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ALCAN INC  
Form 10-Q  
August 09, 2005

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| <b>2005</b> | 2004        |
|-------------|-------------|
|             | <b>2005</b> |
|             | 2004        |

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

**Sales and operating revenues**

**5,206**  
6,208  
**10,384**  
12,228

**Costs and expenses**

Cost of sales and operating expenses, excluding depreciation

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and amortization noted below

|  |              |
|--|--------------|
|  | <b>4,130</b> |
|  | 4,918        |
|  | <b>8,220</b> |
|  | 9,890        |
| Depreciation and amortization                |              |
|  | <b>268</b>   |
|  | 324          |
|  | <b>540</b>   |
|  | 660          |
| Selling, administrative and general expenses |              |
|  | <b>345</b>   |
|  | 365          |
|  | <b>725</b>   |
|  | 761          |
| Research and development expenses            |              |
|  | <b>49</b>    |
|  | 58           |
|  | <b>98</b>    |
|  | 119          |
| Interest                                     |              |
|  | <b>90</b>    |
|  | 87           |
|  | <b>175</b>   |
|  | 2            |

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|   |              |
|---|--------------|
|   | 180          |
| Other expenses (income) - net (note 11)                   |              |
|   | <b>73</b>    |
|   | 54           |
|   | <b>97</b>    |
|   | 51           |
|   | <b>4,955</b> |
|   | 5,806        |
|   | <b>9,855</b> |
|   | 11,661       |
| Income from continuing operations before income taxes and |              |
|   |              |
|   |              |
| other items   |              |
|   | <b>251</b>   |
|   | 402          |
|   | <b>529</b>   |
|   | 567          |
| Income taxes (note 9)                                     |              |
|   | <b>70</b>    |
|   | 125          |
|   | <b>168</b>   |
|   | 166          |
| Income from continuing operations before other items      |              |
|   | <b>181</b>   |
|   | 3            |

|   |             |
|---|-------------|
|   | 277         |
|   | <b>361</b>  |
|   | 401         |
| Equity income                                       |             |
|   | <b>28</b>   |
|   | 17          |
|   | <b>57</b>   |
|   | 33          |
| Minority interests                                  |             |
|   | <b>(1)</b>  |
|   | (9)         |
|   | <b>(2)</b>  |
|   | (15)        |
| <b>Income from continuing operations</b>            |             |
|   | <b>208</b>  |
|   | 285         |
|   | <b>416</b>  |
|   | 419         |
| Income (Loss) from discontinued operations (note 3) |             |
|   | <b>(17)</b> |
|   | 46          |
|   | <b>(7)</b>  |
|   | 18          |
| <b>Net income</b>                                   |             |
|   | <b>191</b>  |
|   | 331         |
|   | <b>409</b>  |
|   | 437         |
|   | 4           |

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Dividends on preference shares

1

1

3

3

**Net income attributable to common shareholders**

**190**

330

**406**

434

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

Basic and Diluted:

Income from continuing operations

**0.56**

0.77

**1.11**

1.13

Income (Loss) from discontinued operations

**(0.04)**

0.12

5

|  |             |
|--|-------------|
|  | (0.02)      |
|  | 0.05        |
| <b>Net income per common share - basic and diluted</b> |             |
|  | <b>0.52</b> |
|  | 0.89        |
|  | <b>1.09</b> |
|  | 1.18        |
| <b>Dividends per common share</b>                      |             |
|  | <b>0.30</b> |
|  | 0.30        |
|  | <b>0.45</b> |
|  | 0.45        |

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

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## **ALCAN INC.**

### **INTERIM CONSOLIDATED BALANCE SHEET (unaudited)**

|  | <b>June 30, 2005</b> | December 31, 2004 |
|--|----------------------|-------------------|
| <i>(in millions of US\$)</i>   |                      |                   |
| <b><u>ASSETS</u></b>   |                      |                   |
| <b>Current assets</b>  |                      |                   |
| Cash and time deposits   | <b>222</b>           | 184               |
| Trade receivables (net of allowances of \$62 in 2005 and \$99 in 2004) | <b>2,861</b>         | 3,247             |
| Other receivables  | <b>846</b>           | 936               |
| Deferred income taxes  | <b>110</b>           | 214               |
| Inventories (note 12)  | <b>2,863</b>         | 4,040             |
| Current assets held for sale (note 3)                                  | <b>172</b>           | 791               |
| <b>Total current assets</b>  | <b>7,074</b>         | 9,412             |
| Deferred charges and other assets                                      | <b>2,251</b>         | 2,877             |
| Deferred income taxes  | <b>969</b>           | 870               |
| Property, plant and equipment  |                      |                   |
| Cost (excluding Construction work in progress)                         | <b>15,383</b>        | 21,956            |
| Construction work in progress  | <b>899</b>           | 816               |
| Accumulated depreciation   | <b>(5,479)</b>       | (9,478)           |
|  | <b>10,803</b>        | 13,294            |
| Intangible assets (net of accumulated amortization of \$177 in 2005)   |                      |                   |

|   |               |               |
|---|---------------|---------------|
| and \$172 in 2004)                      | 1,028         | 1,230         |
| Goodwill                                | 4,992         | 5,496         |
| Long-term assets held for sale (note 3) | 30            | 162           |
| <b>Total assets</b>                     | <b>27,147</b> | <b>33,341</b> |

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

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**ALCAN INC.**

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

|  | June 30, 2005 | December 31, 2004 |
|--|---------------|-------------------|
| <i>(in millions of US\$)</i>                               |               |                   |
| <b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>         |               |                   |
| <b>Current liabilities</b>                                 |               |                   |
| Payables and accrued liabilities                           | 4,415         | 5,843             |
| Short-term borrowings                                      | 339           | 2,486             |
| Debt maturing within one year                              | 854           | 569               |
| Deferred income taxes                                      | 27            | 23                |
| Current liabilities of operations held for sale (note 3)   | 104           | 335               |
| <b>Total current liabilities</b>                           | <b>5,739</b>  | <b>9,256</b>      |
| Debt not maturing within one year                          | 5,630         | 6,345             |
| Deferred credits and other liabilities                     | 4,270         | 4,986             |
| Deferred income taxes                                      | 1,279         | 1,543             |
| Long-term liabilities of operations held for sale (note 3) | 9             | 249               |
| Minority interests   | 91            | 236               |
| <b>Shareholders' equity</b>                                |               |                   |
| Redeemable non-retractable preference shares               | 160           | 160               |
| Common shareholders' equity                                |               |                   |
| Common shares  | 6,104         | 6,670             |
| Additional paid-in capital                                 | 692           | 112               |
| Retained earnings  | 3,322         | 3,362             |
| Common shares held by a subsidiary                         | (31)          | (35)              |
| Accumulated other comprehensive income (loss) (note 16)    | (118)         | 457               |
|  | <b>9,969</b>  | <b>10,566</b>     |
|  | <b>10,129</b> | <b>10,726</b>     |
| Commitments and contingencies (note 15)                    |               |                   |
| <b>Total liabilities and shareholders' equity</b>          | <b>27,147</b> | <b>33,341</b>     |

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

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**ALCAN INC.**

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

| <b>Periods ended June 30</b><br><i>(in millions of US\$)</i>                              | Second Quarter |       | Six Months     |       |
|---|----------------|-------|----------------|-------|
|   | <b>2005</b>    | 2004  | <b>2005</b>    | 2004  |
| <b>OPERATING ACTIVITIES</b>   |                |       |                |       |
| Net income  | <b>191</b>     | 331   | <b>409</b>     | 437   |
| Loss (Income) from discontinued operations  | <b>17</b>      | (46)  | <b>7</b>       | (18)  |
| Income from continuing operations   | <b>208</b>     | 285   | <b>416</b>     | 419   |
| Adjustments to determine cash from operating activities:                                  |                |       |                |       |
| Depreciation and amortization   | <b>268</b>     | 324   | <b>540</b>     | 660   |
| Deferred income taxes   | <b>(13)</b>    | 42    | <b>42</b>      | 14    |
| Equity income, net of dividends   | <b>2</b>       | (1)   | <b>(25)</b>    | (17)  |
| Asset impairment provisions   | <b>25</b>      | 2     | <b>33</b>      | 10    |
| Loss (Gain) on sale of businesses and investments - net                                   | <b>17</b>      | (42)  | <b>16</b>      | (42)  |
| Stock option compensation   | <b>5</b>       | 2     | <b>10</b>      | 4     |
| Change in operating working capital   |                |       |                |       |
| Change in receivables   | <b>(157)</b>   | (137) | <b>(353)</b>   | (518) |
| Change in inventories   | <b>(128)</b>   | (11)  | <b>(114)</b>   | 44    |
| Change in payables and accrued liabilities  | <b>(34)</b>    | 12    | <b>(272)</b>   | 199   |
| Change in deferred charges, other assets,<br>deferred credits and other liabilities - net | <b>44</b>      | (83)  | <b>(72)</b>    | (103) |
| Other - net   | <b>5</b>       | 35    | <b>(46)</b>    | 30    |
| Cash from operating activities in continuing operations                                   | <b>242</b>     | 428   | <b>175</b>     | 700   |
| Cash from (used for) operating activities in discontinued operations                      | <b>(18)</b>    | 33    | <b>50</b>      | 51    |
| <b>Cash from operating activities</b>   | <b>224</b>     | 461   | <b>225</b>     | 751   |
| <b>FINANCING ACTIVITIES</b>   |                |       |                |       |
| Proceeds from issuance of new debt - net of issuance costs                                | <b>780</b>     | 177   | <b>1,166</b>   | 718   |
| Debt repayments   | <b>(610)</b>   | (234) | <b>(1,196)</b> | (454) |
| Short-term borrowings - net   | <b>29</b>      | (145) | <b>(1,993)</b> | (375) |
| Common shares issued  | <b>6</b>       | 8     | <b>10</b>      | 33    |
| Dividends - Alcan shareholders (including preference)                                     | <b>(56)</b>    | (56)  | <b>(114)</b>   | (113) |
| - Minority interests  | <b>(6)</b>     | (2)   | <b>(6)</b>     | (4)   |
| Cash from (used for) financing activities in continuing operations                        | <b>143</b>     | (252) | <b>(2,133)</b> | (195) |
| Cash from (used for) financing activities in discontinued operations                      | <b>41</b>      | (30)  | <b>4</b>       | (31)  |
| <b>Cash from (used for) financing activities</b>  | <b>184</b>     | (282) | <b>(2,129)</b> | (226) |

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

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**ALCAN INC.**

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

| <b>Periods ended June 30</b><br><i>(in millions of US\$)</i> | Second Quarter |      | Six Months  |      |
|--|----------------|------|-------------|------|
|  | <b>2005</b>    | 2004 | <b>2005</b> | 2004 |



**INVESTMENT ACTIVITIES**

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Purchase of property, plant and equipment                              | (453)        | (265)        | (745)        | (517)        |
| Business acquisitions and purchase of investments                      | (39)         | (55)         | (42)         | (423)        |
| Net proceeds from disposal of businesses, investments and other assets | (9)          | (24)         | 3            | 20           |
| Settlement of amounts due from Novelis - net (note 5)                  | -            | -            | 2,535        | -            |
| Cash from (used for) investment activities in continuing operations    | (501)        | (344)        | 1,751        | (920)        |
| Cash from (used for) investment activities in discontinued operations  | 121          | 9            | 64           | (4)          |
| <b>Cash from (used for) investment activities</b>                      | <b>(380)</b> | <b>(335)</b> | <b>1,815</b> | <b>(924)</b> |
| Effect of exchange rate changes on cash and time deposits              | (11)         | (1)          | (29)         | (28)         |
| <b>Increase (Decrease) in cash and time deposits</b>                   | <b>17</b>    | <b>(157)</b> | <b>(118)</b> | <b>(427)</b> |
| Cash and time deposits - beginning of period                           | 205          | 508          | 340          | 778          |
| Cash and time deposit - end of period in continuing operations         | 222          | 235          | 222          | 235          |
| Cash and time deposits - end of period in current assets held for sale | -            | 116          | -            | 116          |
| Cash and time deposits - end of period                                 | 222          | 351          | 222          | 351          |

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

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**ALCAN INC.**
**INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY** (unaudited)

| (in millions of US\$)                             | Preference<br>Shares -<br>Series C and<br>E | Common<br>Shares | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Common<br>Shares Held<br>by a<br>Subsidiary | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Shareholders'<br>Equity |
|---|---|------------------|----------------------------------|----------------------|---|--|----------------------------------|
| Balance at December 31, 2004                      | 160   | 6,670            | 112                              | 3,362                | (35)  | 457  | 10,726                           |
| Spin-off of Novelis (note 5)                      |   | (576)            | 572                              | (279)                |   | (71)   | (354)                            |
| Net income - six months ended<br>June 30, 2005    |   |                  |                                  | 409                  |   |  | 409                              |
| Other comprehensive loss (note 16)                |   |                  |                                  |                      |   | (504)  | (504)                            |
| Dividends:  |   |                  |                                  |                      |   |  |                                  |
| Preference  |   |                  |                                  | (3)                  |   |  | (3)                              |
| Common  |   |                  |                                  | (167)                |   |  | (167)                            |
| Stock option expense                              |   |                  | 10                               |                      |   |  | 10                               |
| Exercise of stock options                         |   | 2                | (2)                              |                      |   |  | -                                |
| Common shares held by a subsidiary                |   |                  |                                  |                      | 4   |  | 4                                |
| Common shares issued for cash:                    |   |                  |                                  |                      |   |  |                                  |
| Executive share option plan                       |   | 8                |                                  |                      |   |  | 8                                |
| Dividend reinvestment and share<br>purchase plans |   | 2                |                                  |                      |   |  | 2                                |
| Other   |   | (2)              |                                  |                      |   |  | (2)                              |
| <b>Balance at June 30, 2005</b>                   | <b>160</b>                                  | <b>6,104</b>     | <b>692</b>                       | <b>3,322</b>         | <b>(31)</b>                                 | <b>(118)</b>   | <b>10,129</b>                    |

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

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**ALCAN INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2005**

**(unaudited)**

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

**1. ACCOUNTING POLICIES**

**Basis of Presentation**

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

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

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

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

**2. RECENTLY ISSUED ACCOUNTING STANDARDS**

**Conditional Asset Retirement Obligations**

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. FIN 47 clarifies that the term *conditional asset retirement obligation* as used in FASB Statement (SFAS) No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. According to FIN 47, uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of a liability when sufficient information exists. This interpretation is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application for interim financial information is permitted but not required. The Company does not anticipate that this interpretation will have a material impact on its financial statements.

