ALCAN INC
Form 10-K
March 02, 2007

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 2006
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:	*I.R.S. Employer Identification No.:*
Canada	**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:

Title of Each Class	*Name of Each Exchange on Which Registered*
Common Shares, without nominal or par value	New York Stock Exchange
Common Share Purchase Rights	New York Stock Exchange
47/8% 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 √

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 17,606 million, as at 30 June 2006.
Common Stock of Registrant outstanding:	367,434,803 Common Shares, as at 26 February 2007.
Documents incorporated by reference:	Portions of the Proxy Circular for the Annual Meeting to be held on 26 April 2007 are incorporated by reference in Part III of this Form 10-K.

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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,

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

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

Director means a director of Alcan,

Dollars or **$** means US 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 2006, included hereafter under Item 8 Financial Statements and Supplementary Data ,

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 2006, included hereafter under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations ,

MW means megawatts; **MWh** means megawatthours; and **kWh** means kilowatthours,

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 certain aluminum rolled products businesses 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 26 April 2007, and any adjournment thereof, filed herewith under exhibit 99.1,

Pechiney means Pechiney, a Subsidiary of the Company following its acquisition in 2003, now know as Alcan France SAS,

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 or **Common 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; **kt** means kilotonne; **Mt** means millions of tonnes; **kt/y** means kilotonne per year; and **Mt/y** means millions of tonnes per year, and

US GAAP means US 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 Proxy Circular, which is filed herewith as exhibit 99.1 to this report. Such information is specifically identified herein, including by the reference See Proxy Circular . With the exception of information specifically incorporated by reference from the Proxy 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 p 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.

For a listing of certain factors that could, among others, cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements, please refer to Item 1A of this Form 10-K.

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 the heading Risks and Uncertainties in Management s Discussion and Analysis in Item 7 of this Form 10-K.

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, nor does Alcan undertake any obligation to update on an interim basis the risk factors that could cause actual results to differ materially from those in forward-looking statements.

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 public reference room. The SEC maintains a website at www.sec.gov that contains our annual, quarterly and current reports, proxy and information statements, and other information Alcan files electronically with the SEC. 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 12 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 2006, Alcan employed approximately 64,700 people in 61 countries and regions, excluding 3,300 people employed in Joint Ventures.

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 alumina, 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, smelter cathode blocks 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, 12 power facilities in four countries and 12 technology and equipment sales centres and engineering operations in ten 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 55 plants located in 12 countries. Also part of this Business Group are 33 service centres in 11 countries and 32 sales offices in 27 countries and regions; 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 130 plants in 30 countries and regions. This Business Group produces packaging from a number of different materials, including plastics, aluminum, paper, paperboard and glass.

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, Canada. 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. In 2005, the majority of the Company s rolled products businesses were spun-off into a new independent company, Novelis.

1. Alcan s Recent Developments

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

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

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

On 27 February 2006, the Company announced that it had reached an agreement to sell selected assets of its North American plastic bottle packaging business to Ball Corporation for $180 million. The sale included operations in Batavia (Illinois), Bellevue (Ohio), Newark (California, US) and Brampton (Ontario, Canada).

On 6 March 2006, the Company announced that it had reached an agreement in principle for the sale of its Chambéry (France) Rollbond panel manufacturing operation to Compagnia Generale Alluminio SpA.

On 13 March 2006, the Company announced that Richard B. Evans had been appointed the Company s President and Chief Executive Officer (CEO) replacing Travis Engen, who had retired.

On 4 April 2006, the Company announced that it had sold its German automotive casting activity to AluCast GmbH, a company controlled by Parter Capital, a private equity company based in Frankfurt (Germany).

On 9 May 2006, the Company announced the reorganization of its global specialty alumina business, entailing the gradual shut-down of the Company s specialty-calcined alumina plant in Jonquière (Quebec, Canada).

On 11 May 2006, the Company announced that it had secured 40% of the energy required for a potential expansion of its ISAL smelter in Iceland. The agreement with Reykjavik Energy, which calls for the purchase of 200 MW of geothermal power beginning in 2010, would supply an expanded smelting facility with potential future total capacity of 460 kt per year.

On 22 June 2006, the Company announced that it had entered into a Memorandum of Understanding with the Republic of Ghana for the creation of a joint venture between Alcan and Ghana to explore the feasibility of developing a bauxite mine and alumina refinery, with an initial capacity of 1.5 to 2.0 Mt/y. The joint venture will be 51% owned by Alcan. Alcan and Ghana are to undertake a preliminary concept study that is expected to be completed by early 2007, which, if successful, could then lead to feasibility studies.

On 22 June 2006, the Company announced that it had successfully launched its new advanced aerospace plate installation and equipment at its Issoire (France) Aerospace, Transportation and Industry facility.

On 30 June 2006, the Company announced that its Quebec employees represented by the Canadian Auto Workers union had ratified a new collective labour agreement. The agreement covers an initial five-year period with an additional four-year term available.

On 4 July 2006, the Company announced the opening of its AUD 20 million Stelvin® aluminum wine closure facility in Adelaide (Australia).

On 12 July 2006, the Company announced that it had begun consultations with union and employee representatives for a proposed sale of selected assets at the Company s Affimet aluminum recycling plant in Compiègne (France).

On 12 July 2006, the Company announced that it would close two UK sites: the Workington Aerospace, Transportation and Industry hard alloy extrusion plant and the Midsomer Norton food packaging plant.

On 21 July 2006, the Company announced the opening of the Packaging Group s $33 million labels plant in Edgewood (New York, US).

On 24 July 2006, the Company s Packaging Business Group announced that it had signed an agreement to sell its Cebal Aerosol business to its current management team and to Natexis Investissement Partners.

On 2 August 2006, the Company announced that it was raising its quarterly dividend from $0.15 to $0.20 per Common Share.

On 14 August 2006, the Company announced its intention to modernize its Kitimat (British Columbia, Canada) smelter through an approximate $1.8 billion investment subject to final Board approval and to the condition of obtaining a new labour agreement, environmental permits and regulatory approval of the British Columbia Utilities Commission (BCUC) of the amended and restated Long-Term Energy Purchase Agreement between Alcan and BC Hydro. On 22 January 2007, the Company announced that it had filed leave to appeal the BCUC s decision of 29 December 2006 to reject the amended and restated Long-Term Electricity Purchase Agreement.

On 24 August 2006, the Company officially opened its new $42.6 million packaging facility in Reidsville Industrial Park (North Carolina, US) which produces printed packaging, including folding cartons and labels, for key customers in Alcan Packaging s global tobacco business.

On 14 September 2006, the Company announced that the Queensland government had given approval for the commencement of mining operations on Alcan s Ely bauxite deposit near Weipa, on Australia s Western Cape York Peninsula. The deposit has a reserve of close to 50 Mt which is expected to be mined over a period of approximately 25 years.

On 29 September 2006, the Company announced that it will build a $180 million aluminum spent pot lining recycling plant in Quebec s Saguenay Lac-Saint-Jean region. The plant is expected to begin pot lining treatment operations in the second quarter of 2008.

On 3 October 2006, the Company announced that its Board of Directors had authorized a share repurchase program of up to 5% of the Company s total outstanding Common Shares.

On 23 October 2006, the Company announced that its Pechiney Nederland NV Subsidiary will conduct a strategic review of alternatives, including the potential sale of the aluminum smelter in Vlissingen (Netherlands), in which it holds an 85% interest.

On 30 October 2006, the Company announced the appointments of Michel Jacques, 54, as President, Alcan Primary Metal Group and Christel Bories, 42, as President, Alcan Engineered Products, a post that was previously occupied by Mr. Jacques. Mr. Jacques replaced Cynthia Carroll who announced her resignation on 24 October 2006.

On 6 November 2006, the Company announced the appointment of Ilene Gordon, 53, as a Senior Vice President of Alcan Inc. and President, Alcan Packaging. Ms. Gordon, who was previously President of Alcan s Food Packaging Americas business unit, succeeds Christel Bories.

On 9 November 2006, the Company announced that it had signed a Memorandum of Understanding with Access Madagascar Sarl, a Malagasy company holding exploration rights in Madagascar s south eastern Manantenina District, to jointly study the development of a bauxite mine and alumina refinery, which would have an initial capacity of 1 to 1.5 Mt/y of alumina.

On 9 November 2006, the Company announced that it had entered into an agreement to sell its Wheaton Science products business in New Jersey (US) to River Associates Investments, LLC, a private equity group.

On 24 November 2006, the Company announced that it had secured a long-term supply agreement with South African energy firm, ESKOM Holdings Limited, for the purchase of up to 1,340 MW of electricity for its proposed 720 kt

greenfield Coega aluminum smelter project, which will have a total estimated cost of $2.7 billion.

On 29 November 2006, the Company announced that it will invest $27.5 million for an expansion project in its Pharma Center in Shelbyville (Kentucky, US).

On 6 December 2006, the Company announced that it had completed the acquisition of the remaining 70% stake of Carbone Savoie that it did not already own, and certain related technology and equipment, from GrafTech International Ltd. for $135 million less certain price adjustments.

On 14 December 2006, the Company announced plans to build a $550 million pilot plant at its Complexe Jonquière site in Canada to develop the Company s proprietary AP50 smelting technology. The pilot plant, which is

expected to produce 60 kt of aluminum annually, is the first step in a planned $1.8 billion investment program in Quebec s Saguenay Lac-Saint-Jean region. On the same date, the Company also announced the launch of a research and development initiative centred at its R&D centre in Voreppe (France), and focused on the AP series aluminum smelting technology.

On 27 December 2006, the Company announced that it had signed a collective labour agreement with the United Steelworkers union representing the Alma primary aluminum smelter in Quebec. The agreement covers an initial five year term.

On 22 January 2007, the Company revised its cost estimate for the expansion of the Gove alumina refinery in Australia s Northern Territory to $2.3 billion and indicated that the start-up date would be in the second quarter of 2007, reflecting limited availability of labour and materials in the Australian construction market, the appreciation of the Australian dollar, additional construction requirements and weather-related delays. On 22 September 2006, the Company announced that it expected a 20 to 25% increase over the original $1.5 billion cost. Expanded production is expected to start progressively during the second quarter of 2007 and continue through the first quarter of 2008, at which time the refinery is expected to attain its full expanded capacity of 3.8 Mt.

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 alumina plants.

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. Once extracted, bauxite is sent to 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 2006, Alcan used 11.4 Mt of bauxite to produce 4.9 Mt of smelter-grade alumina, which were either transferred to its current smelting operations through direct intersegment sales, or sold to third parties directly or through swap agreements. The balance of the smelter requirements, 1.7 Mt of alumina, was purchased from third parties. Alcan also produced and sold 600 kt of specialty aluminas to third parties.

In 2006, the Bauxite and Alumina Business Group had third party sales and operating revenues of approximately $1.8 billion, representing approximately 7.8% of Alcan s 2006 sales and operating revenues.

For further information concerning the Bauxite and Alumina Business Group s sales, business group profit, and total assets, see note 33 Information by Operating Segments to the Financial Statements, prepared in accordance with US GAAP, as well as Management s Discussion and Analysis Operating Segment Review Bauxite and Alumina.

1.2 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 (in kt)	2006 Production (in kt)
Australia	Gladstone, Queensland (QAL)	41.4	1,640*	1,601*
	Gove, Northern Territory	100	2,000	1,615
Brazil	São Luis (Alumar)	10	145*	144*
Canada	Jonquière, Quebec	100	1,300	1,305
France	Gardanne	100	200	191
Total Smelter-Grade Alumina			5,285	4,856

* Represents Alcan s share.

Specialty Alumina Plants

Locations		% of Ownership by Alcan	Annual Capacity (in kt)	2006 Production (in kt)
Canada	Brockville, Ontario	100	20	16
	Jonquière, Quebec*	100	80**	169
France	Gardanne	100	435	445
	Beyrède	100	28	25
	La Bâthie	100	31	27
Germany	Teutschenthal	100	28	24
Total Specialty Alumina			622	706

***** Decision taken in 2006 to shut down part of production capacity.

****** Capacity is at 31 December 2006.

1.3 Source Materials

1.3.1 ***Bauxite Mines / Deposits***

Alcan produces bauxite through its Subsidiaries, Joint Ventures and consortium companies. The Company also obtains bauxite from third party suppliers. In 2006, the Company produced 13.9 Mt of bauxite, while consuming 12.8 Mt to produce smelter-grade alumina and specialty alumina. Based on bauxite deposits in numerous locations 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

Locations		% of Ownership by Alcan	Annual Capacity (in kt)	2006 Production (in kt)
Australia	Gove, Northern Territory	100	6,000	4,767
	Ely, Queensland	100	0**	0**
Brazil	Porto Trombetas (MRN)	12.5	2,100*	2,130*
Ghana	Awaso	80	1,000*	793*
Guinea	Conakry (CBG)	22.9	6,200*	6,205*
India	Orissa (UTKAL)	45	N/A***	0***
Total Bauxite			15,300	13,895

* Represents Alcan s Share.

** Operations commenced in January 2007.

*** Bauxite extraction not yet in operation.

Approximately 6.2 Mt of the bauxite produced at Conakry are reserved for Alcan s needs.

