

ALCOA INC
Form 10-K
February 18, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-3610

ALCOA INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State of incorporation)

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

390 Park Avenue, New York, New York 10022-4608

(Address of principal executive offices)

(Zip code)

Registrant's telephone numbers:

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

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

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

Title of each class

Name of each exchange on which registered

Common Stock, par value \$1.00

New York Stock Exchange

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

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

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

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months. Yes No .

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the outstanding common stock, other than shares held by persons who may be deemed affiliates of the registrant, as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$10 billion. As of February 15, 2010, there were 1,020,277,257 shares of common stock, par value \$1.00 per share, of the registrant outstanding.

Documents incorporated by reference.

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement for its 2010 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A (Proxy Statement).

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Note on Incorporation by Reference	

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

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PART I

Item 1. Business.

General

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

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

Forward-Looking Statements

This report contains (and oral communications made by Alcoa may contain) statements that relate to future events and expectations and, as such, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those containing such words as anticipates, believes, estimates, expects, hopes, targets, should, will, will likely result, projects or other words of similar meaning. All statements that reflect Alcoa's expectations, assumptions or projections about the future other than statements of historical fact are forward-looking statements, including, without limitation, forecasts concerning aluminum industry growth or other trend projections, anticipated financial results or operating performance, and statements about Alcoa's strategies, objectives, goals, targets, outlook, and business and financial prospects. Forward-looking statements are subject to a number of known and unknown risks, uncertainties and other factors and are not guarantees of future performance. Actual results, performance or outcomes may differ materially from those expressed in or implied by those forward-looking statements. For a discussion of some of the specific factors that may cause Alcoa's actual results to differ materially from those projected in any forward-looking statements, see the following sections of this report: Part I, Item 1A. (Risk Factors), Part II, Item 7. (Management's Discussion and Analysis of Financial Condition and Results of Operations), including the disclosures under Segment Information and Critical Accounting Policies and Estimates, and Note N and the Derivatives Section of Note X to the Consolidated Financial Statements in Part II, Item 8. (Financial Statements and Supplementary Data). Alcoa disclaims any intention or obligation to update publicly any forward-looking statements, whether in response to new information, future events or otherwise, except as required by applicable law.

Overview

Alcoa is the world leader in the production and management of primary aluminum, fabricated aluminum, and alumina combined, through its active and growing participation in all major aspects of the industry: technology, mining, refining, smelting, fabricating, and recycling. Aluminum is a commodity that is traded on the London Metal Exchange (LME) and priced daily based on market supply and demand. Aluminum and alumina represent more than three-fourths of Alcoa's revenues, and the price of aluminum influences the operating results of Alcoa. Nonaluminum products include precision castings and aerospace and industrial fasteners. Alcoa's products are used worldwide in aircraft, automobiles, commercial transportation, packaging, building and construction, oil and gas, defense, and industrial applications.

Alcoa is a global company operating in 31 countries. Based upon the country where the point of sale occurred, the United States (U.S.) and Europe generated 52% and 27%, respectively, of Alcoa's sales in 2009. In addition, Alcoa has investments and operating activities in Australia, Brazil, China, Iceland, Guinea, Russia, and the Kingdom of

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Saudi Arabia, all of which present opportunities for substantial growth. Governmental policies, laws and regulations, and economic factors, including inflation and fluctuations in foreign currency exchange rates and interest rates, affect the results of operations in these countries.

Alcoa's operations consist of four worldwide reportable segments: Alumina, Primary Metals, Flat-Rolled Products, and Engineered Products and Solutions.

Description of the Business

Information describing Alcoa's businesses can be found on the indicated pages of this report:

Item	Page(s)
Discussion of Recent Business Developments:	
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The following charts and related discussion of the company's Bauxite Interests, Alumina Refining and Primary Aluminum Facilities and Capacities, and Flat-Rolled Products, Engineered Products and Solutions and Corporate Facilities provide additional description of Alcoa's businesses. The Alumina segment primarily consists of a series of affiliated operating entities referred to as Alcoa World Alumina and Chemicals (AWAC). Alcoa owns 60% and Alumina Limited owns 40% of these individual entities. For more information on AWAC, see Exhibit Nos. 10(a) through 10(f)(1) to this report.	