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

Accounting Changes and Error Corrections

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. This statement applies to all voluntary changes in accounting principle and changes the requirements for accounting for and reporting of a change in accounting principle. The statement requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle versus including the cumulative effect of changing to the new accounting principle in net income. SFAS No. 154 carries forward many provisions of APB Opinion No. 20 without change, including the provisions related to the reporting of a change in accounting estimate, a change in the reporting entity, and the correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

**3. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE**

Bauxite and Alumina and Primary Metal

On December 29, 2004, the Company announced that, following an extensive evaluation of the Company's operations subsequent to the Pechiney acquisition, it had entered into a binding agreement for the sale of its controlling interest in Aluminium de Grèce S.A. (AdG), as well as the transfer of certain related contracts, to Mytilineos Holdings S.A. of Greece. The Company classified this business in discontinued operations and assets held for sale during the fourth quarter of 2004. The Company owned approximately 13 million shares in AdG, representing a 60.2% equity interest. The transaction was completed on March 15, 2005 at a value of \$104. Under the terms of this agreement, Mytilineos Holdings and certain affiliated companies acquired from the Company a 53% equity position in AdG. The balance of the Company's interest in AdG, some 7.2%, may be sold by the Company to Mytilineos Holdings one year after closing pursuant to a three-month put option at a price equivalent to the selling price of the shares. Subsequently, Mytilineos Holdings will have a call option for six months to purchase any remaining interest, at a price equivalent to the selling price of the shares.

Primary Metal

On December 30, 2004, the Company announced that it had reached agreement on the principal terms of a sale of Pechiney Électrométallurgie (PEM) to Ferroatlántica, S.L., of Spain. The Company classified this business in discontinued operations and assets held for sale during the fourth quarter of 2004. The Company's decision to sell this business was based on an extensive evaluation of the Company's operations subsequent to the Pechiney acquisition and is consistent with the Company's strategy of divesting non-core activities. On June 1, 2005, the Company completed the sale of PEM for net proceeds of \$150.

Engineered Products

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

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

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

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

Packaging

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

### Other

In the second quarter of 2004, the Company classified in discontinued operations its copper and ores and concentrates trading businesses. In the fourth quarter of 2004, the Company sold certain assets of its ores and concentrates trading division to its then current management team, and sold the assets of its zinc and lead metal trading business to Trafigura Ltd., an independent commodity trading company.

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

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

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

| <i>Periods ended June 30</i>               | Second Quarter |      | Six Months |      |
|--|----------------|------|------------|------|
|  | 2005           | 2004 | 2005       | 2004 |
| Sales                                      | 78             | 404  | 276        | 826  |
| Income from operations                     | -              | 38   | 4          | 17   |
| Gain (Loss) on disposal - net              | (19)           | 27   | (10)       | 27   |
| Asset impairment provisions                | -              | -    | -          | (6)  |
| Pre-tax income (loss)                      | (19)           | 65   | (6)        | 38   |
| Income tax recovered (expense)             | 2              | (19) | (1)        | (20) |
| Income (Loss) from discontinued operations | (17)           | 46   | (7)        | 18   |

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

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

|  | June 30, 2005 | December 31, 2004 |
|--|---------------|-------------------|
| Current assets held for sale:                    |               |                   |
| Cash and time deposits                           | -             | 156               |
| Trade receivables                                | 45            | 308               |
| Other receivables                                | 37            | 40                |
| Deferred income taxes                            | -             | 2                 |
| Inventories                                      | 90            | 285               |
|  | <b>172</b>    | <b>791</b>        |
| Long-term assets held for sale:                  |               |                   |
| Deferred charges and other assets                | 14            | 21                |
| Deferred income taxes                            | 5             | 6                 |
| Property, plant and equipment, net               | 11            | 85                |
| Intangible assets, net                           | -             | 50                |
|  | <b>30</b>     | <b>162</b>        |
| Current liabilities of operations held for sale: |               |                   |
| Payables and accrued liabilities                 | 103           | 330               |

Conditional Asset Retirement Obligations

12

|  |            |     |
|--|------------|-----|
| Short-term borrowings                              | 1          | 5   |
|  | <b>104</b> | 335 |
| Long-term liabilities of operations held for sale: |            |     |
| Deferred credits and other liabilities             | 6          | 110 |
| Deferred income taxes                              | 3          | 4   |
| Minority interests                                 | -          | 135 |
|  | <b>9</b>   | 249 |

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

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

| Periods ended June 30  | Second Quarter |      | Six Months  |      |
|--|----------------|------|-------------|------|
|  | 2005           | 2004 | 2005        | 2004 |
| <b>Numerator:</b>  |                |      |             |      |
| Income from continuing operations  | 208            | 285  | 416         | 419  |
| Less: dividends on preference shares                                     | (1)            | (1)  | (3)         | (3)  |
| Income from continuing operations attributable to<br>common shareholders | 207            | 284  | 413         | 416  |
| <b>Denominator (number of common shares in millions):</b>                |                |      |             |      |
| Weighted average of outstanding shares - basic                           | 370            | 368  | 370         | 368  |
| Effect of dilutive stock options   | -              | 1    | 1           | 1    |
| Adjusted weighted average of outstanding shares - diluted                | 370            | 369  | 371         | 369  |
| <b>Earnings per common share - basic and diluted</b>                     | <b>0.56</b>    | 0.77 | <b>1.11</b> | 1.13 |

In the second quarter and six months of 2005, options to purchase 7,863,990 and 4,739,354 common shares, respectively (2004: 1,016,500 and 1,000,000) at a weighted average grant price of CAN\$46.57 and CAN\$50.16 per share, respectively (2004: CAN\$60.96 and CAN\$61.03) were outstanding during the period but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average price of the common shares.

As at June 30, 2005, there were 370,234,793 (2004: 368,225,632) common shares outstanding.

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

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

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

|  | Adjusted<br>Amounts <sup>(1)</sup> | Original<br>Amounts |
|--|------------------------------------|---------------------|
| <b>Carrying amount of spun-off businesses:</b> |                                    |                     |
| Current assets                                 | 2,935                              | 2,935               |
| Non-current assets                             | 2,802                              | 2,802               |
| Current liabilities                            | (3,129)                            | (3,160)             |
| Non-current liabilities                        | (2,227)                            | (2,197)             |

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|  |      |      |
|--|------|------|
| Accumulated other comprehensive income     | (71) | (68) |
| Total                                      | 310  | 312  |
| Derivatives <sup>(2)</sup>                 | (31) | (31) |
| Total amount recorded in retained earnings | 279  | 281  |

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

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

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

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

## 6. RESTRUCTURING PROGRAMS

### 2005 Restructuring Activities

#### Pechiney

In the second quarter of 2005, the Company incurred an additional \$34 of restructuring costs in connection with the exit of certain Pechiney activities as a result of changing market conditions and changes in strategy. These charges consist principally of severance costs of \$32, consisting of \$13 related to the suspension of one of two activities at the Mercus high-purity-metal processing mill and the closure of the Froges rolling mill in France (Engineered Products), and \$19 related principally to an organizational realignment of the European Tubes sites of the Packaging Beauty business, mainly in France and Germany, as well as other charges of \$2 relating principally to the consolidation of certain corporate functions (Other) and the exit of certain packaging facilities in Mexico. The Company expects to incur \$3 of additional charges in 2005 and \$11 in 2006 relating to these restructuring activities.

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## 6. RESTRUCTURING PROGRAMS (cont'd)

### Other 2005 Restructuring Activities

In the second quarter of 2005, the Company announced the restructuring of its Engineered Products facilities in Singen, Germany, and Sierre, Switzerland, in order to improve efficiency and ensure their long-term viability. Alcan will integrate its extrusion activities at the Singen and Sierre sites, and restructure the automotive structures and composites into its operations at Singen. The Company incurred \$27 of restructuring charges relating principally to severance costs. The Company expects to incur \$4 of additional charges in 2005 and \$5 in 2006 relating to these restructuring activities.

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

In the first quarter of 2005, the Company incurred \$1 of restructuring charges relating to costs to centralize certain packaging operations at two facilities located in Canada and the U.S. In the second quarter of 2005, the Company incurred an additional \$1 of

restructuring charges in relation to these activities, consisting primarily of severance costs and costs to relocate equipment. In relation to these activities, the Company expects to incur additional charges of \$1 consisting primarily of severance and equipment relocation costs.

## 2004 Restructuring Activities

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

### Pechiney

In 2004, the Company recorded liabilities of \$193 (Q1: nil; Q2: \$79; Q3: \$21; Q4: \$93) for restructuring costs in connection with the exit of certain operations of Pechiney, and these costs were recorded in the allocation of the purchase price of Pechiney. These costs principally comprise severance costs of \$121 (Q1: nil; Q2: \$79; Q3: nil; Q4: \$42) related to the involuntary termination of Pechiney employees in France (Primary Metal, Engineered Products, Packaging and Other), as well as other severance costs of \$54 (Q1: nil; Q2: nil; Q3: \$21; Q4: \$33), principally comprising \$21 relating to a plant closure in Barcelona, Spain (Packaging), \$17 relating to a planned plant closure in Flemalle, Belgium, \$5 relating to a plant closure in Garbagnate, Italy (Packaging), and \$1 relating to the downsizing of a plant in Kolin in the Czech Republic (Packaging). A restructuring provision of \$21 related to the plant closure in Flemalle has been transferred to Novelis in 2005 following the spin-off.

In the first quarter of 2005, the Company incurred additional restructuring costs of \$8 in relation to the exit of certain Pechiney activities. These costs consist of severance costs of \$3 relating principally to the termination of Pechiney employees in France and Italy (Packaging and Other), asset impairment charges of \$3 relating principally to the impairment of assets at a Pechiney facility in China (Engineered Products), and other costs of \$2 relating principally to the closure of the Barcelona and Garbagnate facilities (Packaging). In the second quarter of 2005, the Company incurred additional severance costs of \$6 relating principally to the closure of packaging facilities in Barcelona, as well as other Engineered Products facilities in the U.K. All restructuring costs incurred in 2005 are recorded in the statement of income.

### Other 2004 restructuring activities

In the third quarter of 2004, the Company incurred restructuring charges of \$19 relating to the consolidation of its U.K. aluminum sheet rolling activities in Rogerstone, Wales, in order to improve competitiveness through better capacity utilization and economies of scale. Production ceased at the rolling mill in Falkirk, Scotland, in December 2004. The charges include \$6 of severance costs, \$8 of asset impairment charges, \$2 of pension costs, \$2 of decommissioning and environmental costs and \$1 of other charges. These entities and the related restructuring provision of \$5 have been transferred to Novelis in 2005 following the spin-off.

In 2004, the Company incurred restructuring charges of \$7 (Q1: nil; Q2: \$6; Q3: \$2; Q4: (\$1)) relating to the closure of two corporate offices in the U.K. and Germany (Other). The charges include \$4 (Q1: nil; Q2: nil; Q3: \$2; Q4: \$2) related to severance costs and \$3 (Q1: nil; Q2: \$6; Q3: nil; Q4: (\$3)) related to lease exit costs and costs to consolidate facilities. In the first quarter of 2005, the Company incurred additional severance charges of \$1 in relation to the closure of its corporate office in the U.K., and incurred an additional \$3 of severance and other exit costs in the second quarter of 2005. The restructuring provision of \$3 related to the closure of the corporate office in Germany has been transferred to Novelis in 2005 following the spin-off.

