

Statement of Consolidated Income

Alcoa and subsidiaries

(in millions, except per-share amounts)

For the year ended December 31	2001	2000	1999
Sales (A and L)	\$22,859	\$22,936	\$16,323
Cost of goods sold	17,857	17,342	12,536
Selling, general administrative and other expenses	1,276	1,108	851
Research and development expenses	203	194	128
Provision for depreciation, depletion and amortization	1,253	1,207	888
Special items (B)	566	—	—
Interest expense (R)	371	427	195
Other income, net	(308)	(154)	(124)
	21,218	20,124	14,474
Income before taxes on income	1,641	2,812	1,849
Provision for taxes on income (O)	525	942	553
Income from operations	1,116	1,870	1,296
Less: Minority interests' share	208	381	242
Income before accounting change	908	1,489	1,054
Cumulative effect of accounting change (A)	—	(5)	—
Net Income	\$ 908	\$ 1,484	\$ 1,054
Earnings per Share (N)			
Basic (before cumulative effect)	\$ 1.06	\$ 1.83	\$ 1.43
Basic (after cumulative effect)	1.06	1.82	1.43
Diluted (before cumulative effect)	1.05	1.81	1.41
Diluted (after cumulative effect)	1.05	1.80	1.41

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

Consolidated Balance Sheet

Alcoa and subsidiaries

(in millions)

December 31	2001	2000
Assets		
Current assets:		
Cash and cash equivalents (S)	\$ 512	\$ 315
Short-term investments (S)	15	56
Receivables from customers, less allowances: 2001 – \$129; 2000 – \$69	2,577	3,461
Other receivables	288	354
Inventories (D)	2,531	2,703
Deferred income taxes (O)	410	385
Prepaid expenses and other current assets	459	304
Total current assets	6,792	7,578
Properties, plants and equipment (E)	11,982	12,850
Goodwill, net of accumulated amortization of \$524 in 2001 and \$344 in 2000 (C)	5,733	6,003
Other assets (F)	3,848	5,260
Total Assets	\$28,355	\$31,691
Liabilities		
Current liabilities:		
Short-term borrowings (H and S)	\$ 142	\$ 2,719
Accounts payable, trade	1,630	1,876
Accrued compensation and retirement costs	889	928
Taxes, including taxes on income	903	702
Other current liabilities	1,336	1,302
Long-term debt due within one year (H and S)	103	427
Total current liabilities	5,003	7,954
Long-term debt, less amount due within one year (H and S)	6,388	4,987
Accrued postretirement benefits (P)	2,513	2,719
Other noncurrent liabilities and deferred credits (G)	1,968	2,126
Deferred income taxes (O)	556	969
Total liabilities	16,428	18,755
Minority Interests (I)	1,313	1,514
Commitments and Contingencies (J)		
Shareholders' Equity		
Preferred stock (M)	56	56
Common stock (M)	925	925
Additional capital	6,114	5,927
Retained earnings	7,517	7,127
Treasury stock, at cost	(2,706)	(1,717)
Accumulated other comprehensive loss	(1,292)	(896)
Total shareholders' equity	10,614	11,422
Total Liabilities and Equity	\$28,355	\$31,691

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

Statement of Consolidated Cash Flows

Alcoa and subsidiaries

(in millions)

For the year ended December 31	2001	2000	1999
Cash from Operations			
Net income	\$ 908	\$ 1,484	\$ 1,054
Adjustments to reconcile net income to cash from operations:			
Depreciation, depletion and amortization	1,265	1,219	901
Change in deferred income taxes	(24)	135	54
Equity income, net of dividends	(56)	(66)	(10)
Noncash special items (B)	526	—	—
Gains from investing activities—sale of assets	(114)	(7)	(12)
Provision for doubtful accounts	78	10	11
Accounting change	—	5	—
Minority interests	208	381	242
Other	9	32	31
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:			
Reduction (increase) in receivables	605	(456)	(67)
(Increase) reduction in inventories	(13)	117	253
(Increase) reduction in prepaid expenses and other current assets	(69)	6	(36)
Reduction in accounts payable and accrued expenses	(419)	(88)	(79)
(Reduction) increase in taxes, including taxes on income	(60)	407	171
Change in deferred hedging gains/losses	—	7	(63)
Net change in noncurrent assets and liabilities	(433)	(335)	(69)
Cash provided from operations	2,411	2,851	2,381
Financing Activities			
Net changes to short-term borrowings	(2,570)	2,123	(89)
Common stock issued for stock compensation plans	552	251	464
Repurchase of common stock	(1,452)	(763)	(838)
Dividends paid to shareholders	(518)	(418)	(298)
Dividends paid to minority interests	(251)	(212)	(122)
Net change in commercial paper	(1,290)	530	—
Additions to long-term debt	3,343	1,918	572
Payments on long-term debt	(941)	(1,877)	(1,000)
Cash (used for) provided from financing activities	(3,127)	1,552	(1,311)
Investing Activities			
Capital expenditures	(1,177)	(1,121)	(920)
Acquisitions, net of cash acquired (K)	(159)	(3,121)	(122)
Proceeds from the sale of assets	2,507	22	45
Additions to investments	(270)	(94)	(96)
Changes in short-term investments	41	21	(37)
Other	(3)	(16)	(37)
Cash provided from (used for) investing activities	939	(4,309)	(1,167)
Effect of exchange rate changes on cash	(26)	(16)	(8)
Net change in cash and cash equivalents	197	78	(105)
Cash and cash equivalents at beginning of year	315	237	342
Cash and cash equivalents at end of year	\$ 512	\$ 315	\$ 237

