sales of $19.6 billion as shown in note 6 Spin-Off of Rolled Products Businesses to the Financial Statements. After giving effect to the Novelis Spin-off, the increase was mainly due to higher LME aluminum prices, which were up on average 10% compared to 2004, increased ingot shipments and higher prices and volumes in downstream businesses.

Revenues by Market

	2006	2005	2004
Packaging	***27%***	*30%*	*37%*
Aluminum Ingot	***33%***	*30%*	*17%*
Beverage Cans	***3%***	*3%*	*10%*
Building and Construction	***3%***	*3%*	*6%*
Electrical	***3%***	*3%*	*3%*
Transportation	***7%***	*8%*	*8%*
Other	***24%***	*23%*	*19%*
Total	***100%***	*100%*	*100%*

Costs and Expenses

Over the last three years, Alcan s costs have increased due to escalating prices for energy, freight and key raw materials such as coke, pitch, plastics and resins as well as from the impact of the weaker US dollar. Alcan has been able to partially offset the cost penalty through higher selling prices for end products, productivity improvements and more efficient use of raw materials. While the depreciation of the US dollar was not as pronounced in 2006 compared to prior years, it nonetheless had an unfavourable impact on costs incurred in other currencies, which are translated into US dollars for reporting purposes. The economic impact of the depreciation in the US dollar over the last three years has been marked in countries such as Canada and Australia, where the Company s bauxite, alumina and aluminum smelting operations have a local currency cost base but US dollar revenues. This has resulted in escalating costs in US dollar terms without any offsetting increase in revenues in US dollar terms, inflating overall costs as a percentage of sales.

Continuous Improvement (CI) remains a core component of Alcan s Integrated Management System (AIMS). It equips Alcan entities with the tools necessary to consistently maximize improvement opportunities and thereby enhance the Company s competitive position. Alcan estimates that improvement initiatives have contributed over $250 million to Business Group Profit (BGP) since the introduction of CI in 2003. Refer to the Operating Segment Review on page 59 for a definition of BGP. Alcan now has about 3,000 trained CI experts, known as Black Belts and Green Belts, throughout the Company.

Costs and Expenses

	For the Year Ended					
	2006	**% of Sales**	2005	% of Sales	2004	% of Sales
	(In millions of US$, except where indicated)					
Cost of sales and operating expenses	**17,990**	**76.1**	16,135	79.4	20,270	81.2
Depreciation and amortization	**1,043**	**4.4**	1,080	5.3	1,337	5.4
Selling, administrative and general expenses	**1,475**	**6.2**	1,402	6.9	1,615	6.5
Research and development expenses	**220**	**0.9**	227	1.1	239	1.0
Interest	**284**	**1.2**	350	1.7	346	1.4

Restructuring charges net	**179**	**0.8**	685	3.4	87	0.3
Other expenses (income) net	**77**	**0.3**	(4)		321	1.3

Total Aluminum Volume and Purchases

* Includes ingot shipments (primary, secondary and scrap) and, in respect of 2004, rolled products shipments.

2006 vs. 2005

In 2006, cost of sales and operating expenses were 76.1% of sales and operating revenues compared to 79.4% in 2005. The improvement mainly reflected higher realized prices for aluminum and products sold through downstream businesses together with increased volumes in the downstream businesses, which more than offset increased energy and raw material costs and the negative impact of the weaker US dollar. Both the Packaging and Engineered Products businesses were successful in increasing selling prices to offset most of the increase in aluminum input prices.

Depreciation and amortization expense was $1,043 million in 2006, a decrease of $37 million compared to 2005. The slight decrease primarily reflecting the reduced asset base in the Packaging business due to business disposals and asset impairments related to the restructuring program announced in 2005.

In 2006, selling, administration & general expenses (SA&G) were $1,475 million, $73 million higher than in 2005. The increase in 2006 was mainly attributable to higher share-based compensation and a weaker US dollar, partially offset by the impact of Novelis Spin-off costs included in the prior-year expenses. SA&G as a percentage of sales and operating revenues was 6.2% in 2006 compared to 6.9% in 2005. The Company believes that it can reduce expenses as a percentage of sales to approximately 6% by the end of 2007 and that SA&G will be around $1,400 million in 2007.

Alcan s research and development (R&D) activities continue to be closely aligned with the needs of its core businesses. The Company is focused on improving process technology as illustrated by the announcement in December 2006 of a refocusing of the Primary Metal Business Group s R&D efforts around key centres in France and Quebec. In addition, downstream businesses are focused on developing new product applications for a diverse range of markets and customers. R&D spending at central research laboratories, technology centres and technical departments was $220 million in 2006, comparable with prior-year spending of $227 million.

2005 vs. 2004

In 2005, cost of sales and operating expenses were 79.4% of sales and operating revenues compared to 81.2% in 2004. The improvement mainly reflected higher prices for aluminum ingot and fabricated products, increased volumes, an improved product mix and Pechiney synergy benefits, which together more than offset increased energy and raw material costs and the negative impact of the weaker US dollar. During the year, the Packaging group was largely successful in passing on the higher cost of resins and films through increases in selling prices.

Depreciation and amortization expense was $1,080 million in 2005, a decrease of $257 million compared to 2004. The decrease was mainly attributable to the Novelis Spin-off.

Following the acquisition of Pechiney at the end of 2003, SA&G expenses increased as a percentage of sales and operating revenues. The percentage for 2005 was 6.9% compared to 6.5% in 2004. The increase in large part reflects the changing composition of Alcan s structure and in particular the greater relative weight of the

downstream businesses. In 2005, SA&G expenses were $1,402 million, $213 million lower than in 2004. The decrease in 2005 compared to 2004 was mainly attributable to the Novelis Spin-off.

R&D spending at central research laboratories, technology centres and technical departments was $227 million in 2005, 5% lower than in the previous year. The decrease mainly reflected the impact of the Novelis Spin-off.

Interest

Interest

2006 vs. 2005

Interest expense was $284 million in 2006, compared to $350 million in 2005. The decrease is largely attributable to a lower level of debt outstanding throughout the year as well as a larger amount of capitalized interest, which more than offset the impact of a higher cost of debt.

Alcan s effective average interest rate on debt was 5.8% in 2006 compared to 5.6% in 2005. The increase in the rate in 2006 compared to 2005 mainly reflected higher short-term borrowing rates on commercial paper. The effective average interest rate is derived by dividing the total interest cost (interest expense and capitalized interest) on debt for the year (refer to the Liquidity and Capital Resources section for a calculation of debt) by the average quarter-end debt for the year, including the prior year-end debt balance. To calculate the effective rate for 2005, the prior year-end debt balance as at 31 December 2004 was adjusted on a pro-forma basis for the debt settlement related to the Novelis Spin-off.

2005 vs. 2004

Interest expense was $350 million in 2005, compared to $346 million in 2004. While total debt decreased by about $2.5 billion following the Novelis Spin-off, higher interest rates and a shift in the mix of borrowings toward longer-term debt led to slightly higher interest expense.

Alcan s effective average interest rate on debt was 5.6% in 2005 compared to 3.7% in 2004. The higher rate in 2005 compared to 2004 reflected higher interest rates on floating and short-term debt and a shift in the maturity profile to longer-term debt as the Company issued $800 million of notes in May 2005 in replacement of commercial paper.

Restructuring Charges Net

2006

In 2006, the Company recorded restructuring charges of $179 million. The most significant items included charges of $46 million in connection with the restructuring plan announced in the Packaging business in 2005; charges of $38 million related to the proposed sale of selected assets at the Company s Affimet aluminum recycling plant in Compiègne (France); charges of $23 million in relation to the Midsomer Norton Packaging plant closure in

the UK; charges of $13 million related to the closure of the Engineered Products Workington plant in the UK; charges of $12 million related to the closure of the aluminum smelter in Lannemezan (France); and charges of $12 million related to the reorganization of the Company s global specialty aluminas business, including the closure of the specialty-calcined alumina plant in Jonquière (Quebec, Canada).

2005

In 2005, the Company recorded restructuring charges of $685 million. The most significant items included charges of $485 million in connection with plans to restructure certain Packaging businesses, notably Global Beauty Packaging and Food Packaging Europe, reflecting the continuing drive to reshape the Packaging portfolio, counter increasing competitive pressures in Western countries and improve margins; and charges of $115 million related to the closure of its aluminum smelters in Lannemezan (France) and Steg (Switzerland) due to escalating energy costs.

2004

In 2004, the Company recorded restructuring charges of $87 million. The most significant items included charges of $39 million related to exit costs incurred in connection with certain non-strategic packaging facilities located in the US and France; charges of $19 million related to the consolidation of UK aluminum sheet rolling activities in Rogerstone (UK); charges of $14 million related to the permanent shutdown of Söderberg capacity at a primary aluminum facility in Saguenay (Quebec, Canada); and charges of $7 million related to the closure of two corporate offices in the UK and Germany.

Other Expenses (Income) Net

2006

In 2006, the Company recorded other expenses (net of other income) of $77 million. The most significant items included: asset impairment charges not related to restructuring plans of $40 million related principally to the Gove alumina refinery in Australia and certain Primary Metal and Engineered Products assets in Canada; foreign exchange losses of $31 million; losses of $27 million related to the marking-to-market of derivatives; $13 million of costs related to the sale of receivables program; and environmental provisions of $34 million principally for asset retirement obligation adjustments related to closed sites, partly offset by recoveries of $62 million for the sale of claims related to the Enron bankruptcy and interest revenue of $40 million.

2005

In 2005, the Company recorded other income (net of other expenses) of $4 million. The most significant items included: interest revenue of $73 million of which $33 million related to income tax refunds; gains of $32 million resulting from disposal of businesses and investments; asset impairment charges not related to restructuring plans of $28 million related principally to certain Bauxite and Alumina project costs in Australia and certain Engineered Products assets primarily in Germany and Brazil; losses of $115 million related to the marking-to-market of derivatives; and foreign exchange gains of $56 million.

2004

In 2004, the Company recorded other expenses (net of other income) of $321 million. The most significant items included: asset impairment charges not related to restructuring plans of $70 million principally related to certain rolling assets in Italy; severance and other exit costs of $34 million that were not part of major restructuring plans; losses of $36 million related to the marking-to-market of derivatives, foreign exchange losses of $61 million;

Pechiney integration costs of $38 million; and gains of $35 million resulting from disposal of businesses and investments mainly related to a dilution in the Company s interest in an anode-producing operation in the Netherlands.

Income Taxes

2006

Income tax expense of $665 million for 2006 represented an effective tax rate of 28%. This compares to a composite of the applicable statutory corporate income tax rate in Canada of 33%. In 2006, the difference between

the effective and composite tax rates was due principally to a reduction in the Canadian Federal tax rates, as well as investment and other allowances arising mainly from tax credits on R&D expenditures.

A full reconciliation between the Canadian composite statutory tax rate and the effective tax rate is presented in note 9 Income Taxes to the Financial Statements.

2005

Income tax expense of $257 million for 2005 represented an effective tax rate of 80%. This compares to a composite of the applicable statutory corporate income tax rate in Canada of 32%. In 2005, the difference between the effective and composite tax rates was principally due to goodwill and other impairment charges for which tax benefits could not be recorded, non-deductible foreign currency balance sheet translation losses, as well as a $42 million increase in deferred tax liabilities due to an increase in the Quebec corporate tax rate.

2004

Income tax expense of $375 million for 2004 represented an effective tax rate of 65%. This compares to a composite of the applicable statutory corporate income tax rate in Canada of 32%. In 2004, the difference in the rates was mainly due to goodwill and other impairment charges for which tax benefits could not be recorded and non-deductible foreign currency balance sheet translation losses.

Goodwill

2006 vs. 2005

At the end of 2006, Alcan had $4,599 million of goodwill on its balance sheet, compared to $4,713 million at the end of 2005. The decrease in goodwill in 2006 mainly reflected adjustments associated with a decrease in the valuation allowance related to future income tax assets acquired in the Pechiney acquisition as well as a reduction due to the disposition of various businesses throughout the year, partially offset by foreign exchange adjustments.