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## 6. RESTRUCTURING PROGRAMS (cont'd)

In November 2004, the Company announced the downsizing of its Alcan Mass Transportation Systems business unit in Zurich, Switzerland (Engineered Products) as a result of changing market conditions and business realities. The Company incurred restructuring charges of \$5 consisting of \$4 of asset impairment charges, and \$1 of other charges in the fourth quarter of 2004. In the first quarter of 2005, the Company incurred additional severance charges of \$2 and asset impairment charges of \$1 relating to the downsizing of this business. During the second quarter of 2005, the Company incurred an additional \$1 of severance costs and expects to incur an additional \$2 of charges in relation to the downsizing of Alcan Mass Transportation Systems.

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

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

In early 2004, the Company permanently halted production at its Jonquière Söderberg primary aluminum facility in Saguenay, Quebec (Primary Metal). As a result, the Company recorded charges of \$14 (Q1: \$5; Q2: \$6; Q3: \$1; Q4: \$2) in 2004 comprising \$5 (Q1: \$1; Q2: \$2; Q3: nil; Q4: \$2) of severance costs, \$5 (Q1: \$4; Q2: \$1; Q3: nil; Q4: nil) of asset impairment charges, and \$4 (Q1: nil; Q2: \$3; Q3: \$1; Q4: nil) of other costs. In the first quarter of 2005, the Company incurred additional dismantling costs of \$1 relating to the closure of this facility. The Company expects to incur an additional \$11 in relation to this activity.

### 2001 Restructuring Program

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

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

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## 6. RESTRUCTURING PROGRAMS (cont'd)

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

|  | Severance<br>Costs | Asset<br>Impairment<br>Provisions* | Other       | Total       |
|--|--------------------|------------------------------------|-------------|-------------|
| Provision balance as at January 1, 2004            | 86                 | -                                  | 46          | 132         |
| <b>2004:</b>                                       |                    |                                    |             |             |
| Charges recorded in the statement of income        | 44                 | 30                                 | 13          | 87          |
| Charges recorded in the allocation of the          |                    |                                    |             |             |
| Pechiney purchase price                            | 175                | -                                  | 18          | 193         |
| Cash payments                                      | (99)               | -                                  | (33)        | (132)       |
| Non-cash items                                     | -                  | (30)                               | 8           | (22)        |
| Provision balance as at December 31, 2004          | 206                | -                                  | 52          | 258         |
| <b>Six months, 2005:</b>                           |                    |                                    |             |             |
| <b>Provisions transferred to Novelis</b>           | <b>(31)</b>        | <b>-</b>                           | <b>(14)</b> | <b>(45)</b> |
| <b>Charges recorded in the statement of income</b> | <b>78</b>          | <b>20</b>                          | <b>4</b>    | <b>102</b>  |
| <b>Cash payments - net</b>                         | <b>(56)</b>        | <b>-</b>                           | <b>(10)</b> | <b>(66)</b> |
| <b>Non-cash items</b>                              | <b>(24)</b>        | <b>(20)</b>                        | <b>(3)</b>  | <b>(47)</b> |
| <b>Provision balance as at June 30, 2005</b>       | <b>173</b>         | <b>-</b>                           | <b>29</b>   | <b>202</b>  |

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

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



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

|                                       | <b>Severance<br/>Costs</b> | <b>Asset<br/>Impairment<br/>Provisions</b> | <b>Other</b> | <b>Total</b> |
|---------------------------------------|----------------------------|--|--------------|--------------|
| <i>Quarter ended June 30, 2005</i>    |                            |  |              |              |
| <b>Engineered Products</b>            | 45                         | -  | -            | 45           |
| <b>Packaging</b>                      | 23                         | 16   | 3            | 42           |
| <b>Other</b>                          | -                          | -  | (2)          | (2)          |
| <b>Total</b>                          | 68                         | 16   | 1            | 85           |
| <i>Six months ended June 30, 2005</i> |                            |  |              |              |
| <b>Primary Metal</b>                  | -                          | -  | 1            | 1            |
| <b>Engineered Products</b>            | 48                         | 3  | -            | 51           |
| <b>Packaging</b>                      | 28                         | 17   | 5            | 50           |
| <b>Other</b>                          | 2                          | -  | (2)          | -            |
| <b>Total</b>                          | 78                         | 20   | 4            | 102          |

For the second quarter and six months ended June 30, 2005, \$53 and \$63, respectively, of the restructuring charges above are excluded from the measurement of the profitability of the Company's operating segments (Business Group Profit), as they relate to major corporate-wide acquisitions or initiatives. See note 7 - Information by Operating Segment.

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**7. INFORMATION BY OPERATING SEGMENT**

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

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

- (1) The operating segments include the Company's proportionate share of joint ventures (including joint ventures accounted for using the equity method) and certain other equity-accounted investments as they are managed within each operating segment, with the adjustments for equity-accounted joint ventures and certain investments shown on a separate line in the reconciliation to Income from continuing operations; and
- (2) Pension costs for the operating segments are based on the normal current service cost with all actuarial gains, losses and other adjustments being included in Intersegment and other.

The operating segments are described below.

Bauxite and Alumina

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

### Primary Metal

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

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

### Engineered Products

Headquartered in Paris, France, this group produces extruded, rolled and cast aluminum products, engineered shaped products and structures, including cable, wire and rod, as well as composite materials such as aluminum-plastic, fibre reinforced plastic and foam-plastic in 46 plants located in 11 countries. Two of these facilities are excluded from the operating segment information as they have been reclassified to discontinued operations and assets held for sale. Also included in Engineered Products are 37 service centres in 12 countries offering technical assistance, cutting, shaping, machining and assembling for smaller customers, and nearly 33 offices that sell and source products in 29 countries.

### Packaging

Headquartered in Paris, this group consists of the Company's worldwide food, pharmaceutical and medical, beauty and personal care and tobacco packaging businesses, operating approximately 180 plants in 30 countries.

### Intersegment and other

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

| <i>Periods ended June 30</i>                       | Second Quarter |         | Six Months |         |
|--|----------------|---------|------------|---------|
|  | 2005           | 2004    | 2005       | 2004    |
| <b>Sales and operating revenues - intersegment</b> |                |         |            |         |
| Bauxite and Alumina                                | 418            | 395     | 775        | 789     |
| Primary Metal                                      | 539            | 943     | 994        | 1,867   |
| Engineered Products                                | 54             | 192     | 168        | 371     |
| Packaging  | -              | 17      | 2          | 33      |
| Entities transferred to Novelis                    | -              | 103     | -          | 192     |
| Other  | (1,011)        | (1,650) | (1,939)    | (3,252) |
|  | -              | -       | -          | -       |

| <i>Periods ended June 30</i>  | Second Quarter |       | Six Months |        |
|---|----------------|-------|------------|--------|
|   | 2005           | 2004  | 2005       | 2004   |
| <b>Sales and operating revenues - third parties</b>                     |                |       |            |        |
| Bauxite and Alumina   | 369            | 417   | 742        | 797    |
| Primary Metal   | 1,679          | 1,063 | 3,335      | 2,136  |
| Engineered Products   | 1,589          | 1,437 | 3,149      | 2,816  |
| Packaging   | 1,578          | 1,501 | 3,162      | 3,011  |
| Entities transferred to Novelis   | -              | 1,777 | -          | 3,443  |
| Adjustments for equity-accounted joint ventures and certain investments | (21)           | 4     | (30)       | 6      |
| Other   | 12             | 9     | 26         | 19     |
|   | 5,206          | 6,208 | 10,384     | 12,228 |

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

| <i>Periods ended June 30</i>  | Second Quarter |            | Six Months |            |
|---|----------------|------------|------------|------------|
|   | 2005           | 2004       | 2005       | 2004       |
| <b>Business Group Profit (BGP)</b>                                      |                |            |            |            |
| Bauxite and Alumina   | 111            | 126        | 208        | 214        |
| Primary Metal   | 425            | 436        | 856        | 814        |
| Engineered Products   | 101            | 106        | 216        | 210        |
| Packaging   | 177            | 168        | 331        | 336        |
| Entities transferred to Novelis   | -              | 175        | -          | 342        |
| Adjustments for equity-accounted joint ventures and certain investments | (77)           | (52)       | (151)      | (105)      |
| Adjustments for mark-to-market of derivatives                           | 33             | (12)       | 30         | (12)       |
| Depreciation and amortization   | (268)          | (324)      | (540)      | (660)      |
| Intersegment, corporate offices and other                               | (161)          | (134)      | (246)      | (392)      |
| Equity income   | 28             | 17         | 57         | 33         |
| Interest  | (90)           | (87)       | (175)      | (180)      |
| Income taxes  | (70)           | (125)      | (168)      | (166)      |
| Minority interests  | (1)            | (9)        | (2)        | (15)       |
| <b>Income from continuing operations</b>                                | <b>208</b>     | <b>285</b> | <b>416</b> | <b>419</b> |

|   | June 30, 2005 | December 31, 2004 |
|---|---------------|-------------------|
| <b>Total Assets</b>   |               |                   |
| Bauxite and Alumina   | 3,945         | 3,496             |
| Primary Metal   | 10,317        | 10,342            |
| Engineered Products   | 4,306         | 4,601             |
| Packaging   | 7,884         | 8,255             |
| Entities transferred to Novelis   | -             | 5,434             |
| Adjustments for equity-accounted joint ventures and certain investments | (365)         | (313)             |
| Other   | 858           | 573               |
| Assets held for sale:   |               |                   |
| Bauxite and Alumina   | -             | 63                |
| Primary Metal   | 157           | 823               |
| Engineered Products   | 39            | 63                |
| Packaging   | 6             | 4                 |
| Total assets held for sale  | 202           | 953               |
|   | <b>27,147</b> | <b>33,341</b>     |

Risk Concentration

The Company's consolidated sales and operating revenues for the second quarter and six months ended June 30, 2005 include \$548 and \$1,145, respectively, arising from transactions with Novelis. These sales and operating revenues represent 11% of the consolidated sales and operating revenues for each of the second quarter and six months ended June 30, 2005.

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

| <i>Periods ended June 30, 2005</i> | Second Quarter | Six Months |
|------------------------------------|----------------|------------|
| Bauxite and Alumina                | 15             | 25         |
| Primary Metal                      | 512            | 1,056      |

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|                     |     |       |
|---------------------|-----|-------|
| Engineered Products | 19  | 54    |
| Packaging           | 2   | 10    |
| Total               | 548 | 1,145 |

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

### Alcan Executive Share Option Plan

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

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

Effective January 1, 2004, the Company retroactively adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation. The Black-Scholes valuation model is used to determine the fair value of the options granted. For the second quarter and six months ended June 30, 2005, the stock-based compensation expense was \$5 and \$10, respectively (2004: \$2 and \$4), of which \$1 and \$2, respectively (2004: nil) were related to the incremental cost that arose as a result of the modification of certain stock option terms pursuant to the spin-off of Novelis.

### Shares Under Pechiney Options

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

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

#### Stock Price Appreciation Unit Plan

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

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

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

#### Total Shareholder Return Performance Plan

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

#### Restricted Stock Units

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

#### Deferred Share Agreements

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

Compensation Cost

For the second quarter and six months ended June 30, 2005, the stock-based compensation income for arrangements that can be settled in cash was \$11 and \$13, respectively (2004: \$5 and \$4).

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**9. INCOME TAXES**

| <i>Periods ended June 30</i> | Second Quarter |      | Six Months |      |
|------------------------------|----------------|------|------------|------|
|                              | 2005           | 2004 | 2005       | 2004 |
| Current                      | 83             | 83   | 126        | 152  |
| Deferred                     | (13)           | 42   | 42         | 14   |
|                              | 70             | 125  | 168        | 166  |

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

**10. LONG-TERM DEBT**

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

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

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

| <i>Periods ended June 30</i>                                | Second Quarter |      | Six Months |      |
|---|----------------|------|------------|------|
|   | 2005           | 2004 | 2005       | 2004 |
| Restructuring and other costs (recoveries) - net            | 74             | 27   | 91         | 45   |
| Asset impairment provisions                                 | 25             | 2    | 33         | 10   |
| Loss (Gain) on disposal of businesses and investments - net | 17             | (42) | 16         | (42) |
| Provision for legal claims                                  | 10             | 2    | 11         | 2    |
| Environmental provisions                                    | 5              | -    | 8          | -    |
| Derivatives losses (gains) - net                            | (23)           | 30   | (5)        | 29   |
| Interest revenue  | (12)           | (6)  | (31)       | (8)  |
| Pechiney integration costs                                  | 8              | 11   | 14         | 13   |
| Exchange losses (gains) - net                               | (27)           | 1    | (43)       | (11) |
| Other   | (4)            | 29   | 3          | 13   |
|   | 73             | 54   | 97         | 51   |

**12. INVENTORIES**

|                                     | June 30, 2005 | December 31, 2004 |
|-------------------------------------|---------------|-------------------|
| <b>Aluminum operating segments</b>  |               |                   |
| Aluminum                            | 919           | 1,881             |
| Raw materials                       | 746           | 733               |
| Other supplies                      | 390           | 576               |
|                                     | 2,055         | 3,190             |
| <b>Packaging operating segments</b> |               |                   |
| Raw materials and other supplies    | 305           | 347               |
| Work in progress                    | 154           | 147               |
| Finished goods                      | 349           | 356               |
|                                     | 808           | 850               |
|                                     | 2,863         | 4,040             |

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**13. SALE OF RECEIVABLES**

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

**14. SUPPLEMENTARY INFORMATION**

| <i>Periods ended June 30</i>                            | Second Quarter |      | Six Months           |                   |
|---|----------------|------|----------------------|-------------------|
|   | 2005           | 2004 | 2005                 | 2004              |
| <b>Income Statement</b>                                 |                |      |                      |                   |
| Interest on long-term debt                              | <b>83</b>      | 72   | <b>166</b>           | 146               |
| Capitalized interest                                    | <b>(5)</b>     | (2)  | <b>(10)</b>          | (4)               |
|   |                |      | <b>June 30, 2005</b> | December 31, 2004 |
| <b>Balance Sheet</b>                                    |                |      |                      |                   |
| Payables and accrued liabilities include the following: |                |      |                      |                   |
| Trade payables  |                |      | <b>2,117</b>         | 2,816             |
| Accrued liabilities                                     |                |      | <b>2,298</b>         | 3,027             |

**15. COMMITMENTS AND CONTINGENCIES**

The Company has guaranteed the repayment of approximately \$134 of indebtedness by third parties. Alcan believes that none of these guarantees is likely to be invoked. These guarantees relate primarily to debt held by equity-accounted joint ventures, customer contracts, employee housing loans and potential environmental remediation at former Alcan sites.