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Aluminum is one of the most plentiful elements in the earth's crust. Aluminum is produced primarily from bauxite, an ore containing aluminum in the form of aluminum oxide, commonly referred to as alumina. Aluminum is made by extracting alumina from bauxite and then removing oxygen from the alumina. Alcoa processes most of the bauxite that it mines into alumina. The company obtains bauxite from its own resources and from those belonging to the AWAC enterprise, located in the countries listed in the chart below, as well as pursuant to both long-term and short-term contracts and mining leases. In 2009, Alcoa consumed 36.0 million metric tons (mt) of bauxite from AWAC and its own resources, 4.8 million mt from related third parties and 1.9 million mt from unrelated third parties. Alcoa's present sources of bauxite are sufficient to meet the forecasted requirements of its alumina refining operations for the foreseeable future. The following table provides information regarding the company's bauxite interests:

Alcoa Active Bauxite Interests¹

Country	Project	Owners	Mining Rights (% Entitlement)	Expiration Date of Mining Rights
Australia	Darling Range Mines	Alcoa of Australia Limited (AofA) ²	(100%)	2045
Brazil	Poços de Caldas	Alcoa Alumínio S.A. (Alumínio) ³	(100%)	2020 ⁴
	Trombetas	Mineração Rio do Norte S.A. (MRN) ⁵	(100%)	2046 ⁴
	Juruti ⁶	Alcoa World Alumina Brasil Ltda. (AWA Brasil) ⁷	(100%)	2100 ⁴
Guinea	Boké	Compagnie des Bauxites de Guinée (CBG) ⁸	(100%)	2038 ⁹
Jamaica	Clarendon/Manchester	Alcoa Minerals of Jamaica, L.L.C. ⁷	(55%)	
	Plateau	Clarendon Alumina Production Ltd. ¹⁰	(45%)	2042
Suriname	Caramacca	Suriname Aluminum Company, L.L.C. (Suralco) ⁷	(55%)	
	Coermotibo	N.V. Alcoa Minerals of Suriname (AMS) ¹¹	(45%)	2012 ¹²
		Suralco	(55%)	
	Kaimangrasi	AMS ¹¹	(45%)	2033 ¹²
		Suralco	(55%)	
	Klaverblad	AMS ¹¹	(45%)	2033 ¹²
		Suralco	(55%)	
		AMS ¹¹	(45%)	2033 ¹²

¹ Alcoa also has interests at the following locations that are bauxite resources which do not currently produce bauxite: Cape Bougainville and Mitchell Plateau in Australia, and Brownsberg, Coermotibo DS, Lely Mountains, and Nassau, all in eastern Suriname.

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

³ Alumínio is owned 100% by Alcoa.

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- ⁴ Brazilian mineral legislation does not establish the duration of mining concessions. The concession remains in force until the complete exhaustion of the deposit. The company estimates that (i) the concessions at Poços de Caldas will last at least until 2020 and (ii) the concessions at Trombetas will last until 2046. Depending, however, on actual and future needs, the rate at which the deposits are explored and government approval is obtained, the concessions may be extended to (or expire at) a later (or an earlier) date.
- ⁵ Alumínio holds an 8.125% interest, Alcoa World Alumina Brasil Ltda. (formerly Abalco S.A., which merged with Alcoa World Alumina Brasil Ltda. in December 2008) (AWA Brasil) holds a 4.375% interest and Alcoa World Alumina LLC (AWA LLC) holds a 5% interest in MRN. AWA Brasil and AWA LLC are both part of the AWAC group of companies and are owned 60% by Alcoa and 40% by Alumina Limited. MRN is jointly owned with affiliates of Rio Tinto Alcan Inc., Companhia Brasileira de Alumínio, Companhia Vale do Rio Doce, BHP Billiton Plc (BHP Billiton) and Norsk Hydro. Alumínio, AWA Brasil, and AWA LLC purchase bauxite from MRN under long-term supply contracts.

