

ALCAN INC
Form 10-K
March 09, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

☒ Annual Report pursuant to Section 13 or 15(d) of

the Securities Exchange Act of 1934

For the fiscal year ended

31 December 2005

☐ OR
Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission file number 1-3677

Alcan Inc.

Incorporated in:
Canada

I.R.S. Employer Identification No.:
Not applicable

1188 Sherbrooke Street West,
Montreal, Quebec, Canada H3A 3G2

Telephone: (514) 848-8000

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

<i>Title of each class</i>	<i>Name of each exchange on which registered</i>
Common Shares, without nominal or par value	New York Stock Exchange
Common Share Purchase Rights	New York Stock Exchange
4 7/8% Notes due 2012	New York Stock Exchange

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

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

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

Edgar Filing: ALCAN INC - Form 10-K

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

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

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

Large accelerated filer ☒

Accelerated filer

Non-accelerated filer ☐

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

The aggregate market value of the voting stock held by non-affiliates: USD 11,107 million, as at 30 June 2005.

Common Stock of Registrant outstanding: 373,693,379 Common Shares, as at 27 February 2006.

Documents incorporated by reference: Portions of the Proxy Circular for the Annual Meeting to be held on 27 April 2006 are incorporated by reference in Part III of this Form 10-K and portions of the Financial Statements and Management's Discussion and Analysis are incorporated by reference in Parts I and II of this Form 10-K.

INDEX TO ALCAN INC.

2005 ANNUAL REPORT ON FORM 10-K

Page

PART I

Item 1	Business	6
	Overview of Operating Segments	6
	History / Recent Developments	6
	Alcan Business Groups	8
	Bauxite and Alumina	8

Edgar Filing: ALCAN INC - Form 10-K

	Primary Metal	12
	Engineered Products	16
	Packaging	19
	Information by Geographic Areas	21
	Research and Development	21
	Environment, Health and Safety / Alcan Integrated Management System	22
	Employees	22
	Patents, Licenses and Trademarks	23
	Competition and Government Regulations	23
Item 1A	Risk Factors	24
Item 1B	Unresolved Staff Comments	27
Item 2	Properties	27
Item 3	Legal Proceedings	28
	Environmental Matters	28
Item 4	Submission of Matters to a Vote of Security Holders	30
 PART II		
Item 5	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	31
Item 6	Selected Financial Data	32
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 7A	Quantitative and Qualitative Disclosures about Market Risk	33
Item 8	Financial Statements and Supplementary Data	38
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	38
Item 9A	Controls and Procedures	38
Item 9B	Other Information	39
 PART III		
Item 10	Directors and Executive Officers of the Registrant	40
Item 11	Executive Compensation	45
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	45
Item 13	Certain Relationships and Related Transactions	47
Item 14	Principal Accountant Fees and Services	47
 PART IV		
Item 15	Exhibits and Financial Statement Schedules	48
	Signatures	52

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

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

"Annual Report" means Alcan's annual report to Shareholders for the year ended 31 December 2005,

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

Edgar Filing: ALCAN INC - Form 10-K

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

"Director" means a director of Alcan,

"Dollars" or "\$" means U.S. Dollars, unless otherwise specified,

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

"Financial Statements" means Alcan's consolidated financial statements for the year ended 31 December 2005, filed herewith under exhibit 99.3,

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

"LME" means the London Metal Exchange,

"Management's Discussion and Analysis" means Alcan's management's discussion and analysis of financial condition and results of operations for the year ended 31 December 2005, filed herewith under exhibit 99.2,

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

"Novelis Spin-off" means the transfer to Novelis of substantially all of the aluminum rolled products businesses held by Alcan prior to the Pechiney Combination and Novelis becoming an independent publicly-traded company on 6 January 2005,

"Proxy Circular" means the management proxy circular prepared in connection with Alcan's Annual Meeting of Shareholders to be held on 27 April 2006, and any adjournment thereof, filed herewith under exhibit 99.1,

"Pechiney" means Pechiney, a French *société anonyme*, a Subsidiary of the Company following the Pechiney Combination,

"Pechiney Combination" means the process by which Pechiney became a Subsidiary of Alcan on 15 December 2003, through the completion of a cash and Shares offer by Alcan for the securities of Pechiney,

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

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

"Shareholder" means a holder of the Shares,

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

"tonne" means a metric tonne of 1,000 kilograms or 2,204.6 pounds, and

"U.S. GAAP" means U.S. generally accepted accounting principles.