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

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

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

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

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

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**16. COMPREHENSIVE INCOME**

| <i>Periods ended June 30</i>  | Second Quarter |            | Six Months  |            |
|---|----------------|------------|-------------|------------|
|   | 2005           | 2004       | 2005        | 2004       |
| Net income  | 191            | 331        | 409         | 437        |
| Other comprehensive income (loss):  |                |            |             |            |
| Net change in deferred translation adjustments  | (299)          | (58)       | (559)       | (152)      |
| Net change in excess of market value over book value of "available-for-sale" securities   | (2)            | (1)        | (4)         | (2)        |
| Valuation of derivatives, net of tax of (\$45) and (\$29), respectively, for the quarter and six months ended June 30, 2005 (2004: (\$2) and \$5)               |                |            |             |            |
| Net change from periodic revaluations   | 84             | 1          | 43          | (16)       |
| Net amount reclassified to income   | 12             | 2          | 20          | 6          |
| Net change in minimum pension liability, net of tax of (\$7) and (\$12), respectively, for the quarter and six months ended June 30, 2005 (2004: (\$1) and \$1) | 20             | 1          | (4)         | (2)        |
| <b>Comprehensive income (loss)</b>  | <b>6</b>       | <b>276</b> | <b>(95)</b> | <b>271</b> |

|  | June 30, 2005 | December 31, 2004 |
|--|---------------|-------------------|
| <b>Accumulated other comprehensive income (loss)</b> |               |                   |
| Deferred translation adjustments                     | 401           | 1,063             |
| Unrealized gain on "available-for-sale" securities   | 4             | 8                 |
| Minimum pension liability                            | (522)         | (550)             |
| Derivatives  | (1)           | (64)              |
| <b>Accumulated other comprehensive income (loss)</b> | <b>(118)</b>  | <b>457</b>        |

**17. SALES AND ACQUISITIONS OF BUSINESSES AND INVESTMENTS****2005***Canada*

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

*Asia and Other Pacific*

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

On April 18, 2005, the Company announced its acquisition of the tobacco packaging interests of CM Printing Sdn Bhd in Malaysia for a cost of \$2. Located at Rawang, Alcan Packaging Malaysia Sdn Bhd will incorporate modern equipment and infrastructure to



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further complement Alcan Packaging's existing tobacco and flexibles printing capability in South-East Asia.

### *France, Germany, Other Europe*

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

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

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

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

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

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

### **2004**

#### *Asia and Other Pacific*

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

#### *Other Europe*

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

#### *All other*

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

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

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

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### 18. POST-RETIREMENT BENEFITS

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

#### Components of Net Periodic Benefit Cost

|                                     | Pension benefits |       |            |       | Other Benefits |      |            |      |
|-------------------------------------|------------------|-------|------------|-------|----------------|------|------------|------|
|                                     | Second Quarter   |       | Six Months |       | Second Quarter |      | Six Months |      |
|                                     | 2005             | 2004  | 2005       | 2004  | 2005           | 2004 | 2005       | 2004 |
| <i>Periods ended June 30</i>        |                  |       |            |       |                |      |            |      |
| Service cost                        | 41               | 45    | 82         | 91    | 3              | 4    | 6          | 8    |
| Interest cost on benefit obligation | 136              | 134   | 275        | 270   | 14             | 15   | 28         | 30   |
| Expected return on plan assets      | (136)            | (127) | (275)      | (256) | -              | -    | -          | -    |
| Amortization:                       |                  |       |            |       |                |      |            |      |
| Actuarial (gains) losses            | 24               | 18    | 48         | 34    | (1)            | -    | (2)        | -    |
| Prior service cost                  | 15               | 17    | 30         | 35    | -              | -    | -          | -    |
| Curtailment/settlement gains        | -                | (23)  | -          | (23)  | -              | -    | -          | -    |
| Net periodic benefit cost           | 80               | 64    | 160        | 151   | 16             | 19   | 32         | 38   |

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

#### Employer Contributions

Alcan previously disclosed in its financial statements for the year ended December 31, 2004, that it expected to contribute \$206 to its funded pension plans in 2005. The contributions are expected to be fully comprised of cash. As at June 30, 2005, \$95 has been contributed, and the Company expects to contribute an additional \$94 over the remainder of the year. As previously disclosed in its financial statements for the year ended December 31, 2004, the Company expected to pay in 2005, \$76 of unfunded pension benefits and lump sum indemnities from operating cash flows. As at June 30, 2005, \$33 has been paid, and the Company expects to pay an additional \$32 over the remainder of the year. The lower contributions are principally due to the spin-off of Novelis.

#### Spin-off of Novelis

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

- a) In the U.S., for Novelis employees previously participating in the Alcancorp Pension Plan and the Alcan Supplemental Executive Retirement Plan, Alcan agreed to recognize up to one year of additional service in its plan as long as such employee worked for Novelis and Novelis paid to Alcan the normal cost (in the case of the Alcancorp Pension Plan) and the current service cost (in the case of the Alcan Supplemental Executive Retirement Plan). During this year, Novelis will decide whether it will transfer its share of pension assets and liabilities to a Novelis plan or retain them in the Alcan plans.

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b) In the U.K., the sponsorship of the Alusuisse Holdings U.K. Ltd Pension Plan was transferred from Alcan to Novelis. Employees who transferred from British Alcan Aluminium plc to Novelis continue to participate in the British Alcan Retirement Income Plan in 2005 and the contribution required to fund their additional service shall be paid by Novelis.

c) In Switzerland, employees who transferred from Alcan to Novelis continue to participate in the Alcan retirement schemes in 2005 and the contribution required to fund their additional service is being paid by Novelis.

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

The benefit obligation at December 31, 2004 of pension benefits and other benefits of \$11,384 and \$1,050, respectively included \$550 and \$115 of pension and other benefit obligations, respectively, that were transferred to Novelis on January 6, 2005, as part of the spin-off of Novelis described in note 5 - Spin-off of Rolled Products Businesses. The market value of plan assets at December 31, 2004 of pension benefits of \$8,468 included \$290 that was transferred to Novelis. In addition, certain entities of Novelis, prior to the spin-off, participated in defined benefit pension plans in Canada, the U.S., the U.K., and Switzerland managed by Alcan. Included in the net periodic benefit cost for the second quarter and six months ended June 30, 2004 are \$2 and \$10 of pension and \$2 and \$4 of other benefits, respectively, related to Novelis. The expected contribution of \$206 to funded pension plans in 2005 included \$14 to be paid by Novelis. The expected payment of \$76 of unfunded pension benefits and lump sum indemnities in 2005 included \$7 to be paid by Novelis.

## 19. FINANCIAL INSTRUMENTS

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

### Derivatives – Currency

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

| <u>Financial Instrument</u>  | <u>Hedge</u>   | June 30, 2005<br>Fair Value | December 31,<br>2004<br>Fair Value |
|------------------------------|--|-----------------------------|------------------------------------|
| Forward exchange contracts   | Future firm net operating cash flows                                       | 12                          | (62)                               |
| Forward exchange contracts   | To swap intercompany foreign currency denominated loans to US\$, € and CHF | (10)                        | (5)                                |
| Forward exchange contracts   | To hedge € net equity investment   | (37)                        | (167)                              |
| Forward exchange contracts   | Future commitments <sup>(1)</sup>  | 2                           | 5                                  |
| Forward exchange contracts   | To swap CAN\$ commercial paper borrowings to US\$                          | 10                          | 31                                 |
| Currency options             | Future US\$ sales against € and £  | 4                           | 15                                 |
| Cross currency interest swap | To swap US\$ third party borrowings to KRW                                 | -                           | (8)                                |
| Cross currency interest swap | To swap € 21 million medium term notes to £14 million                      | -                           | 2                                  |

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

Derivatives and Commodity Contracts - Aluminum

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

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**19. FINANCIAL INSTRUMENTS** (cont'd)

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

| <b>Financial Instrument</b>  | <b>June 30, 2005</b> | December 31, 2004 |
|--|----------------------|-------------------|
| Forward contracts (principally forward sales contracts) and physical trading contracts |                      |                   |
| Maturing principally in years  | <b>2005 to 2006</b>  | 2005 to 2006      |
| Fair value   | <b>18</b>            | (104)             |
| Forward fixed price sales agreements   |                      |                   |
| Maturing principally in years  | <b>2005 to 2006</b>  | -                 |
| Fair value   | <b>(14)</b>          | -                 |
| Call options purchased   |                      |                   |
| Maturing principally in years  | <b>2005</b>          | 2005              |
| Fair value   | <b>5</b>             | 36                |
| Call options sold  |                      |                   |
| Maturing principally in years  | <b>2005</b>          | 2005              |
| Fair value   | <b>(5)</b>           | (10)              |
| Embedded derivatives   |                      |                   |
| Maturing principally in years  | -                    | 2005              |
| Fair value   | -                    | (10)              |

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

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

**Reconciliation of U.S. and Canadian GAAP****Periods ended  
June 30****Second Quarter, 2005****Second Quarter, 2004**

|  | <b>Canadian</b>        |                    |              | <b>Canadian</b>        |             |               |             |
|--|------------------------|--------------------|--------------|------------------------|-------------|---------------|-------------|
|  | <b>As<br/>reported</b> | <b>Ref. Amount</b> | <b>GAAP</b>  | <b>As<br/>reported</b> | <b>Ref.</b> | <b>Amount</b> | <b>GAAP</b> |
| <b>Statement of<br/>Income</b>                         |                        |                    |              |                        |             |               |             |
| <b>Sales and operating<br/>revenues</b>                | <b>5,206 (g)</b>       | <b>16</b>          | <b>5,222</b> | 6,208                  | (g)         | (13)          | 6,195       |
| <b>Cost and expenses</b>                               |                        |                    |              |                        |             |               |             |
| Cost of sales and operating<br>expenses                | <b>4,130 (a)</b>       | <b>1</b>           | <b>4,085</b> | 4,918                  | (a)         | (8)           | 4,843       |
| excluding depreciation and<br>amortization noted below | <b>(g)</b>             | <b>(46)</b>        |              |                        | (g)         | (67)          |             |
| Depreciation and amortization                          | <b>268 (f)</b>         | <b>1</b>           | <b>291</b>   | 324                    | (f)         | 1             | 352         |

Periods ended June 30

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|   |            |            |            |       |     |            |
|---|------------|------------|------------|-------|-----|------------|
|   | (g)        | 22         |            | (g)   | 27  |            |
| Selling, administrative and general expenses                          | 345        | -          | 345        | 365   | (g) | 2 367      |
| Research and development expenses                                     | 49 (g)     | 1          | 50         | 58    |     | - 58       |
| Interest  | 90 (g)     | 4          | 94         | 87    | (g) | 3 90       |
| Other expenses (income) - net   | 73 (a)     | 4          | 70         | 54    | (a) | 1 57       |
|   | (g)        | (7)        |            |       | (g) | 2          |
|   | 4,955      | (20)       | 4,935      | 5,806 |     | (39) 5,767 |
| Income from continuing operations before income taxes and other items | 251        | 36         | 287        | 402   |     | 26 428     |
| Income taxes  | 70 (a)     | (2)        | 83         | 125   | (a) | 2 135      |
|   | (f)        | (1)        |            |       | (f) | (1)        |
|   | (g)        | 16         |            |       | (g) | 9          |
| Income from continuing operations before other items                  | 181        | 23         | 204        | 277   |     | 16 293     |
| Equity income   | 28 (g)     | (26)       | 2          | 17    | (g) | (11) 6     |
| Minority interests  | (1)        | -          | (1)        | (9)   |     | - (9)      |
| <b>Income from continuing operations</b>                              | <b>208</b> | <b>(3)</b> | <b>205</b> | 285   |     | 5 290      |
| Income (Loss) from discontinued operations                            | (17)       | -          | (17)       | 46    |     | - 46       |
| <b>Net income</b>   | <b>191</b> | <b>(3)</b> | <b>188</b> | 331   |     | 5 336      |
| Dividends on preference shares  | 1          | -          | 1          | 1     |     | - 1        |
| <b>Net income attributable to common shareholders</b>                 | <b>190</b> | <b>(3)</b> | <b>187</b> | 330   |     | 5 335      |