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- ⁶ In September 2009, development of a new bauxite mine was completed in Juruti, state of Para in northern Brazil. The mine is fully operational and expected to produce 2.6 million mt per year (mtpy) of bauxite.
- ⁷ This entity is part of the AWAC group of companies and is owned 60% by Alcoa and 40% by Alumina Limited.
- ⁸ AWA LLC owns a 45% interest in Halco (Mining), Inc. Halco owns 100% of Boké Investment Company, a Delaware company, which owns 51% of CBG. The Guinean Government owns 49% of CBG, which has the exclusive right through 2038 to develop and mine bauxite in certain areas within a 10,000 square-mile concession in northwestern Guinea.
- ⁹ AWA LLC has a bauxite purchase contract with CBG that will provide Alcoa with bauxite through 2011.
- ¹⁰ Clarendon Alumina Production Ltd. is a wholly-owned entity of the Government of Jamaica.
- ¹¹ In July 2009, AWA LLC acquired the BHP Billiton subsidiary that was a 45% joint venture partner in the Surinamese bauxite mining and alumina refining joint ventures. Prior to the AWA LLC buy out, BHP Billiton's subsidiary held a 45% interest to Suralco's 55% interest in the two joint ventures. After the acquisition of the BHP Billiton subsidiary, its name was changed to N.V. Alcoa Minerals of Suriname (AMS).
- ¹² While mining rights at Caramacca extend until 2012 and rights at the remaining Suriname locations extend until 2033, it is likely that all Suriname bauxite resources will be exhausted within the next several years. Alcoa is evaluating alternative sources of bauxite, including resources from Suralco's concession in eastern Suriname such as the Nassau plateau.

Kingdom of Saudi Arabia Joint Venture

In December 2009, Alcoa and Saudi Arabian Mining Company (Ma'aden) entered into an agreement setting forth the terms of a joint venture between them to develop a fully integrated aluminum industry in the Kingdom of Saudi Arabia. In its initial phases, the joint venture plans to develop a fully integrated industrial complex that will include a bauxite mine with an initial capacity of 4.0 million mt per year (mtpy); an alumina refinery with an initial capacity of 1.8 million mtpy; an aluminum smelter with an initial capacity of ingot, slab and billet of 740,000 mtpy; and a rolling mill, with initial hot-mill capacity of between 250,000 and 460,000 mtpy. The mill is expected to focus initially on the production of sheet, end and tab stock for the manufacture of aluminum cans, and potentially other products to serve the construction industry.

The refinery, smelter and rolling mill will be established within the new industrial zone of Raz Az Zawr on the east coast of the Kingdom of Saudi Arabia. First production from the aluminum smelter and rolling mill is anticipated in 2013, and first production from the mine and refinery is expected in 2014.

Capital investment is expected to be approximately \$10.8 billion (SAR 40.5 billion) subject to the completion of detailed feasibility studies and environmental impact assessments. Ma'aden will own a 60% interest in the joint venture. Alcoa will own a 40% interest through a special purpose vehicle (SPV) controlled by Alcoa. Through this arrangement, Alcoa will have a 20% economic interest in the joint venture. Each of Alcoa and the partners in the SPV are expected to invest approximately \$900 million over a four-year period. For additional information regarding the joint venture, see the Equity Investments section of Note I to the Consolidated Financial Statements in Part II, Item 8. (Financial Statements and Supplementary Data).

Table of Contents**Alumina Refining Facilities and Capacity**

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

Alcoa Worldwide Alumina Refining Capacity

Country	Facility	Owners (% of Ownership)	Alcoa	
			Nameplate Capacity ¹ (000 MTPY)	Consolidated Capacity ² (000 MTPY)
Australia	Kwinana	AofA ³ (100%)	2,190	2,190
	Pinjarra	AofA (100%)	4,234	4,234
	Wagerup	AofA (100%)	2,555	2,555
Brazil	Poços de Caldas	Alumínio ⁴ (100%)	390 ⁵	390
	São Luís (Alumar)	AWA Brasil ³ (39%)		
		Rio Tinto Alcan Inc. ⁶ (10%)		
		Alumínio (15%)		
Jamaica	Jamalco	BHP Billiton ⁶ (36%)	3,500	1,890
		Alcoa Minerals of Jamaica, L.L.C. ³ (55%)		
Spain	San Ciprián	Clarendon Alumina Production Ltd. ⁷ (45%)	1,478 ⁸	841
		Alúmina Española, S.A. ³ (100%)	1,500	1,500
Suriname	Suralco	Suralco ³ (55%)		
United States	Point Comfort, TX	(AMS) ⁹ (45%)	2,207 ¹⁰	2,207
		Alcoa World Alumina LLC ³ (100%)	2,305 ¹¹	2,305
TOTAL			20,359	18,112

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

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

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

⁴ This entity is owned 100% by Alcoa.

⁵ In January 2009, the company began curtailment of production at Poços de Caldas. The facility's production was curtailed by 135,000 mtpy. However, production is expected to be ramped-up during the first quarter of 2010.