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

Certain information called for by Items of this Form 10-K report is incorporated by reference to the Financial Statements, to the Management's Discussion and Analysis and to the Proxy Circular, each of which is filed herewith as an exhibit to this report. Such information is specifically identified herein, including by the reference "See Financial Statements", "See Management's Discussion and Analysis" or "See Proxy Circular". With the exception of information specifically incorporated by reference from the Proxy

Edgar Filing: ALCAN INC - Form 10-K

Circular, such Proxy Circular is not to be deemed filed as part of this Form 10-K report. Information incorporated by reference is considered to be part of this report, and information in reports filed later with the Securities and Exchange Commission ("SEC") will automatically update and supersede this information.

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

Special Note Regarding Forward-Looking Statements

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

The following factors, among others, could cause actual results or outcomes to differ from the results expressed or implied by forward-looking statements:

- changes in global supply and demand conditions for aluminum and other products;
- changes in aluminum ingot prices;
- changes in raw material costs and availability;
- changes in the relative values of various currencies;
- cyclical demand and pricing within the principal markets for Alcan's products;
- changes in government regulations, particularly those affecting environmental, health or safety compliance;
- fluctuations in the supply of and prices for power in the areas in which Alcan maintains production facilities;
- the effect of integrating acquired businesses and the ability to attain expected benefits from acquisitions;
- potential discovery of unanticipated commitments or other liabilities associated with the acquisition and integration or disposition of businesses;
- major changes in technology that affect Alcan's competitiveness;
- the risk of significant losses from trading operations, including losses due to market and credit risks associated with derivatives;
- changes in prevailing interest rates and equity market returns related to pension plan investments, which may result in Alcan being required to make larger than expected pension plan contributions;
- potential catastrophic damage, increased insurance and security costs and general uncertainties associated with the increased threat of terrorism or war;
- the effect of international trade disputes on Alcan's ability to import materials, export its products and compete internationally;
- relationships with, and financial and operating conditions of, customers and suppliers;
- economic, regulatory and political factors within the countries in which Alcan operates or sells products; and
- other factors affecting Alcan's operations, including without limitation, litigation, labour relations and negotiations and changes in fiscal regimes.

Additional information concerning factors that could cause actual results to differ materially from those in forward-looking statements include, but are not necessarily limited to, those discussed under Item 1A of this report and the heading "Risks and Uncertainties" in Management's Discussion and Analysis. The text under the named heading of Management's Discussion and Analysis is incorporated herein by reference.

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.

Alcan files annual, quarterly and special reports and other information with the SEC. Any document so filed can be viewed at the SEC's public reference room at 100 F Street, N. E., Washington, D. C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the SEC's website at www.sec.gov. Such documents, and amendments thereto, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are also available, as soon as reasonably practicable, after Alcan has electronically filed such materials, through its website at www.alcan.com. Alcan's website also includes the Charters

of its Board of Directors and of its four Committees of the Board of Directors: the Corporate Governance, the Audit, the Human Resources and the Environment, Health & Safety Committees, as well as its *Worldwide Code of Employee and Business Conduct*, available in 13 languages.

PART I

ITEM 1 BUSINESS

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

On 31 December 2005, Alcan employed approximately 65,000 people in 58 countries.

A. OVERVIEW OF OPERATING SEGMENTS

The Company operates through four Business Groups, each responsible for the different business units of which they are comprised. The operating segments include the Company's proportionate share of Joint Ventures (including Joint Ventures accounted for using the equity method), as they are managed within each operating segment. The operating segments of the Company are:

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

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

1.3 **Engineered Products**, headquartered in Paris, France, this Business Group produces engineered and fabricated aluminum products including rolled, extruded and cast aluminum products, engineered shaped products and structures, including cable, wire, rod, as well as composite materials such as aluminum-plastic, fibre reinforced plastic and foam-plastic in 52 plants located in 11 countries. Also part of this Business Group are 33 service centres in 11 countries and 33 sales offices in 29 countries; and

1.4 **Packaging**, also headquartered in Paris, this Business Group consists of Alcan's worldwide food, pharmaceutical and medical, beauty and personal care, and tobacco packaging businesses operating 150 plants in 30 countries. This Business Group produces packaging from a number of different materials, including plastics, aluminum, paper, paperboard, glass and steel.