(a) Derivatives

(b) Currency translation

(c) Investments

(d) Minimum pension liability

(e) Deferred translation adjustments

(f) Acquired in-process research and development

(g) Joint ventures

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

Cost and expenses

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## Reconciliation of U.S. and Canadian GAAP

**Periods ended  
June 30**

Six Months, 2005

Six Months, 2004

|   | Canadian              |                  |        | Canadian              |                |        |
|---|-----------------------|------------------|--------|-----------------------|----------------|--------|
|   | As reported           | Ref. Amount      | GAAP   | As reported           | Ref. Amount    | GAAP   |
| <b>Statement of<br/>Income</b>  |                       |                  |        |                       |                |        |
| <b>Sales and operating<br/>revenues</b>                                     | 10,384 (g)            | 19               | 10,403 | 12,228 (g)            | (21)           | 12,207 |
| <b>Cost and expenses</b>  |                       |                  |        |                       |                |        |
| Cost of sales and operating<br>expenses                                     | 8,220 (a)             | 8                | 8,127  | 9,890 (a)             | (15)           | 9,746  |
| excluding depreciation and<br>amortization noted below                      | (g)                   | (101)            |        | (g)                   | (129)          |        |
| Depreciation and amortization   | 540 (f)<br>(g)        | 2<br>48          | 590    | 660 (f)<br>(g)        | 2<br>53        | 715    |
| Selling, administrative and<br>general expenses                             | 725 (g)               | 2                | 727    | 761 (g)               | 3              | 764    |
| Research and development<br>expenses  | 98 (g)                | 1                | 99     | 119                   | -              | 119    |
| Interest  | 175 (g)               | 8                | 183    | 180 (g)               | 6              | 186    |
| Other expenses (income) - net   | 97 (a)<br>(g)         | 1<br>(25)        | 73     | 51 (a)<br>(g)         | (2)<br>2       | 51     |
|   | 9,855                 | (56)             | 9,799  | 11,661                | (80)           | 11,581 |
| Income from continuing<br>operations before<br>income taxes and other items | 529                   | 75               | 604    | 567                   | 59             | 626    |
| Income taxes  | 168 (a)<br>(f)<br>(g) | (4)<br>(1)<br>31 | 194    | 166 (a)<br>(f)<br>(g) | 4<br>(1)<br>18 | 187    |
| Income from continuing<br>operations before other items                     | 361                   | 49               | 410    | 401                   | 38             | 439    |
| Equity income   | 57 (g)                | (55)             | 2      | 33 (g)                | (26)           | 7      |
| Minority interests  | (2)                   | -                | (2)    | (15)                  | -              | (15)   |
| <b>Income from continuing<br/>operations</b>                                | 416                   | (6)              | 410    | 419                   | 12             | 431    |
| Income (Loss) from<br>discontinued operations                               | (7)                   | -                | (7)    | 18                    | -              | 18     |
| <b>Net income</b>   | 409                   | (6)              | 403    | 437                   | 12             | 449    |
| Dividends on preference shares  | 3                     | -                | 3      | 3                     | -              | 3      |
| <b>Net income attributable to<br/>common shareholders</b>                   | 406                   | (6)              | 400    | 434                   | 12             | 446    |



**20. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (cont'd)****Earnings Per Share - Canadian GAAP**

| <i>Periods ended June 30</i>                                       | Second Quarter |             | Six Months  |             |
|--|----------------|-------------|-------------|-------------|
|  | 2005           | 2004        | 2005        | 2004        |
| <b>Earnings (Loss) Per Share</b>                                   |                |             |             |             |
| Basic and Diluted:   |                |             |             |             |
| Income from continuing operations                                  | 0.55           | 0.78        | 1.10        | 1.16        |
| Income (Loss) from discontinued operations                         | (0.04)         | 0.12        | (0.02)      | 0.05        |
| <b>Net income per common share - basic and diluted</b>             | <b>0.51</b>    | <b>0.90</b> | <b>1.08</b> | <b>1.21</b> |
| <b>Consolidated Statement of Retained Earnings - Canadian GAAP</b> |                |             |             |             |

| <i>Six months ended June 30</i>                | 2005         | 2004  |
|--|--------------|-------|
| <b>Retained earnings - beginning of period</b> | <b>3,379</b> | 3,350 |
| Net income                                     | 403          | 449   |
| Spin-off of Novelis                            | (272)        | -     |
| Dividends                                      |              |       |
| Common   | (167)        | (167) |
| Preference                                     | (3)          | (3)   |
| <b>Retained earnings - end of period</b>       | <b>3,340</b> | 3,629 |

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

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

|                                   | June 30, 2005 |             |               | December 31, 2004 |             |               |
|-----------------------------------|---------------|-------------|---------------|-------------------|-------------|---------------|
|                                   | As reported   | Ref. Amount | Canadian GAAP | As reported       | Ref. Amount | Canadian GAAP |
| <b>Balance Sheet</b>              |               |             |               |                   |             |               |
| <b>Current assets</b>             |               |             |               |                   |             |               |
| <b>Cash and time deposits</b>     | 222 (g)       | 56          | 278           | 184 (g)           | 53          | 237           |
| Trade receivables                 | 2,861 (g)     | (30)        | 2,831         | 3,247 (g)         | (133)       | 3,114         |
| Other receivables                 | 846 (a)       | 18          | 932           | 936 (a)           | 103         | 1,113         |
|                                   | (g)           | 68          |               | (g)               | 74          |               |
| Deferred income taxes             | 110           | -           | 110           | 214 (a)           | (34)        | 180           |
| Inventories                       | 2,863 (g)     | 111         | 2,974         | 4,040 (g)         | 153         | 4,193         |
| Current assets held for sale      | 172           | -           | 172           | 791               | -           | 791           |
| <b>Total current assets</b>       | <b>7,074</b>  | <b>223</b>  | <b>7,297</b>  | <b>9,412</b>      | <b>216</b>  | <b>9,628</b>  |
| Deferred charges and other assets | 2,251 (a)     | 22          | 950           | 2,877 (a)         | 21          | 1,272         |
|                                   | (c)           | (4)         |               | (c)               | (8)         |               |
|                                   | (g)           | (1,319)     |               | (g)               | (1,618)     |               |
| Deferred income taxes             | 969           | -           | 969           | 870 (g)           | 3           | 873           |
| Property, plant and equipment     |               |             |               |                   |             |               |

Net income

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|  |               |            |               |               |            |               |
|--|---------------|------------|---------------|---------------|------------|---------------|
| Cost (excluding Construction work in progress)         | 15,383 (g)    | 1,446      | 16,829        | 21,956 (g)    | 2,343      | 24,299        |
| Construction work in progress                          | 899 (g)       | 14         | 913           | 816 (g)       | 16         | 832           |
| Accumulated depreciation                               | (5,479) (g)   | (627)      | (6,106)       | (9,478) (g)   | (1,180)    | (10,658)      |
|  | 10,803        | 833        | 11,636        | 13,294        | 1,179      | 14,473        |
| Intangible assets, net of accumulated amortization     | 1,028 (a)     | 4          | 925           | 1,230 (a)     | 4          | 1,105         |
|  | (d)           | (244)      |               | (d)           | (253)      |               |
|  | (f)           | 44         |               | (f)           | 46         |               |
|  | (g)           | 93         |               | (g)           | 78         |               |
| Goodwill   | 4,992 (g)     | 685        | 5,677         | 5,496 (g)     | 837        | 6,333         |
| Long-term assets for sale                              | 30            | -          | 30            | 162           | -          | 162           |
| <b>Total assets</b>                                    | <b>27,147</b> | <b>337</b> | <b>27,484</b> | <b>33,341</b> | <b>505</b> | <b>33,846</b> |
| <b>Current liabilities</b>                             |               |            |               |               |            |               |
| <b>Payables and accrued liabilities</b>                | 4,415 (a)     | 2          | 4,486         | 5,843 (a)     | (11)       | 5,896         |
|  | (g)           | 69         |               | (g)           | 64         |               |
| <b>Short-term borrowings</b>                           | 339 (g)       | 13         | 352           | 2,486         | -          | 2,486         |
| <b>Debt maturing within one year</b>                   | 854 (g)       | 101        | 955           | 569 (g)       | 81         | 650           |
| <b>Deferred income taxes</b>                           | 27 (g)        | 2          | 29            | 23 (a)        | (2)        | 27            |
|  |               |            |               | (g)           | 6          |               |
| <b>Current liabilities of operations held for sale</b> | 104           | -          | 104           | 335           | -          | 335           |
| <b>Total current liabilities</b>                       | <b>5,739</b>  | <b>187</b> | <b>5,926</b>  | <b>9,256</b>  | <b>138</b> | <b>9,394</b>  |
| Debt not maturing within one year                      | 5,630 (g)     | 124        | 5,754         | 6,345 (g)     | 198        | 6,543         |
| Deferred credits and other liabilities                 | 4,270 (a)     | 19         | 3,343         | 4,986 (a)     | 21         | 4,044         |
|  | (d)           | (975)      |               | (d)           | (1,036)    |               |
|  | (g)           | 29         |               | (g)           | 73         |               |
| Deferred income taxes                                  | 1,279 (a)     | 19         | 1,681         | 1,543 (a)     | 9          | 2,005         |
|  | (d)           | 209        |               | (d)           | 233        |               |
|  | (f)           | 15         |               | (f)           | 16         |               |
|  | (g)           | 159        |               | (g)           | 204        |               |

Cash and timedeposits

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|   |    |   |    |     |   |     |
|---|----|---|----|-----|---|-----|
| Long-term liabilities of operations held for sale | 9  | - | 9  | 249 | - | 249 |
| Minority interests                                | 91 | - | 91 | 236 | - | 236 |

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

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

|   | June 30, 2005 |             |               | December 31, 2004 |             |            |               |
|---|---------------|-------------|---------------|-------------------|-------------|------------|---------------|
|   | As reported   | Ref. Amount | Canadian GAAP | As reported       | Ref.        | Amount     | Canadian GAAP |
| <b>Shareholders' equity</b>                       |               |             |               |                   |             |            |               |
| Redeemable non-retractable                        |               |             |               |                   |             |            |               |
| preference shares                                 | 160           | -           | 160           | 160               | -           | -          | 160           |
| Common shareholders' equity:                      |               |             |               |                   |             |            |               |
| Common shares                                     | 6,104         | -           | 6,104         | 6,670             | -           | -          | 6,670         |
| Additional paid-in capital                        | 692           | -           | 692           | 112               | -           | -          | 112           |
| Retained earnings                                 | 3,322         | (a) 31      | 3,340         | 3,362             | (a) 42      | 42         | 3,379         |
|   |               | (b) (42)    |               |                   | (b) (55)    | (55)       |               |
|   |               | (f) 29      |               |                   | (f) 30      | 30         |               |
| Common shares held by a subsidiary                | (31)          | -           | (31)          | (35)              | -           | -          | (35)          |
| Deferred translation adjustments                  | -             | (a) (28)    | 415           | -                 | (a) (29)    | (29)       | 1,089         |
|   |               | (b) 42      |               |                   | (b) 55      | 55         |               |
|   |               | (e) 401     |               |                   | (e) 1,063   | 1,063      |               |
| Accumulated other comprehensive income            | (118)         | (a) 1       | -             | 457               | (a) 64      | 64         | -             |
|   |               | (c) (4)     |               |                   | (c) (8)     | (8)        |               |
|   |               | (d) 522     |               |                   | (d) 550     | 550        |               |
|   |               | (e) (401)   |               |                   | (e) (1,063) | (1,063)    |               |
|   | 9,969         | 551         | 10,520        | 10,566            |             | 649        | 11,215        |
|   | 10,129        | 551         | 10,680        | 10,726            |             | 649        | 11,375        |
| <b>Total liabilities and shareholders' equity</b> | <b>27,147</b> | <b>337</b>  | <b>27,484</b> | <b>33,341</b>     |             | <b>505</b> | <b>33,846</b> |

## 21. PRIOR YEAR AMOUNTS

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

## 22. SUBSEQUENT EVENTS

Total current liabilities

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

Also on July 8, 2005, the Company announced that it will explore the potential sale of its Food Packaging Plastic Bottle business as part of an ongoing refocusing of its food packaging activities. The business, which serves the food and beverage industry, has facilities in North America and France.