2005 vs. 2004

At the end of 2005, Alcan had $4,713 million of goodwill on its balance sheet, compared to $5,496 million at the end of 2004. The decrease in goodwill in 2005 reflected amounts transferred to Novelis, foreign currency translation effects and an impairment charge. As required under US GAAP, goodwill is tested for impairment on at least an annual basis. Following testing in the fourth quarter of 2005, the Company concluded that an impairment charge of $122 million should be taken in order to reflect the increasingly competitive environment in the Global Beauty Packaging business, resulting from weaker local market conditions, increased foreign competition, rising input costs and adverse foreign currency effects. In 2004, the Company s review of goodwill resulted in an impairment charge of $154 million mainly related to European fabricating assets acquired as part of Pechiney. At the time of acquisition, Pechiney s value was based on prevailing exchange rates and metal prices combined with Pechiney s internal planning assumptions. In 2004, the strong appreciation of the euro and aluminum prices, together with a reassessment of plan assumptions, adversely affected the value of several fabricating facilities in the Engineered Products Business Group, mainly in Europe.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash Flow from Operating Activities and Free Cash Flow from Continuing Operations

Free Cash Flow from Continuing Operations Reconciliation with Cash Flow from Operating Activities*

	For the Year Ended		
	2006	2005	2004
	(In millions of US$)		
Cash flow from operating activities in continuing operations	**3,040**	1,535	1,739
Dividends			
Alcan shareholders (including preference)	**(267)**	(224)	(223)
Minority interests	**(2)**	(2)	(13)
Capital expenditures in continuing operations	**(2,081)**	(1,742)	(1,269)
Free Cash Flow from Continuing Operations	**690**	(433)	234

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

2006 vs. 2005

Up to the beginning of 2006, the Company had demonstrated several consecutive years of strong financial discipline and improving working capital management, giving rise to strong cash flows from operating activities in continuing operations. During 2006, sharply higher earnings driven primarily by increased strength in aluminum fundamentals combined with the Company s continued financial discipline to produce a record cash flow from operating activities in continuing operations of $3,040 million. Aluminum prices on the benchmark LME averaged 37% higher than in the prior year. Operating working capital increased by $568 million in 2006 mainly reflecting increases in receivables and inventories of $443 million and $263 million, respectively, partially offset by an increase in payables of $138 million. The higher level of receivables and inventories at the end of 2006 mainly reflected the impact of rising metal prices.

Free cash flow from continuing operations consists of cash from operating activities in continuing operations less capital expenditures and dividends. Management considers this relevant information for investors as it provides a measure of the cash generated internally that is available for investment opportunities and debt service. US GAAP does not prescribe a methodology for computing free cash flow from continuing operations and, accordingly, information may not be comparable to similar measures published by other companies. The most directly comparable financial measure calculated and presented in accordance with US GAAP is cash flow from operating activities in continuing operations, as shown above.

Free cash flow from continuing operations was $690 million in 2006 compared to negative $433 million in 2005. The significant improvement in 2006 was due to much higher earnings driven by increased aluminum prices as outlined above. In August 2006, the Company announced its decision to increase the quarterly dividend from $0.15 to $0.20, an increase of 33%. Capital expenditures are further discussed under Investment Activities .

2005 vs. 2004

In 2005, cash flow from operating activities in continuing operations was $1,535 million, down $204 million from 2004 but a strong performance given 2004 cash flows included contributions of approximately $224 million from the Company s former rolled products businesses spun off as Novelis on 6 January 2005. In 2005, cash flow benefited from higher prices and volumes for aluminum ingot and fabricated products. Operating working capital increased by $388 million in 2005 mainly reflecting an increase in receivables of $331 million. The higher level of receivables at the end of 2005 mainly reflected the impact of rising metal prices, which were up on average 10% from the prior year.

In 2004, cash flow from operating activities in continuing operations was $1,739 million. Operating working capital increased by $199 million in 2004 mainly reflecting an increase in receivables of $437 million, partially offset by an increase in payables of $214 million. The higher level of receivables and operating working capital at the end of 2004 mainly reflected the impact of rising metal prices, which were up on average 21% from the prior year.

Free cash flow from continuing operations was negative $433 million in 2005 compared to positive $234 million in 2004. The deterioration in 2005 compared to 2004 was principally due to increased spending on the Gove expansion in Australia and the impact of the Novelis Spin-off. Capital expenditures are further discussed under Investment Activities .

Financing Activities

Total Borrowings and Equity

* Includes borrowings of operations held for sale

** Includes minority interests and preference shares

*** Definition on page 55

2006 vs. 2005

Cash used for financing activities in continuing operations was $1,111 million in 2006, mainly reflecting debt repayments and the repurchase of Common Shares. The Company s strong cash flows enabled the repayment of approximately half a billion dollars of debt. In October 2006, Alcan announced a share repurchase program of up to 5% of the Company s 376,000,000 total Common Shares outstanding, reflecting the Company s positive cash-flow outlook, disciplined approach to capital allocation and commitment to shareholder value. As at 31 December 2006

the Company had repurchased a total of 9,831,200 Common Shares for a total cost of $466 million, representing some 52% of the total number of Common Shares approved for repurchase.

Effective 16 June 2006 the Company replaced its $3-billion, multi-currency, five-year, committed global credit facility, in place since April 2004, with a new two-tranche multi-currency, committed global credit facility with a syndicate of international banks. This new facility is comprised of a $2-billion, five-year tranche, and a $1-billion, 364-day tranche that may be extended by two years at the Company s option. This facility is available for general corporate purposes and is primarily used to support the commercial paper programs.

On 2 May 2006 the Company repaid its 600 million 5.5% million Euro note maturing on the same day. The repayment was financed through the issuance of commercial paper.

2005 vs. 2004

Cash used for financing activities in continuing operations was $2,647 million in 2005, mainly reflecting the settlement of short-term borrowings following the Novelis Spin-off offset in part by funding requirements for the Gove expansion. Cash used for financing activities in continuing operations was $538 million in 2004, which mainly reflected the repayment of some short-term borrowings.

In addition to its existing $3-billion commercial paper program in Canada, the Company reinstated in 2005 two new commercial paper programs, one in France of 1 billion and another in the US of $2 billion. The Company guarantees the commercial paper issued under the two new programs. Starting April 2005, Alcan Pechiney Finance SA replaced Pechiney as the commercial paper issuer in Europe. In October 2005, a new commercial paper program in the US was also initiated with Alcan Corporation as the issuer; it replaced the program of Alcan Aluminum Corporation, which was cancelled in early 2005 following the Novelis Spin-off. At any point in time, the total combined issuance limit for all three programs cannot exceed $3 billion.

In May 2005, the Company issued $500 million of 5.0% global notes, due in 2015, and $300 million of 5.75% global notes, due in 2035. The net proceeds of these offerings were used to repay outstanding commercial paper debt.

In April 2004, the Company obtained a $3-billion, multi-currency, five-year, committed global credit facility with a syndicate of international banks. The facility was replaced in June 2006. In July 2004, the Company entered into a $500-million, 18-month term loan with a group of international banks. Proceeds from the loan were used to refinance $500-million of callable two-year floating rate notes, issued in December 2003 by a then wholly-owned subsidiary, Alcan Aluminum Corporation. In December 2004, the Company entered into an additional $500-million, short-term loan with a group of international banks that was used to refinance one-year floating rate notes that were also issued by Alcan Aluminum Corporation in 2003. Both term loans were repaid in 2005.

Liquidity

As at 28 February 2007, Alcan has $0.8 billion of commercial paper outstanding. Based on the Company s forecasts, the Company believes that 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 provides any additional liquidity that may be required to meet unforeseen events. Alcan s long-term debt rating remains unchanged at BBB+ / Baa1 with short-term debt rated A2 / P2 by S&P s and Moody s respectively. Credit rating agencies apply their own criteria and may change the ratings at any time.

Debt as a Percentage of Capital

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 on page 56 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 debtholders. The measure is

widely used by the investment community and credit rating agencies to assess the relative amounts of capital put at risk by debtholders and equity investors.

Debt as a percentage of invested capital was 35% at the end of 2006, down from 40% in 2005 and 46% in 2004. The decrease in debt in 2006 compared to 2005 was due to the repayment of $540 million of debt enabled by record cash flows from operating activities. The drop in the debt balance in 2005 compared to 2004 reflected the impact of the Novelis Spin-off.

In line with its objective to maintain a solid investment grade credit rating, Alcan has a target debt to invested capital ratio of 35%. With record cash flows in 2006, the Company was able to achieve its target ratio as at the end of 2006, despite the impact of the share repurchase program and the adoption of a new accounting standard for pension and other post-retirement benefits.

Debt as a Percentage of Invested Capital

	As at 31 December		
	2006	2005	2004
	(In millions of US$)		
Debt			
Short-term borrowings	**467**	348	2,486
Debt maturing within one year	**36**	802	569
Debt not maturing within one year	**5,476**	5,265	6,345
Debt of operations held for sale			5
Total debt	**5,979**	6,415	9,405
Equity			
Minority interests	**71**	67	236
Shareholders equity			
Redeemable non-retractable preference shares	**160**	160	160
Common shareholders equity	**10,934**	9,484	10,566
Total equity (including minority interests)	**11,165**	9,711	10,962
Invested capital	**17,144**	16,126	20,367
Debt as a Percentage of Invested Capital (%)	**35**	40	46

Investment Activities

2006 vs. 2005

In 2006, cash used for investment activities in continuing operations was $1,909 million, mainly reflecting capital expenditures of $2,081 million. Capital expenditures increased year over year due mainly to the expansion of the Gove alumina refinery in Australia. Spending on the Gove expansion was $993 million in 2006 compared to $769 million in 2005.

2005 vs. 2004

In 2005, cash flow from investment activities in continuing operations was $947 million. This reflected the receipt of about $2.6 billion in settlement of amounts due from Novelis, partially offset by $1,742 million of capital expenditures. Capital expenditures increased year over year due to the expansion of the Gove alumina refinery in Australia. In 2004, cash used for investment activities in continuing operations was $1,708 million, which included capital expenditures for expansions at the 40%-owned Alouette aluminum smelter in Quebec and the Gove refinery as well as the purchase of the remaining shares of Pechiney.

Capital Expenditures and Depreciation in Continuing Operations

Capital Expenditures

2006 vs. 2005

Capital expenditures for 2006 were $2,081 million, up $339 million from 2005 mainly reflecting an increase in spending on the Gove expansion. In 2006, the Company spent $993 million on the Gove expansion compared to $769 million in 2005. The total cost of the project is expected to be approximately $2.3 billion, exceeding the original budget as a result of Australian construction market conditions, additional tie-in integration requirements and weather-related costs as well as the strengthening Australian dollar since the project investment decision was made in the fall of 2004. Production start-up of the expansion is expected to commence in the second quarter of 2007.

Excluding capital expenditures on the Gove expansion and other major projects, capital spending was in line with the level of depreciation and amortization expense for the last three years, a reflection of the Company s continuing emphasis on financial discipline. In 2007, Alcan s capital spending excluding equity-accounted Joint Ventures is expected to be approximately $1.9 billion, including about $400 million of spending to complete the Gove expansion and $100 million for the potential Kitimat smelter modernization in Canada. The Company plans to fund these requirements using internally generated cash flow. Excluding major projects, the remaining capital expenditures are expected to be in line with depreciation.

2005 vs. 2004

Capital expenditures for 2005 were $1,742 million, up $473 million from 2004 mainly reflecting a full year of spending on the Gove alumina refinery expansion. In 2005, the Company spent $769 million on the Gove expansion compared to $100 million in 2004. The Alouette expansion was completed in early 2005 at a total cost to Alcan of approximately $400 million of which about half was spent in 2004.

Acquisitions and Divestments of Businesses and Investments

Alcan continues to take important strategic steps to significantly transform its portfolio towards higher growth and higher value-added businesses. Most notable among these steps was the acquisition of the remaining 70% stake in Carbone Savoie (a leading producer of cathode blocks) and certain related technology and equipment in December 2006, and the Novelis Spin-off in January 2005.

Acquisitions/Investments

Cash used for acquisitions was $201 million in 2006 compared to $112 million in 2005 and $466 million in 2004.

On 6 December 2006 Alcan acquired the remaining 70% stake of Carbone Savoie and certain related technology, and equipment from Graftech International Ltd. for $131 million. Aside from securing Alcan s supply of such products for current and future operations, the acquisition is a key component of Alcan s technology platform and will assist in Company efforts to develop potential breakthrough technologies.