B. HISTORY / RECENT DEVELOPMENTS

Alcan is a limited liability Canadian company, incorporated on 3 June 1902, with its headquarters and registered office in Montreal, Canada, to establish a smelter and hydroelectric power facility in Shawinigan, Quebec. In 1928, Alcan became an independently-traded company. During the Second World War, substantial expansion of hydroelectric and smelting capacity took place in Quebec to supply aluminum for the war effort. In the 1950s, Alcan added hydroelectric and smelting capacity in British Columbia. During the post-war period, Alcan expanded internationally and invested in fabricating activities. Alcan continued its international expansion with the acquisitions of Alusuisse Group Ltd. in 2000 and Pechiney in 2003, both of which significantly increased the Company's presence in the packaging industry.

1. Alcan's Recent Developments

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

On 6 January 2005, pursuant to a plan of arrangement under the *Canada Business Corporations Act*, the Company transferred to Novelis substantially all of the aluminum rolled products businesses that it held prior to the Pechiney Combination, as well as certain alumina and primary metal-related businesses in Brazil and four former Pechiney rolling facilities in Europe, and distributed the shares of Novelis, which became a publicly-traded company, to Alcan Shareholders. Detailed information on the Novelis Spin-off can be found on pages 10 through 13 of Alcan's Annual Report on Form 10-K for the year ended 31 December 2004.

On 11 January 2005, the Company announced it would build two new packaging plants in Russia with an investment of \$55 million.

On 3 February 2005, the Company announced the appointment of Mr. Michael Hanley as Executive Vice President ("EVP") of the Company.

On 15 March 2005, the Company announced that it had completed the sale of its controlling interest in Aluminium de Grèce SAIC to Mytilineos Holdings SA and certain affiliated companies. An agreement on the sale was announced in December 2004, and its completion followed the approval by the Greek Competition Commission and the Greek Ministry of Development.

On 28 April 2005, the Company announced the appointment of Ms. Jacynthe Côté as Senior Vice President ("SVP") of Alcan, and President and Chief Executive Officer of Alcan's Bauxite and Alumina Business Group.

On 2 May 2005, the Company announced that, following the approval of Polish and German anti-trust authorities, it had completed the acquisition of assets of Parkside International's flexible food packaging plant in Zlotow (Poland) pursuant to an agreement originally reached in March 2005.

On 26 May 2005, the Company announced its intention to issue \$500 million of 5.00% notes due in 2015 and \$300 million of 5.75% notes due in 2035. Alcan used the net proceeds of these offerings, which closed on 31 May 2005, to repay outstanding commercial paper debt.

On 1 June 2005, the Company announced that it had completed the sale of its ferroalloys division, Pechiney Électrométallurgie, to Ferroatlántica, S.L., a leading European ferroalloys manufacturer and independent electrical power producer based in Spain.

On 8 July 2005, the Company announced the acquisition of PreWired Systems LLC of Pacoima (California, U.S.), a business specialized in manufactured wiring systems for the electrical industry.

On 21 July 2005, the Company announced an investment of \$42.6 million in the construction of a new packaging facility in Reidsville Industrial Park (North Carolina, U.S.). The new plant will produce printed packaging, including folding cartons and labels, for key customers in Alcan Packaging's global tobacco business. The announcement followed the Company's May 2005 signing of an exclusive supply agreement with R.J. Reynolds Tobacco Company for selected printed tobacco packaging, including folding cartons and labels.