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

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

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

*Prior period information has been retroactively adjusted to reflect the reclassification of certain businesses as discontinued operations. 2004 amounts in this report include Alcan's former rolled products business (Novelis), which was spun-off on 6 January 2005.*

#### **Overview**

The Company reported second quarter income from continuing operations of \$208 or \$0.56 per common share versus \$285 or \$0.77 per common share a year earlier and \$208 or \$0.56 per share in the first quarter of 2005. While the Company benefited from higher aluminum prices upstream, better pricing and sales mix downstream, positive derivative impacts and further synergy capture, results declined year-over-year due to an increased charge for Other Specified Items (OSIs), the negative effects of the weaker U.S. dollar, higher costs for energy and raw materials and the impact of the rolled products spin-off. The results were identical to the first quarter, reflecting the benefit of higher volumes across all business groups, derivative gains and synergy benefits offset by an increased charge for OSIs. Price and sales mix improvements in downstream businesses were offset by changes to the sales mix in upstream businesses. The term "Other Specified Items" is defined under "Definitions" at the end of Management's Discussion and Analysis (MD&A).

Income from continuing operations for the second quarter of 2005 included a primarily non-cash, after-tax gain of \$4, or \$0.01 per common share, for the effects of foreign currency balance sheet translation, compared to an after-tax gain of \$63, or \$0.17 per common share, in the year-ago quarter and an after-tax gain of \$30, or \$0.08 per common share, in the first quarter of 2005. The gain in the second quarter of 2005 reflected some strengthening of the U.S. dollar, principally against the Canadian dollar. Although these effects are primarily non-cash in nature, they can have a significant impact on the Company's net income. The term "Foreign currency balance sheet translation" is defined under "Definitions" at the end of the MD&A. Also included in income from continuing operations for the second quarter was a net after-tax charge of \$82, or \$0.22 per common share, for OSIs, as compared to a net after-tax charge of \$8, or \$0.02 per common share, in the corresponding period of 2004 and a net after-tax charge of \$45, or \$0.12 per common share, in the first quarter of 2005.

|  | <b>Second Quarter</b> |       | <b>Six Months</b> |        | First Quarter |
|--|-----------------------|-------|-------------------|--------|---------------|
|  | <b>2005</b>           | 2004  | <b>2005</b>       | 2004   | 2005          |
| Sales and operating revenues                       | <b>5,206</b>          | 6,208 | <b>10,384</b>     | 12,228 | 5,178         |
| Shipments <i>(thousands of tonnes)</i>             |                       |       |                   |        |               |
| Ingot products <sup>†</sup>                        | <b>744</b>            | 499   | <b>1,468</b>      | 992    | 724           |
| Aluminum used in engineered products and packaging | <b>336</b>            | 386   | <b>663</b>        | 760    | 327           |
| Subtotal   | <b>1,080</b>          | 885   | <b>2,131</b>      | 1,752  | 1,051         |
| Rolled products                                    | -                     | 712   | -                 | 1,380  | -             |
| Total aluminum volume                              | <b>1,080</b>          | 1,597 | <b>2,131</b>      | 3,132  | 1,051         |
| Ingot product realizations <i>(\$ per tonne)*</i>  | <b>2,034</b>          | 1,812 | <b>2,046</b>      | 1,801  | 2,058         |
| Average LME 3-month price <i>(\$ per tonne)</i>    | <b>1,796</b>          | 1,686 | <b>1,842</b>      | 1,676  | 1,887         |

Shareholders' equity

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**Included in income from continuing operations:**

|  |              |       |              |       |       |
|--|--------------|-------|--------------|-------|-------|
| Foreign currency balance sheet translation             | <b>4</b>     | 63    | <b>34</b>    | 72    | 30    |
| Other Specified Items (OSIs)                           | <b>(82)</b>  | (8)   | <b>(127)</b> | (72)  | (45)  |
| <b>Income from continuing operations</b>               | <b>208</b>   | 285   | <b>416</b>   | 419   | 208   |
| Income (Loss) from discontinued operations             | <b>(17)</b>  | 46    | <b>(7)</b>   | 18    | 10    |
| <b>Net income</b>                                      | <b>191</b>   | 331   | <b>409</b>   | 437   | 218   |
| <b>Earnings per share (\$ per share)</b>               |              |       |              |       |       |
| Income from continuing operations                      | <b>0.56</b>  | 0.77  | <b>1.11</b>  | 1.13  | 0.56  |
| Net income   | <b>0.52</b>  | 0.89  | <b>1.09</b>  | 1.18  | 0.58  |
| <b>Average number of shares outstanding (millions)</b> | <b>370.2</b> | 368.1 | <b>370.1</b> | 367.5 | 370.0 |

\* Includes primary and secondary ingot and scrap aluminum. Realized prices generally lag LME price changes by one month. The first quarter 2005 realization was corrected from that previously published.

2004 amounts include Novelis but have been retroactively adjusted to reflect the reclassification of certain businesses as discontinued operations.

Sales and operating revenues were \$5.2 billion in the second quarter, down \$1 billion from the year-ago quarter mainly reflecting the impact of the spin-off of the rolled products business on 6 January 2005. Excluding the impact of the spin-off, sales and operating revenues increased due to higher prices, improved volumes and currency translation effects. Compared to the first quarter of 2005, revenues were up slightly as the impact of higher volumes across all business groups was largely offset by currency translation effects.

Total aluminum volume, at 1,080 thousand tonnes (kt), was down 517 kt from a year earlier due to the spin-off of the rolled products business on 6 January 2005. The increase in ingot product shipments in the second quarter mainly reflects volumes sold to Novelis that were previously classified as intercompany sales.

Ingot product realizations, at \$2,034 per tonne, were \$222 per tonne higher than in the year-ago quarter and \$24 per tonne lower than in the first quarter. The bulk of Alcan ingot sales are based on the LME 3-month price with a one month lag plus a local market premium and any applicable product premium. In the second quarter, the average LME 3-month price with a one month lag was \$1,868 per tonne up from \$1,850 in the first quarter. Average realizations declined from the first quarter mainly due to a less favourable product mix and softening market premia.

|   | Second Quarter |            | First Quarter 2005 |
|---|----------------|------------|--------------------|
|   | 2005           | 2004       |                    |
| <b>Other Specified Items</b>  |                |            |                    |
| Synergy costs   | (24)           | (8)        | (7)                |
| Restructuring charges   | (28)           | (5)        | (3)                |
| Asset impairment  | (16)           | (1)        | -                  |
| Gains (losses) from non-routine sales of assets, businesses and investments | (8)            | 42         | 1                  |
| Tax adjustments   | -              | (46)       | (27)               |
| Novelis costs   | 5              | -          | (24)               |
| Insurance recovery  | -              | -          | 8                  |
| Other   | (11)           | 10         | 7                  |
| <b>Other Specified Items</b>  | <b>(82)</b>    | <b>(8)</b> | <b>(45)</b>        |

*2004 amounts include Novelis but have been retroactively adjusted to reflect the reclassification of certain businesses as discontinued operations.*

The principal items included in OSIs in the second quarter were after-tax costs of \$30 related to the restructuring of certain Engineered Products facilities, principally in Europe, after-tax costs of \$23 associated with the Pechiney synergy program and after-tax asset impairments of \$16. OSIs in the second quarter of 2004 included a deferred tax charge of \$46 related to a restructuring of Pechiney's subsidiaries, a gain of \$42 resulting from a dilution in the Company's interest in an anode-producing joint venture in the Netherlands, \$8 of costs incurred to achieve synergy benefits related to the Pechiney and FlexPac acquisitions, and a gain related to changes in a pension program in Brazil (included in Other). The principal items included in OSIs in the first quarter of 2005 were non-cash tax charges of \$27 mainly related to 2005 restructurings necessary to complete the spin-off of Novelis, expenses of \$24 related to the spin-off of Novelis, a favourable adjustment of \$8 related to insurance claim and synergy costs of \$7.

Income from continuing operations for the second quarter of 2005 included after-tax mark-to-market gains on derivatives of \$0.06 per share as compared to a loss of \$0.08 per share a year earlier and a gain of \$0.01 per share in the first quarter of 2005. Results for the second quarter of 2005 included non-cash pre-tax expenses of \$5 for the stock options as compared to \$2 in the year-ago quarter and \$5 in the first quarter of 2005.

**Net Income**

Results from discontinued operations in the second quarter of 2005 included the Pechiney Électrométallurgie (PEM) ferroalloy business, which was sold in June 2005, as well as the copper trading business and certain non-core Engineered Products operations. Collectively, discontinued operations recorded an after-tax loss of \$17 in the second quarter compared to an after-tax profit of \$46 in the year-ago quarter and an after tax profit of \$10 in the first quarter of 2005. The decline in the second quarter mainly resulted from a loss on the sale of PEM.

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Including results from discontinued operations, the Company reported net income of \$191, or \$0.52 per common share, compared to net income of \$331 or \$0.89 per common share a year earlier and net income of \$218 or \$0.58 per common share in the first quarter of 2005.

**Synergies**

Results for the second quarter included incremental pre-tax synergy benefits of about \$46 over the year-ago quarter and \$10 over the first quarter of 2005. The annualized synergy run-rate at the end of the second quarter of 2005 was \$270, well on track to reach the total target of \$360 by year end.

**Operating Segment Review**

The term "Business Group Profit" (BGP) is defined under "Definitions" at the end of the MD&A.

|   | Second Quarter |            | Six Months |            | First Quarter |
|---|----------------|------------|------------|------------|---------------|
|   | 2005           | 2004       | 2005       | 2004       | 2005          |
| <b>Business Group Profit (BGP)</b>          |                |            |            |            |               |
| Bauxite and Alumina                         | 111            | 126        | 208        | 214        | 97            |
| Primary Metal                               | 425            | 436        | 856        | 814        | 431           |
| Engineered Products *                       | 101            | 106        | 216        | 210        | 115           |
| Packaging                                   | 177            | 168        | 331        | 336        | 154           |
| Equity accounted joint venture eliminations | (77)           | (52)       | (151)      | (105)      | (74)          |
| Change in fair market value of derivatives  | 33             | (12)       | 30         | (12)       | (3)           |
| Subtotal                                    | 770            | 772        | 1,490      | 1,457      | 720           |
| Novelis entities                            | -              | 175        | -          | 342        | -             |
|   | 770            | 947        | 1,490      | 1,799      | 720           |
| <b>Corporate Items</b>                      |                |            |            |            |               |
| Intersegment, corporate offices and other   | (161)          | (134)      | (246)      | (392)      | (85)          |
| Depreciation & amortization                 | (268)          | (324)      | (540)      | (660)      | (272)         |
| Interest                                    | (90)           | (87)       | (175)      | (180)      | (85)          |
| Income taxes                                | (70)           | (125)      | (168)      | (166)      | (98)          |
| Equity income                               | 28             | 17         | 57         | 33         | 29            |
| Minority interests                          | (1)            | (9)        | (2)        | (15)       | (1)           |
| <b>Income from continuing operations</b>    | <b>208</b>     | <b>285</b> | <b>416</b> | <b>419</b> | <b>208</b>    |

2004 amounts have been retroactively adjusted to reflect the reclassification of certain businesses as discontinued operations and the impact of the Novelis spin-off completed on 6 January 2005.

\*BGP for the second quarter of 2005 includes restructuring charges of \$30.

**Bauxite and Alumina:** BGP for the second quarter was \$111, a reduction of \$15 from the year-ago quarter. While the group benefited from the year-over-year increase in LME-linked contract prices for alumina, this was more than offset by higher costs for energy, maritime freight and caustic soda, the impact of the stronger Australian and Canadian dollars and the loss of a favourable alumina contract due to the sale of Aluminium de Grèce in March 2005. On a sequential quarter basis, BGP increased \$14 due to higher shipment volumes and contract prices for alumina and increased bauxite sales, partially offset by higher costs for energy

and caustic soda. Group results for the third quarter are expected to be below second quarter levels due to lower LME-linked contract prices for alumina, which typically lag LME price changes by one quarter, and rising cost pressure from energy and caustic soda.

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**Primary Metal:** BGP for the second quarter was \$425, a decrease of \$11 from the year-ago quarter. Benefits from higher LME prices and market premia, as well as improved product mix and synergies, were more than offset by the impact of the weaker U.S. dollar, higher energy and raw materials costs, as well as lower sales of smelter equipment. On a sequential quarter basis, BGP declined by \$6 as benefits from increased shipments were more than offset by higher raw material prices, including energy, and a weaker sales mix, reflecting softer market conditions for value added products. The 300-kt/y expansion at the 40%-owned Alouette smelter in Quebec reached full capacity in June, three months ahead of schedule. While the group will benefit in the third quarter from additional production at Alouette, results are expected to be lower than in the second quarter due mainly to reduced market premia in North America combined with higher costs for maintenance and freight.

**Engineered Products:** BGP was \$101 in the second quarter, which included \$30 of charges principally related to the restructuring of the Sierre and Singen facilities in Switzerland. Excluding these charges, BGP reached a record \$131 in the second quarter, which represented a 24% increase over the year-ago second quarter and a 14% increase over the first quarter of 2005. Higher aerospace volumes, an improved sales mix in specialty sheet, synergy benefits from the Pechiney acquisition and favourable market conditions for composites and cable more than offset the adverse impact of higher raw material costs on both a year-over-year and sequential quarter basis. Results for the third quarter are expected to be below the second quarter level of \$101 due to normal seasonality in Europe.