During 2006 and 2005, a number of small investments were completed as part of ongoing efforts to optimize the portfolio of businesses in both the Engineered Products and Packaging Business Groups. For further details refer to the Operating Segment Review on pages 59 to 72 and note 19 Sales and Acquisitions of Businesses and Investments to the Financial Statements.

On 24 November 2006 the Company announced that a long-term energy supply contract had been secured with South African utility ESKOM Holdings Limited, in respect of a proposed 720-kt/y smelter to be constructed at Coega (South Africa) at an estimated cost of $2.7 billion. Should this project proceed, Alcan currently plans to retain between 25% and 40% of the equity. The definitive position of the Company on the size of any retained interest, including something substantially greater, will necessarily depend on its final assessment of the various opportunities offered by the project.

During 2006, the Company, together with Oman Oil Company S.A.O.C. and the Abu Dhabi Water and Electricity Authority, commenced construction of a $1.7-billion primary aluminum smelter in Sohar (Oman). Alcan has a 20% stake in the 350 kt/y smelter, which is expected to begin production in the second quarter of 2008.

In March 2004, the Company finalized a Joint Venture agreement with Qingtongxia Aluminium Group Company Limited and Ningxia Electric Power Development and Investment Co. Ltd. Under the agreement, Alcan has invested $110 million, for a 50% participation in a 150-kt/y modern pre-bake smelter located in the Ningxia autonomous region of China.

Divestments

Proceeds from the disposal of businesses, investments and other assets totalled $307 million in 2006 compared to $266 million in 2005 and $35 million in 2004.

During 2006, a number of divestments were completed as part of ongoing efforts to optimize the portfolio of businesses in both the Engineered Products and Packaging Business Groups. The most significant sales included selected assets of the North American Food Packaging plastic bottle business to Ball Corporation for $182 million, the Wheaton Science Products business in the US for $35 million, and the Cebal Aerosol business for proceeds of $16 million. For further details refer to the Operating Segment Review on page 59 and note 19 Sales and Acquisitions of Businesses and Investments to the Financial Statements.

Assets and businesses disposed of in 2005 included the Company s controlling interest in Aluminium de Grèce S.A. and Pechiney Électrométallurgie, a portfolio holding in Impress Metal for $60 million, plate operations in the UK for $51 million and a print finishing business in the UK for $29 million. Proceeds were included in cash flow from investment activities in discontinued operations.

Assets and businesses disposed of in 2004 included the packaging operations of the Boxal Group and Suner Cartons and certain assets of the ores and concentrates trading operations, including the lead and zinc trading business. Proceeds were included in cash flow from investment activities in discontinued operations.

Novelis Spin-Off

On 6 January 2005, Alcan completed the Novelis Spin-off to its shareholders. Novelis consists of substantially all of the aluminum rolled products businesses held by Alcan prior to its 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 agreements giving effect to the Novelis Spin-off provided for the resolution of outstanding matters and various post-transaction adjustments, most of which were carried out by the parties in 2006.

The Spin-off transaction resulted in a net payment to Alcan by Novelis of approximately $2.5 billion shortly following the effective date of the Spin-off to settle the accounts between the two parties. These proceeds were used to reduce two term loans and Alcan s commercial paper balance. As a result of this payment, together with the impact of the transfer of $300 million of other debt to Novelis and the termination of the receivables securitization program, Alcan s debt was reduced by $2.5 billion during 2005. For further details, refer to note 6 Spin-Off of Rolled Products Businesses and note 27 Commitments and Contingencies to the Financial Statements.

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 31 December 2006. There are no material off-balance sheet arrangements.

Contractual Obligations

		Payments Due by Period			
As at 31 December 2006	**Total**	**2007**	**2008-2009**	**2010-2011**	**2012 and Thereafter**
			(In million of US$)		
Long-term debt[1]	**5,512**	36	537	1,270	3,669
Interest payments[1]	**3,768**	306	586	522	2,354
Capital lease obligations[2]	**29**	6	6	2	15
Operating leases[2]	**442**	74	125	86	157
Purchase obligations[2]	**6,252**	1,272	1,050	976	2,954
Unfunded pension plans[3]	**2,455**	64	137	138	2,116
Other post-employment benefits[3]	**2,777**	65	144	158	2,410
Funded pension plans[3][4]	**(4)**	289	590	608	(4)
Guarantees[2]	**279**	16	191	1	71
Total		2,128	3,366	3,761	

(1) Interest payments are calculated using the interest rate in effect, including the impact of interest rate swap agreements on $600 million of fixed rate long-term debt and the outstanding debt balance as at 31 December 2006. All commercial paper borrowings and interest payments thereon have been included in 2011 when the long-term credit facility matures. Refer to note 22 Debt Not Maturing Within One Year to the Financial Statements.

(2) Refer to note 27 Commitments and Contingencies to the Financial Statements.

(3) Refer to note 31 Post-Retirement Benefits to the Financial Statements.

(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 2011 are projected to be in the same range as in prior years and to grow in relation with payroll.

OPERATING SEGMENT REVIEW

Throughout 2006, the Company had four Business Groups or operating segments: Bauxite and Alumina; Primary Metal; Engineered Products; and Packaging. 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, pension actuarial gains and losses and other adjustments, as well as certain OSIs including restructuring costs (relating to major corporate-wide acquisitions or initiatives), impairment and other special charges 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. Where necessary, the Business Group s BGP is restated to reflect the classification of businesses as discontinued operations. A reconciliation of the

Company s BGP to income from continuing operations is presented in note 33 Information by Operating Segments to the Financial Statements.

Financial information for individual Business Groups presented in this section includes the results of equity-accounted Joint Ventures and certain other investments on a proportionately consolidated basis, which reflects the way the Business Groups are managed. However, as required under US GAAP, the BGP of these Joint Ventures and investments is removed under the caption Adjustments for equity-accounted Joint Ventures and certain investments and their net after-tax results are reported as equity income in the consolidated statement of income.

The change in the fair value of derivatives has been removed from individual Business Group results and is shown on a separate line in reconciling to income from continuing operations. The Company believes this presentation provides a more accurate portrayal of underlying Business Group results and is in line with its portfolio approach to risk management.

Following the Novelis Spin-off in January 2005, Alcan continues to operate five rolling mills in four countries. The rolled products facilities retained by Alcan are Neuf-Brisach and Issoire, both in France, Sierre (Switzerland), and Ravenswood (West Virginia, US); all of which are part of the Engineered Products Business Group. The Singen facility in Germany is shared between the Engineered Products and Packaging Business Groups. The Sierre facility in Switzerland is shared between the Engineered Products Business Group and Novelis.

Financial and operating information for businesses transferred to Novelis in January 2005 are included in Alcan s financial statements and MD&A for 2004. For details regarding the 2004 results of entities transferred to Novelis on 6 January 2005, please refer to the 2005 Annual Report on page 55.

Additional operating segment information is presented in note 33 Information by Operating Segments to the Financial Statements. The information that follows is reported by operating segment on a stand-alone basis. Transactions between Business Groups are conducted at arm s length and reflect market prices. Accordingly, earnings from Bauxite and Alumina as well as from Primary Metal operations include profit on alumina or metal produced by the Company, whether sold to third parties or used in the Company s Engineered Products and Packaging operations. Earnings from the downstream operations represent only the value-added portion of the profit from their sales.

Bauxite and Alumina

Business Description: The Bauxite and Alumina (B&A) Business Group is comprised of Alcan s worldwide activities related to bauxite mining and refining into smelter-grade and specialty aluminas, owning, operating or having interests in six bauxite mines and deposits in five countries, five smelter-grade alumina plants in four countries and six specialty alumina plants in three countries and providing engineering and technology services. B&A also purchases bauxite and alumina from third parties. At the end of 2006, the group s smelter-grade alumina production capacity stood at 5.3 Mt/y, while its specialty aluminas production capacity stood at 0.6 Mt/y.

Business Group Target: The Business Group aims to position its production base around low-cost bauxite and alumina assets. The Business Group target is framed by reference to relative position on the industry cost curve. Accordingly, the target is to maintain 75% of production at cost levels better than world average by 2009. This target was set based on the expectation that the Gove refinery in Australia would be converted to natural gas by 2009. By the end of 2006, it had become clear that the natural gas project upon which this target timetable depended had been effectively abandoned by its proponents, making any delivery of natural gas to Gove in the immediate future unlikely. In 2006, none of the Business Group s refining capacity was in the first quartile while 33% of production was at costs that were lower than the world average. In 2005, close to 33% of the Business Group s refining capacity was in the first quartile of the industry cash cost curve, while 36% of the production was at costs that were lower than the world

average.

Recent Business Developments: As part of its reorganization of its global speciality aluminas business, Alcan announced in May 2006 that it would close its specialty-calcined alumina plant in Jonquière, Quebec, and redirect operations towards smelter-grade alumina production while also transferring a portion of the specialty alumina production to its Gardanne facility in France.

In June 2006, Alcan announced the signing of a Memorandum of Understanding with the Republic of Ghana for the creation of a Joint Venture between Alcan (51%) and Ghana (49%) to explore the feasibility of developing a bauxite mine and alumina refinery, with an initial capacity of 1.5 Mt/y to 2 Mt/y.

In September 2006, Alcan announced that the Queensland Department of Natural Resources, Mines and Water had given approval for mining to commence on its Ely bauxite deposit near Weipa, on Queensland s Western Cape York Peninsula. The Ely deposit has a reserve of close to 50 Mt/y be mined over a period of approximately 25 years.

In November 2006, Alcan signed a Memorandum of Understanding with Access Madagascar Sarl, a Malagasy Company holding exploration rights in Madagascar s south eastern Manantenina District, to jointly study the development of a bauxite mine and alumina refinery, which would have an initial capacity of 1.0 Mt/y to 1.5 Mt/y of alumina.

The Alumar expansion project in Brazil, in which the Company holds a 10% interest, is progressing well and had reached a completion level of 40% by year-end. The expansion should increase Alumar s production to 2.1 Mt/y. The Company s throughput is expected to come on stream in the second half of 2009.

The 1.8-Mt/y expansion of the Gove alumina refinery in Australia, which began in late 2004, has continued at a rapid pace with production expected to ramp-up progressively beginning in the second quarter of 2007 and continuing through to the first quarter of 2008. When fully operational in 2008, the expanded facility is expected to have the capacity to produce 3.8 Mt/y of smelter grade alumina and will achieve significant efficiency and environmental performance gains. The total cost estimate of the project has been revised to $2.3 billion to account for tight market conditions in Australia for labour and materials, additional construction requirements, weather-related delays, and a stronger Australian dollar.

On 10 January 2007, a country-wide general strike was initiated in Guinea, consequently disrupting mining operations at Compagnie des Bauxites de Guinée (CBG), in which Alcan holds an interest. The strike brought a stop to bauxite mining, drying, rail transportation and ship loading operations for a period of 18 days in January and for another four days in February. On 16 February 2007, the CBG bauxite mine operations resumed on a limited basis. The political unrest is yet to be resolved as negotiations are under way between union leaders and government officials. The Company currently estimates a negative pre-tax BGP impact of approximately $30 million as a result of the strike.

Financial Results

	For the Year Ended			% Increase (Decrease)	
	2006	2005	2004*	**2006**	2005
Third-party sales and operating revenues (US$M)	**1,844**	1,478	1,487	**25**	(1)
Intersegment sales and operating revenues (US$M)	**2,001**	1,515	1,575	**32**	(4)
Third-party shipments (kt)	**3,602**	3,463	3,838	**4**	(10)
Intersegment shipments (kt)	**6,054**	5,879	4,967	**3**	18
Hydrate production (kt)	**5,477**	5,665	5,630	**(3)**	1
BGP (US$M)	**609**	435	460	**40**	(5)

* Data has been restated to exclude entities transferred to Novelis.

2006 vs. 2005

Revenues: In 2006, Business Group revenues increased 28% compared to 2005 as a result of higher alumina prices, partially offset by lower volumes. Alumina prices, which are largely linked to the LME price for aluminum, benefited from the 37% increase in the average 3-month LME aluminum price year over year. In addition, strong demand for alumina, largely driven by continued strength in the Chinese economy, caused the alumina market during the first half of the year to be extremely tight. Unprecedented Chinese alumina production growth in the second half 2006 alleviated the situation, causing spot prices in the later part of the year to return to more normal levels.