On 20 September 2005, the Company announced that Aluminerie Alouette Inc. ("Alouette"), in which the Company holds a 40% stake, had completed the Alouette smelter's CAN\$1.45 billion expansion project on budget and ahead of schedule. The expansion more than doubled Alouette's annual current production from 245 kilotonnes to 550 kilotonnes, confirming its status as the Americas' largest aluminum smelter.

On 28 September 2005, the Company announced that it planned to invest \$35 million in a new aluminum extrusion plant in Slovakia to produce profiles mostly for the building and construction sectors in Eastern Europe. The new facility is to have two aluminum extrusion press lines, and will be part of Alcan Extruded Products, a unit of the Company's Engineered Products Business Group.

On 29 September 2005, the Company announced updated long-term targets for Alcan as a whole and for each of its four Business Groups. The corporate targets included: (i) 15% annual growth in operating earnings per share; (ii) \$2 billion minimum annual cash from operations in 2006 and onward; (iii) return on capital employed sufficient to cover its cost of capital by 2008; and (iv) debt-to-total capital ratio of approximately 35%. Specific targets for 2009 and action plans to achieve such targets were also

Edgar Filing: ALCAN INC - Form 10-K

identified for each of the Company's four Business Groups. For the upstream businesses, these included achieving first quartile status on the global cost curve for 50% of the Bauxite and Alumina Business Group's production and for 55% of the Primary Metal Business Group's production. For the downstream businesses, the targets included improving business group profit margins on revenues to 10% for the Engineered Products Business Group and 15% for the Packaging Business Group. The targets reflected Alcan's then-current business plans, economic outlook, and forward rates for aluminum and currencies at that time.

7

On 13 October 2005, the Company announced that it had begun discussions with local stakeholders over the progressive closure of the Company's aluminum smelter in Lannemezan (France). The closure process is expected to begin by June 2006 and be completed in 2008.

On 19 October 2005, the Company announced that its Board of Directors had chosen Mr. Richard B. Evans, EVP, to succeed Mr. Travis Engen as the Company's President and Chief Executive Officer ("CEO"). Mr. Engen had informed the Board of his intention to retire when his contract ends in March 2006. To facilitate the transition, Mr. Evans was appointed Chief Operating Officer ("COO") and was elected to the Board as a Director. In addition, Mr. Michael Hanley, EVP and interim Chief Financial Officer ("CFO"), was appointed Alcan's CFO following previous-CFO Geoffery Merszei's departure in mid-May 2005.

On 19 October 2005, Alcan Corporation, a wholly-owned Subsidiary, established a \$2 billion U.S. commercial paper program. Alcan acted as guarantor to Alcan Corporation.

On 26 October 2005, the Company announced that it had signed a letter of intent with the Government of Cameroon for the potential upgrade and expansion of their Joint Venture Alucam primary aluminum smelter to an approximate 260-kilotonne per year capacity, and for the construction of a new hydroelectric power station at a total estimated cost of \$900 million. The Government of Cameroon and Alcan each own 46.7% of Alucam. Alcan plans to complete all the necessary technical studies to assess the scope of the project and is expected to make a decision on whether to proceed during the course of 2006.

On 22 November 2005, the Company announced that it and Alcoa World Alumina LLC signed a basic agreement with the Government of Guinea that sets forth the framework for development of a 1.5-million tonne per year alumina refinery in Guinea, with further expansion potential. Following the completion of feasibility studies, the parties are to decide whether to proceed with the investment.

On 12 December 2005, the Company announced that, together with Oman Oil Company SAOC and the Abu Dhabi Water and Electricity Authority, it would proceed with the construction of a \$1.7 billion primary aluminum smelter in Sohar (Oman). Alcan will hold a 20% stake in the 350-kilotonne per year smelter, which is expected to begin production in the second quarter of 2008.

On 21 December 2005, the Company announced that it would proceed with an investment of approximately \$129 million for its participation in the 2.1-million tonne per year expansion of the Alumar consortium alumina refinery in São Luís (Brazil). The expanded refinery, in which Alcan will continue to hold a 10% stake, would have a total capacity of approximately 3.5-million tonnes per year once completed.

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

On 4 January 2006, the Company announced that it had signed an agreement in principle for the sale of its Froges (France) rolling mill to Industrie Laminazione Alluminio S.p.A., an Italian company that provides aluminum solutions for the packaging and building

markets. The transaction is expected to be completed in the first quarter of 2006.