**Packaging:** BGP was \$177 in the second quarter, \$9 higher than in the year-ago quarter and a new record for the group. Results and margins improved in the quarter mainly reflecting successful efforts to pass through raw material cost increases in product pricing, as well as benefits from synergy capture and cost initiatives, volume increases in the Americas and Asia and favourable currency translation effects. On a sequential quarter basis, BGP was up \$23, or 15%, reflecting a seasonal pick-up in demand, cost improvements and the continuing recovery of earlier raw material cost increases. Results for the third quarter are expected to be below second quarter levels due to normal seasonality in Europe.

### Corporate Items

The Intersegment, corporate offices and other expense category includes the elimination of profits on intersegment sales of aluminum, corporate head office costs as well as other non-operating items. In the second quarter of 2005, OSIs of \$90 pre-tax were included in this expense category.

Depreciation and amortization expenses, at \$268, were \$56 lower than in the year-ago quarter primarily reflecting the impact of the rolled products business spin-off.

Interest expense was \$90 in the second quarter compared to \$87 in the prior-year quarter and \$85 in the first quarter of 2005. The year-over-year increase is a result of increased interest rates and an extended maturity profile which more than offset the benefit of reduced debt levels. Besides increased interest rates and an extended maturity profile, the sequential increase has also been driven by higher debt levels.

Investments in entities over which Alcan has significant influence but not control are accounted for using the equity method. Equity income was \$28 in the second quarter, \$11 higher than in the year-ago quarter, and little changed from the first quarter of 2005. The year-over-year increase mainly reflects mark-to-market impacts on derivatives as well as a contribution from the Alcan Ningxia joint venture in China.

The Company's effective tax rate on income from continuing operations was 28% in the second quarter and 32% year to date. The lower effective tax rate in the second quarter resulted from balance sheet translation effects due to a further weakening of the Canadian dollar in the first half of 2005. In the first quarter, the effective tax rate was 35%, which reflected the impact of non-cash tax charges in the first half of 2005 offset in part by translation effects.

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**Liquidity and Capital Resources****Operating Activities**

Cash from operating activities in continuing operations was \$242 in the second quarter of 2005 compared to \$428 a year earlier. The reduced level of cash from operating activities reflects lower income from continuing operations and increased working capital. After dividends of \$62 and capital expenditures of \$453, free cash flow from continuing operations was negative \$273 for the second quarter of 2005. The term "Free cash flow" is defined under "Definitions" at the end of Management's Discussion and Analysis. In the year-ago quarter, after dividends of \$58 and capital expenditures of \$265, free cash flow from continuing operations was \$105. The year-over-year increase in capital spending was mainly due to the expansion of the Gove alumina refinery in Australia.

**Financing Activities**

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

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

Debt as a percentage of invested capital as at 30 June 2005 was 40%, unchanged from the end of the first quarter-end and down from 46% at the end of the prior-year quarter.

**Debt as a Percentage of Invested Capital**

|  | 30 June       |               | 31 March      |
|--|---------------|---------------|---------------|
|  | 2005          | 2004          | 2005          |
| <b>Debt</b>                                      |               |               |               |
| Short-term borrowings                            | 339           | 864           | 354           |
| Debt maturing within one year                    | 854           | 445           | 409           |
| Debt not maturing within one year                | 5,630         | 7,879         | 5,971         |
| Debt of operations held for sale                 | 1             | 15            | 18            |
| <b>Total debt</b>                                | <b>6,824</b>  | <b>9,203</b>  | <b>6,752</b>  |
| <b>Equity</b>                                    |               |               |               |
| Minority interests                               | 91            | 222           | 96            |
| Redeemable non-retractable preference shares     | 160           | 160           | 160           |
| Common shareholders' equity                      | 9,969         | 10,337        | 10,067        |
| <b>Total equity</b>                              | <b>10,220</b> | <b>10,719</b> | <b>10,323</b> |
| <b>Total invested capital</b>                    | <b>17,044</b> | <b>19,922</b> | <b>17,075</b> |
| <b>Debt as a percent of invested capital (%)</b> | <b>40%</b>    | <b>46%</b>    | <b>40%</b>    |

**Investment Activities**

Capital expenditures during the second quarter of 2005 were \$453 compared to \$265 a year earlier. Capital expenditures were higher in the current year's quarter as a result of the spending on the Gove alumina refinery expansion. Capital expenditures for the Gove alumina refinery expansion were \$246 for the quarter and \$379 year to date. Capital expenditures for the full year are expected to be above depreciation expense.

**Liquidity**

Alcan has access to \$3.1 billion of committed credit facilities, which are used primarily to support Alcan's commercial paper programs. As at the date of this report, 9 August 2005, Alcan has \$1.4 billion of commercial paper outstanding, and as a result, the unused portion of the credit facilities was \$1.7 billion. The Company believes that the cash from continuing operations together with available credit facilities will be more than sufficient to meet the cash requirements of operations, planned capital expenditures, dividends and any short-term debt refinancing requirements. In addition, the Company believes that its ability to access global

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capital markets, considering its investment grade credit rating, provides any additional liquidity that may be required to meet unforeseen events. In the second quarter of 2005, Standard & Poor's Rating Services downgraded its rating on Alcan's long-term debt to BBB+ from A- with "Stable" outlook and maintained its rating on short-term debt at A2. Ratings from Moody's Investors Services were unchanged at Baa1 and P2, respectively with a "Stable" outlook.

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### Contractual Obligations

The Company has future obligations under various contracts relating to debt payments, capital and operating leases, long-term purchase arrangements, pensions and other post-employment benefits, and guarantees. The table below provides a summary of these contractual obligations (based on undiscounted future cash flows) as at 30 June 2005. There are no material off-balance sheet arrangements other than the sale of receivables securitization program described in Note 13 to the Consolidated Financial Statements.

|   | Total          | Payments due by period |              |              |                   |
|---|----------------|------------------------|--------------|--------------|-------------------|
|   |                | Less than 1 year       | 1 - 3 years  | 3 - 5 years  | More than 5 years |
| Long-term debt <sup>(1)</sup>                 | <b>6,484</b>   | 854                    | 97           | 1,450        | 4,083             |
| Capital lease obligations                     | <b>19</b>      | 2                      | 6            | 3            | 8                 |
| Operating leases                              | <b>350</b>     | 47                     | 146          | 70           | 87                |
| Purchase obligations                          | <b>6,410</b>   | 973                    | 831          | 739          | 3,867             |
| Unfunded pension plans <sup>(3)</sup>         | <b>2,224</b>   | 65                     | 131          | 134          | 1,894             |
| Other post-employment benefits <sup>(3)</sup> | <b>2,322</b>   | 64                     | 130          | 142          | 1,986             |
| Funded pension plans <sup>(3) (4)</sup>       | <sup>(4)</sup> | 189                    | 384          | 396          | <sup>(4)</sup>    |
| Guarantees <sup>(2)</sup>                     | <b>134</b>     | 70                     | 64           | -            | -                 |
| <b>Total</b>                                  |                | <b>2,264</b>           | <b>1,789</b> | <b>2,934</b> |                   |

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

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

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

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

### Selected Annual Information

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

|                                   | 31 December |        |        |
|-----------------------------------|-------------|--------|--------|
|                                   | 2004        | 2003   | 2002   |
| Sales and operating revenues      | 24,948      | 13,850 | 12,483 |
| Income from continuing operations | 243         | 262    | 421    |
| Net income (Loss)                 | 258         | 64     | (348)  |
| Total assets                      | 33,341      | 31,948 | 17,761 |
| Total long-term debt              | 6,914       | 7,778  | 3,369  |

Payments due by period

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*(\$ per common share)*

|   |      |      |        |
|---|------|------|--------|
| Income from continuing operations per share - basic and diluted | 0.64 | 0.79 | 1.29   |
| Net income (Loss) per share - basic and diluted                 | 0.69 | 0.18 | (1.10) |
| Dividends per common share                                      | 0.60 | 0.60 | 0.60   |

**Selected Quarterly Information**

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

|  | Q2-05 | Q1-05 | Q4-04  | Q3-04 | Q2-04 | Q1-04 | Q4-03 | Q3-03 |
|--|-------|-------|--------|-------|-------|-------|-------|-------|
| Sales and operating revenues                                 | 5,206 | 5,178 | 6,536  | 6,184 | 6,208 | 6,020 | 3,567 | 3,529 |
| Income (Loss) from continuing operations                     | 208   | 208   | (347)  | 171   | 285   | 134   | 115   | 108   |
| Net income (Loss)  | 191   | 218   | (346)  | 167   | 331   | 106   | 96    | 87    |
| <i>(\$ per common share)</i>                                 |       |       |        |       |       |       |       |       |
| Income (Loss) from continuing operations per share - basic   | 0.56  | 0.56  | (0.95) | 0.46  | 0.77  | 0.36  | 0.36  | 0.32  |
| Income (Loss) from continuing operations per share - diluted | 0.56  | 0.56  | (0.94) | 0.46  | 0.77  | 0.36  | 0.36  | 0.32  |
| Net income (Loss) per share - basic                          | 0.52  | 0.58  | (0.94) | 0.45  | 0.89  | 0.29  | 0.30  | 0.26  |
| Net income (Loss) per share - diluted                        | 0.52  | 0.58  | (0.94) | 0.45  | 0.89  | 0.28  | 0.30  | 0.26  |

### Commitments and Contingencies

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

### Related Party Transactions

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

### Accounting Policies

The preparation of financial statements in conformity with GAAP in Canada and the United States requires management to make estimates, judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates are associated with the critical accounting policies relating to post-retirement benefits; environmental liabilities; property, plant and equipment; goodwill; income taxes; and business combinations. These critical accounting policies are those that are both most important to the portrayal of the Company's financial condition and results and require management's most difficult, subjective or complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

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

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### Comparison of Canadian and U.S. GAAP

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

| GAAP | Second Quarter<br>2005 | Second Quarter<br>2004 | Six Months<br>June 30, 2005 | Six Months<br>June 30, 2004 |
|------|------------------------|------------------------|-----------------------------|-----------------------------|
|------|------------------------|------------------------|-----------------------------|-----------------------------|

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| <i>(\$ per common share)</i>      | <b>Cdn</b>  | <b>U.S.</b> | Cdn  | U.S. | <b>Cdn</b>  | <b>U.S.</b> | Cdn  | U.S. |
|-----------------------------------|-------------|-------------|------|------|-------------|-------------|------|------|
| Income from continuing operations |             |             |      |      |             |             |      |      |
| per share - basic                 | <b>0.55</b> | <b>0.56</b> | 0.78 | 0.77 | <b>1.10</b> | <b>1.11</b> | 1.16 | 1.13 |
| Net income per share - basic      | <b>0.51</b> | <b>0.52</b> | 0.90 | 0.89 | <b>1.08</b> | <b>1.09</b> | 1.21 | 1.18 |

Net income per common share under Canadian GAAP was \$0.51 and \$1.08 compared to \$0.52 and \$1.09 under U.S. GAAP for the second quarter and six months ended June 30, 2005, respectively. The difference relates principally to accounting for derivatives. For the second quarter and six months ended June 30, 2004, net income per common share under Canadian GAAP was \$0.90 and \$1.21, respectively, compared to \$0.89 and \$1.18, respectively, under U.S. GAAP. The principal reason for the difference was derivatives. The differences in net income had no material impact on the discussion of results of operations for the periods presented.

### **Joint Ventures**

The major ongoing difference between U.S. GAAP and Canadian GAAP deals with the accounting for joint ventures. Under U.S. GAAP, joint ventures, other than those over which Alcan has an undivided interest in the assets, are accounted for using the equity method while under Canadian GAAP, joint ventures are accounted for using the proportionate consolidation method. This different accounting treatment affects only the display and classification of financial statement items and has no impact on net income or shareholders' equity. This difference had no material impact on the discussion of the results of operations. The major impact of the difference in accounting treatment on the balance sheet was to increase operating working capital from continuing operations at June 30, 2005 by \$80 (\$30 at December 31, 2004) under Canadian GAAP compared to U.S. GAAP. Under Canadian GAAP, net property, plant and equipment at June 30, 2005 was \$833 higher than under U.S. GAAP (\$1,179 at December 31, 2004). Under Canadian GAAP, goodwill was higher by \$685 at June 30, 2005 (\$837 at December 31, 2004). Under Canadian GAAP, deferred charges and other assets (which include investments accounted for under the equity method) were \$1,319 lower (\$1,618 at December 31, 2004) as compared to U.S. GAAP.

Debt as a percentage of invested capital as at June 30, 2005 and December 31, 2004 was the same under Canadian GAAP as under U.S. GAAP. For the second quarter and six months ended June 30, 2005, interest expense under Canadian GAAP was higher than under U.S. GAAP by \$4 and \$8, respectively (2004: \$3 and \$6).

### **Accounting for Derivatives**

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

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

The impact of the different accounting treatments for derivatives was to decrease net income under Canadian GAAP by \$3 and \$5, respectively, for the second quarter and six months ended June 30, 2005 (increase of \$5 and \$13, respectively, to net income for the second quarter and six months ended June 30, 2004). This difference had no material impact on the discussion of results for the periods presented.