Bauxite processed into alumina at the Gove refinery is shipped to the QTX and Kitimat smelters. Bauxite from CBG is processed at the Gardanne and Vaudreuil refineries. Gardanne supplies alumina to the European smelters. MRN bauxite is processed at the Alumar refinery and at Vaudreuil. Bauxite from Ghana is also processed at Vaudreuil, which in turn supplies alumina to the Quebec smelters. Bauxite from Ely is processed at the QAL refinery, which supplies alumina to the QTX, Kitimat and Tomago smelters. The Company purchases both bauxite and alumina from third parties, sells bauxite from CBG and Ghana and sells alumina from all refineries.

1.3.2 ***Chemicals and Other Materials***

Certain chemicals and other materials required for the production of alumina, such as caustic soda, fuel oil, natural gas, lime and flocculents are purchased from third parties.

1.3.3 ***Services***

Alcan generates additional revenues through sale, to both internal and external customers, of technology and engineering services associated with bauxite and alumina processing. With an overarching focus on innovation, process sustainability and excellence in environment, health and safety, the Company s services range from modernization and optimization of existing refineries to comprehensive design of new ones.

1.4 Recent Developments

Australia: In September 2006, the Queensland government gave approval for the commencement of mining at Alcan s Ely bauxite mine in Cape York, Queensland, which has a reserve of close to 50 Mt and is expected to be mined over a period of approximately 25 years.

On 22 January 2007, the Company revised its cost estimate for the expansion of the Gove alumina refinery in Australia s Northern Territory to $2.3 billion and indicated that the start-up date would be in the second quarter of 2007, reflecting limited availability of labour and materials in the Australian construction market, the appreciation of the Australian dollar, additional construction requirements and weather-related delays. On 22 September 2006, the Company announced that it expected a 20 to 25% increase over the original cost of $1.5 billion. Expanded production is expected to start progressively during the second quarter of 2007 and continue through the first quarter of 2008, at which time the refinery is expected to attain its full expanded capacity of 3.8 Mt.

Brazil: Construction is currently under way on an expansion that should increase the annual capacity of the Alumar alumina refinery by 2.1 Mt. The Company s throughput is expected to come on stream in the second half of

2009. Alcan owns a 10% interest in Consorcio de Alumínio do Maranhão, the legal entity operating the Alumar alumina refinery in São Luis.

Canada: On 9 May 2006, the Company announced the reorganization of its global specialty alumina business, entailing the gradual shut-down of the Company s specialty-calcined alumina plant in Jonquière (Quebec, Canada).

Guinea: On 10 January 2007, a country-wide general strike was initiated, consequently disrupting mining operations at Compagnie des Bauxites de Guinée (CBG) in which the Company has an indirect 22.9% interest. The strike brought a stop to bauxite mining, drying, rail transportation and ship loading operations for a period of 18 days in January and for another four days in February. On 16 February, CBG bauxite mine operations resumed on a limited basis. The political unrest is yet to be resolved as negotiations are underway between union leaders and government officials.

Ghana: On 22 June 2006, the Company entered into a Memorandum of Understanding with the Republic of Ghana for the creation of a joint venture between Alcan and Ghana to explore the feasibility of developing a bauxite mine and alumina refinery, with an initial annual capacity of 1.5 to 2 Mt. The joint venture would be 51% owned by Alcan.

Madagascar: On 9 November 2006, the Company signed a Memorandum of Understanding with Access Madagascar Sarl, a Malagasy company holding exploration rights in Madagascar s south eastern Manantenina District, to jointly study the development of a bauxite mine and alumina refinery, which would have an initial capacity of 1 to 1.5 Mt/y of alumina.

2. Primary Metal

The Primary Metal Business Group represents all Alcan primary aluminum facilities and power generation installations worldwide, as well as technology sales, equipment sales and engineering operations. The Company is the second largest aluminum producer in the world, as well as a recognized leader and supplier of smelting technology. Approximately 50% of its primary metal is produced using Company-owned power.

2.1 Products and Services / Business Units

2.1.1 ***Power Operations:*** The smelting of one tonne of aluminum requires between 13.5 and 18.5 MWh of electric energy to separate the aluminum from the oxygen in alumina. Alcan produces electricity at its own generating plants in Canada, the UK and Norway. The Company also has an interest in a power plant in China.

2.1.2 ***Smelter Operations:*** Primary aluminum is produced through the electrolytic reduction of alumina. Approximately two tonnes of alumina yield one tonne of metal. Alcan operates and/or has interests in 22 smelters in 11 countries. Products include sheet ingot, extrusion billet, rod, foundry ingot and remelt ingot for conversion into fabricated products for end-use markets in consumer goods, transportation, building and construction as well as other industrial applications. Approximately 25% of the primary aluminum produced in Alcan s smelters was sold at market prices to Alcan s fabricating facilities, primarily in the form of sheet ingot, extrusion billet and molten metal. Approximately 25% of the primary aluminum produced in 2006 was sold to Novelis. The remainder was sold to third party customers in North America, Europe, Africa and Asia, in the form of value-added ingot, primarily extrusion billet, sheet ingot, rod, foundry ingot or remelt ingot.

Average ingot product realizations were $2,618 per tonne in 2006, compared to $2,036 per tonne in 2005, and $1,876 per tonne in 2004.

2.1.3 ***Trading:*** Alcan trading operations are conducted by wholly-owned Subsidiaries, which trade on behalf of other Subsidiaries. They also engage in limited aluminum and related trading activities for third parties. Trading services include several main activities: sales of excess raw materials, such as internal supplies, managing risk exposures through LME transactions, and managing the supply logistics between smelters and fabricating plants. The Company s third party trading function focuses on aluminum transactions.

2.1.4 ***Technology Sales, Equipment Sales and Engineering Services:*** This unit provides smelter technology, equipment and engineering services to third parties and Subsidiaries. The main areas of activity are:

Technology Sales: Aluval, which is located in Voreppe (France), provides advanced smelter technology in terms of productivity (production capacity and energy consumption), such as AP18-22 and the AP3X families of smelter technologies, and the newly-announced AP50 technology, to third parties. This sector is supported by a strong research and development program. The services include the sale of licenses of primary aluminum smelting technology, engineering and start-up support, and technical assistance;

Equipment Sales: Électricité Charpente Levage (ECL) is a major supplier of cranes and potroom equipment for the aluminum industry. In addition, it provides cranes for baking furnaces and rodding shop equipment. ECL operations are located in France, Canada, South Africa, Australia, Bahrain, the Netherlands, Mozambique, China and India; and

Engineering Services: Alcan Alesa Engineering (Alesa) provides services and custom-made engineering solutions on a global basis to Subsidiaries as well as third parties. Alesa subsidiaries maintain engineering offices in Switzerland and Canada. The main areas of activity include raw materials technologies, materials handling technologies and process automation.

2.1.5 ***Other Production facilities:*** The Primary Metal Business Group carries on other related activities including the production of calcined coke, anodes, cathode blocks and aluminum fluoride, which are used in the production and recycling of aluminum, as well as the refining of high-purity aluminum.

In 2006, the Primary Metal Business Group recorded intersegment sales and operating revenues of approximately $2.5 billion and third party sales and operating revenues of approximately $8.7 billion, the latter representing 36.7% of Alcan s 2006 sales and operating revenues. For specifics on the percentage of the Business Group s sales and operating revenues attributable to Novelis, please see note 33 Information by Operating Segments to the Financial Statements. For a percentage of the Company s revenues by principal product type, please see the table Revenues by Market in Management s Discussion and Analysis.

For further information concerning the Primary Metal Business Group s sales, business group profit and total assets, see note 33 Information by Operating Segments to the Financial Statements, prepared in accordance with US GAAP, as well as Management s Discussion and Analysis Operating Segments Review Primary Metal.

2.2 Production Facilities and Sales Centres

2.2.1 ***Smelter Operations:*** As at 31 December 2006, Alcan operated and/or had interests in 22 primary aluminum smelters with a nominal rated capacity of 3,468 Mt/y (where ownership is shared, this number represents Alcan s share only).

Primary Metal Smelter Locations

Locations		% of Ownership by Alcan	Annual Capacity (in kt)	2006 Production (in kt)
Australia	Tomago, New South Wales	51.5	268(1)	268(1)
Cameroon	Edea (Alucam)(2)	46.7	47(1)	42(1)
Canada	Alma, Quebec	100	415	410
	Sept-Iles, Quebec (Alouette)	40	229(1)	228(1)
	Beauharnois, Quebec	100	52	52
	Bécancour, Quebec	25	101(1)	101(1)
	Kitimat, British Columbia	100	277	238
	Grande-Baie, Quebec	100	207	206
	Laterrière, Quebec	100	228	227
	Shawinigan, Quebec	100	99	98
	Arvida, Quebec	100	166	165
China	Qingtongxia	50	76(1)	77(1)
France	Dunkerque	100	259	259
	Lannemezan(3)	100	50	47
	Saint-Jean-de-Maurienne	100	135	134
Iceland	Reykjavik (ISAL)	100	179	168
Netherlands	Vlissingen(4)	85	181(1)	179(5)
Norway	Husnes (SORAL)	50	82(1)	82(1)
Oman	Sohar	20	N/A(6)	0(6)
Switzerland	Steg(7)	100	N/A(7)	12
United Kingdom	Lynemouth	100	178	173
	Lochaber	100	43	43
United States	Sebree, Kentucky	100	196	194
Total Smelting Operations			3,468	3,403

(1) Represents Alcan s share.

(2) Alcan s direct ownership in Edea is 46.7%; however, the Company obtains 70 to 80% of the production of the plant as the major industrial shareholder.

(3) In the process of being closed.

(4) Strategic review underway See sub-heading 2.4 Recent Developments hereunder.

(5) Represents 100% of the Vlissingen smelter s production.

(6)

Smelter not yet in operation; Alcan s 20% proportionate share of the smelter s expected capacity of 350 kt/y would be 70 kt/y.

(7) Closed during the course of 2006.

2.2.2 ***Technology Sales, Equipment Sales Centres (ECL) and Engineering Services:***

Technology and Equipment Sales Centres and Engineering Services

Country	Location	Business
Australia	Eagle Farm, Queensland	ECL
Bahrain	Bahrain	ECL
Canada	Quebec City, Quebec	ECL
	Montreal, Quebec	Engineering Services
China	Shanghai	ECL
France	Ronchin	ECL
	Voreppe	Technology Sales
India	Bhubaneshwar	ECL
Mozambique	Matola	ECL
Netherlands	Ritthem	ECL
South Africa	Richards Bay	ECL
Switzerland	Zurich	Engineering Services

2.2.3 ***Other Production Facilities:***

Other Production Facilities

Locations		Output/Type of Facility	% of Ownership by Alcan
Canada	Dubuc, Quebec	Engineered cast products	100
	Strathcona, Alberta	Calcined coke	61
	Arvida, Quebec	Calcined coke and cathode blocks	100
	Vaudreuil, Quebec	Fluoride plant	100
France	Compiègne*	Recycling	100
	Carbone Savoie	Cathodes	100
Netherlands	Rotterdam	Anode facility	58.5
Norway	Vigelands	High purity metal refinery	50
Sweden	Helsingborg	Fluoride plant	50

* In the process of being closed.

2.2.4 ***Other Aluminum Sources:*** Other sources of aluminum include the following: purchases of primary aluminum under contracts and spot purchases, purchases of aluminum scrap for recycling and purchases of customer scrap returned against ingot or semi-fabricated product sales contracts. Such purchases are mainly from third party smelters, traders and, in the case of scrap, from customers and dealers.

2.3 Source Materials

The following items, in addition to alumina, are the major source materials for the production of aluminum. The Company does not believe that the availability of the foregoing materials will be materially constrained in the foreseeable future.

2.3.1 ***Electrical Power:*** In Canada, Alcan s plants have an aggregate installed generating capacity of 3,583 MW, of which about 2,830 MW may be considered to be hydraulically available over the long-term. These facilities supply electricity to Alcan s Canadian smelters. All water rights pertaining to Alcan s hydroelectric installations are owned by Alcan, except for those relating to the Peribonka River in Quebec which are leased. In 1984, Alcan and the Quebec Government signed a lease extending the Company s water rights relating to the Peribonka River to 31 December 2033 against an annual charge based on sales realizations of aluminum ingot, with an option to extend the term to 2058. On 13 December 2006, the Company and the Quebec Government amended

the Peribonka lease to specify that the terms and conditions of the lease extension would be the same as those applicable for the lease s initial term. Moreover, the lease amendment states that the electricity generated by the power plant subject to the lease would be used to supply Alcan s industrial needs in Quebec or sold to Hydro-Quebec (a provincially-owned electric utility) at a price to be approved by the Quebec Government. In Quebec, royalties are payable to the Quebec Government based on total energy generation, escalating at the same rate as the Consumer Price Index in Canada. In British Columbia, water rentals for electricity used in smelting and related purposes are directly tied to the sales realizations of aluminum produced at the Kitimat smelter. For electricity sold to third parties, Alcan pays provincial water rentals at rates that are fixed by the British Columbia Government, similar to those paid by BC Hydro (a provincially-owned electric utility). Any electricity that is surplus to Alcan s needs under the agreements is sold to neighbouring utilities or customers under both long-term and short-term arrangements.

One-third of Alcan s installed hydroelectric capacity in Canada was constructed prior to 1943, another third between 1943 and 1956 and the remainder between 1956 and 1968. All these facilities, which are regularly maintained and upgraded, are expected to remain fully operational over the foreseeable future.