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

On 18 January 2006, the Company announced the appointment of Mr. Gwyn Morgan to its Board of Directors.

On 27 February 2006, the Company announced that it had reached an agreement to sell selected assets of its North American Packaging Plastic Bottle business to Ball Corporation for \$180 million. The sale, which is subject to compliance with U.S. antitrust law, is to include operations in Batavia (Illinois), Bellevue (Ohio) and Newark (California, U.S.) and Brampton (Ontario, Canada).

C. ALCAN BUSINESS GROUPS

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

1. Bauxite and Alumina

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

8

1.1 Products and Services / Business Units

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

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

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

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

In 2005, Alcan used 11.8 million tonnes of bauxite to produce 5 million tonnes of smelter-grade alumina, which were either transferred to its current smelting operations through swap agreements or direct intersegment sales, or sold to third parties. The balance of the smelter requirements, 1.3 million tonnes, was purchased from third parties. Alcan also produced and sold 700 kilotonnes of specialty aluminas to third parties.

In 2005, the Bauxite and Alumina Business Group had third party sales and operating revenues of approximately \$1.5 billion, representing approximately 7% of Alcan's 2005 sales and revenues.

Edgar Filing: ALCAN INC - Form 10-K

For further information concerning the Bauxite and Alumina Business Group's sales to third parties, business group profit, working capital, total assets and the percentage of Alcan's total revenue contributed by the Bauxite and Alumina Business Group, see Note 35 to the Financial Statements, prepared in accordance with U.S. GAAP, as well as Management's Discussion and Analysis-Bauxite and Alumina.

1.2 Production / Facilities

1.2.1 **Canada:** Alcan owns the Vaudreuil alumina facility at Jonquière, Quebec. Bauxite required for its operation is obtained from Brazil, Guinea and Australia (see below). Alumina and specialty alumina produced at Vaudreuil supply, in part, the smelters in Quebec and are also sold in specialty alumina markets in the U.S. and Canada. Alcan also operates the Brockville specialty alumina plant in Ontario.

1.2.2 **Australia:** Alcan owns the Gove bauxite refinery and mine in Australia's Northern Territory. In 2005, the amount of bauxite mined at Gove was 5.8 million tonnes and the refinery produced 1.9 million tonnes of smelter-grade alumina, which was used at the Kitimat (British Columbia, Canada), ISAL (Iceland), Sebree (Kentucky, U.S.) and Quebec smelters and was sold to third parties. In 2004, the Company announced the expansion of the Gove refinery to increase alumina capacity to 3.8 million tonnes per year. Alcan owns, directly and indirectly, 41.39% of Queensland Alumina Ltd. ("QAL"), which operates a 4.0-million tonne alumina plant at Gladstone (Queensland, Australia). Each participant in that plant supplies bauxite for toll conversion. All of Alcan's bauxite processed by QAL is purchased from Comalco Limited ("Comalco") in Australia under a long-term agreement. Alcan's share of production from QAL (1.6-million tonnes) is used to supply third parties. Alcan and Comalco have an agreement providing for the future development of Alcan's Ely bauxite mine in Cape York, Queensland, with Comalco's adjacent operations.

9

1.2.3 **Brazil:** Alcan purchased approximately 2.1 million tonnes of bauxite in 2005 from Mineração Rio do Norte S.A. ("MRN"), a company in which Alcan holds a 12.5% interest. MRN's Porto Trombetas mine in the Amazon region has an operating capacity of approximately 16.7 million tonnes per year. Bauxite purchased from MRN is processed at the Vaudreuil (Quebec, Canada) plant (see above) and at the Alumar alumina refinery in São Luis (Brazil) which has an annual capacity of about 1.4 million tonnes; Alcan owns a 10% interest in Consorcio de Alumínio do Maranhão, the legal entity operating the Alumar alumina refinery. On 21 December 2005, Alcan announced that it would proceed with an investment of approximately \$129 million for its participation in the 2.1-million tonne per year expansion of the Alumar refinery.