Production: In 2006, three of the Company s five refineries achieved record production levels. The Jonquière plant exceeded its nameplate capacity by 94 kt. Gove production was negatively impacted by a cyclone in April 2006, accelerated maintenance on precipitators in the first half of 2006, and commissioning activities related to the expansion in the second half of 2006. Total production was lower by 188 kt/y year over year. In 2006, record bauxite production levels were established at Mineração Rio do Norte S.A. (MRN) in Brazil and in Ghana.

BGP: The Business Group s record level BGP of $609 million reflected higher LME-linked contract prices for alumina, partially offset by higher input and operating costs, the impact of unfavourable currency movements particularly in relation to the Australian dollar. Average production costs were 20% higher over the prior year due to unfavourable volume effects, largely non-recurring additional maintenance and labour costs at Gove and the commissioning of some components of the Gove expansion. Average alumina production costs were also impacted to some degree by higher energy and caustic soda costs. The Business Group s higher energy costs reflected its relative dependence on crude oil, the price of which increased around 20% year over year.

In 2006, six refineries produced specialty aluminas for a wide range of applications, including solid surface products, refractory bricks, ceramics, catalysts, absorbents and public water treatment. In 2006, BGP for B&A from the specialty alumina business was $27 million, an increase of 13% year over year, despite recognizing $3 million of closure costs related to the Jonquière plant in Quebec.

2005 vs. 2004

Revenues: In 2005, revenues were approximately the same compared to 2004 as higher alumina prices were offset by lower volumes and an unfavourable mix resulting from lower spot sales in 2005. Alumina prices benefited from the 10% increase in the average 3-month LME aluminum price year over year. In addition, strong demand for alumina, largely driven by the strength of the Chinese economy, caused the alumina supply to be extremely tight, which kept prices on the spot market at very high levels.

Production: In 2005, total production exceeded the prior year s level by 35 kt. Gove s operations were affected by a cyclone in March 2005, which resulted in some loss of production. In 2005, the Business Group s bauxite production also established a record. In 2005, Alcan s average production cost per tonne of alumina was up 18% over the prior year mainly due to higher energy, caustic soda and maritime freight costs as well as the impact of the weakening US dollar. While this was an industry-wide phenomenon, Alcan s increase was somewhat higher than the industry average of 17% due to its greater reliance on oil in the production process. The Business Group s cost reduction efforts and the implementation of best practices across the Business Group helped to mitigate some of the increase.

BGP: In 2005, BGP was $435 million, 5% lower compared to 2004. The decline reflected a significant increase in energy prices, principally oil, higher maritime freight costs on bauxite shipments, higher caustic soda costs, the impact of a weaker US dollar, a decrease in alumina shipments, as well as an OSI charge of $13 million related to the closure of Sogerem, a fluorspar operation in France. In 2005, the price of crude oil increased by approximately 40% year over year, while caustic soda prices more than doubled. The pressure on operating costs was partly offset by higher selling prices for alumina and alumina hydrate as well as by Pechiney-related synergies and continuous improvement efforts. In 2005, BGP for B&A included $24 million from specialty aluminas as compared to $2 million in the prior year. The improvement was mainly attributable to an improved product mix and pricing strategy.

Primary Metal

Business description: Alcan is recognized as the world s leading supplier of smelting technology and one of the two largest primary aluminum producers in the world. The Primary Metal Business Group comprises smelting operations, power generation, production of primary value-added ingot, manufacturing of smelter anodes, smelter cathode blocks

and aluminum fluoride, smelter technology and equipment sales, engineering services and trading operations for aluminum, operating or having interests in 22 smelters in 11 countries (including the Sohar smelter currently under construction in Oman), 12 power facilities in four countries and 12 technology and equipment sales centres and engineering operations in 10 countries. The Business Group operates at a current capacity of 3.5 Mt/y. In addition to LME grade ingot, the Primary Metal Group produces value-added aluminum in the form of sheet ingot,

extrusion, billet, rod and foundry ingot for other Alcan plants and third-party customers serving the transportation, building and construction, consumer goods and industrial products sectors. Alcan s competitive strength in smelting is underpinned by its excellent position in energy, a key input in the production of aluminum. Approximately 50% of the Business Group s energy requirements for smelting are met by self-generated, environmentally sustainable power, compared with an industry average of about 28%. A further 45% of Alcan s power requirements are secured under competitive long-term contracts. With a focus on cost reduction, productivity improvement, operational excellence and technology development, Alcan continuously seeks to reinforce its low-cost primary metal position.

Business Group Target: Consistent with Alcan s strategy of leveraging the Company s technology and power positions to minimize cash operating costs, the Primary Metal Business Group targets are framed by reference to relative position on the industry cost curve. Accordingly, the target is to maintain at least 80% of smelter production at cost levels better than world average by 2009. In 2006, 51% of the Business Group s smelter capacity was in the first quartile while 87% of production was at costs that were lower than the world average. In 2005, close to 50% of the Business Group s smelter capacity was in the first quartile of the industry cash cost curve, while 90% of the production was at costs that were lower than the world average.

Recent Business Developments: In January 2006, Alcan announced that it would begin the closure process of the 44-kt/y Steg smelter as well as the cessation of anode production in Sierre, both located in Switzerland. The closures were completed by the end of April 2006. The Business Group s BGP for 2005 included $11 million of this amount.

As announced in October 2005, the Company commenced in June 2006 the definitive and progressive closure process of the 50-kt/y Lannemezan smelter in France. The closure is expected to be completed at the latest during the course of 2008, depending on economic and operational conditions.

In May 2006, the Company secured 40% of the energy required for a potential 280-kt/y expansion of its ISAL smelter in Straumsvik (Iceland). In an agreement signed with Reykjavik Energy, Alcan would purchase 200 MW of geothermal power beginning in 2010 for a period of 25 years.

In June 2006, the Company announced that its Quebec employees represented by the Canadian Auto Workers union had ratified a new collective labour agreement. The agreement covers an initial five-year period with an additional four-year term available.

In July 2006, Alcan announced that it had begun consultations with union and employee representatives for a proposed sale of selected assets at the Company s Affimet aluminum recycling plant in Compiègne (France). Related closure costs as well as environmental provisions totalling $38 million were recorded. The divestiture is expected to be completed in the first quarter of 2007.

In July 2006, the Company decided to cease the aluminum metal trading activities carried out by Alcan Trading Ltd. in Zurich (ATL). The third-party metal trading business was exited and the metal sales and purchase activities of ATL reverted back to the relevant Business Groups.

In August 2006, the Company announced its intention to modernize its Kitimat smelter in British Columbia (Canada), through an approximate $1.8-billion investment subject to final Board approval and to the conditions of obtaining a new labour agreement, environmental permits and regulatory approval of a new power sales agreement. On 22 January 2007, Alcan filed leave to appeal the British Columbia Utilities Commission s 29 December 2006 decision to reject the amended and restated Long-Term Energy Purchase Agreement between Alcan and BC Hydro.

In September 2006, the Company announced that it will build a $180-million aluminum spent pot lining recycling plant in Quebec s Saguenay Lac-Saint-Jean region. The plant is expected to begin pot lining treatment operations in

the second quarter of 2008.

In October 2006, the Company announced that its Pechiney Nederland NV subsidiary will conduct a strategic review of alternatives, including the potential sale of the aluminum smelter in Vlissingen (Netherlands), in which it holds an 85% interest.

In November 2006, the Company announced that it had secured a long-term supply agreement with South African energy firm, ESKOM Holdings Limited, for the purchase of up to 1,340 MW of electricity for its proposed 720-kt/y greenfield Coega aluminum smelter project, which will have a total estimated cost of $2.7 billion. The agreement provides for a 25-year supply, set to begin in 2010. Alcan s current intention is to retain between 25% and 40% of the equity of the project and seek partners for the balance. Project financing is expected to account for approximately 60% of the total investment required.

In December 2006, the Company announced that it had completed the acquisition of the remaining 70% stake of Carbone Savoie that it did not already own, and certain related technology and equipment, from GrafTech International Ltd for $131 million.

In December 2006, the Company announced plans to build a $550-million pilot plant at its Complexe Jonquière site in Canada to develop the Company s proprietary AP50 smelting technology. The pilot plant, which is expected to produce 60 kt/y of aluminum annually, is the first step in a planned $1.8-billion investment program in Quebec s Saguenay Lac-Saint-Jean region, which is expected to ultimately lead to a total of 450 kt/y of new, sustainable capacity. The announcement also included the reinforcement of Alcan s power position in Quebec through the long-term extension of hydraulic leases and new power contracts which, taken together with Alcan s proprietary system, provide a secure supply of approximately 2,600 MW of low cost power through to 2045.

In December 2006, the Company announced the launch of a R&D initiative centered at its centre in Voreppe (France), and focused on the AP series aluminum smelting technology.

In December 2006, a new long-term collective labour agreement was signed with the United Steelworkers union representing the Alma primary aluminum smelter in Quebec. The new contract covers an initial five-year term.

The construction of the $1.7-billion, 350-kt/y primary aluminum smelter in Sohar, Oman, which was announced in December 2005, and in which Alcan has a 20% stake, is progressing well and is on schedule and on budget. First smelter production is expected in the second quarter of 2008. The smelter is expected to be in the lowest quartile of the industry cash cost curve and add approximately 2% to Alcan s global smelting base. Alcan will have the right to acquire up to 60% of a planned second potline of similar capacity.

Financial Results

	For the Year Ended			% Increase (Decrease)	
	2006	2005	2004*	**2006**	2005
Third-party sales and operating revenues (US$M)	**8,661**	6,877	4,586	**26**	50
Intersegment sales and operating revenues (US$M)	**2,486**	1,898	3,741	**31**	(49)
Aluminum production (kt)	**3,406**	3,420	3,273		4
Third-party shipments (kt)	**4,333**	4,339	6,296		(31)
BGP (US$M)	**2,962**	1,751	1,462	**69**	20
Average realized price (US$/t)	**2,618**	2,036	1,876	**29**	9

* Data has been restated to exclude entities transferred to Novelis

2006 vs. 2005

Revenues: In 2006, total sales and operating revenues reached an all time record of $11.1 billion, reflecting increased ingot realizations of 29% due to higher LME prices, product mix and premia, partially offset by lower market premia. Results included increased revenues from higher power generation and improved technology and smelting equipment sales at Electrification Charpente Levage (ECL) in France. The Business Group achieved new record sales of value-added products for sheet ingot, extrusion billet, small form foundry and rod, as well as for remelt ingot.

Production: Primary aluminum production at 3,406 kt/y decreased by 14 kt/y compared to the prior year, due to the April closure of the Steg smelter in Switzerland, a lower operating rate from the smelter in the

Netherlands, as well as decreased production from the ISAL smelter in Iceland due to a transformer failure in June 2006. This was partially offset by higher production from the 40%-owned Alouette and 25%-owned Aluminerie Bécancour (ABI) smelters in Quebec (Canada), as well as improved operating efficiencies across the Business Group. In 2006, 11 smelters out of 21 set new annual production records. In addition, the Company s power facilities in Quebec (Canada) achieved a new production record of 2,257 MW; the previous record was set in 2004 at 2,213 MW. Average metal closing inventories decreased by 45 kt/y, or 24%, as compared to the prior year.

BGP: BGP, at $2,962 million in 2006, was a record for the Business Group and represented a 69% increase over the previous year. The improvement reflected higher realized selling prices for ingot, improved product mix and premia, favourable power generation positions in the UK and Quebec (Canada), and higher technology and ECL equipment sales, as well as favourable balance sheet translation effects. These favourable factors were partially offset by increased alumina, purchased energy and fuel-related raw materials costs, the adverse effect of the weaker US dollar on operating costs, lower volumes and higher metal operating costs. The latter included an unfavourable adjustment of $30 million related to the re-evaluation of asset retirement obligations. Metal shipments decreased reflecting the closure of the Steg smelter in April 2006, a lower operating rate in the Vlissingen smelter in the Netherlands, and decreased production at the ISAL smelter in Iceland due to a power failure. The results included OSI charges of $24 million, mainly related to the restructuring of the Affimet aluminum recycling plant in Compiègne, France.

2005 vs. 2004

Revenues: In 2005, Business Group revenues reached $8.8 billion, an increase of 5% over the prior year; reflecting increased LME prices and improved product premiums and mix. The significant year-over-year increase in third-party ingot product shipments principally reflected third-party sales of ingot to Novelis that were previously classified as intercompany sales.

