

Dividend Equivalent Compensation Plan

Calculation of Dividend Equivalent Payments

(Adopted by the Compensation Committee of the Board, effective February 3, 1997)

Dividend equivalent payments are cash payments made under Alcoa's Dividend Equivalent Compensation Plan. Payment of dividend equivalents is solely within the discretion of the Board of Directors or the Compensation Committee of the Board.

If the Board or the Committee decides to make a dividend equivalent payment under the Plan, the amount of the payment will be based on two factors: (1) the amount of cash dividend declared by the Board of Directors on Alcoa common stock (currently, the base quarterly common stock dividend amount is \$0.1875 per share); and (2) the number of dividend equivalent units ("DE Units") credited to an individual participant's account on the record date set for payment. DE Units are phantom or hypothetical share units. They are bookkeeping entries, maintained solely for purposes of calculating dividend equivalent payments. DE Units are calculated on outstanding exercisable options (other than discount options) issued under the Company's Long Term Stock Incentive Plan and held by participants.

Calculating DE Units

A. Initial Calculation:

On the first common stock dividend record date, after February 3, 1997, on which an eligible option is both exercisable and has a "spread" of \$2.50 per share or more,

1. Multiply the number of shares under option by the "spread." "Spread" per share means the difference between the Fair Market Value (mean between the high and low trading prices) per share on the date in question and the per share exercise price of the option.
2. Divide the product calculated in #1 by the Fair Market Value per share on the record date.
3. Multiply the product calculated in #2 above by the fraction 60/100. This is a design feature of the plan, which reflects a hypothetical 40% tax withholding on the units calculated. This feature applies whether or not an individual participant is subject to tax or to a greater or lesser effective tax rate.
4. The resulting product is the number of DE Units to be credited to an individual participant's account for that option grant.

B. Subsequent Calculations:

Additional credits of DE Units will be made whenever, on a dividend record date, there is an increase in Fair Market Value of at least \$2.50 per share from the last calculation and at least 6 months elapses between calculations.

Thus, beginning on the dividend record date 6 months after an initial calculation for an option grant, an additional calculation will be performed for that option grant if it continues to be exercisable and if the Fair Market Value on the subsequent record date is at least \$2.50 per share more than the Fair Market Value on the initial record date. Thereafter, additional calculations will be made on subsequent record dates falling six months or more after the latest calculation; additional DE Units will be credited only when the Fair Market Value increases at least \$2.50 from the latest calculation.

C. Effect of Option Exercise on DE Units:

Whenever an option is exercised in whole, all DE Units related to that option shall expire; the exercise of a portion of an option shall result in the expiration of a proportionate amount of DE Units.

D. Effect of Decline in Fair Market Value:

A decrease in Fair Market Value does not result in any recalculation or reduction in DE Units. Only an exercise of the option or its cancellation, transfer or expiration results in a reduction of DE Units.

Payment of Dividend Equivalent Amount

If the Board of Directors or the Compensation Committee of the Board authorizes the payment of a dividend equivalent under the Plan, the amount of the payment will be equal to the dividend per share declared on outstanding common stock multiplied by the DE Units credited to a participant's account on the record date for payment. Record and payment dates will be the same as the dividend payment to shareholders, except that payment will be made in the employee's regular pay check for the period ending on or after the date of the dividend payment to shareholders. The dividend equivalent payment will be W-2 income for US employees, subject to applicable tax withholdings.