In Canada, in addition to electricity generated at its own plants, as described above, Alcan is a party to a long-term agreement with Hydro-Quebec for the annual supply to Alcan of up to three billion KWh of electrical energy beginning in 2001. On 13 December 2006, the Company and Hydro-Quebec agreed to enter into an additional long-term electricity agreement for the supply of two billion KWh per year, effective in 2010. The Alouette smelter, which is 40% owned by Alcan, purchases its electricity from Hydro-Quebec pursuant to two long-term supply contracts. The Aluminerie de Bécancour smelter, which is 25% owned by Alcan, also purchases its electricity from Hydro-Quebec.

For smelters located outside of Canada, electricity is obtained from a variety of sources. The smelters in England and Scotland operate their own coal-fired and hydroelectric generating plants, respectively. In Norway, the Vigelands metal refinery (50% owned by Alcan) obtains its power from the Vigelands hydroelectric power stations owned by Alcan. The smelter in the US purchases electricity under a long-term contract as well as through short-term contracts. The smelter in Iceland is supplied with hydroelectric power from Iceland s national power company under a long-term contract. The two smelters in France (Dunkerque and Saint-Jean-de-Maurienne) are supplied with power under long-term contracts. The smelter in the Netherlands, which is 85% owned by Alcan, has a number of short-term contracts for energy supply. The Australian smelter, which is 51.5% owned by Alcan, purchases its power needs under two long-term contracts. The smelter in Cameroon, which is 46.7% owned by Alcan, is also supplied with hydroelectric power under a long-term contract. The smelter in China, which is 50% owned by Alcan, is supplied by a coal-fired power plant that is 43.5% owned by the Qingtongxia Joint Venture in which Alcan has a 50% participation. In regards to the smelter under construction in Oman, in which Alcan owns a 20% interest, a new gas-fired power plant will provide a dedicated long-term supply of power.

Power Generation

Locations		% of Ownership by Alcan	Installed Capacity (MW)
Canada	Quebec Power Stations Isle-Maligne Chute-à-Caron Shipshaw Chute du Diable Chute à la Savane Chute-des-Passes	100	2,687
	Kemano, British Columbia	100	896
China	Daba power plant (coal-fired)	21.8	261*
Norway	Vigelands	100	26
United Kingdom	Lynemouth (coal-fired)	100	420
	Highlands Power Stations Lochaber Kinlochleven	100	80
Total Power Generation			4,370

* Represents Alcan s share, through its Joint Venture interest.

2.3.2 ***Anodes:*** Anodes are used and consumed in the smelting process. Most of Alcan s smelters produce their anodes at their own on-site facilities. Anodes are also produced in a stand-alone facility, Aluminium & Chemie Rotterdam BV, located in the Netherlands (Aluchemie). Alcan directly holds 53% of Aluchemie while Sor-Norge Aluminium AS (SORAL), a Joint Venture in which Alcan has a 50% participation, owns a further 11%. The remainder of the shares are held by Hydro Aluminium AS. Each of the shareholders in Aluchemie is entitled to a volume of anodes corresponding to its participation at prices determined by formula. Alcan s share of anodes produced by Aluchemie is currently used at the ISAL (Iceland) and SORAL smelters or sold to third party customers.

The main raw materials for anode production are calcined petroleum coke and pitch. The production process involves the mixing of the raw materials followed by cold shaping of the anode and baking of the anode at elevated temperatures.

2.3.3 ***Cathodes:*** Cathode blocks are one of the main components of the cell-lining materials used in the aluminum smelting process. The cathode blocks are used as a refractory container for molten aluminum and electrolyte and as an electricity conductor in the smelting process. The cathode blocks are made from a mix of carbon aggregates and pitch binder. At Alcan, the cathode materials are produced in Arvida (Canada) and at Carbone Savoie s stand-alone facilities in Notre-Dame-de-Briançon and Vénissieux (France). As of 1 December 2006, Alcan acquired the remaining 70% stake in Carbone Savoie and all related technology and equipment required for the production of a full range of cathode products. Carbone Savoie is a major producer of cathode materials (graphitized, semi-graphitic cathode blocks, as well as sidewall blocks and ramming paste) required by the aluminum industry. Approximately 25% of the production from Carbone Savoie is dedicated to Alcan s plants and 75% is sold to third parties.

2.3.4 ***Chemicals and Other Materials:*** Certain chemicals and other materials (e.g. aluminum fluoride, caustic soda, fuel oil, fluorspar and petroleum coke) required for the production of aluminum at Alcan s smelters are produced by its chemical operations or purchased from third parties.

2.4 Recent Developments

Canada: On 14 August 2006, the Company announced its intention to modernize its Kitimat smelter through an approximate $1.8 billion investment. The modernization would increase Kitimat s current annual production levels by more than 60% to approximately 400 kt, thereby increasing Alcan s global primary aluminum production

by more than 4% and making Kitimat one of the three largest smelters in North America. The modernized facility would use the latest smelting technology within the AP35 series. The investment is subject to final Board approval and is conditional upon obtaining a new labour agreement, environmental permits and regulatory approval of acceptable terms for the sale of power to BC Hydro. On 29 December 2006 the British Columbia Utilities Commission s (BCUC) decided to reject the amended and restated Long-Term Energy Purchase Agreement between Alcan and BC Hydro. The Company announced on 22 January 2007 that it had filed leave to appeal this decision.

On 29 September 2006, the Company announced that it will build a $180 million aluminum spent pot lining recycling plant in Quebec s Saguenay Lac-Saint-Jean region. The plant is expected to begin pot lining treatment operations in the second quarter of 2008.

On 14 December 2006, the Company announced plans to build a $550 million pilot plant smelter at its Complexe Jonquière site to develop the Company s proprietary AP50 smelting technology. The pilot plant is expected to produce 60 kt of aluminum annually. Engineering for the pilot plant is ongoing and construction is expected to begin in 2008.

The AP50 pilot plant is the first step in a planned ten-year $1.8 billion investment program in Quebec s Saguenay Lac-Saint-Jean region, involving up to an additional 390 kt of new smelting capacity by 2015, developed by Alcan with the support of the Quebec Government. The Government in an agreement has provided financial support by means of research and development tax incentives and loans, and has made available up to two billion KWh per year of additional power to support the investment program. Support from the Government of Canada is expected to be provided through existing research and development incentive programs. The agreement with the Quebec Government also reinforces Alcan s electrical power position through the long-term extension of hydraulic leases and new power contracts which, taken together with Alcan s proprietary generation system, provide a secure supply of approximately 2,600 MWh of low-cost power through the year 2045.

In connection with the above-mentioned agreement with the Company, the Quebec Government has retained various rights which allow it to cancel some or all of the new entitlements and benefits relating to water and power, including the financial support contemplated thereby, should there be either an acquisition of control of Alcan or a change in the location of its headquarters which has a negative impact on its commitment to or presence in Quebec. The Board of Directors has, however, a significant role in the management of any process relating to the determination of any such negative impact.

France: On 6 December 2006, the Company announced that it had completed the acquisition of the remaining 70% stake of Carbone Savoie that it did not already own, and certain related technology and equipment, from GrafTech International Ltd. for $135 million less certain price adjustments.

Also on 14 December 2006, the Company announced the launch of a research and development initiative based at its R&D centre in Voreppe (France), and focused on the AP series aluminum smelting technology with a target of developing a 20% more energy efficient and environmentally friendly cell through the accelerated introduction of new innovative technologies.

Iceland: On 11 May 2006, the Company announced that it had secured 40% of the energy required for a potential expansion of its ISAL smelter in Iceland. The agreement with Reykjavik Energy, which calls for the purchase of 200 MW of geothermal power beginning in 2010, would supply an expanded smelting facility with potential future total capacity of 460 kt/y.

Netherlands: On 23 October 2006, the Company announced that its Pechiney Nederland NV Subsidiary will conduct a strategic review of alternatives, including the potential sale of the aluminum smelter in Vlissingen, in which it holds an 85% interest.

South Africa: On 24 November 2006, the Company secured a long-term supply agreement with South African firm ESKOM Holdings Limited, for the purchase of up to 1,340 MW of electricity for the Company s proposed 720 kt greenfield Coega aluminum smelter project, which is expected to have a total cost of $2.7 billion. Should this project proceed, Alcan currently plans to retain between 25 to 40% of the equity. The definitive position

of the Company on the size of any retained interest, which may be greater, will necessarily depend on its final assessment of the various opportunities offered by the project.

3. Engineered Products

3.1 Products / Business Units

Alcan s Engineered Products Business Group manufactures engineered or fabricated aluminum products, including rolled, extruded and cast aluminum products, wire and cable as well as composites materials for a broad range of applications for customers in the automotive, mass transportation, aerospace, marine and beverage container markets. It also supplies the architectural, electrical and building markets as well as the markets for electrical industrial and electromechanical applications and the display, leisure and wind-power industries. Also part of this group are 33 service centres in 11 countries that supply customers with products as well as advanced fabrication tailored to their requirements, and 32 sales offices in 27 countries and regions selling and sourcing specialty products and materials for industrial applications.

The Engineered Products Business Group s product range is divided into the following business units:

3.1.1 ***Aerospace, Transportation & Industry (ATI):*** ATI supplies high value-added plate, sheet, extruded and precision cast products for customers in the aerospace, marine, automotive and mass transportation markets and engineering industry. It offers a comprehensive range of products and services, including technical assistance, design and delivery of cast, rolled, extruded, rolled pre-cut or shaped parts, and the recycling of customers machining scrap metal. ATI is also a key supplier of new alloy solutions, such as Aluminum-Lithium. ATI includes Alcan Rolled Products Ravenswood.

3.1.2 ***Composites:*** This business unit manufactures and sells lightweight multi-material composites that are made using a combination of technologies and materials, including aluminum, plastic, foam board, paper and balsa wood. An example is a sandwich panel made of two aluminum faces and a plastic core material. Principal applications for composites include building facades, transportation, displays for visual communication, signage and wind power installations, for which composites have a number of advantages over more traditional materials because of their low weight-to-rigidity ratio, ease of application, design and surface variety.

3.1.3 ***Cable:*** This business unit produces cable, whereby aluminum is cast and rolled into rod and then drawn into wire and stranded into cable. Its cable products are used for applications in the utility, commercial, institutional, industrial and residential construction markets. Its rod products are also used for mechanical applications such as screen, wire and other fine wire drawing applications. Its strip products are predominantly used for armouring electrical cables. The business unit also provides its customers with a complete wiring system from feeder to outlet in the commercial construction market.

3.1.4 ***Extruded Products:*** This business unit produces aluminum sections by the extrusion process, which involves forcing a hot cylindrical billet of aluminum alloy through a shaped die to create profiles. It supplies a variety of hard and soft alloy extrusions, including technically advanced products, to the automotive, electrical and building industries, and to manufacturers of mass transport vehicles and shipbuilders.

3.1.5 ***Engineered and Automotive Solutions (EAS):*** This business unit serves major automotive and transportation manufacturers with advanced technology and produces engineered shaped products including aluminum crash management systems, cockpit carriers, suspension parts, and other structural components. EAS serves customers in Europe and North America with innovative and cost-effective solutions based on aluminum extrusion, forging or casting and reinforced composites.

3.1.6 ***Alcan Service Centres:*** The service centres comprise a specialist added-value service and distribution network. They supply customers in the aerospace, building and facade, road transport and shipbuilding industries with products as well as advanced fabrication tailored to customer requirements. The service centres network offers various forms of fabricated aluminum including plates, extrusions and composite panels, and performs value-added services such as cutting, shaping, machining and assembling. The network currently has 33 service centres in 11 countries.

3.1.7 ***Alcan International Network (AIN):*** This sales organization comprises 32 offices in 27 countries and regions selling and sourcing specialty products and materials for industrial applications in 65 countries and regions. It provides marketing and sourcing services for both Alcan and its customers. AIN s product portfolio includes primary aluminum for the aluminum and steel industries, semi-fabricated products for the construction, transportation, general engineering, packaging and other industrial sectors, minerals for the glass, ceramics and refractories industries, and specialty chemicals for industrial and healthcare applications.

3.1.8 ***Specialty Sheet:*** This business unit provides coils and sheet to customers for beverage and closures, automotive, customized industrial sheet solutions, and high-quality bright surface products markets. It includes world-class rolling and recycling operations, as well as dedicated research and development capabilities.

In 2006, the Engineered Products Business Group had third party sales and operating revenues of approximately $7.1 billion, representing approximately 30.2% of Alcan s sales and operating revenues for the year.

The Engineered Products Business Group has relationships with certain major customers in the aerospace and beverage can industries, the loss of any of which could have a material impact on the operations of the Business Group.

For further information concerning the Engineered Products Business Group s sales, business group profit and total assets, see note 33 Information by Operating Segments to the Financial Statements, prepared in accordance with US GAAP, as well as Management s Discussion and Analysis Operating Segment Review Engineered Products.

3.2 Production and Services Facilities

Alcan s Engineered Products Business Group consists of 120 sites, including 55 production facilities, 33 service centres and 32 AIN commercial offices around the world.