Production: In 2005, Alcan s production of primary aluminum increased by 147 kt/y compared to 2004, reflecting the full-year benefit of the June 2004 acquisition of a 50% interest in a smelter in China, output from the completed expansion of the Alouette smelter and the restart in December 2004 of the idled production resulting from a strike at the ABI smelter in Quebec. Also contributing to the increase were benefits from production improvements at smelters in the UK, Australia and Canada. At the time, a number of records were set by the Company; half of the Business Group s smelters set new annual production records in 2005; record sales levels were achieved globally for both remelt ingot and value-added products; the Business Group successfully reduced inventories to record low levels in all regions, and record power generation was achieved by the Company s hydroelectric facilities in Kitimat (British Columbia, Canada).

BGP: BGP, at $1,751 million in 2005, was a record for the Business Group at the time and represented a 20% increase over the previous year. The improvement reflected higher realized selling prices for ingot, improved product mix, benefits from synergies, increased metal shipments and power sales, as well as favourable balance sheet translation effects. The increased metal shipments reflected the completion of the Alouette expansion, the restart of idled capacity in the ABI smelter and a full year of production at the smelter in China. These favourable factors were partially offset by the impact of the weaker US dollar on operating costs, increased alumina, purchased energy and fuel-related raw materials costs, as well as OSI charges of $15 million mainly for the closure of the Steg smelter. In 2005, Pechiney synergies benefits surpassed targets mainly reflecting increased procurement savings.

Engineered Products

Business description: The Engineered Products (EP) Business Group is an inter-connected network of businesses that provide innovative, high value-added product solutions for a wide range of applications in aerospace, automotive, mass transportation, marine, electrical, beverage container, display and architectural and building markets. Organized

into eight business units, the EP Business Group is focused on maximizing value and improving its BGP margin through the use of continuous improvement tools to achieve operational excellence and the active management of its product offering and portfolio. The group manufactures a wide range of engineered and fabricated aluminum products including rolled, extruded and cast aluminum products, engineered shaped products and structures, including cable, wire, rod, as well as composite materials such as aluminum-plastic,

fibre reinforced plastic and foam-plastic. The group operates 55 facilities in 12 countries, two R&D centres, a global sales organization with offices in 27 countries and regions, and network service centres in 11 European countries specializing in value-added services and distribution support.

Business Group Target: EP s current target is to achieve a BGP margin from operations of 10% by 2009. In 2006, the Business Group made further progress toward its BGP margin target, reaching a BGP margin from operations of 8.0% up from 7.5% in the prior year. Although EP s Business Group target is set by reference to BGP margin, the underlying aim is to improve return on capital employed (ROCE). EP s ROCE was 11.9% in 2006 compared to 7.8% in 2005. ROCE does not have a uniform definition. At Alcan, ROCE is calculated by dividing operating earnings by average capital employed. Operating earnings is equal to income from continuing operations, excluding OSIs and foreign currency balance sheet translation effects, and before minority interests and after-tax interest expense. Capital employed is equal to the sum of borrowings, deferred income taxes, minority interests and shareholders equity.

The year-over-year improvement in BGP margin was especially noteworthy in light of the higher level of prices for aluminum and other key inputs that prevailed during 2006. The 10% margin target was set in the second half of 2005 based on the forward prices for aluminum at that time. As EP s fabricating businesses pass through the higher cost of inputs, especially aluminum, resulting in higher revenues, the achievement of the margin target is expected to become increasingly challenging.

Financial Results

	For the Year Ended			% Increase (Decrease)	
	2006	2005	2004*	**2006**	2005
Third-party sales and operating revenues (US$M)	**7,146**	6,015	5,525	**19**	9
Intersegment sales and operating revenues (US$M)	**194**	202	725	**(4)**	NM
BGP (US$M)	**567**	403	379	**41**	6
BGP margin(%)**	**7.7**	6.4	6.1	**20**	5
BGP margin from operations(%)***	**8.0**	7.5	6.1	**7**	23

* Data has been restated to exclude entities transferred to Novelis

** BGP as a percentage of total third-party and intercompany sales and operating revenues

*** BGP margin excluding OSIs and foreign currency balance sheet translation

NM Not meaningful

2006 vs. 2005

Revenues: In 2006, third-party sales and operating revenues were $7.1 billion, up $1.1 billion from the prior year. Approximately two-thirds of the increase reflected the impact of passing through higher prices for aluminum in selling prices. The balance of the increase reflected a combination of volume and margin growth, of which the cable and composites businesses were the most significant contributors. The exit of certain non-core businesses during 2006 resulted in a year-over-year reduction in sales of approximately $50 million.

BGP: BGP reached a record high $567 million in 2006, up $164 million, or 41%, over the prior year. Included in BGP for 2006 were OSI charges of $8 million, principally for restructuring and other provisions, and foreign currency balance translation losses totalling $12 million, compared to $61 million and nil, respectively, in 2005. Excluding OSIs and translation effects, BGP improved $123 million, or 27%, reflecting solid operating performances across all businesses, robust conditions in key end-markets in Europe and North America and the positive impact of metal inventory timing effects. These more than offset the higher cost of inputs, such as for resins and energy. Inventory timing effects occur during periods of rapid and sharp changes in LME aluminum prices, as was seen when prices rose in the latter stages of 2005 and early 2006. In such an environment, selling prices tend to respond more quickly to aluminum price increases than does the underlying cost of metal reflected in inventory and cost of goods sold, which is accounted for using moving average methodology. Even though commercial margins may be unaffected, accounting margins improve. The opposite effect occurs in a period of sharply declining prices.

2005 vs. 2004

Revenues: In 2005, third-party sales and operating revenues were $6 billion, up $490 million from the prior year, due to strong growth in the aerospace business and increased demand for specialty sheet, cable and composites products, which more than offset the sales lost due to exits from less profitable product lines and businesses.

BGP: BGP was $403 million in 2005, up $24 million, or 6%, over the prior year. Included in BGP were OSI charges of $61 million, principally related to restructuring provisions for the Sierre (Switzerland) and Singen (Germany) facilities as well as costs associated with the closures of the cast plate business in Vernon (California, US) and the downsizing of the mass transportation systems business, compared to $4 million in 2004. Excluding OSIs, BGP improved by $81 million, or 21%, mainly due to strong growth in aerospace volumes, a shift in sales mix towards higher value-added products and synergies realized from the Pechiney acquisition, which more than offset the increases in energy, raw material, and freight costs.

Engineered Products Group Revenues by Business Unit

	2006	2005
*Aerospace Transportation & Industry (ATI)**	***22%***	*23%*
Composites	***10%***	*10%*
Cable	***11%***	*10%*
Extruded Products	***13%***	*12%*
Engineered and Automotive Solutions (EAS)	***4%***	*3%*
Alcan Service Centres (ASC)	***7%***	*7%*
Alcan International Network (AIN)	***11%***	*14%*
Specialty Sheet	***21%***	*19%*
Ventures	***1%***	*2%*
Total	***100%***	*100%*

* Includes Alcan Rolled Products Ravenswood (West Virginia, US)

Engineered Products Business Units

The **Aerospace, Transportation and Industry (ATI)** business unit supplies high value-added plate, sheet, extruded and precision cast products for customers in the aerospace, marine, automotive and road transportation markets and engineering industry. It offers a comprehensive range of products and services, including technical assistance, design and delivery of cast, rolled, extruded, rolled pre-cut or shaped parts, and the recycling of customers machining scrap metal. ATI is also a key supplier of new alloy solutions, such as aluminum-lithium. Comprising eight facilities in four countries, the unit is the No. 1 aluminum supplier to the aerospace industry in Europe and the second largest worldwide, as well as Europe s leading supplier of large profile extrusions for the transportation market. During 2006, the Company reinforced its leading position in the growing market for aerospace plate products by increasing capacity in Europe and North America by 20%. In June, additional capacity came on stream following a $28-million investment at the Issoire facility in France, while the $29-million expansion of the Ravenswood (West Virginia, US) facility was near completion at year end. Plate capacity for industrial applications was also expanded at the Sierre facility in Switzerland. In July 2006, the Company announced that the Workington (UK) stringers and bars extrusion

facility would cease operations by mid-2007, and production would be consolidated in other facilities. Demand and pricing for aerospace products was strong throughout 2006, which led ATI third-party sales and operating revenues to a record high of $1.6 billion, a year-over-year increase of 11%. Despite announcements by Airbus of delays in its A380 program, ATI was little affected due to continued supply to other Airbus programs (A320, A330) and the development of new business with other aerospace manufacturers. During the year, multi-year supply agreements were signed with Boeing, Bombardier Aerospace and with Transtar Metals, a supplier to the F-35 Joint Strike Fighter program. Alcan believes that the aerospace market will be a significant source of future profits, and that the Company is well positioned as a supplier of advanced lightweight aerospace products due to its global reach, proprietary alloys and unique

equipment capabilities. For purposes of this discussion, ATI includes Alcan Rolled Products Ravenswood (West Virginia, US).

The **Composites** business unit, which operates 13 facilities in eight countries in Europe, the Americas and Asia, manufactures and sells lightweight multi-material composites that are made using a combination of technologies and materials, such as aluminum, plastic, foam board, paper and balsa wood. Principal applications for composites produced by the unit include building facades, transportation, displays for visual communication, signage and wind power installations, for which composites have a number of advantages over more traditional materials because of their low weight-to-rigidity ratio, ease of application, design and surface variety. Total third-party sales and operating revenues in 2006 were $707 million, up 16% over the prior year driven by healthy demand and pricing across all segments. Demand for display products showed good year-over-year growth in Europe and North America, while structural core materials benefited from the continuing growth of the wind power market. Demand for architectural products increased substantially in the Middle East and Asia/Pacific regions. During 2006, the composites business was largely successful in passing through the higher cost of key raw materials, such as aluminum and resins. In April 2006, a paint-line was acquired in Changzhou, China, which will allow the architecture business to better participate in the rapidly growing Chinese building and construction market. In December 2006, the acquisition of a US-based structural urethane manufacturer, Penske Composites, was completed, further strengthening the portfolio of products offered by the core materials business.

The **Cable** business unit, which operates six plants in North America, is a fully integrated manufacturer of aluminum wire and cable, modular wiring systems, and rod and strip products for a variety of electrical and mechanical applications. Demand and pricing continued to be strong in 2006 and the business achieved record third-party sales and operating revenues of $806 million driven by sharply rising raw material costs that were recovered through price increases, compared to $618 million in 2005. The business also benefited from the high spread between copper and aluminum prices that prevailed during the year, which spurred increased demand for aluminum building wire in North America. In September 2006, the business launched its Modex™ brand of modular wiring systems for the commercial construction market. Building on its acquisition of Prewired Systems in 2005, the business now offers a wide range of pre-fabricated wiring solutions.

The **Extruded Products** business unit, which operates nine plants in four European countries, is a leading producer of hard and soft alloy extrusions, including technically advanced products, for the automotive, electrical and building industries, as well as for manufacturers of mass transport vehicles and shipbuilders. In 2006, third-party sales and operating revenues reached $946 million, up 28% over 2005 mainly due to the impact of higher aluminum prices. Demand for extruded products was strong across all markets during 2006, but most notably for commercial transportation and construction applications. However, robust end-use demand led to tight supply and increasing premiums for extrusion billet, the feeder stock for the business, and product pricing could not fully recoup increases in aluminum prices, billet premiums and other input costs. During the year, a restructuring of the Sierre (Switzerland) and Singen (Germany) extrusion facilities was completed. In July 2006, construction started on a $35-million extrusion plant in Slovakia that will produce soft alloy products for the growing East European market.

In order to provide a stronger platform for profitable growth in the automotive and transportation sectors, in September 2006, EP reorganized certain of its transportation-related activities into a new business unit named **Engineered and Automotive Solutions (EAS)**. This new business provides a wide array of sophisticated components and shapes for aluminum crash management systems, cockpit carriers, suspension parts, and other structural components. Using aluminum extrusions, forgings, castings and reinforced components, EAS leverages its superior engineering capabilities to provide innovative and cost effective solutions to customers in North America and Europe. The unit operates directly or with partners seven plants in six countries. Revenues in 2006 were $283 million, up 29% from pro forma 2005 revenues mainly due to higher LME aluminum prices and volumes.