1.2.4 **France:** Alcan owns a 100% interest in three plants: Gardanne, Beyrède and La Bâthie. The total production of these plants was approximately 700 kilotonnes for 2005 of which one third was for smelter grade alumina (produced only at the Gardanne facility) and the balance for specialty aluminas. The smelter grade alumina is primarily shipped to the St. Jean de Maurienne smelter facility in France and specialty products are sold to third parties.

1.2.5 **Germany:** Alcan owns a 100% interest in Alufin (Teutschental, Germany) which produces specialty alumina products from raw materials supplied by plants located in France. Total annual production for this plant is 26,000 tonnes.

1.2.6 **Ghana:** Alcan purchased about 600 kilotonnes of bauxite in 2005 from Ghana Bauxite Co. Ltd., in which it holds an 80% interest. Its bauxite mine is located in Awaso.

1.2.7 **Guinea:** Alcan and Alcoa World Alumina LLC each hold a 45% interest in Halco (Mining) Inc. ("Halco"), which in turn owns a 51% interest in Compagnie des Bauxites de Guinée S.A. ("CBG") that currently mines bauxite for export at Conakry, in the Boké region of the country. The Government of the Republic of Guinea holds the remaining 49% interest in CBG. CBG has exclusive rights through 2038 to bauxite reserves and resources in a 10,000 square mile area in the northwestern part of the country. Alcoa World Alumina LLC, Alcan and other Halco shareholders acquire CBG bauxite for processing in their individual refineries.

Alcan purchased about 6.4 million tonnes of bauxite in 2005, under contracts in effect through 2011 from CBG. The ore is processed at the Vaudreuil plant (see above) and is also sold to third parties. CBG has an annual operating capacity of about 13.5 million tonnes, of which 6.4 million tonnes are reserved for Alcan needs.

On 22 November 2005, Alcan announced that it and Alcoa World Alumina LLC, a joint venture between Alcoa, Inc. and Alumina Ltd., signed a basic agreement with the Government of Guinea that sets forth the framework for the development of a 1.5-million tonne per year alumina refinery in Guinea with further expansion potential. Following the completion of feasibility studies, Alcan and Alcoa will decide whether to proceed with the investment.

1.2.8 **India:** Alcan holds a 45% interest in the proposed Utkal bauxite and alumina project in Orissa (India). The planned project would include a 1.0 to 1.5-million tonne per year integrated alumina plant and associated bauxite mine, with potential to further expand production capacity.

Alumina Plants

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

Smelter-Grade Alumina Refineries

Locations		% of	
		Ownership by Alcan	Annual Capacity (thousands of tonnes)
Australia.....	Gladstone (QAL)	41.4	1,640*
	Gove, Northern Territory	100	2,100
Brazil.....	São Luis (Alumar)	10	140*
Canada.....	Jonquière, Quebec	100	1,220
France.....	Gardanne	100	200
Total Smelter-Grade Alumina			5,300

* Represents Alcan's share.

Specialty Alumina Plants

Locations		% of	
		Ownership by Alcan	Annual Capacity (thousands of tonnes)
Canada.....	Brockville, Ontario	100	20
	Jonquière, Quebec	100	180
France.....	Gardanne	100	435
	Beyrède	100	28
	La Bâthie	100	31
Germany.....	Teutschenthal	100	28
Total Specialty Alumina			722

1.3 Source Materials

1.3.1 **Bauxite:** Alcan obtains its bauxite from mining Subsidiaries, Joint Ventures, consortium companies and third party suppliers. In 2005, the Company consumed 13.3 million tonnes of bauxite. Based on bauxite deposits in numerous locations

Edgar Filing: ALCAN INC - Form 10-K

around the world, Alcan has more than sufficient bauxite reserves to meet its needs and does not believe that availability of bauxite will constrain its operations in the foreseeable future.

Bauxite Mines / Deposits

		% of	
		Ownership	Annual Capacity
Locations		by Alcan	(thousands of tonnes)
Australia.....	Gove, Northern Territory	100	6,000
	Ely, Queensland	100	0**
Brazil.....	Porto Trombetas (MRN)	12.5	2,100*