Engineered Products Locations

Locations		**Products / Business Units**
Austria	Hallein	Service Centres
	St. Johann im Pongau	Service Centres
	Vienna	Alcan International Network; Service Centres
Belgium	Brussels	Alcan International Network; Service Centres
	Gent	Alcan International Network
Brazil	Camaçari	Composites
	São Paulo	Alcan International Network
Canada	Concord, Ontario	Cable
	Lapointe, Quebec	Cable
	Saguenay, Quebec	Engineered and Automotive Solutions
	Shawinigan, Quebec	Cable
China	Beijing	Alcan International Network
	Hong Kong	Alcan International Network
	Shanghai	Alcan International Network; Composites
	Taipei	Alcan International Network
Czech Republic	Dečin	Extruded Products

	Prague	Alcan International Network
	Strojmetal	Engineered and Automotive Solutions (Partnership)
Ecuador	Guayaquil	Composites
	Quevedo	Composites
	Santo Domingo de los Rios	Composites
	Manta	Composites
	Plantations Raw Materials	Composites

Locations		Products / Business Units
Engineered Products Locations (Cont d)		
Egypt	Cairo	Alcan International Network
France	Carquefou	Aerospace, Transportation & Industry
	Chassieu	Service Centres
	Ham	Extruded Products
	Issoire	Aerospace, Transportation & Industry
	Montreuil-Juigne	Aerospace, Transportation & Industry
	Nantes	Service Centres
	Neuf-Brisach	Specialty Sheet
	Nuits-Saint-Georges	Extruded Products
	Ozoir-la-Ferrière	Service Centres
	Paris	Alcan International Network
	Sabart	Aerospace, Transportation & Industry
	Saint-Florentin	Extruded Products
	Satma/Goncelin	Other
	Ussel	Aerospace, Transportation & Industry
Germany	Bad Salzungen	Service Centres
	Burg	Extruded Products
	Crailsheim	Extruded Products
	Dahenfeld	Engineered and Automotive Solutions
	Düsseldorf	Alcan International Network; Service Centres
	Fellbach	Service Centres
	Frankfurt	Service Centres
	Gera	Service Centres
	Gottmadingen	Engineered and Automotive Solutions
	Hamburg	Service Centres
	Hannover	Service Centres
	Hebsack	Service Centres
	Hohenacker	Service Centres
	Immendingen	Service Centres
	Landau	Extruded Products
	Köln	Service Centres
	Mannheim	Service Centres
	Munich	Service Centres
	Nürnberg	Service Centres
	Osnabrück	Composites
	Singen*	Composites; Extruded Products; Specialty Sheet; Engineered and Automotive Solutions
Greece	Athens	Alcan International Network
Hungary	Budapest	Alcan International Network; Service Centres
Italy	Bologna	Service Centres
	Florence	Service Centres
	Milan	Alcan International Network
	Padova	Service Centres
	Treviglio	Service Centres

Japan	Tokyo	Alcan International Network
Mexico	Mexico City	Alcan International Network
	Monterrey	Alcan International Network
Netherlands	Amsterdam	Alcan International Network
	Breda	Service Centres
Portugal	Lisbon	Alcan International Network
Romania	Bucharest	Alcan International Network
	Bihor	Service Centres

Locations		Products / Business Units
Engineered Products Locations (Cont d)		
Russia	Moscow	Alcan International Network
Singapore	Singapore	Alcan International Network
Slovakia	Levice**	Extruded Products
Slovenia	Koper	Engineered and Automotive Solutions (Joint Venture)
	Ljubljana	Service Centres
South Africa	Johannesburg (Sandton)	Alcan International Network
South Korea	Seoul	Alcan International Network
Spain	Barcelona	Alcan International Network; Service Centres
	Madrid	Alcan International Network; Service Centres
Switzerland	Altenrhein	Engineered and Automotive Solutions
	Dagmersellen	Service Centres
	Niederglatt	Service Centres
	Sierre***	Extruded Products; Aerospace, Transportation & Industry
	Sins	Composites
Sweden	Goteborg	Alcan International Network
Thailand	Bangkok	Alcan International Network
United Arab Emirates	Dubai	Alcan International Network
United Kingdom	Chelmsford	Composites
	Slough-Berkshire	Alcan International Network
	Workington****	Aerospace, Transportation & Industry
United States	Benton, Kentucky	Composites
	Chatsworth, California	Cable
	Glasgow, Kentucky	Composites
	Mt. Juliet, Tennessee	Composites
	Northvale, New Jersey	Composites
	Novi, Michigan	Engineered and Automotive Solutions
	Ravenswood, West Virginia	Aerospace, Transportation & Industry; Alcan Rolled Products Ravenswood
	Roseburg, Oregon	Cable
	Sedalia, Missouri	Cable
	St. Louis, Missouri	Composites
	Stamford, Connecticut	Alcan International Network
	Statesville, North Carolina	Composites
	Vernon, California****	Aerospace, Transportation & Industry
	Williamsport, Pennsylvania	Cable

* Shared site with the Packaging Business Group.

** Facility not yet in operation.

*** Shared site with Novelis.

**** Facility to be closed.

3.3 Source Materials

Aluminum used to produce engineered products is purchased from the Primary Metal Business Group and from third party suppliers, which include producers and traders. Recycled metal is also purchased from customers and third party suppliers, which include traders. The Company does not believe that any source material constraints will have a material impact on the Business Group s results.

4. Packaging

4.1 Products / Business Sectors

Alcan is a full-service packaging supplier, with a worldwide presence in food flexible, pharmaceutical and medical, beauty and personal care, and tobacco packaging. A broad technical and geographical range of packaging products is offered using plastics, engineered films, aluminum, paper, paperboard and other materials.

The Packaging Business Group is divided into six sectors:

4.1.1 ***Food Packaging Europe, Americas and Asia:*** In these three sectors, Alcan Packaging manufactures a wide range of packaging products for the food, meat, dairy and beverage industries, and is a leading producer of flexible and rigid specialty packaging in Europe, the Americas and Asia, converting plastics, plastic film, foil and paper materials into value-added packaging. Alcan Packaging benefits from dedicated flexible food packaging research and development centres in North America and Europe. This allows Alcan Packaging to provide packaging solution expertise in wide ranging markets around the world including for products such as beverages, biscuits, cookies, cereals, confectionery, dairy products, fresh and frozen food, instant products, pet food, retorted foods and snacks. It also produces caps and over-caps for wine, champagne and liquor bottles.

The principal activities of these sectors are printing, coating, rolling and lamination of plastic film, aluminum foil, containers and paper to manufacture into primary packaging materials for food manufacturers. These sectors also produce their own engineered films. The main processes used are rotogravure and flexographic printing, lamination using adhesive, wax or plastic extrusion and various coating processes to add barrier properties, sealability or gloss. The Food Packaging sectors also produce capsules and closures in aluminum and tin.

4.1.2 ***Global Pharmaceutical and Medical Packaging:*** Alcan Packaging is a leading supplier of packaging to the pharmaceutical industry, with production sites and research and development expertise in Europe, Asia and the Americas. Products and services include flexible packaging, caps and closures, contract packaging, folding cartons, glass vials, ampoules and tubing products, medical flexible packaging and plastic bottles.

4.1.3 ***Global Beauty and Personal Care Packaging:*** This sector is a world leader in the manufacture and supply of beauty packaging products for the make-up, fragrance and personal care markets, including collapsible tubes, mascara and lipstick packaging and beauty promotional items.

4.1.4 ***Global Tobacco Packaging:*** Alcan Packaging is a leading supplier to the global tobacco industry with manufacturing operations around the world. Tobacco packaging products include folding cartons and flexible packaging.

Packaging sales to third parties were approximately $6.0 billion in 2006. The Packaging Business Group s sales and operating revenues represented approximately 25.2% of Alcan s 2006 sales and operating revenues.

For further information concerning the Packaging Business Group s sales to third parties, business group profit and total assets, see note 33 Information by Operating Segments to the Financial Statements, prepared in accordance with US GAAP, as well as Management s Discussion and Analysis Operating Segment Review Packaging.

4.2 Production Facilities

Alcan has 130 packaging plants in 30 countries and regions.

Eight plants are shared between the Global Pharmaceutical and Medical Packaging and the Food Packaging business sectors: one in each of France, Germany, Italy, Spain, Switzerland, the US and two in China.

Packaging Plants

Locations		Packaging Sector
Argentina	Chivilcoy	Food Americas
Australia	Adelaide, South Australia	Food Europe
Belgium	Grace-Hollogne (Veramic)	Pharmaceutical and Medical
Brazil	Diadema, São Paulo	Pharmaceutical and Medical
	Maua, São Paulo	Food Americas
	Mogi das Cruzes, São Paulo	Beauty and Personal Care
	São Paulo, São Paulo	Beauty and Personal Care
	Suape, Pernambuco	Beauty and Personal Care
Canada	Baie d Urfe, Quebec	Pharmaceutical and Medical
	Brampton, Ontario	Beauty and Personal Care
	Lachine, Quebec	Tobacco
	Saint-Cesaire, Quebec	Food Europe
	Weston, Ontario	Food Americas
	Woodbridge, Ontario	Pharmaceutical and Medical
Chile	Santiago de Chile	Food Europe
China	Beijing	Food Asia
	Chengdu	Food Asia
	Foshan	Beauty and Personal Care
	Huizhou	Food Asia; Pharmaceutical and Medical
	Jiangyin	Food Asia; Pharmaceutical and Medical
	Suzhou	Beauty and Personal Care
	Zhongshan	Beauty and Personal Care
Czech Republic	Skrivany	Food Europe
France	Albertville	Beauty and Personal Care
	Arras	Food Europe
	Aumale	Pharmaceutical and Medical
	Authon-du-Perche (2 plants)	Pharmaceutical and Medical
	Bernaville	Beauty and Personal Care
	Challes	Beauty and Personal Care
	Chalon-sur-Saone	Food Europe
	Dax	Food Europe
	Dijon	Food Europe
	Froges	Food Europe
	Lucenay-les-Aix	Pharmaceutical and Medical
	Mareuil-sur-Ay	Food Europe
	Montreuil-Bellay	Pharmaceutical and Medical
	Moreuil	Food Europe
	Plouhinec	Beauty and Personal Care
	Sainte-Menehoud (2 plants)	Beauty and Personal Care
	Saint-Maur	Pharmaceutical and Medical
	Saint-Seurin-sur-l Isle	Food Europe
	Sarrebourg	Food Europe
	Sélestat	Food Europe; Pharmaceutical and Medical

	Uchaux	Food Americas
	Vandieres	Beauty and Personal Care
	Vienne-le-Chateau	Beauty and Personal Care
Germany	Neumunster	Tobacco
	Schesslitz	Beauty and Personal Care
	Singen	Food Europe; Pharmaceutical and Medical
	Teningen	Food Europe
Indonesia	Demak	Beauty and Personal Care
	Tangerang	Food Asia

Locations		Packaging Sector
Packaging Plants (Cont d)		
Ireland	Dublin	Food Europe
Italy	Arenzano	Food Europe
	Lainate	Food Europe
	Lugo di Vicenza	Food Europe; Pharmaceutical and Medical
	Tortona	Beauty and Personal Care
	Verderio Superiore	Beauty and Personal Care
Kazakhstan	Almatinskaya Oblast	Tobacco
Malaysia	Rawang	Tobacco
Mexico	Matamoros, Tamaulipas	Beauty and Personal Care
	Mexico City	Beauty and Personal Care
	Monterrey, Nuevo Leon	Food Americas
	Reynosa, Tamaulipas	Beauty and Personal Care
	Tlaquepaque, Jalisco	Food Americas
	Zacapu, Michoacan de Ocampo	Food Americas
Morocco	Mohammedia	Food Europe
Netherlands	Brabant (Bergen Op Zoom)	Tobacco
	Zutphen	Food Europe
New Zealand	Wellington	Food Asia
Philippines	Cainta	Tobacco
Poland	Lodz	Beauty and Personal Care
	Zlotow	Food Europe
Portugal	Carvalhos	Food Europe
Puerto Rico	Cayey	Pharmaceutical and Medical
Russia	Moscow*	Food Europe
	St. Petersburg*	Tobacco
Spain	Alzira	Food Europe; Pharmaceutical and Medical
	Barcelona	Beauty and Personal Care
Switzerland	Kreuzlingen	Food Europe; Pharmaceutical and Medical
	Rorschach	Food Europe
Thailand	Bangplee	Food Asia
	Phetchaburi	Food Asia
	Sriracha	Food Asia
Turkey	Istanbul	Food Europe
	Izmir	Tobacco
United Kingdom	Bristol	Tobacco
	Cramlington	Pharmaceutical and Medical
	Midsommer Norton**	Food Europe
	Workington (Cumbria)	Food Europe

Locations		Packaging Sector
Packaging Plants (Cont d)		
United States	Akron, Ohio	Food Americas
	American Canyon, California	Food Europe
	Asheville, North Carolina	Pharmaceutical and Medical
	Atlanta, Georgia	Tobacco
	Batavia, Illinois	Food Americas
	Bellwood, Illinois	Food Americas
	Bethlehem, Pennsylvania	Pharmaceutical and Medical
	Boscobel, Wisconsin (2 plants)	Food Americas
	Chase City, Virginia	Pharmaceutical and Medical
	Commerce, California	Pharmaceutical and Medical
	Des Moines, Iowa	Food Americas
	Des Plaines, Illinois	Pharmaceutical and Medical
	Edgewood, New York	Food Americas
	Joplin, Missouri	Food Americas
	Lincoln Park, New Jersey**	Beauty and Personal Care
	Marshall, North Carolina	Pharmaceutical and Medical
	Menasha, Wisconsin	Food Americas
	Millville, New Jersey (4 plants)	Pharmaceutical and Medical
	Milwaukee, Wisconsin	Pharmaceutical and Medical
	Minneapolis, Minnesota	Food Americas
	Morristown, Tennessee	Beauty and Personal Care
	Neenah, Wisconsin	Food Americas
	Newark, California	Food Americas
	New Hyde Park, New York	Food Americas
	Reidsville Industrial Park, North Carolina	Tobacco
	Richmond, Virginia	Tobacco
	Russellville, Arkansas	Food Americas
	Shelbyville, Kentucky	Food Americas; Pharmaceutical and Medical
	Shelbyville, Tennessee	Beauty and Personal Care
	St. Louis Park, Minnesota***	Food Americas
	Syracuse, Nebraska	Pharmaceutical and Medical
	Tulsa, Oklahoma	Food Americas
	Washington, New Jersey	Beauty and Personal Care
	Westport, Indiana	Pharmaceutical and Medical
	Youngsville, North Carolina	Pharmaceutical and Medical

* Greenfield facility.