Alcan Service Centres (ASC) business unit is a specialist distribution and value-added service network comprising 33 service centres in 11 countries. The unit provides customers in the aerospace, building and facade, road transport and shipbuilding industries with wide range of products, as well as light fabrication tailored to their requirements. In 2006, ASC had third-party sales and operating revenues of $512 million, up 24% over 2005. The

increase reflected the pass through of higher costs for purchased materials, the generally stronger economic environment and a shift by the business towards value-added machining services. Demand was strong for aerospace plate, as well as for products used in industrial, transportation and building applications.

Alcan International Network (AIN) business unit, with 32 offices in 27 countries and regions, is engaged in selling and sourcing specialty products and materials for both Alcan and third-party customers. AIN s product portfolio includes primary aluminum for the aluminum and steel industries, semi-fabricated products for the construction, transportation, general engineering, packaging and other industrial sectors, minerals for the glass, ceramics and refractories industries, and specialty chemicals for industrial and healthcare applications. In 2006, AIN had third-party operating revenues of $814 million, 5% lower than in 2005. While sales were lower, results improved substantially due to the strong performance of the chemicals business and healthy demand for metal products in Japan, China and Europe.

The **Specialty Sheet** business unit manufactures coils and sheet for customers in the beverage and closures, automotive, customized industrial sheet, and high-quality bright surface products markets. It includes world-class rolling and recycling operations, as well as dedicated R&D capabilities. The business, which comprises the Neuf Brisach rolling mill in France and the Singen rolling mill in Germany, had third-party sales and operating revenues of $1.5 billion in 2006, up 33% from the prior year. While the increase largely reflected the impact of higher LME aluminum prices and the strengthening euro, the business was also successful in achieving volume, mix and margin improvements. Demand for sheet products in Europe grew at a somewhat faster pace than the general economy, driven by good growth in the beverage can and building sectors. During 2006, the Company announced several capital projects for the Neuf Brisach facility including a $10-million upgrade of annealing and quenching equipment for automotive applications, a $15-million expansion of finishing capacity for beverage can sheet and a $7-million investment to increase used beverage cans (UBC) recycling capabilities. In October 2006, a multi-year agreement was signed with Valeo (France), a leading auto parts manufacturer, for the supply of sheet for automotive heat exchangers.

Business exits

As part of its continuing focus on portfolio enhancement, EP exited a number of businesses in 2006 that offered limited value creation potential for the Business Group. Towards year-end, the **Ventures** business unit was disbanded following a reorganization of certain business activities. This unit had comprised operations that were under review by Business Group management in order to assess their strategic fit within the broader EP portfolio. These were typically smaller operations, which produced aluminum products for electronics and other industrial applications. The Ventures unit had third-party sales and operating revenues of $55 million in 2006. The portfolio review under way for the last two years is now largely completed and has led to the exit of the following activities:

General distribution (France)

Air freight containers (Germany)

Automotive castings (Germany)

Roll-bond (France)

High-purity smelting & rolling (France)

Mass transport systems (Switzerland)

Cast plate (US)

Packaging

Business description: The Packaging Business Group consists of Alcan s worldwide food, pharmaceutical and medical, beauty and personal care, and tobacco packaging businesses operating 130 plants in 30 countries and regions. This Business Group produces packaging from a number of different materials, including plastics, aluminum, paper, paperboard and glass.

Business Group Target: The Packaging Business Group s current target is to achieve a BGP margin from operations of 15% by 2009. The operating BGP margin achieved for the year 2006 was 10%, down slightly from the level achieved in 2005 in an environment where competitors experienced margin erosion due to strong input cost pressures. Although Packaging s Business Group target is set by reference to BGP margin, the underlying aim is to improve return on capital employed (ROCE). Portfolio restructuring, disciplined capital management and improved working capital performance helped ROCE increase from 3.9% in 2005 to 4.8% in 2006. It should be noted that these ROCE figures include the effect of purchase price accounting allocations made upon completion of the Pechiney acquisition.

Recent Business Developments: During 2006, the Packaging Business Group continued to optimize the business. As well as the divestiture of five businesses that did not fit within the Business Group s strategic plans (representing $325 million in cumulative sales across 13 sites), ongoing scrutiny was applied to certain other businesses, including Global Beauty Packaging and Food Packaging Europe, while focus continued to be applied to extending the Business Group s presence in growing segments and geographies. The result is a better balanced footprint with 37 sites in emerging countries totalling 18% of sales and a manufacturing system comprised of fewer, larger, more specialized plants, better able to serve existing and future customers and intended to move the Business Group toward its targets. Implementation of this strategy in 2006 resulted in restructuring charges totalling $72 million, of which $39 million were reflected in the Business Group s BGP.

For the Packaging Business Group the 2006 year was characterized by high raw material and energy prices as well as a weak European market. Within this context, the Business Group was successful in maintaining margins as volume grew due to an uncompromising pass through policy and significant cost reductions were achieved, in excess of inflation, through manufacturing and fixed cost reductions as well as procurement efficiencies. Capital spending was focused mainly on growth projects in order to extend the Business Group s geographic footprint into emerging markets and gain market share in attractive segments.

Financial Results

	For the Year Ended			% Increase (Decrease)	
	2006	2005	2004	**2006**	2005
Third-party sales and operating revenues (US$M)	**5,960**	6,004	6,024	**(1)**	
Intersegment sales and operating revenues (US$M)	**4**	5	69	**NM**	NM
BGP (US$M)	**550**	595	653	**(8)**	(9)
BGP margin (%)*	**9.2**	9.9	10.7	**(7)**	(7)
BGP margin from operations (%)**	**10.0**	10.4	10.9	**(4)**	(5)

* BGP as a percentage of total third-party and intercompany sales and operating revenues

** BGP margin excluding OSIs and foreign currency balance sheet translation

NM Not meaningful

2006 vs. 2005

Revenues: Third-party sales and operating revenues for 2006 were $6 billion, marginally below the previous year. Benefits from volume growth, price increases and the favourable impact of currency movements were offset by the

loss of sales due to the divestment of several non-core businesses. A year-on-year comparison of the businesses retained within the Business Group shows sales revenue growth of 4.7%, of which 1.4% was attributable to currency translation gains. Notable success in sales growth was achieved in the Food and Tobacco businesses.

BGP: Strong progress in volume growth and cost reduction in 2006 did not fully offset the negative impact of higher input costs, in particular from aluminum and energy, loss of contribution from divested businesses and higher restructuring costs. As a consequence BGP at $550 million was 8% lower than the prior year.

Excluding OSIs, foreign currency balance sheet translation impacts and lost contribution from divested businesses, operating BGP increased $7 million year on year. Significant progress in lowering costs was achieved as a result of the ongoing rationalization of the Business Group s manufacturing base, continuous improvement

projects and procurement savings which more than offset the adverse year-on-year impacts of timing differences in passing through input cost and inflationary increases. The impact of input cost increases were contained through disciplined pass-through actions, even sometimes at the expense of volumes.

Included in BGP for 2006 were OSI charges of $39 million principally related to restructuring provisions for the Midsomer Norton Packaging plant closure in the UK, compared to $29 million a year ago and foreign currency balance sheet translation losses of $8 million, compared to a gain of $1 million in 2005. The year-on-year impact of lost contribution from the disposal of several non-core businesses during 2006 was $33 million.

Operating margins, which exclude OSIs and balance sheet translation impacts, declined marginally from 10.4% to 10.0%, reflecting the dilution effect of higher revenues as input cost increases were passed through.

2005 vs. 2004

Revenues: Third-party sales and operating revenues for 2005 were $6.0 billion, slightly below the previous year. Benefits from price increases were more than offset by the combined effects of lower volumes due to softening European demand and the successful divestment of several non-core businesses.

BGP: Two major phenomena impacted the packaging business in 2005; rising raw material costs and a slowing of economic conditions in Europe. The rise in costs for resins and films that started in mid-2004 in the wake of spiralling world oil prices temporarily peaked in mid-2005. By the end of the third quarter of 2005, the Business Group had successfully passed on close to 100% of the rise in costs through increases in product prices. However, the severe 2005 hurricane season in the southern US resulted in renewed upward pressure on costs towards year-end. Due to normal time lags in adjusting product prices, as of year-end, the Business Group had not been able to fully pass through all cost increases.

Weak European demand persisted throughout the year across all businesses, but most notably in Food Packaging where industry overcapacity and raw material price pressure resulted in intense competition for volume. Increasingly, business is moving to online internet-based auctions, which is further exacerbating price pressure. Customer and competitor growth strategies are now focusing increasingly on investment in lower-cost geographic areas.

Despite significant success in countering cost pressures, BGP for 2005 was $595 million, approximately 9% lower than in the prior year. The main factors behind the decline were the continuing raw material margin squeeze, restructuring costs and structural issues in Global Beauty Packaging. Included in BGP for 2005 were OSI charges of $29 million mainly related to plans to restructure certain Packaging businesses, notably Global Beauty Packaging and Food Packaging Europe, compared to $3 million in 2004.

Packaging Revenues by Market

	2006	2005	2004
Food	***64%***	*63%*	*61%*
Pharmaceutical	***16%***	*16%*	*13%*
Beauty	***12%***	*14%*	*18%*
Tobacco	***8%***	*7%*	*8%*
Total	***100%***	*100%*	*100%*

Packaging Revenues by Region

	2006	2005	2004
Europe	***53%***	*49%*	*57%*
North America	***34%***	*38%*	*37%*
South America	***8%***	*6%*	*2%*
Asia/Pacific/Africa	***5%***	*7%*	*4%*
Total	***100%***	*100%*	*100%*

Packaging Business Sectors

The packaging Business Group comprises six business sectors: Food Packaging Europe, Food Packaging Americas, Food Packaging Asia, Global Beauty and Personal Care, Global Pharmaceutical and Medical, and Global Tobacco Packaging.

The Food Packaging Europe sector had third-party sales and operating revenues of $2.0 billion in 2006 unchanged from the prior year. Demand continued to be weak during the year due in part to changing snack/confectionery habits and the continued move to private label packaging in dairy products. Price increases implemented in order to recover higher material costs, particularly in respect of aluminum and energy, further contributed to volume weakness. Significant restructuring, including plant closures, continued through 2006, aimed at addressing these issues and returning the business to profitable growth. Growth initiatives were focused on emerging markets and expansion of the plant acquired in 2005 in Zlotow (Poland). In early July 2006, a new site for the production of screw wine caps was inaugurated in Adelaide (Australia). A new food flexible plant, currently being constructed in Moscow (Russia) is expected to commence production during 2007.

Food Packaging Americas third-party sales and operating revenues rose by 11% year on year, from $1.3 billion to $1.5 billion. Food Packaging America benefited from strong volume gains in the US for meat and dairy, labels and continued growth in Mexico, where a new plant was acquired in January 2006. Improved profitability reflected the sector s success in recovering increased raw material costs, realizing synergies and reducing manufacturing costs across most operations. Significant investment programs have been launched to support expansion in Mexico, capitalize on key product positions and to create centers of excellence for major conversion technologies. For instance, the center of excellence dedicated to roll-fed bottle labels began commercial operation at Edgewood (New York, US) at the end of July 2006.

Food Packaging Asia enjoyed another year of strong growth in 2006, with third-party sales of $248 million, up 20% compared to 2005. This growth was driven mainly by increasing demand from China and Thailand. In Thailand, the acquisition of a leading supplier of foil and plastic lidding for food packaging represented a key element of the regional growth strategy. In order to increase profitability, the sector focused efforts on passing through higher raw material costs and improving product mix with value-added products.

Global Pharmaceutical and Medical s sales grew from $900 million in 2005 to $935 million in 2006. This performance was driven primarily by strong volume in the pharma flexibles unit. Profit growth, particularly in North America, was constrained by significantly increased energy and raw material costs, notably aluminum, partially mitigated by productivity improvement. In its continuing drive to focus the portfolio on value-added segments, the sector divested the science products business, while investing in state-of-the-art dedicated pharma flexible centres in North America and Europe.

The **Global Beauty and Personal Care** business continues to face severe structural challenges associated with dynamic market conditions and is addressing the issue by reshaping its portfolio around value-added segments and expanding in emerging countries in order to establish a low-cost manufacturing system. Pursuant to this strategy, during 2006 the sector exited several non-strategic segments: selling the aerosols business and a plant specialized in the production of deodorant sticks. The business had sales of $0.9 billion in 2006 compared to $1 billion in the prior year.