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- ⁶ The named company or an affiliate holds this interest.
- ⁷ Clarendon Alumina Production Ltd. is a wholly-owned entity of the Government of Jamaica.
- ⁸ In August 2007, Hurricane Dean substantially damaged the Rocky Point port from which Jamalco ships alumina. The facility is shipping alumina from temporary on-site port facilities constructed in 2007. Permanent repairs to the Rocky Point Pier are expected to be completed in 2011. The refinery is operating at approximately 95% of nameplate capacity.
- ⁹ In July 2009, AWA LLC acquired the BHP Billiton subsidiary that was a 45% joint venture partner in the Surinamese bauxite mining and alumina refining joint ventures. Prior to the AWA LLC buy out, BHP Billiton's subsidiary held a 45% interest to Suralco's 55% interest in the two joint ventures. After the acquisition of the BHP Billiton subsidiary, its name was changed to N.V. Alcoa Minerals of Suriname (AMS).

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¹⁰ In May 2009, the Suralco alumina refinery announced curtailment of 870,000 mtpy. The decision was made to protect the long-term viability of the industry in Suriname. The curtailment was aimed at deferring further bauxite extraction until additional in-country bauxite resources are developed and market conditions for alumina improve.

¹¹ Reductions in production at Point Comfort resulted mostly from the effects of curtailments initiated in late 2008 through early 2009, as a result of overall market conditions. The reductions included approximately 1,500,000 mtpy curtailment. Of that amount, 800,000 mtpy remained curtailed as of December 31, 2009.

As noted above, Alcoa and Madaden entered into an agreement that involves the development of an alumina refinery in the Kingdom of Saudi Arabia. Initial capacity of the refinery is expected to be 1.8 million mtpy. First production is expected in 2014.

Investments in the company's Brazilian upstream operations continue. The 2.1 million mtpy expansion of the Alumar consortium alumina refinery in São Luís, Maranhão, has increased the refinery's nameplate capacity to approximately 3.5 million mtpy, with Alcoa's share of such capacity more than doubling to 1.89 million mtpy based on its 54% ownership stake through Alumínio and AWAC. Construction on the refinery was finalized at the end of 2009. The company is continuing with its modernization of the Poços de Caldas aluminum smelter.

In November 2005, Alcoa World Alumina LLC (AWA LLC) and Rio Tinto Alcan Inc. signed a Basic Agreement with the Government of Guinea that sets forth the framework for development of a 1.5 million mtpy alumina refinery in Guinea. In 2006, the Basic Agreement was approved by the Guinean National Assembly and was promulgated into law. The Basic Agreement was set to expire in November 2008, but has been extended to November 2010. Pre-feasibility studies were completed in 2008. Further project activities may be considered in 2010, but execution is dependent upon global economic conditions and conditions within Guinea.

In September 2006, Alcoa received environmental approval from the Government of Western Australia for expansion of the Wagerup alumina refinery to a maximum capacity of 4.7 million mtpy, a potential increase of over 2 million mtpy. This approval included environmental conditions that must be satisfied before Alcoa can seek construction approval for the project. The project was suspended in November 2008 due to global economic conditions and the unavailability of a secure long-term energy supply in Western Australia.

In 2008, AWAC signed a cooperation agreement with Vietnam National Coal-Minerals Industries Group (Vinacomin) in which they agreed to conduct a joint feasibility study of the Gia Nghia bauxite mine and alumina refinery project located in Dak Nong Province in Vietnam's Central Highlands, with first stage capacity expected to be between 1.0 and 1.5 million mtpy. The cooperation between AWAC and Vinacomin on Gia Nghia is subject to approval by the Government of Vietnam. If established, the Gia Nghia venture is expected to be 51% owned by Vinacomin, 40% by AWAC and 9% by others.

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

Alcoa Worldwide Smelting Capacity

Country	Facility	Owners (% Of Ownership)	Nameplate Capacity ¹ (000 MTPY)	Alcoa
				Consolidated Capacity ² (000 MTPY)
Australia	Point Henry Portland	AofA (100%)	190	190 ³
		AofA ⁴ (55%)		
		CITIC (22.5%)		
Brazil	Poços de Caldas São Luís (Alumar)	Marubeni (22.5%)	358 ⁵	197 ³
		Alumínio (100%)	96 ⁶	96
		Alumínio (60%)		
Canada	Baie Comeau, Que. Bécancour, Que.	BHP Billiton (40%)	447	268
		Alcoa (100%)	385 ⁷	385
		Alcoa (74.95%)		
	Deschambault, Que.	Rio Tinto Alcan Inc. ⁸ (25.05%)	413	310
		Alcoa (100%)	260	260