** To be closed.

*** Counted as part of the Minneapolis facility.

4.3 Source Materials

Packaging is made from a variety of materials including aluminum, plastics, paper, paper board and glass. Aluminum foil stock used in packaging is in part purchased from other Business Groups. Other source materials are purchased from many third party suppliers. The Company does not believe that the availability of source materials will be materially constrained in the foreseeable future.

D. INFORMATION BY GEOGRAPHIC AREAS

See note 32 Information by Geographic Areas to the Financial Statements for financial information by geographic area.

E. RESEARCH AND DEVELOPMENT

Alcan s research and development (R&D) comprises a system of research laboratories, applied engineering centres and plant technical departments covering all major markets and regions. Alcan invested $220 million, $227 million and $239 million in R&D in 2006, 2005 and 2004, respectively.

With the acquisition of Pechiney in 2003, the Company s R&D capability was significantly strengthened by the addition of specialized laboratories and a leading R&D presence in the aerospace sector.

Alcan s R&D laboratories collaborate on projects with leading universities in various parts of the world and the Company s scientists and engineers regularly publish articles on research topics in peer-reviewed journals. The Company also funds research activities at several universities.

1.1 Research laboratories performing work for the Bauxite and Alumina Business Group are located in Gardanne (France), Saguenay (Quebec, Canada) and Brisbane (Australia).

1.2 Research laboratories performing work for the Primary Metal Business Group are located in Saguenay (Quebec, Canada), Voreppe and Saint-Jean-de-Maurienne (France). To support the new $550 million AP50 pilot plant announced by the Company on 14 December 2006 (see section C.2.4), the Arvida Research and Development Centre in Saguenay will lead the ongoing R&D related to the industrialization of the Company s proprietary AP50 smelting technology. Since its acquisition of Pechiney, Alcan has continued to develop this technology at its Saint-Jean-de-Maurienne R&D facility. The Company intends to move its AP50 technology from the research phase to industrial development. The Company s R&D centre in Voreppe will continue to focus on the AP series with a target of developing more energy-efficient and environmentally-friendly aluminum smelting technology.

1.3 Research laboratories performing work for the Engineered Products Business Group are located in Neuhausen (Switzerland) and Voreppe (France). Applied engineering centres specialized in the automotive industry are located in Detroit (Michigan, US) and Singen (Germany). A technical centre dedicated to aluminum cable is located in Williamsport (Pennsylvania, US). These applied engineering and technical centres, which support Alcan s research activities, focus on product applications and provide technical development support to customers. The centres draw extensively on the resources and specific competencies of the central laboratories.

1.4 Research laboratories performing work for the Packaging Business Group are located in Neenah (Wisconsin, US), Gennevilliers (France) and Neuhausen (Switzerland).

In addition to innovations from operations personnel, the central laboratories are complemented by the technical departments in various plants as well as by technical and applied engineering centres located close to key markets and operating divisions.

F. ENVIRONMENT, HEALTH AND SAFETY/ALCAN INTEGRATED MANAGEMENT SYSTEM

Alcan is subject to a broad range of environmental laws and regulations in each of the jurisdictions in which it operates. These laws and regulations, as interpreted by relevant agencies and the courts, impose increasingly stringent environmental protection standards regarding, among other things, air emissions, wastewater storage, treatment and discharges, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination. The costs of complying with these laws and regulations, including participation in assessments and remediation of sites, could be significant. In addition, these standards can create the risk of

substantial environmental liabilities, including liabilities associated with divested assets and past activities. Currently, Alcan is involved in a number of compliance efforts and legal proceedings concerning environmental matters.

Alcan competes against other producers who may not be subject to the same environmental laws and regulations or who may not have the same high environmental standards and practices.

In 2003, Alcan implemented the Alcan Integrated Management System built on four key components, namely Value-Based Management, Continuous Improvement, *EHS FIRST* and People Advantage, intended to ensure that

the same focus on value, improvement, environment, health and safety, and employees is found in each of the Company s operations.

EHS FIRST represents a focus on environment, health and safety throughout the Company and requires certification according to ISO 14001, a globally accepted environmental standard, and OHSAS 18001, an international occupational health and safety certification. By the end of 2006, 100% of the sites were ISO 14001 and OHSAS 18001 certified. Newly acquired facilities are required to be fully compliant with all corporate and Business Group standards within two years of their acquisition. EHS capital expenditures in 2006 were $145 million and are projected to be $267 million and $116 million in 2007 and 2008, respectively. Expenditures charged against income for environmental protection were $193 million in 2006, and are expected to be $189 million and $187 million in 2007 and 2008, respectively.

In addition to the certification requirements mentioned above, *EHS FIRST* provides a diverse platform of tools which form the basis for performance and risk management. Over the past six years, Alcan has seen a reduction of 77% in its Recordable Case Rate, which includes a reduction of 79% in the rate of lost time injuries. Serious injuries have been reduced by 15% in the last year. Health promotion and environmental management are also key aspects of *EHS FIRST* against which Alcan sets standards and measures performance.

Continuous Improvement initiatives at Alcan were formalized under a common system in 2003 with the aim of maximizing opportunities by improving the Company s competitive position and efficiency. Alcan s Continuous Improvement system integrates two complementary approaches, Lean Manufacturing and Six Sigma, and is applied in many *EHS FIRST* projects throughout the Company.

G. EMPLOYEES

Alcan has approximately 23,000 employees in North America, 29,500 in Europe, 2,700 in South America, 7,200 in Asia/Pacific, 1,600 in Australia and 700 in Africa and the Middle East. A majority of the shop-floor employees are represented by labour unions.

There are 26 collective labour agreements in effect in Canada. Labour agreements for unionized employees at Alcan facilities in Quebec were renewed in 2006 and are set to expire in December 2011, with a possible extension until December 2015. In British Columbia, the collective labour agreement at Kitimat was renewed in 2005 and is now set to expire in 2008.

Following the acquisition of Pechiney in 2003, Alcan has a large number of employees in France. Employment conditions are defined by French law and by four national collective agreements relating to various industrial sectors: chemicals, mechanics, plastic transformation and cardboard transformation. Additional specific agreements exist at each individual company. Pension liabilities are not included in collective agreements, as pensions in France mostly result from a compulsory system managed at the national level. Complementary pensions for some individuals result from their specific contracts.

In all other locations, collective agreements are negotiated on a site, regional or national level, and are of varying durations.

H. PATENTS, LICENSES AND TRADEMARKS

Alcan owns, directly or through Subsidiaries, a large number of patents in the US, the European Union, Canada and Australia as well as in other countries, which relate to the products, uses and processes of its businesses. The life of a patent is most commonly 20 years from the filing date of the patent application. Alcan is continually filing new patent

applications. All significant patents will be maintained until their formal expiration. Therefore, at any point in time, the range of life of the Company s patents will be from one to 20 years.

Alcan owns a number of trademarks that are used to identify its businesses and products. The Company s trademarks have a term of three to ten years. As a result, at any point in time, the Company will have trademarks at the end of their term while other trademarks will be at the beginning of a full ten-year term. At the end of their term, significant trademarks will be renewed for a further three to ten years.

Alcan has also acquired certain intellectual property rights under licenses from others for use in its businesses.

Alcan s patents, licenses and trademarks constitute valuable assets; however, the Company does not regard any single patent, license or trademark as being material to its sales and operations viewed as a whole. The Company has no material licenses or trademarks the duration of which cannot, in the judgment of management, be extended or renewed as necessary.

I. COMPETITION AND GOVERNMENT REGULATIONS

The aluminum, engineered products and packaging businesses are highly competitive in price, quality and service. The Company experiences competition from a number of companies in all major markets. In particular, the primary aluminum business is concentrated in the hands of a small number of first-tier producers, including the Company. In addition, aluminum products face competition from products fabricated from several other materials such as plastic, steel, iron, copper, glass, wood, zinc, lead, tin, titanium, magnesium, cement and paper. The Company believes that its competitive standing in aluminum production is enhanced by its primary metal technology and by its ability to supply its own power to many smelters at low cost.

The operations of the Company, like those of other international companies, including its access to and cost of raw materials and repatriation of earnings, may be affected by such matters as fluctuations in monetary exchange rates, currency and investment controls, withholding taxes and changes in import duties and restrictions. Imports of ingot and other aluminum products into certain markets may be subject to import duties and regulations. These affect the Company s sales realizations and may affect the Company s competitive position. Shipments of the Company s products are also subject to the anti-dumping laws of some importing countries, which prohibit sales of imported merchandise at less than defined fair values.

ITEM 1A *RISK FACTORS*

The following factors, among others, could cause actual results or outcomes to differ from the results expressed or implied by forward-looking statements and could adversely affect the Company s financial performance and, consequently, the value of the Shares:

Alcan is exposed to volatility in the aluminum industry and in aluminum end-use markets, which may adversely affect its financial results because such volatility may significantly reduce revenues without resulting in corresponding cost savings.

Alcan is an important global producer of aluminum and aluminum fabricated products. The aluminum industry is highly cyclical, with prices subject to worldwide market forces of supply and demand and other influences. Prices have been historically volatile and Alcan expects such volatility to continue. Although Alcan may use contractual arrangements with customers, employ certain measures to manage its exposure to the volatility of LME-based prices, and is product and segment diversified to a significant extent, Alcan s results of operations could be materially adversely affected by material adverse changes in economic or aluminum industry conditions generally.

Fluctuations in currency exchange rates may negatively affect Alcan s financial results and cost structure.

Economic factors, including foreign currency exchange rates, could affect Alcan s revenues, expenses and results of operations. A substantial portion of Alcan s revenue is determined in US dollars while a significant portion of Alcan s costs related to those revenues are incurred in Canadian and Australian dollars and in Euros. Fluctuations in exchange rates between the US dollar and these currencies give rise to currency exposure.

Alcan conducts operations and owns assets worldwide and transacts business in a variety of currencies. Adverse changes in the relative values of currencies can impact Alcan s ability to sell its products or increase the cost of imports, and can reduce the value of Alcan s assets in relative terms.

Alcan s operations are energy-intensive and, as a result, its profitability may be adversely affected by rising energy costs or by energy supply interruptions.

Alcan consumes substantial amounts of energy in its operations. Although Alcan generally expects to meet the energy requirements for its aluminum smelters and alumina refineries from internal sources or from long-term contracts, the following factors could materially adversely affect Alcan s energy position:

the unavailability of hydroelectric power due to droughts;

significant increases in the costs of supplied electricity or other energy;

interruptions in energy supply due to equipment failure or other causes; or

the inability to extend contracts for the supply of energy on economical terms upon expiration.

Alcan obtains significant amounts of electricity and other energy under contracts that Alcan may not be able to renew or replace on comparable terms following their expiry.

Alcan s profitability could be adversely affected by increases in the costs of and disruptions in the availability of raw materials.

The raw materials that Alcan uses in manufacturing its products include alumina, aluminum, caustic soda, plastics, calcinated petroleum coke and resin. The prices of many of the raw materials Alcan uses depend on supply and demand relationships at a worldwide level, and are therefore subject to continuous volatility.

Prices for the raw materials that Alcan requires may increase from time to time and, if they do, Alcan may not be able to pass on the entire cost of the increases to its customers or offset fully the effects of higher raw material costs through productivity improvements, which may cause Alcan s profitability to decline. In addition, there is a potential time lag between changes in prices under Alcan s purchase contracts and the point when Alcan can implement a corresponding change under its sales contracts with its customers. As a result, Alcan may be exposed to fluctuations in raw material prices since, during the time lag period, Alcan may have to temporarily bear the additional cost of the change under its purchase contracts, which could have a negative impact on its profitability.

Alcan participates in highly competitive markets.

Alcan is a participant in the market for packaging materials. The acquisition of Pechiney increased the importance of the packaging business to Alcan s overall results. The packaging market is highly competitive, with competition based on cost and innovation. Alcan s operating results could be adversely affected if Alcan cannot compete effectively in this market or if the market experiences weakness.

Alcan is subject to risks caused by changes in interest rates.

Increases in benchmark interest rates will likely increase the interest cost associated with Alcan s variable interest rate debt in a rising rate environment and will increase the cost of future borrowings, which could harm Alcan s financial condition and results of operations.

Alcan could be required to make large contributions to its defined benefit pension plans as a result of adverse changes in interest rates and the equity markets.