The expansion of **Global Tobacco Packaging** continued in 2006 with sales increasing by 21% to $476 million. This reflected the successful implementation of a strategy based on operational excellence and selective growth. During the year a new facility at Reidsville (North Carolina, US) for tobacco cartons began commercial operation in July 2006, while state-of-the-art printing equipment is progressively being installed throughout the plant network to meet

anticipated requirements for pictorial health warnings on tobacco packaging. In Europe, the closure of one plant in the Netherlands was necessary to consolidate production in the face of chronic overcapacity as customers migrate to low cost countries such as those in which the sector already operates, in Kazakhstan, Malaysia and Turkey. Construction also commenced on a new plant in St. Petersburg (Russia), which is expected to commence production during the first half of 2007.

RISKS AND UNCERTAINTIES

For further details, refer to note 27 Commitments and Contingencies, note 28 - Currency Gains and Losses and note 29 Financial Instruments and Commodity Contracts to the Financial Statements.

Risk Management

As an international company with a significant exposure to commodity prices, Alcan s financial performance is influenced by fluctuations in the price of aluminum, exchange rates, energy and other raw material prices and interest rates. The Company s Treasury Group takes a very structured approach to the identification and quantification of each risk and develops an integrated risk profile that takes into account historical correlations among the various risk factors. Cash Flow at Risk is the key metric used by Alcan to measure cash flow volatility, and it is reviewed on regular basis with the Company s Risk Management Committee and the Audit Committee. The volatility of future cash flow is evaluated in the context of Alcan s expected future cash flow as well as its capital structure strategy and target. This allows the Company to decide whether the reduction of cash flow volatility, through the use of financial instruments or commodity contracts, is desirable. The decision whether and when to hedge, along with the duration of the hedge, can thus vary from period to period depending on market conditions and the relative costs of various hedging instruments. The duration of a hedge is always linked to the timing of the underlying exposure, with the connection between the two being constantly monitored to ensure effectiveness. As described in note 31 Financial Instruments and Commodity Contracts to the Financial Statements, other than forward fixed price sales agreements, the Company is currently not entering into additional forward sales of aluminum.

Clearly defined policies and management controls govern all risk management activities. Transactions in financial instruments for which there is no underlying exposure to the Company are prohibited, except for a small metal trading portfolio not exceeding 25 kt, and for a small foreign exchange trading portfolio not exceeding $50 million.

Sensitivities

The following table provides Alcan s estimates of the annualized after-tax impact of currency and LME price movements on income from continuing operations, net of hedging and forward sales. The sensitivities have been updated for 2007 to reflect current exposures.

	Increase in Rate / Price		In millions of US $	US$ per Common Share
Economic impact of changes in period-average exchange rates				
Canadian dollar	+ US$	0.10	$ (150)	$ (0.42)
European currencies	+ US$	0.10	$ (50)	$ (0.14)
Australian dollar	+ US$	0.10	$ (70)	$ (0.19)
Balance sheet translation impact of changes in period-end exchange rates				
Canadian dollar	+ US$	0.10	$ (230)	$ (0.63)
Australian dollar	+ US$	0.10	$ (25)	$ (0.07)

Economic impact of changes in period-average LME prices*					
Aluminum	+ US$	100/t	$ 190	$	0.51

* Realized prices generally lag LME price changes by one month. Changes in local and regional premia may also impact aluminum price realizations. Sensitivities are updated as required to reflect changes in the Company s commercial arrangements and portfolio of operations. Not included are sensitivities to energy and raw-material prices, which may have significant impacts.

Foreign Currency Exchange

Exchange rate movements, particularly between the Canadian dollar and the US dollar, have an impact on Alcan s costs and therefore its net results. Because the Company has significant operating costs denominated in

Canadian dollars while its functional currency is the US dollar for most Canadian operations, it benefits from a weakening in the Canadian dollar but, conversely, is disadvantaged if it strengthens.

The Company s deferred income tax liabilities and net monetary liabilities for operations in Canada and Australia are translated into US dollars at current rates. The resultant exchange gains or losses are included in income and fluctuate from quarter to quarter depending on the changes in exchange rates. A decrease in the Canadian and Australian dollars results in a favourable effect, whereas an increase results in an unfavourable impact.

Aluminum Prices

Depending on market conditions and logistical considerations, Alcan may sell primary aluminum to third parties and may purchase primary aluminum and secondary aluminum, including scrap, on the open market to meet the requirements of its fabricating businesses. Alcan does not currently enter into new contracts for the hedging of metal prices through derivatives traded on established markets such as the LME although such contracts previously entered into will continue to unwind through to the end of 2007. A certain proportion of Alcan s aluminum sales contain pricing arrangements which result in effective hedging of the underlying metal to some extent.

Critical Accounting Policies and Estimates

The Company s significant accounting policies are presented in note 2 Summary of Significant Accounting Policies to the Financial Statements. The critical accounting policies and estimates described below 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 judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. They have been reviewed and approved by our Audit Committee, in consultation with management, as part of their review and approval of our significant accounting policies and estimates. We believe that our estimates for determining the valuation of our assets and liabilities are appropriate. However, given the uncertainties involved, it is possible that they will be significantly revised in the future, which could have material adverse effects on the Company s reported earnings and financial condition.

Post-Retirement Benefits

Net periodic cost of post-retirement benefits includes the actuarially computed cost of benefits earned during the current service period, the interest cost on accrued obligations, the expected return on plan assets based on fair market value and the straight-line amortization of net actuarial gains and losses and adjustments due to plan amendments. All net actuarial gains and losses are amortized to income over the expected average remaining service life of the employees. The costs and obligations of pension and other post-retirement benefits are calculated based on assumptions including the long-term rate of return on pension assets, discount rates for pension and other post-retirement benefit obligations, expected service period, salary increases, retirement ages of employees and health care cost trend rates. These assumptions bear the risk of change as they require significant judgment and they have inherent uncertainties that management may not be able to control. The two most significant assumptions used to calculate the net periodic cost of post-retirements benefits are the discount rates for pension and other post-retirement benefits, and the expected return on assets. The discount rate for pension and other post-retirement benefits is the interest rate used to determine the present value of benefits. It is based on spot-rate yield curves and individual bond-matching models for pension plans in Canada and the US and on published long-term high-quality corporate bond indices with durations equivalent to average durations of pension plan liabilities in other countries, at the end of each fiscal year. In light of the average long duration of pension plans in other countries, no adjustments were made to the index rates. The weighted-average discount rate used to determine the benefit obligation was 4.9% as at 31 December 2006, compared to 4.9% for 2005 and 5.3% for 2004. The weighted average discount rate used to determine the net periodic benefit cost is the rate used to determine the benefit obligation in the previous year. An

increase in the discount rate of 0.5%, assuming inflation remains unchanged, will result in a decrease of $829 million in the pension and other post-retirement obligations and in a decrease of $82 million in the net periodic benefit cost. A decrease in the discount rate of 0.5%, assuming inflation remains unchanged, will result in an increase of $900 million in the pension and other post-retirement obligations and in an increase of $80 million in the net periodic benefit cost.

The calculation of the estimate of the expected return on assets is described in note 31 Post-Retirement Benefits to the Financial Statements. The weighted-average expected return on assets was 6.9% for 2006, 7.0% for 2005 and 2004. The expected return on assets is a long-term assumption whose accuracy can only be measured over a long period based on past experience. Over the 15-year period ended 31 December 2006, the average actual return on assets exceeded the expected return by 1.9% per year. A variation in the expected return on assets by 0.5% will result in a variation of approximately $47 million in the net periodic benefit cost.

Environmental Liabilities

Environmental expenses that are not legal asset retirement obligations are accrued when it is probable that a liability for past events exists, on an undiscounted basis. The Company s judgments regarding the probability are subject to the risk of change, as it must make assumptions about events that may or may not occur in the distant future. Changes could occur due to such factors as the extent of contamination, a technical change and changes in remedial requirements or nature. If the Company s judgments differ from those of legal or regulatory authorities, the provisions for environmental expense could increase or decrease significantly in future periods. In order to estimate the likelihood of a future event occurring, the Company exercises its professional judgment based on case facts and experience.

Property, Plant and Equipment

Due to changing economic and other circumstances, the Company regularly reviews the carrying amount of its property, plant and equipment (PP&E) for impairment. Accounting standards require that an impairment loss be recognized when the carrying amount of a long-lived asset held for use is not recoverable and exceeds its fair value. The fair value of an asset is the amount at which that asset can be bought or sold in a current transaction between willing parties, that is, other than a forced or liquidated sale. Where market prices are not readily available, the estimate of fair value is based on the best information available, including prices for similar assets and the results of using other valuation techniques. For the most part, the Company uses an expected present value technique to measure the fair value of long-lived assets. The Company s estimated weighted-average cost of capital, which in 2006 equated to a discount rate of 8.5%, is used. In estimating future cash flows, the Company uses its internal plans, which incorporate management s judgments as to the remaining service potential of long-lived assets. These internal plans reflect management s best estimates; however they are subject to the risk of change as they have inherent uncertainties that management may not be able to control. The amount of impairment to be recognized is calculated by subtracting the fair value of the asset from its carrying amount. As discussed in the notes to the Financial Statements, the Company reviewed specific PP&E for impairment in 2006 due to situations where circumstances indicated that the carrying value of specific assets could not be recovered. The Company made assumptions about the sum of the undiscounted expected future cash flows from these assets and determined that they were less than their carrying amount, resulting in the recognition of an impairment loss in accordance with US GAAP. Actual results could differ significantly from those estimates. The Company cannot predict whether an event that triggers an impairment of PP&E will occur or when it will occur, nor can it estimate what effect it will have on the carrying values of these assets. However, the effect could be material.

Goodwill

Goodwill is not amortized but is tested at least annually for impairment at the reporting unit level. Goodwill is tested by comparing the fair value of the reporting unit to its carrying value. The estimate of fair value of a reporting unit and the assets and liabilities within a reporting unit are based on a net present value approach, which includes making assumptions and estimates in a number of areas, including future cash flows, cash flow periods, terminal values and discount rates. In estimating future cash flows, the Company uses its internal plans. These plans reflect management s best estimates; however, they are subject to change as they involve inherent uncertainties that management may not be

able to control. In addition, growth and profitability levels are compared to reporting unit peers. In estimating the fair value of a reporting unit, different ranges are used for future cash flow periods as well as for terminal growth rates, depending on the Business Group. A discount rate of 8.5%, which is the Company s estimated weighted-average cost of capital for 2006, is used for all reporting units. A variance in the estimated weighted-average cost of capital could have a significant impact on the amount of the goodwill impairment charge

recorded, and actual results could differ significantly from those estimates. No impairment was recorded in 2006. In 2005, an impairment charge of $122 million was identified in the Global Beauty Packaging reporting unit. In 2004, an impairment loss of $154 million relating to several fabricating facilities in the Engineered Products Business Group, mainly in Europe, was recognized.

Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Company s Financial Statements. In determining a provision for income taxes, the Company interprets tax legislation in a variety of jurisdictions and makes assumptions about the expected timing of the reversal of future tax assets and liabilities. Income tax assets and liabilities, both current and deferred, are measured according to the enacted income tax legislation that is expected to apply when the asset is realized or the liability settled. The Company records a valuation allowance on deferred tax assets when it is more likely than not that the asset will not be realized. The Company must use judgment in assessing the potential for future recoverability, while at the same time considering past experience. The Company s conclusion of whether it is more likely than not that deferred assets will be realized includes making assessments of expectations of future taxable income. All available evidence is considered in determining the amount of a valuation allowance. If the Company s interpretations differ from those of tax authorities or judgments with respect to tax losses change, the income tax provision could increase or decrease, potentially significantly, in future periods.

Business Combinations

The Company accounts for business acquisitions using the purchase method. Under this method, the cost of a purchase is allocated to the estimated fair values of the net assets acquired. When the Company completes an acquisition towards the end of its fiscal year or the acquired enterprise is very large, the Company makes tentative estimates of the fair values of the net assets acquired as it is still in the process of gathering all the relevant data. Accordingly, the final fair values of the net assets acquired could differ materially from the tentative amounts. Changes from the tentative amounts could have a significant impact on the Company s net income, including depreciation and amortization, and income taxes. In the case of the Pechiney acquisition completed on 15 December 2003 the significant elements for which the fair values differed from the tentative amounts included property, plant and equipment, goodwill and deferred charges and other assets. The Company completed the final valuation of Pechiney s net assets in the fourth quarter of 2004.