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

Statement of Shareholders' Equity

Alcoa and subsidiaries

(in millions, except per-share amounts)

December 31	Comprehensive income	Preferred stock	Common stock	Additional capital	Retained earnings	Treasury stock	Accumulated other comprehensive loss	Total shareholders' equity
Balance at end of 1998		\$56	\$395	\$1,676	\$5,305	\$(1,029)	\$ (347)	\$ 6,056
Comprehensive income — 1999:								
Net income — 1999	\$1,054				1,054			1,054
Other comprehensive loss:								
Unrealized translation adjustments (A)	(291)						(291)	(291)
Comprehensive income	<u>\$ 763</u>							
Cash dividends: Preferred @ \$3.75 per share					(2)			(2)
Common @ \$.403 per share					(296)			(296)
Treasury shares purchased						(838)		(838)
Stock issued: compensation plans				28		607		635
Balance at end of 1999		56	395	1,704	6,061	(1,260)	(638)	6,318
Comprehensive income — 2000:								
Net income — 2000	\$1,484				1,484			1,484
Other comprehensive income (loss):								
Change in minimum pension liability, net of \$(3) tax expense	5							
Unrealized translation adjustments	(263)						(258)	(258)
Comprehensive income	<u>\$1,226</u>							
Cash dividends: Preferred @ \$3.75 per share					(2)			(2)
Common @ \$.500 per share					(416)			(416)
Treasury shares purchased						(763)		(763)
Stock issued: Reynolds acquisition			135	4,367				4,502
Stock issued: compensation plans				251		306		557
Stock issued: two-for-one split			395	(395)				—
Balance at end of 2000		56	925	5,927†	7,127	(1,717)	(896)	11,422
Comprehensive income — 2001:								
Net income — 2001	\$ 908				908			908
Other comprehensive income (loss):								
Change in minimum pension liability, net of \$27 tax benefit	(51)							
Unrealized translation adjustments	(241)							
Unrecognized gains/(losses) on derivatives, net of tax and minority interests of \$124 (S):								
Cumulative effect of accounting change	(4)							
Net change from periodic revaluations	(175)							
Net amount reclassified to income	75							
Total unrecognized gains/(losses) on derivatives	(104)						(396)	(396)
Comprehensive income	<u>\$ 512</u>							
Cash dividends: Preferred @ \$3.75 per share					(2)			(2)
Common @ \$.600 per share					(516)			(516)
Treasury shares purchased						(1,452)		(1,452)
Stock issued: compensation plans				187		463		650
Balance at end of 2001		\$56	\$925	\$6,114†	\$7,517	\$(2,706)	\$(1,292)*	\$10,614

* Comprised of unrealized translation adjustments of \$(1,127), minimum pension liability of \$(61) and unrecognized gains/(losses) on derivatives of \$(104)

† Includes stock to be issued under options of \$138 and \$182 in 2001 and 2000, respectively

Share Activity

(number of shares)

	Preferred stock	Common stock		
		Issued	Treasury	Net outstanding
Balance at end of 1998	557,649	789,391,852	(55,773,696)	733,618,156
Treasury shares purchased			(31,211,044)	(31,211,044)
Stock issued: compensation plans			33,090,884	33,090,884
Balance at end of 1999	557,649	789,391,852	(53,893,856)	735,497,996
Treasury shares purchased			(21,742,600)	(21,742,600)
Stock issued: Reynolds acquisition		135,182,686		135,182,686
Stock issued: compensation plans			16,579,158	16,579,158
Balance at end of 2000	557,649	924,574,538	(59,057,298)	865,517,240
Treasury shares purchased			(39,348,136)	(39,348,136)
Stock issued: compensation plans			21,412,772	21,412,772
Balance at end of 2001	557,649	924,574,538	(76,992,662)	847,581,876

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