Alcan sponsors defined benefit pension plans for its employees in Canada, the US, the UK, Switzerland and certain other countries. Alcan s pension plan assets consist primarily of listed stocks and bonds. Alcan s estimates of liabilities and expenses for pensions and other post-retirement benefits incorporate significant assumptions, including expected long-term rates of return on plan assets and interest rates used to discount future benefits. Alcan s results of operations, liquidity or shareholders equity in a particular period could be materially adversely affected by equity market returns that are less than their expected long-term rate of return or a decline of the rate used to discount future benefits.

If the assets of Alcan s pension plans do not achieve expected investment returns for any fiscal year, such deficiency would result in one or more charges against earnings. In addition, changing economic conditions, poor

pension investment returns or other factors may require Alcan to make substantial cash contributions to the pension plans in the future, preventing the use of such cash for other purposes.

Alcan has a unionized workforce, and union disputes and other employee relations issues could harm its financial results.

The majority of Alcan s shop-floor employees are represented by labour unions under a large number of collective labour agreements in various countries, including France, Canada and the US. Alcan may not be able to satisfactorily renegotiate its collective labour agreements when they expire. In addition, existing labour agreements may not prevent a strike or work stoppage at its facilities in the future, and any such work stoppage could have a material adverse effect on Alcan s financial condition and results of operations.

Alcan s operations are affected by conditions and events beyond its control in countries where Alcan has operations or sells products.

Economic and other factors in the many countries in which Alcan operates, including inflation, fluctuations in currency and interest rates, competitive factors, and civil unrest and labour problems, could affect its revenues, expenses and results of operations. Alcan s operations could also be adversely affected by government actions such as controls on imports, exports and prices, new forms of taxation, expropriation and increased government regulation in the countries in which Alcan operates or services customers.

Alcan is exposed to market and credit risks from its derivatives portfolio and trading activities.

Where judged appropriate, Alcan uses derivatives to hedge, among other things, exposure to changes in exchange rates, interest rates and metal prices. Alcan is engaged in trading activities in respect of alumina and metals. The Company uses derivatives as one way to protect against losses related to price fluctuations in trading activities. Alcan s use of derivatives makes it subject to certain market and credit risks. These risks could result in credit or derivative-related charges and losses independent of the relative strength of Alcan s core businesses. Alcan is therefore exposed to risks associated with trading activities and with the derivatives themselves, including counterparty credit risks and the risk of significant losses if prices move contrary to expectations or if Alcan s risk management procedures prove to be inadequate. The risks from its trading businesses may result in material losses which could adversely affect its results of operations, liquidity and financial position.

Alcan may be exposed to significant legal proceedings or investigations.

Alcan s results of operations or liquidity in a particular period could be affected by significant adverse legal proceedings or investigations, including environmental, product liability, health and safety and other claims, as well as commercial or contractual disputes with suppliers or customers.

Alcan is subject to a broad range of environmental laws and regulations in the jurisdictions in which it operates, and Alcan may be exposed to substantial environmental costs and liabilities.

Alcan is subject to a broad range of and increasingly stringent environmental laws and regulations in each of the jurisdictions in which it has operations. The costs of complying with these laws and regulations, including participation in assessments and remediation of sites and installation of pollution control facilities, could be significant. In addition, these standards can create the risk of substantial environmental liabilities, including liabilities associated with divested assets and past activities. Alcan is involved in a number of compliance efforts, remediation activities and legal proceedings concerning environmental matters.

Alcan may be subject to liability related to the use of hazardous substances in production.

Alcan uses a variety of hazardous materials and chemicals in its manufacturing processes, as well as in connection with Alcan s manufacturing facilities, including the maintenance thereof. In the event that any of these substances or related residues proves to be toxic, Alcan may be liable for certain costs, including, among others, costs for health-related claims or removal or retreatment of such substances.

Alcan is, and may be in the future, subject to suits regarding product liability, commercial disputes and claims by individuals, corporations and governmental entities related to its past and current activities and the activities of companies that Alcan has acquired and may acquire in the future.

Alcan is involved in the manufacture of numerous products, including complex component and finished products. The production of such products, used in a variety of end-uses and integrated into separately manufactured end products, entails an inherent risk of suit and liability relating to product operation and performance. Companies that Alcan has acquired and that Alcan may acquire in the future may be subject to similar risk of suit and to pending litigation. Alcan maintains product liability and other insurance to cover liability contingencies. Alcan s policies, however, are subject to deductibles and recovery limitations, as well as limitations on contingencies covered. Suits against Alcan could be resolved in a manner that materially and adversely affects its financial condition, and Alcan could be subject to future material product liability, tort or contractual suits, and to proceedings imposed by governmental entities.

Alcan may not be able to successfully implement productivity and cost-reduction initiatives.

Alcan has undertaken and may continue to undertake productivity and cost-reduction initiatives to improve performance. There can be no assurance that these initiatives will be completed or beneficial to Alcan or that any estimated cost savings from such activities will be realized.

Alcan has made significant capital expenditure commitments to expand and modernize production capacity.

Alcan commonly undertakes significant capital projects with respect to its own production capacity, and participates in the development of large capital projects with third parties. Recent activity involving large capital expenditure commitments includes the expansion of the Gove alumina refinery in Australia, the announced planned investments in Jonquière and Kitimat in Canada, and in Guinea, Cameroon, Iceland and South Africa, and the smelter project in Oman. Alcan s involvement in large capital investments subjects it to certain risks, including risks of unanticipated delays, complications and increased costs related to project execution. Alcan may be required to commit to capital spending for particular projects over the course of several years during which market conditions may change, which could reduce the attractiveness of the project relative to other potential investments.

Alcan is subject to risks related to the Novelis Spin-off.

Alcan derives significant cash flows under metal supply agreements and other arrangements with Novelis, an important customer whose operations encompass most of Alcan s former rolled products businesses that Alcan spun off to its shareholders in January 2005. Should Novelis business be subject to downturns or disruptions, Alcan s cash flows could be negatively affected.

Alcan does not control Novelis and cannot provide any assurance regarding its operations. Novelis may make strategic decisions that are disadvantageous to Alcan s ongoing commercial relationship with it or with third parties.

Alcan must compete with other market participants for continued business from Novelis. In addition, Novelis, and any acquirer of Novelis business operations, could become a competitor to Alcan.

Alcan could be adversely affected by changes in the business or financial condition of significant customers.

A significant downturn in the business or financial condition of its significant customers could materially adversely affect Alcan s results of operations. In addition, if Alcan s existing relationships with significant customers materially deteriorate or are terminated in the future, and Alcan is not successful in replacing business lost to such customers,

Alcan s results of operations may be harmed.

The markets for Alcan s products are highly competitive and the willingness of customers to accept substitutions for Alcan s products is high.

The markets for aluminum and packaging products are highly competitive. In addition, aluminum competes with other materials, such as steel, plastics and glass, among others, for various applications in Alcan s key customer sectors. The willingness of customers to accept substitutions for Alcan s products, the ability of large customers to apply buyer power in the marketplace to affect the pricing for fabricated aluminum or packaging products, or other developments could adversely affect Alcan s results of operations.

Future acquisitions or divestitures may adversely affect Alcan s financial condition.

Alcan has grown partly through the acquisition of other businesses including Pechiney. There are numerous risks commonly encountered in business combinations, including the risk that Alcan may not be able to effectively integrate businesses acquired or generate the cost savings and synergies anticipated. Failure to do so could have a material adverse effect on its costs, earnings and cash flows.

As part of its strategy for growth, Alcan may continue to make acquisitions, divestitures or strategic alliances, which may not be completed or may not be ultimately beneficial to Alcan.

Alcan may not be able to successfully develop and implement new technology required to achieve continued profitability.

Alcan has invested in and is involved with a number of technology and process initiatives. Several technical aspects of these initiatives are still unproven and the eventual commercial outcomes cannot be assessed with any certainty.

Unexpected events may increase Alcan s cost of doing business or disrupt Alcan s operations.

Unexpected events, including, but not limited to, supply disruptions, labour disputes, failure of equipment or processes to meet specifications, war or terrorist activities may increase the cost of doing business or otherwise impact Alcan s financial performance.

The above list of important factors is not all-inclusive or necessarily in order of importance.

ITEM 1B ***UNRESOLVED STAFF COMMENTS***

The Company has nothing to report under this Item.

ITEM 2 ***PROPERTIES***

Alcan believes that its properties, most of which are owned, are suitable for its operations. For additional information concerning specific properties, as broken down by Alcan Business Group, see Item 1 sub-headings 1.2 and 1.3 (Bauxite and Alumina), 2.2 and 2.3 (Primary Metal), 3.2 (Engineered Products) and 4.2 (Packaging).

ITEM 3 ***LEGAL PROCEEDINGS***

The Company is involved in various legal proceedings in either a defendant or plaintiff capacity. In certain circumstances, the amounts at stake in the proceedings, whether such proceedings are pending or potential, are not quantifiable for various reasons. Nothing set out below should, unless expressly stated to the contrary, be interpreted

as a confirmation or admission of liability on the part of either the Company or any Subsidiary. The outcome of any legal proceeding, whether pending or potential, will not, in management s opinion, have a material adverse effect on the financial position of the Company.

A. ENVIRONMENTAL MATTERS

1. Cases

Omega Chemical Site. In February 1996, the Company s UK Subsidiary, British Alcan Aluminium plc (British Alcan), sold its investment in Luxfer USA Limited. As part of the sale, British Alcan agreed to indemnify the purchaser for certain liabilities, including those arising out of the following proceeding. Luxfer is a participant in a joint defense group being sued by the US Environmental Protection Agency (EPA) in the District Court, Central District of California, in regard to waste Luxfer sent, from 1976 to 1991, to the Omega chemical waste Superfund site, a third party disposal site in Whittier (California, US). Large waste generators are cleaning up the site. Luxfer is a small contributor. In 2000, Luxfer and other members of the joint defense group entered into a consent decree with the EPA to complete the remediation. In addition, Howmet Corporation is also named as a potentially responsible party at this site (see Howmet Sites below). Both British Alcan and Howmet agreed to be parties to the Second Amendment to the Consent Decree.

Millville, New Jersey Plant. In 1997, Wheaton USA Inc., now Alcan Global Pharmaceutical Packaging Inc. (AGPP), a wholly-owned Subsidiary, began building new furnaces at its Millville (New Jersey, US) glass plant that were alleged to violate air emission regulations. The New Jersey Department of Environmental Protection (NJDEP) issued a citation for violation of permits. The EPA issued an information request to which Alcan responded. AGPP made modifications to the two furnaces, which are now covered by a Title V Air Permit.

Shulton, Mays Landing Landfill. Shulton, an adjacent manufacturing neighbour to AGPP s coated products operation in Mays Landing (New Jersey, US), alleged that in the 1970s AGPP had disposed of hazardous waste in a landfill area thereby causing leaching in other sites. After an investigation by the NJDEP, AGPP was required to perform remediation and monitoring at the site. The soil remediation has been completed. An investigation of ground water is continuing and could result in long-term monitoring of the site. Monitoring costs are not projected to be high.

Williams Landfill. Wheaton Industries, now AGPP, was sued in 1990 by the NJDEP involving a Superfund Site in Cape May County (New Jersey, US). The matter was resolved through a Consent Decree in 1999 which specifically excluded liability for natural resource damages. In June 2006, the New Jersey Attorney General s office contacted AGPP by telephone to inform the Company that NJDEP was planning on pursuing Natural Resource Damages. AGPP is waiting for a formal demand in this regard.

Clifton, New Jersey Facility. Lawson Mardon USA plc, now Alcan Packaging Food & Tobacco Inc. (APF&T), a wholly-owned Subsidiary, is undertaking a site investigation and clean-up of the land at its Clifton (New Jersey, US) plant, in compliance with a NJDEP permit. According to studies, off-site contamination was not a result of APF&T s operations. APF&T has reached an agreement with the NJDEP for alleged on-site contamination whereby APF&T would isolate the area and would monitor the ground water for two years. APF&T completed the remediation and ground water monitoring in 2004 and concluded an agreement with the NJDEP. In 2005, APF&T submitted a ground water remediation work plan to the NJDEP. Once the plan is approved, APF&T will have certain ground water treatment and monitoring to complete by 2012.

LM Trentesaux Site. In 1999, an investigation was carried out at a site owned by a Subsidiary, Lawson Mardon Trentesaux SA (LM Trentesaux), in Tourcoing (France). The land was found to be contaminated by solvent, fuel and chemical products resulting from engraving and packaging activities. An estimate of the clean-up costs was established. The investigation was also conducted to determine whether the contamination was the sole responsibility of LM Trentesaux and whether the migration of the contamination was possible. Ground contamination caused by

solvent was treated and further treatment for other substances may be required. The site was remeditated and sold in 2006.

Algoods Ontario Remediation. Beginning in 1995, environmental investigations have been conducted into the presence of oil, gasoline and volatile organic compounds (VOCs) in the soil and groundwater at the Algoods plant site in Ontario (Canada) and third party properties adjacent to this site. Algoods was sold in 1996 and under the terms of the agreement, the Company retains liability for this case. A remediation plan was approved with the Ontario Ministry of Environment (MOE) for the oil removal and an additional recovery well was installed in 2005. A gasoline recovery system was commissioned by Alcan and accepted by the owner of the affected property. MOE

requested and has received from Alcan a delineation study with respect to VOCs in the surrounding area. In 2004, MOE advised the Company that additional work was required. The remediation plan, which included the installation of recovery wells, was fully put in place by September 2005. Alcan continues remediation efforts at the site.