ITEM 7A ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Interest Rates

The impact of a 10% increase in interest rates on the Company s variable rate debt outstanding and on the fixed rate debt outstanding that has been converted to variable rate debt through interest rate swaps at 31 December 2006 and 31 December 2005, net of its invested surplus cash and time deposits at 31 December 2006 and 31 December 2005, would be to reduce net income by $7 million and $4 million, respectively for the variable rate debt and would be to reduce net income by $2 million and nil, respectively for the fixed rate debt converted to variable rate debt through interest rate swaps. 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 2 Summary of Significant Accounting Policies to the Financial Statements, prepared in accordance with US GAAP.

Currency Legend:

BRL	Brazilian Real
CAD	Canadian Dollar
CHF	Swiss Franc
CZK	Czech Koruna
DKK	Denmark Kroner
EUR	Euros
GBP	UK Pound
ISK	Iceland Kronur
JPY	Japanese Yen
MXN	Mexican Peso
PLN	Polish Zloty
USD	US Dollar

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 contracts) outstanding as at 31 December 2006.

		2007	2008	2009 to 2012 and Thereafter	Total Nominal Amount	Fair Value
		(In US$ millions, except average contract rates)				
FORWARD CONTRACTS						
To buy USD against the foreign currency						
CHF	Nominal amount	7		1*	8	
	Average contract rate	*1.221*		*1.166**		
CAD	Nominal amount	2			2	
	Average contract rate	*1.156*				
JPY	Nominal amount	11			11	
	Average contract rate	*113.4*				
MXN	Nominal amount	9	1		10	
	Average contract rate	*10.90*	*11.29*			
DKK	Nominal amount	1			1	
	Average contract rate	*5.788*				
ISK	Nominal amount	1			1	
	Average contract rate	*69.52*				
NZD	Nominal amount	2			2	
	Average contract rate	*1.538*				

			2009	2010	2011	2012 and Thereafter
*	**To buy USD against the foreign currency**					
	CHF	Nominal amount	1			
		Average contract rate	*1.166*			

		2007	2008	2009 to 2012 and Thereafter	Total Nominal Amount	Fair Value
		(In US$ millions, except average contract rates)				
FORWARD CONTRACTS (Cont d)						
To sell USD against the foreign currency						
GBP	Nominal amount	2			2	
	Average contract rate	*0.511*				
BRL	Nominal amount	46			46	8
	Average contract rate	*2.669*				
CHF	Nominal amount	20			*20*	
	Average contract rate	*1.214*				
ISK	Nominal amount	4			4	
	Average contract rate	*69.32*				
CAD	Nominal amount	4			4	
	Average contract rate	*1.155*				
To buy EUR against the foreign currency						
USD	Nominal amount	63			63	4
	Average contract rate	*1.248*				
GBP	Nominal amount	7			7	
	Average contract rate	*0.678*				
JPY	Nominal amount	12			12	1
	Average contract rate	*148.5*				
CAD	Nominal amount	2			2	
	Average contract rate	*1.525*				
PLN	Nominal amount	4			4	
	Average contract rate	*3.958*				
To sell EUR against the foreign currency						
USD	Nominal amount	276	13	5*	294	(5)
	Average contract rate	*1.308*	*1.113*	*1.358**		
GBP	Nominal amount	3			3	
	Average contract rate	*0.674*				
CHF	Nominal amount	22	4		26	(1)
	Average contract rate	*1.561*	*1.506*			
CZK	Nominal amount	12			12	
	Average contract rate	*28.24*				
To buy GBP against the foreign currency						
JPY	Nominal amount	2			2	
	Average contract rate	*206.7*				
To sell GBP against the foreign currency						
CHF	Nominal amount	11			11	
	Average contract rate	*2.381*				

			2009	2010	2011	2012 and Thereafter
To sell EUR against the foreign currency						
*	USD	Nominal amount	1	1	1	2
		Average contract rate	*1.333*	*1.349*	*1.360*	*1.381*

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 31 December 2005.

		2006	2007	2008 to 2011 and Thereafter	Total Nominal Amount	Fair Value
		(In US$ millions, except average contract rates)				
FORWARD CONTRACTS						
To buy USD against the foreign currency						
CHF	Nominal amount	26			26	1
	Average contract rate	*1.233*				
GBP	Nominal amount	8			8	
	Average contract rate	*0.576*				
JPY	Nominal amount	7			7	
	Average contract rate	*111.8*				
NZD	Nominal amount	3			3	
	Average contract rate	*1.464*				
To sell USD against the foreign currency						
AUD	Nominal amount	172			172	(4)
	Average contract rate	*1.336*				
GBP	Nominal amount	32			32	(1)
	Average contract rate	*0.572*				
BRL	Nominal amount	23	42		65	2
	Average contract rate	*2.507*	*2.669*			
ISK	Nominal amount	7			7	
	Average contract rate	*63.86*				
CHF	Nominal amount	10			10	
	Average contract rate	*1.316*				
Other	Nominal amount	3			3	
To buy EUR against the foreign currency						
USD	Nominal amount	657	20		677	7
	Average contract rate	*1.187*	*1.201*			
GBP	Nominal amount	34	1		35	
	Average contract rate	*0.692*	*0.694*			
JPY	Nominal amount	6			6	
	Average contract rate	*137.8*				
CAD	Nominal amount	4	2		6	(1)
	Average contract rate	*1.490*	*1.525*			
Other	Nominal amount	3			3	

		2006	2007	2008 to 2011 and Thereafter	Total Nominal Amount	Fair Value
FORWARD CONTRACTS (Cont d)						
To sell EUR against the foreign currency						
USD	Nominal amount	607	24	15*	646	2
	Average contract rate	*1.207*	*1.223*	*1.179**		
CHF	Nominal amount	44	5	4**	53	(1)
	Average contract rate	*1.524*	*1.522*	*1.506***		
GBP	Nominal amount	8			8	
	Average contract rate	*0.679*				
Other	Nominal amount	3			3	
To buy CHF against the foreign currency						
GBP	Nominal amount	6			6	
	Average contract rate	*0.442*				
JPY	Nominal amount	3			3	
	Average contract rate	*88.59*				
Other	Nominal amount	1			1	
To sell CHF against the foreign currency						
CZK	Nominal amount	3			3	
	Average contract rate	*18.62*				
OPTIONS						
To sell EUR against the foreign currency						
USD	Nominal amount	119	20		139	
	Average contract rate	*1.328*	*1.320*			

			2008	2009	2010	2011 and Thereafter
To sell EUR against the foreign currency						
*	USD	Nominal amount	11	1	1	2
		Average contract rate	*1.113*	*1.333*	*1.349*	*1.374*
**	CHF	Nominal amount	4			
		Average contract rate	*1.506*			

Any negative impact of currency movements on the currency contracts that the Company has taken out to hedge identifiable foreign currency commitments to buy 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, except for a small trading portfolio not exceeding $50 million. For accounting policies relating to currency contracts, see note 2 Summary of Significant Accounting Changes to the Financial Statements, prepared in accordance with US GAAP.

Derivative Commodity Contracts

The effect of a reduction of 10% in aluminum prices on the Company s aluminum forward and options contracts outstanding at 31 December 2006 would be to increase net income over the period ending 31 December 2008 by approximately $86 million ($85 million in 2007 and $1 million in 2008). The $86 million increase reflects a 10% reduction from the 31 December 2006, three-month LME aluminum closing price of $2,803 per tonne and assumes an equal 10% drop has occurred throughout the aluminum forward price curve existing as at 31 December

2006. As of 31 December 2005, such sensitivity would have increased net income over the period ending 31 December 2007 by $106 million ($64 million in 2006 and $42 million in 2007). The Company s aluminum forward contract positions, producing the above results, are entered into to hedge anticipated future sales of metal. 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 being hedged. The effect of a reduction of 10% in aluminum prices on the Company s anticipated sales and purchases of aluminum is excluded from the sensitivity analysis above. 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 25,000 tonnes.

ITEM 8 ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

Responsibility for the Annual Report

Alcan s management is responsible for the preparation, integrity and fair presentation of the Financial Statements and other information in the Annual Report. The Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include, where appropriate, estimates based on the best judgment of management. Financial and operating data elsewhere in the Annual Report are consistent with that contained in the accompanying Financial Statements.

Alcan s policy is to maintain systems of internal accounting, administrative and disclosure controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that Company assets are adequately accounted for and safeguarded. The Board of Directors oversees the Company s systems of internal accounting, administrative and disclosure controls through its Audit Committee, which is comprised of Directors who are not employees. The Audit Committee meets regularly with representatives of the shareholders independent auditors and management, including internal audit staff, to satisfy themselves that the policy above is being followed. In addition, a Disclosure Committee of management has been established to manage disclosure of corporate information and oversee the functioning of the Company s disclosure controls and procedures.

The Audit Committee has recommended the appointment of PricewaterhouseCoopers LLP as the independent auditors, subject to approval by the shareholders.

The Financial Statements have been reviewed by the Audit Committee and, together with the other required information in this Annual Report, approved by the Board of Directors. In addition, the Financial Statements have been audited by PricewaterhouseCoopers LLP, whose report is provided on pages 83 and 84.

((Signature))
Richard B. Evans,
President and Chief Executive Officer

((Signature))
Michael Hanley,
Executive Vice-President and Chief Financial Officer

1 March 2007

Management s Report on Internal Control over Financial Reporting

Management of Alcan is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 15a-15(d) under the Securities Exchange Act of 1934). Alcan s internal control over financial reporting is a process designed under the supervision of Alcan s Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation

of the Company s Financial Statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

As of 31 December 2006, management conducted an assessment of the effectiveness of the Company s internal control over financial reporting based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company s internal control over financial reporting as of 31 December 2006 was effective.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of 31 December 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing on pages 83 and 84.

OECD Guidelines

The Organization for Economic Cooperation and Development (OECD), which consists of 30 industrialized countries including Canada, has established guidelines setting out an acceptable framework of reciprocal rights and responsibilities between multinational enterprises and host governments. Alcan supports and complies with the OECD guidelines and has a *Worldwide Code of Employee and Business Conduct*, which is consistent with them.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Alcan Inc.

We have audited the accompanying consolidated balance sheets of Alcan Inc. (the Company) as at 31 December 2006, 2005 and 2004 and the related consolidated statements of income, shareholders equity and cash flows for each of the years in the three-year period ended 31 December 2006. We have also audited the effectiveness of the Company s internal control over financial reporting as at 31 December 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and management s assessment thereof, included in the accompanying Management s Report on Internal Control over Financial Reporting. The Company s management is responsible for these Financial Statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on Alcan s 2006, 2005 and 2004 consolidated Financial Statements, an opinion on management s assessment as at 31 December 2006 and an opinion on the effectiveness of the Company s internal control over financial reporting as at 31 December 2006 based on our audits.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of Financial Statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and Directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the Financial Statements.

We conducted our audits of the Company s Financial Statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit of Financial Statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. A Financial Statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall Financial Statement presentation. We conducted our audit of the effectiveness of the Company s internal control over financial reporting and management s assessment thereof in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated Financial Statements referred to above present fairly, in all material respects, the financial position of the Company as at 31 December 2006, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three year period ended 31 December 2006 in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of 31 December 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial

reporting as at 31 December 2006 based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

As discussed in Note 3 to the consolidated Financial Statements, the Company changed the manner in which it accounts for its benefit plans and stock-based compensation in 2006.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Continued)

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

((Signature))

PricewaterhouseCoopers LLP
Chartered Accountants

Montreal, Quebec
1 March 2007

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31		
	2006	**2005**	**2004**
	(In millions of US$, except per share amounts)		
Sales and operating revenues	**23,641**	20,320	24,948
Costs and expenses			
Cost of sales and operating expenses, excluding depreciation and amortization noted below	**17,990**	16,135	20,270
Depreciation and amortization (NOTE 7)	**1,043**	1,080	1,337
Selling, administrative and general expenses	**1,475**	1,402	1,615
Research and development expenses	**220**	227	239
Interest	**284**	350	346
Restructuring charges net (NOTE 8)	**179**	685	87
Goodwill impairment (NOTE 7)		122	154
Other expenses (income) net (NOTE 14)	**77**	(4)	321