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

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### **Minimum Pension Liability**

Canadian GAAP does not require the recognition of a minimum pension liability if the accumulated benefit obligation exceeds the market value of plan assets. This difference had no impact on net income but did result in shareholders' equity under Canadian GAAP being higher by \$522 at June 30, 2005 (\$550 at December 31, 2004). At June 30, 2005, total assets were lower by \$244 (\$253 at December 31, 2004) and total pension liabilities were lower by \$975 (\$1,036 December 31, 2004) under Canadian GAAP.

### **Cautionary Statement**

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

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

### Definitions

"\$" all amounts are in U.S. dollars.

"Business Group Profit" (BGP) comprises earnings before interest, income taxes, minority interests, depreciation and amortization and excludes certain items, such as corporate costs, restructuring costs (relating to major corporate-wide acquisitions or initiatives), impairment and other special charges, and pension actuarial gains, losses and other adjustments, that are not under the control of the business groups or are not considered in the measurement of their profitability. These items are generally managed by the Company's corporate head office, which focuses on strategy development and oversees governance, policy, legal, compliance, human resources and finance matters. Financial information for individual business groups includes the results of certain joint ventures and other equity-accounted investments on a proportionately consolidated basis, which is consistent with the way the business groups are managed. However, the BGP of these joint ventures and equity-accounted investments is removed from total BGP for the Company and the net after-tax results are reported as equity income. The change in the fair market value of derivatives has been removed from individual business group results and is shown on a separate line within total BGP. This presentation provides a more accurate portrayal of underlying business group results and is in line with the Company's portfolio approach to risk management.

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

"Derivatives" including forward contracts, swaps and options are financial instruments used by the Company to manage the specific risks arising from fluctuations in exchange rates, interest rates, aluminum prices and other commodity prices. Mark-to-market gains and losses on derivatives will be offset over time by gains and losses on the underlying exposures.

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

"Free cash flow" consists of cash from operating activities in continuing operations less capital expenditures and dividends. Management believes that free cash flow, for which there is no comparable GAAP measure, is relevant to investors as it provides an indication of the cash generated internally that is available for investment opportunities and debt service.

"GAAP" refers Generally Accepted Accounting Principles.

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"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.

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

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

All figures are unaudited.

Additional information on Alcan is available on the Company's website at [www.alcan.com](http://www.alcan.com) and the Company's regulatory filings can be viewed on the Canadian Securities Administrators' site at [www.sedar.com](http://www.sedar.com) and on the U.S. Securities and Exchange Commission's site at [www.sec.gov](http://www.sec.gov). All website addresses contained in this report are textual references and information from referenced websites is not incorporated by reference into this report.

The number of common shares outstanding as at 8 August 2005 is 370,246,490.

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

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

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

#### Interest Rates

The impact of a 10% increase in interest rates on the Company's variable rate debt outstanding at June 30, 2005 net of its invested surplus cash and time deposits at June 30, 2005 would be to reduce net income for a 12-month period by \$3. The fixed rate debt will be held to maturity and the Company does not intend to refinance its fixed rate debt prior to maturity. Transactions in interest rate financial instruments for which there is no underlying interest rate exposure to the Company are prohibited. For accounting policies for interest rate swaps used to hedge interest costs on certain debt, see note 3 - Summary of Significant Accounting Policies on page 61 of the Company's annual report.

#### Currency Derivatives

The schedule below presents fair value information and contract terms relevant to determining future cash flows categorized by expected maturity dates of the Company's currency derivatives (principally forward and option contracts) outstanding as at June 30, 2005.

**Total**





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

| <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>Amount</b> | <b>Value</b> |
|-------------|-------------|-------------|-------------|-------------|-------------|---------------|--------------|
|-------------|-------------|-------------|-------------|-------------|-------------|---------------|--------------|



**FORWARD CONTRACTS**

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**To purchase USD against the foreign currency**

|       |                       |       |       |   |   |   |   |    |   |
|-------|-----------------------|-------|-------|---|---|---|---|----|---|
| GBP   | Nominal amount        | 28    | 6     | - | - | - | - | 34 | - |
|       | Average contract rate | 0.556 | 0.571 | - | - | - | - |    |   |
| CHF   | Nominal amount        | 13    | 15    | - | - | - | - | 28 | 1 |
|       | Average contract rate | 1.228 | 1.239 | - | - | - | - |    |   |
| JPY   | Nominal amount        | 4     | -     | - | - | - | - | 4  | - |
|       | Average contract rate | 108.4 | -     | - | - | - | - |    |   |
| Other | Nominal amount        | 1     | -     | - | - | - | - | 1  | - |

**To sell USD against the foreign currency**

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|       |                       |       |       |   |   |   |   |     |     |
|-------|-----------------------|-------|-------|---|---|---|---|-----|-----|
| GBP   | Nominal amount        | 54    | 3     | - | - | - | - | 57  | (2) |
|       | Average contract rate | 0.539 | 0.540 | - | - | - | - |     |     |
| CHF   | Nominal amount        | 5     | 1     | - | - | - | - | 6   | -   |
|       | Average contract rate | 1.201 | 1.313 | - | - | - | - |     |     |
| AUD   | Nominal amount        | 110   | 205   | - | - | - | - | 315 | 2   |
|       | Average contract rate | 0.741 | 0.751 | - | - | - | - |     |     |
| Other | Nominal amount        | 1     | -     | - | - | - | - | 1   | -   |

**To sell EUR against the foreign currency**

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|      |                       |       |       |       |       |   |   |       |      |
|------|-----------------------|-------|-------|-------|-------|---|---|-------|------|
| USD  | Nominal amount        | 380   | 1,277 | 24    | 10    | - | - | 1,691 | (28) |
|      | Average contract rate | 1.246 | 1.198 | 1.222 | 1.088 | - | - |       |      |
| GBP  | Nominal amount        | 8     | -     | -     | -     | - | - | 8     | -    |
|      | Average contract rate | 0.708 | -     | -     | -     | - | - |       |      |
| CHF  | Nominal amount        | 24    | 20    | -     | -     | - | - | 44    | (1)  |
|      | Average contract rate | 1.521 | 1.495 | -     | -     | - | - |       |      |
| -42- |                       |       |       |       |       |   |   |       |      |

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**Total**





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

| <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>Amount</b> | <b>Value</b> |
|-------------|-------------|-------------|-------------|-------------|-------------|---------------|--------------|
|-------------|-------------|-------------|-------------|-------------|-------------|---------------|--------------|



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|       |                       |       |       |   |   |   |   |   |   |
|-------|-----------------------|-------|-------|---|---|---|---|---|---|
| CZK   | Nominal amount        | 6     | -     | - | - | - | - | 6 | - |
|       | Average contract rate | 30.05 | -     | - | - | - | - |   |   |
| ZAR   | Nominal amount        | 2     | 1     | - | - | - | - | 3 | - |
|       | Average contract rate | 8.103 | 8.043 | - | - | - | - |   |   |
| Other | Nominal amount        | 2     | -     | - | - | - | - | 2 | - |

**To buy EUR against the foreign currency**

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|   |                       |       |       |       |   |   |   |     |     |
|---|-----------------------|-------|-------|-------|---|---|---|-----|-----|
| USD   | Nominal amount        | 251   | 59    | 21    | - | - | - | 331 | 8   |
|   | Average contract rate | 1.205 | 1.090 | 1.201 | - | - | - |     |     |
| GBP   | Nominal amount        | 25    | 9     | -     | - | - | - | 34  | (2) |
|   | Average contract rate | 0.700 | 0.715 | -     | - | - | - |     |     |
| CHF   | Nominal amount        | 2     | -     | -     | - | - | - | 2   | -   |
|   | Average contract rate | 1.524 | -     | -     | - | - | - |     |     |
| AUD   | Nominal amount        | 7     | -     | -     | - | - | - | 7   | (1) |
|   | Average contract rate | 1.759 | -     | -     | - | - | - |     |     |
| JPY   | Nominal amount        | 5     | -     | -     | - | - | - | 5   | -   |
|   | Average contract rate | 134.3 | -     | -     | - | - | - |     |     |
| Other   | Nominal amount        | 4     | 1     | -     | - | - | - | 5   | -   |
| <b>To buy CHF against the foreign currency</b>  |                       |       |       |       |   |   |   |     |     |
| AUD   | Nominal amount        | 1     | -     | -     | - | - | - | 1   | -   |
|   | Average contract rate | 1.107 | -     | -     | - | - | - |     |     |
| JPY   | Nominal amount        | 1     | -     | -     | - | - | - | 1   | -   |
|   | Average contract rate | 85.96 | -     | -     | - | - | - |     |     |
| DKK   | Nominal amount        | 1     | -     | -     | - | - | - | 1   | -   |
|   | Average contract rate | 0.206 | -     | -     | - | - | - |     |     |
| <b>To sell CHF against the foreign currency</b> |                       |       |       |       |   |   |   |     |     |
| Other   | Nominal amount        | 1     | -     | -     | - | - | - | 1   | -   |

**OPTIONS**

To buy USD against the foreign currency



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|     |                |    |    |   |   |   |   |    |     |
|-----|----------------|----|----|---|---|---|---|----|-----|
| EUR | Nominal amount | 48 | 18 | - | - | - | - | 66 | (2) |
|-----|----------------|----|----|---|---|---|---|----|-----|

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|                       |       |       |   |   |   |   |
|-----------------------|-------|-------|---|---|---|---|
| Average contract rate | 0.800 | 0.800 | - | - | - | - |
|-----------------------|-------|-------|---|---|---|---|







To sell USD against the foreign currency

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|      |                       |       |       |       |   |   |   |     |   |
|------|-----------------------|-------|-------|-------|---|---|---|-----|---|
| EUR  | Nominal amount        | 50    | 137   | 20    | - | - | - | 207 | 6 |
|      | Average contract rate | 0.863 | 0.759 | 0.758 | - | - | - |     |   |
| GBP  | Nominal amount        | 2     | -     | -     | - | - | - | 2   | - |
|      | Average contract rate | 0.585 | -     | -     | - | - | - |     |   |
| -43- |                       |       |       |       |   |   |   |     |   |

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

**Derivative Commodity Contracts**

The effect of a reduction of 10% in aluminum prices on the Company's aluminum forward and options contracts outstanding at June 30, 2005 would be to increase net income over the period ending December 31, 2007 by approximately \$88 (\$45 in 2005, \$37 in 2006 and \$6 in 2007). These results reflect a 10% reduction from the June 30, 2005, three-month LME aluminum closing price of \$1,720 per tonne and assume an equal 10% drop has occurred throughout the aluminum forward price curve existing as at June 30, 2005. 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.

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, which is marked-to-market.

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#### **Item 4. Controls and Procedures**

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

As at June 30, 2005, an evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

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

Except as otherwise discussed herein, there have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company will assess the effectiveness of its internal control over financial reporting in its Annual Report on Form 10-K for 2005.

During the second quarter of 2005, a new financial aluminum trading software system was implemented, with consequent resulting changes to the Company's internal control over financial reporting in relation to aluminum trading operations.

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## **PART II. OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

**Pohatcong Valley Site.** As previously reported, the U.S. Department of the Interior notified Pechiney Plastic Packaging Inc. ("PPPI" - a subsidiary of the Company) on November 19, 1999 that it wanted to geophysically log certain wells at the Washington, New Jersey facility as it sought to identify possible contributors of a specific contaminant - trichloroethylene ("TCE") - to the Pohatcong Valley Superfund Site. This matter involves both an on-site remediation of the Washington Plant, New Jersey, which is near completion and the Pohatcong Valley Superfund Site, which is in the early stages of investigation.

PPPI had been advised that the geophysical logging process had occurred and in 2001, the United States Environmental Protection Agency (USEPA) carried out certain minor additional investigations at the plant site.

PPPI has performed an on-site remediation at the Washington plant and had received a "no further action" letter from the State of New Jersey for certain areas and an approval letter dated June 12, 2002 from the State for certain additional work.

In June 2004 PPPI received a demand letter from the USEPA naming PPPI as a potentially responsible party. The USEPA has also made two supplemental requests for information, to which PPPI has responded.

In June 2005, the USEPA issued a remedial investigation and groundwater contamination report. On July 27, 2005, the USEPA publicly issued a draft plan with proposed remedial alternatives. PPPI is continuing to discuss the matter with the USEPA and is awaiting the USEPA's record of decision in relation to its report.

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

**Items 2., 3. and 5.**

The registrant has nothing to report under these items.

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

Information called for by this item with respect to the Annual Meeting of the Shareholders of the Company held on April 28, 2005 is incorporated by reference to Part II, Item 4 of the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2005.

**Item 6. Exhibits**

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

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

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

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

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**SIGNATURE**

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

ALCAN INC.

Dated: 9 August 2005

By: /s/ Thomas J. Harrington

Thomas J. Harrington

Vice President and Controller

(A Duly Authorized Officer)

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**EXHIBIT INDEX**

Exhibit

Number

Description

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