Howmet Sites. Under the stock purchase agreement between Pechiney and Blade Corporation for the divestiture of certain Pechiney subsidiaries (Pechiney Corporation, Howmet Corporation, Howmet Cercast) dated 12 October 1995, Pechiney agreed to indemnify Blade Corporation, without limitation in time or a ceiling on the indemnification amount, with respect to certain environmental matters that exceeded a reserve of $6 million on the pro-forma 1995 balance sheet of Pechiney. Alcoa, Inc., the legal successor in interest to Blade Corporation and beneficiary of the indemnification clause, asked Pechiney in 2002 to pay for the remediation costs exceeding the $6 million provision concerning the environmental risks at several sites (Howmet Sites). In addition to the Dover and Combe Fill South, New Jersey sites (see below), the Howmet Sites include the LaPorte Casting facility in Indiana, the Pellestar Superfund site in Michigan, as well as other sites in Connecticut, Texas and Wisconsin.

Dover, New Jersey Site. In 1997, Howmet notified Pechiney of high PCB readings at Dover (New Jersey, US). There are other possible environmental concerns at the Dover site as well. In April 1991, Howmet entered into an administrative order with the State of New Jersey for a remedial investigation/feasibility study. That process is not complete and a remedy has yet to be selected. Additionally, Howmet received oral notification in January 2004 that the State of New Jersey was seeking natural resources damages for alleged impact on the site ground water. The State of New Jersey is thus asking for money damages for the impact on the ground water separate and above the remediation costs. Pechiney submitted a Remedial Selection Report and met with the State of New Jersey in October 2006.

Combe Fill South Landfill. In 1998, the US Government and the NJDEP sued Howmet and other parties for damages and response costs in relation to the environmental conditions at the Combe Fill South Landfill in New Jersey. The governments claim both past and future costs for remediation. An alternative dispute resolution process is underway under the supervision of the US District Court for the District of New Jersey. Howmet submitted its position paper on allocation in January 2004. There are hundreds of parties involved in the suit; allocations are not yet final. The parties met in December 2006 to discuss settlement scenarios.

Holden Mine Site. In a 1993 settlement agreement, Pechiney had agreed to indemnify Alumax for certain claims, including in connection to environmental matters relating to the Holden Mine. Holden Mine was an underground copper mine that Howe Sound Company operated from 1936 until 1957. It is located in a remote wilderness area in the Wenatchee National Forest in the State of Washington. The US Forest Service, together with officials of the State of Washington and the EPA, requested a remedial investigation. An administrative order was entered in 1997. The remedial investigation identified several remedial scenarios with a wide range in cost. Total site costs (including investigation costs) and natural resource damages may exceed $30 million. Alcan submitted its final draft feasibility study in February 2004 and meetings took place at several times up to September 2005 without an agreement on remedy. A new proposal was submitted in November 2005.

Blackbird Mine. In 1994 and 1995, Pechiney signed a consent decree with the US Forest Service, National Oceanic and Atmosphere Administration, the EPA and the State of Idaho, as well as two administrative orders with the EPA for a remedial investigation/feasibility study and early action clean-up of the Blackbird Mine. Pechiney must pay a significant portion of the total cost of the Blackbird Mine clean-up. The US Government must pay a smaller portion of the remediation expenses with a cap. The removal actions, which began in 1995, are largely but not entirely complete. The US Government investigated arsenic contamination at neighboring Panther Creek Inn and a soil removal remediation was performed in 1998. In August 2002, the EPA issued its proposed remedial plan for Blackbird Mine, which included copper and cobalt actions. In Spring 2003, the EPA issued a Record of Decision (ROD). Negotiations with the various agencies concerning the ROD and the consent decree were held during 2003. The EPA issued a

unilateral administrative order which became effective on 10 August 2003. The EPA estimated the ROD remedy cost at $15.4 million in addition to what had already been spent. The parties have complied with a request by the EPA to supply $25 million in financial assurance. In 2005, the EPA decided that treatment for cobalt was not required. The parties negotiated regarding additional work in 2006 but did not reach an agreement.

Tungsten Mine Site. In April 2000, the North Carolina Department of Environment & Natural Resources, Division of Waste Management, sought cooperation for the removal of drummed hazardous substances and for the monitoring, testing, analyzing and reporting on the Tungsten Mine Site, in Vance County (North Carolina, US). Pechiney is the successor to Haile Mining Company, which it is believed mined the site from approximately 1945 through the late 1950s. A first meeting of potentially responsible parties took place in October 2001. In October 2004, the State of North Carolina met with the potentially responsible parties and presented a proposed remedial plan to which they must respond. In 2005, Pechiney submitted its own remedial plan. In August 2006, the State of North Carolina offered the parties an Administrative Agreement for State-directed remedial action. Howmet provided the State-suggested revisions to the Agreement in September 2006. The Agreement has not been finalized to date.

Pohatcong Valley Site. The US Department of Interior notified Pechiney Plastic Packaging Inc. (PPPI) on 19 November 1999 that it wanted to geophysically log certain wells at the Washington (New Jersey, US) facility as it sought to identify possible contributors of a specific contaminant trichloroethylene to the Pohatcong Valley Superfund Site. This matter involves both an on-site remediation of the Washington Plant, which is near completion, and a Superfund Site. Pursuant to a remedial investigation and ground water report, the EPA published a proposed plan calling for remedies that would cost $12.4 million. PPPI is working on alternative remedies that it believes would be more effective and cost substantially less. The EPA issued a Record of Decision on groundwater contamination in July 2006. In October 2006, PPPI representatives met with EPA representatives to continue negotiations for a PPPI-designed remedy.

High Point Sanitary Landfill. PPPI is one of four parties that had entered into a 1998 consent order with the NJDEP for the remediation of a former landfill in Franklin County (New Jersey, US). Negotiations continue between the parties and the NJDEP with respect to PPPI s share of remediation costs. Since 2001, the NJDEP has reduced PPPI s required funding share on several occasions. In 2006, the NJDEP approved a Work Plan for the new refuse area.

Spill at Port Installations. Alcan received two fine notices on 27 October 2006 from the Quebec Solicitor General regarding a caustic soda spill in the Saguenay River which occurred on 20 and 21 March 2006 during the unloading of cargo at Alcan s port facilities in La Baie (Quebec, Canada). Alcan pleaded not guilty and obtained disclosure of the evidence from the Province.

Guelph, Ontario. The Company maintained outdoor salt cake storage from 1985 to 1996 on a site it had purchased in 1979. In December 1996, Alcan sold the facility to Philip Enterprises, contractually retaining liability, which then sold the facility to Wabash Alloy in 1998. Alcan performed soil removal activities in 1998 and 1999 and established monitoring wells. In June 2006, the Ontario Ministry of the Environment agreed to Alcan s work plan to manage the sodium and chloride impacts on groundwater. The work plan includes installation of additional monitoring wells.

Muzin River. In September 2003, two agents of the local fishing council reported white traces of aluminum hydroxide on the Muzin River to the prosecuting attorney of Dijon (France). A hearing took place in December 2006, during which the prosecuting attorney sought to fine the Softal plant manager EUR 1,000. The plant manager has until early 2007 to accept the offer or face criminal proceedings. Pechiney Softal, a Subsidiary of the Company, may then be prosecuted. It is believed that the amount of aluminum hydroxide measured in the river is unlikely to have had any negative impact on the environment.

Centralia. In December 2006, AGPP received a letter form the Illinois Attorney General s office, threatening to file suit on 20 December 2006 to recover costs incurred in addressing the continued presence of hazardous substances at former Prior 1.2.3.4, Prior/Blackwell, and CESi Landfills located near Centralia (Illinois, US). AGPP is a relatively small contributor to the landfill sites.

2. Reviews and Remedial Actions

From time to time, the Company is subject to environmental reviews and investigations. The Company has established procedures for reviewing environmental investigations and any possible remedial action on a regular basis. Although the Company cannot reliably estimate all of the costs which may ultimately be borne by it, the Company has no reason to believe that any remedial action will materially impair its operations, materially affect its financial condition or materially affect the Company s liquidity.

ITEM 4 ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

The Company has not submitted any matter to a vote of security holders, through solicitations of proxies or otherwise, during the fourth quarter of the year ended 31 December 2006.

PART II

ITEM 5 ***MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

The principal markets for trading in Alcan s Common Shares are the New York and Toronto stock exchanges. The Common Shares are also traded on the London, Paris and Swiss stock exchanges. The transfer agents for the Common Shares are CIBC Mellon Trust Company in Montreal, Toronto, Regina, Calgary and Vancouver, and Mellon Investors Services LLC in New York. Common Share dividends, if declared, are paid quarterly in March, June, September and December to Shareholders of record in February, May, August and November, respectively.

The number of holders of record of Common Shares on 26 February 2007 was approximately 16,100.

While the Company currently intends to pursue a policy of paying quarterly dividends, the payment and level of future dividends will be determined by the Board of Directors in light of earnings from operations, capital requirements and the financial condition of the Company. The Company s cash flow is generated principally from operations and also by dividends and interest payments from Subsidiaries, Joint Ventures and Related Companies. These dividend and interest payments may be subject, from time to time, to regulatory or contractual restraints, withholding taxes and foreign governmental restrictions affecting repatriation of earnings.

On 2 August 2006, the Company announced that it was raising its quarterly dividend from $0.15 to $0.20 per Common Share.

Dividends paid on Common Shares held by non-residents of Canada will generally be subject to Canadian withholding tax which is levied at the basic rate of 25%, although this rate may be reduced depending on the terms of any applicable tax treaty. For residents of the US, the treaty-reduced rate is currently 15%.

All dividends received by shareholders of Alcan (including Common Shareholders and holders of preference shares) in 2006 and later are eligible dividends as defined in amendments to section 89 of the Canada *Income Tax Act* and, accordingly, entitle an individual Alcan shareholder resident in Canada to a higher dividend gross-up and dividend tax credit.

	Dividend ($)	New York Stock Exchange* ($)				Toronto Stock Exchange** (CAN$)			
		High	Low	Close	Avg. Daily Volume	High	Low	Close	Avg. Daily Volume
2006 Quarter									
First	0.150	51.55	40.64	45.73	1,567,674	59.25	47.05	53.43	1,534,425
Second	0.150	59.20	41.55	46.94	2,900,325	64.99	46.05	52.29	1,804,657
Third	0.200	48.50	37.48	39.87	975,374	54.95	41.78	44.55	1,335,986
Fourth	0.200	51.31	38.32	48.74	1,220,320	58.95	43.25	56.78	1,264,882
Year	0.700								

		High	Low	Close	Avg. Daily Volume	High	Low	Close	Avg. Daily Volume
2005 Quarter									
First	0.150	47.50	35.75	37.92	1,269,532	58.27	43.35	46.00	1,268,361
Second	0.150	39.13	28.75	30.00	1,207,673	47.89	36.56	36.78	1,468,538
Third	0.150	36.78	30.21	31.37	1,231,066	44.18	35.38	36.85	1,492,671
Fourth	0.150	41.92	29.49	40.95	1,233,368	48.60	34.86	47.76	1,678,781
Year	0.600								

* As reported by the New York Stock Exchange Consolidated Trading.

** As reported by the Toronto Stock Exchange.

Performance Graph

The information required is incorporated by reference to the Proxy Circular in the section entitled Performance Graphs on page 27.

Purchases of Equity Securities

Alcan established a share repurchase program that commenced on 2 November 2006 and will terminate at the latest on 1 November 2007. Under the program, the Company may purchase up to 18,800,000 Common Shares, representing approximately 5% of the outstanding Common Shares at 27 October 2006. Purchases may be made on the Toronto Stock Exchange and the New York Stock Exchange. The Common Shares purchased under the program will be cancelled.

The Company intends that the program comply with Rule 10b-18 under the US *Securities Exchange Act of 1934* and the Normal Course Issuer Bid rules of the Toronto Stock Exchange. A copy of the notice to the public of the plan, announced on 3 October 2006, is available at www.sedar.com or may be obtained by contacting the Corporate Secretary s Office.

The following table provides information on purchases of equity securities.

2006 Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
1 Oct. 31 Oct.	0		0	18,800,000
1 Nov. 30 Nov.	9,781,200	47.42	9,781,200	9,018,800
1 Dec. 31 Dec.	50,000	47.92	50,000	8,968,800
Total	9,831,200	47.42	9,831,200	

Sales of Unregistered Securities

In 2006, the Company issued 12,852 Common Shares to former holders of Pechiney options that resided outside the United States and Canada upon the exercise of such options. These Common Shares were not registered under the US *Securities Act of 1933*, as amended in reliance on Regulation S. The dates of sale and amounts of Common Shares in the fourth quarter of 2006 are set forth below:

Dates	Number of Shares
23 October 2006	2,596
8 November 2006	682
9 November 2006	723
20 November 2006	1,638
1 December 2006	405
12 December 2006	4,828
18 December 2006	1,980

The Pechiney options are described at page 30 of the Proxy Circular.

ITEM 6 ***SELECTED FINANCIAL DATA***

SELECTED HISTORICAL FINANCIAL DATA
(In millions of dollars, except for per share amounts)

	Years Ended December 31				
	2006	**2005**	**2004**	**2003**	**2002**
US GAAP					
Sales and operating revenues	23,641	20,320	24,948	13,850	12,483
Income (Loss) from continuing operations	1,786	155	243	262	421
Income (Loss) from discontinued operations	4	(26)	15	(159)	(21)
Cumulative effect of accounting changes	(4)			(39)	(748)
Net income (Loss)	1,786	129	258	64	(348)
Earnings (Loss) per share:					
Basic:					
Income (Loss) from continuing operations	4.75	0.40	0.64	0.79	1.29
Income (Loss) from discontinued operations	0.01	(0.07)	0.05	(0.49)	(0.07)
Cumulative effect of accounting changes	(0.01)			(0.12)	(2.32)
Net income (Loss) per share	4.75	0.33	0.69	0.18	(1.10)
Diluted:					
Income (Loss) from continuing operations	4.74	0.40	0.64	0.79	1.29

Income (Loss) from discontinued operations	0.01	(0.07)	0.05	(0.49)	(0.07)
Cumulative effect of accounting changes	(0.01)			(0.12)	(2.32)
Net income (Loss) per share	4.74	0.33	0.69	0.18	(1.10)
Cash dividends per share	0.70	0.60	0.60	0.60	0.60
Total assets	28,939	26,638	33,341	31,948	17,761
Long-term debt (including current portion)	5,512	6,067	6,914	7,778	3,369

On 1 January 2004, the Company adopted US GAAP as its primary reporting standard for presentation of its consolidated financial statements. Historical consolidated financial statements were restated in accordance with US GAAP.

On 6 January 2005, the Company completed the Novelis Spin-off. Unaudited pro-forma condensed consolidated financial information giving effect to the Novelis Spin-off as at 1 January 2004 for the statement of income and as at 31 December 2004 for the balance sheet is presented in note 6 Spin-off of Rolled Products Businesses of the Financial Statements included under Item 8, Financial Statements and Supplementary Data in this Form 10-K.

The accounting policies adopted by the Company during the years 2004 to 2006 are described in note 3 Accounting Changes of the Financial Statements.

In 2004, the Company retroactively adopted the fair value recognition provisions of Statement of Financial Accounting (SFAS) No. 123, Accounting for Stock-Based Compensation. Beginning 1 January 1999, all periods have been restated to reflect compensation cost as if the fair value method had been applied for awards issued after 1 January 1995.

In 2003, the Company retroactively adopted SFAS No. 143, Asset Retirement Obligations. An after-tax charge of $39 million for the cumulative effect of accounting change was recorded as a result of the new standard, relating primarily to costs for spent potlining disposal for pots currently in operation. See note 22 of the Financial Statements, prepared in accordance with US GAAP.

In 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. An after-tax charge of $748 million for the cumulative effect of accounting change was recorded as a result of the new standard, relating to impairment of goodwill.

The data presented above should also be read in conjunction with Management s Discussion and Analysis, included under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K.

Please also refer to the Financial Statements and the Notes to the Financial Statements, included under Item 8 Financial Statements and Supplementary Data in this Form 10-K.

ITEM 7 *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

INTRODUCTION

This Management s Discussion and Analysis (MD&A) provides management s perspective on the Company s operations, core businesses, performance and financial condition. The MD&A includes Alcan s operating and financial results for 2006, 2005 and 2004 and should be read in conjunction with the Financial Statements for the year ended 31 December 2006, which are prepared in accordance with US GAAP. Unless otherwise indicated, all amounts are in US dollars. Certain prior year data has been reclassified to conform with the current year s presentation.

In addition to the information contained in this MD&A, a brief description of the business can be found on page 6 as well as detailed descriptions of the Business Groups on pages 9 to 26 of this Form 10-K.

The aluminum market overview contained in this MD&A is based on research that includes information from sources believed to be reliable, but Alcan does not make any representation that it is accurate in every detail. The aluminum market overview represents the Company s views as at 28 February 2007.

Accounting Estimates and Assumptions

The Company believes that our estimates for determining the valuation of our assets and liabilities are appropriate. However, given the uncertainties involved, it is possible that they will be significantly revised in the future, which could have material adverse effects on the Company s reported earnings and financial condition. The Company s significant accounting policies are presented in note 2 Summary of Significant Accounting Policies to the Financial Statements. The critical accounting policies and estimates described on page 74 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 judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. They have been reviewed and approved by the Audit Committee, in

consultation with management, as part of their review and approval of our significant accounting policies and estimates.

OVERVIEW

For Alcan, 2006 represented a landmark year in many respects. Driven by increased strength in aluminum fundamentals and a sharpened focus following several years of major portfolio transformation, the Company achieved record financial results and made significant advances in key strategic growth initiatives. All-time records were set as net income reached $1,786 million ($4.75 per Common Share), while cash from operating activities topped the $3-billion mark. The Company s long-term corporate financial targets, based on currency and metal forward rates as at September 2005, were all exceeded, in many cases by a healthy margin. In addition, the Company raised its quarterly dividend by a third and initiated a share repurchase program for up to 5% of its outstanding Common Shares.

Strategically, Alcan took several key steps toward securing a balanced alumina position and leveraging its technology and wholly-owned power advantages to ensure sustainable, low-cost growth in aluminum production. The 1.8-million tonne per year (Mt/y) expansion of the Gove alumina refinery in Australia continued at a strong pace, albeit in the face of substantial cost pressures due mainly to the overheated Australian construction sector. Meanwhile, as construction on the Company s smelting Joint Venture in Oman continued on schedule and on budget, announcements were made throughout the second half of the year concerning key smelting projects in British Columbia, South Africa and Quebec, which together with the Oman project represent a potential total capacity increase of close to 1 Mt/y, or around 30% of the Company s current capacity. In addition, the Quebec project incorporates the world s first industrial scale pilot smelter based on Alcan s proprietary AP50 technology, which is expected to generate incremental cost savings and superior environmental performance over the existing industry leading AP35 configuration.

At the macro-economic level, the first half of 2006 reflected very strong growth in most of the world s economies, including the four largest: the US, Japan, Germany and China. However, declining auto sales and production and a sharp downturn in the housing market combined to restrain the US economy as the year progressed. By the fourth quarter of 2006, softening conditions had become evident around the world, partly caused by reduced exports to the US. Even in China, industrial production growth slipped from over 17% in the first half of 2006 to under 15% in the fourth quarter of 2006, reflecting monetary restraints.

Boosted by the strong economic growth through much of 2006, global primary aluminum demand grew by almost 7%. World primary production grew at just over 6% due both to a limited number of expansions and to closures caused by high power prices in late 2005 and extremely high spot alumina prices in the first half of 2006. As a result, the market went from being balanced in 2005 to a 162-thousand tonne per year (kt/y) estimated deficit in 2006. In terms of weeks of Western World* shipments, unwrought inventories fell from an already low 5.8 weeks at the beginning of 2006 to a record low of 4.7 weeks late in the year. This, coupled with even greater price increases for other base metals, caused aluminum prices to soar. The benchmark 3-month price on the London Metal Exchange (LME) reached an all-time high of $3,310 per tonne in May 2006 and averaged a record $2,594 for the calendar year in nominal terms.

MARKET REVIEW

World Primary Aluminum Balance

Supply and Demand

World primary aluminum demand grew by about 6.9% in 2006 to 34.1 Mt/y; a much stronger pace than the 4.6% growth experienced in 2005. The highest growth rate of about 20% came from China, the largest consumer and producer of aluminum. Growth in Western World primary aluminum demand was under 1.5%.

* Defined as the world excluding the Commonwealth of Independent States (CIS), Eastern Europe and China.

World primary aluminum production growth eased slightly to 6.4% in 2006, reaching about 33.9 Mt/y. In the Western World, production grew only 1.7% as modest expansions in Brazil, Dubai, Iceland and India were partially offset by closures in Europe and the US in late 2005 and early 2006. In sharp contrast, Chinese production grew by over 20% to about 9.3 Mt/y. Plummeting spot alumina prices in the second half of 2006 led to major restarts of idled capacity and, by year-end, China was producing at a rate of over 10.5 Mt/y or about 30% of global output. Production in the CIS during 2006 was up about 2.5% over the prior year.

World Primary Aluminum Supply and Demand

Balance and Prices

After the balanced market in 2005, primary aluminum demand grew slightly faster than supply during 2006. As a result, unwrought inventories on the LME, New York Mercantile Commodities Exchange (COMEX) and held by aluminum producers declined by 162 kt/y during 2006 to reach 2.34 Mt/y or about five weeks of Western World supply. Including producer wrought stocks, total inventories fell 232 kt/y to 3.66 Mt/y. This along with higher production costs led to a record high nominal average price for the benchmark LME 3-months aluminum contract of $2,594 per tonne, up 37% from 2005. The benchmark LME contract also hit a record intra-day high of $3,310 on 11 May 2006. Prices of some other base metals rose even more, with zinc up 133%, copper 91% and nickel 59% in 2006.

Total Aluminum Inventories and Ingot Prices

* International Aluminium Institute

Outlook

After a year in which growth in consumption exceeded that for production, the situation is expected to reverse in 2007. Low prices for alumina, improved power availability in many parts of the world, and continuing high aluminum prices are encouraging smelter expansions and restarts. New smelter capacity in China, Russia, Iceland,

Dubai, and South America, along with restarts in the US and Western Europe are expected to boost primary production by almost 8%. Balancing this against an expected primary consumption growth rate only slightly less than the 2006 figure of 6.9%, mainly due to a slower US economy, should give rise to a primary surplus of approximately 200 kt, although inventories, especially in terms of weeks of shipments, will remain relatively low.

Total Aluminum Consumption

Total global aluminum consumption (including semi-fabricated aluminum, castings, forgings and the like) grew by an estimated 6.4% in 2006 to 45.5 Mt/y. Of this, about 34 Mt/y was sourced from primary aluminum with the other 11.5 Mt/y coming from secondary/recycled metal.

Total aluminum consumption growth continued to be strongest in China and the CIS at around 17% to 18% in 2006. China is the largest consumer at roughly 11.2 Mt/y or 25% of the world. For the Western World, consumption growth increased to 2.8% (from 2% in 2005) led by Asia and Latin America at over 5%. Total consumption increased by 3.2% in Western Europe, while North American consumption remained flat compared to 2005 due to declines in housing starts and automobile production, and has still not returned to the levels of 1999-2000.

Aluminum consumption was up in every end-use market. At between 6.3% and 9.4% year-over-year growth, the strongest sectors were packaging (mainly foil), machinery and equipment, transportation (heavy trucks, aerospace, buses, trains and ships) and electrical. In the two largest markets, building and construction, and automobiles, growth in 2006 was 5.5% to 6.0%, held back by the weak US market. Consumer durables were up about 4% and beverage cans 2%. The latter is a mature market with gains from substitution for tin-plated steel but losses to polyethylene terephalate (PET) bottles.

Total Global Consumption by End-Use Market

	2006	2005	2004
Containers and Packaging	***15%***	*16%*	*16%*
Building and Construction	***20%***	*20%*	*18%*
Electrical	***10%***	*10%*	*8%*
Transportation	***27%***	*27%*	*31%*
Consumer Durables	***7%***	*7%*	*6%*
Machinery and Equipment	***8%***	*8%*	*8%*
Other	***13%***	*12%*	*13%*
Total	***100%***	*100%*	*100%*

Total Global Consumption by Geographic Market

	2006	2005	2004
North America	***23%***	*24%*	*25%*
Western Europe	***21%***	*22%*	*22%*
Asia (excl. China)	***20%***	*21%*	*21%*
Latin America	***5%***	*5%*	*5%*

Africa and Oceania	***2%***	*2%*	*2%*
Western World	***71%***	*74%*	*75%*
China	***25%***	*22%*	*21%*
Eastern Europe	***2%***	*2%*	*2%*
CIS	***2%***	*2%*	*2%*
Total	***100%***	100%	100%

Alcan s Revenues by Geographic Market*

	2006	2005	2004
North America	***37%***	*36%*	*35%*
Europe	***45%***	*47%*	*45%*
Asia/Pacific/Africa	***17%***	*16%*	*16%*
South America	***1%***	*1%*	*4%*
Total	***100%***	*100%*	*100%*

* Point of destination

RESULTS OF OPERATIONS

Presentation of Financial Information

Novelis Spin-Off

Information for the year 2004 presented in this MD&A includes the results of operations for businesses transferred to Novelis on 6 January 2005.

Earnings Summary

Income from Continuing Operations

* 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.

Net Income

	For the Year Ended		
	2006	2005	2004
	(In millions of US$)		
Included in income from continuing operations are:			
Foreign currency balance sheet translation	**(12)**	(86)	(153)
Other Specified Items:			
Synergy costs		(57)	(44)
Restructuring charges	**(115)**	(162)	(41)
Asset impairments	**(51)**	(314)	(66)
Goodwill impairment		(122)	(154)
Gains (losses) from non-routine sales of assets, businesses and investments, net	**(23)**	36	54
Tax adjustments	**79**	(37)	13
Novelis costs		(21)	(31)
Legal and environmental provisions			(7)
Pechiney financing-related losses			(2)
Purchase accounting and related adjustments			(122)
Other	**12**	7	(4)
Total Other Specified Items	**(98)**	(670)	(404)
Income from continuing operations	**1,786**	155	243
Income (Loss) from discontinued operations	**4**	(26)	15
Cumulative effect of accounting change	**(4)**		
Net Income	**1,786**	129	258

2006 vs. 2005

In 2006, income from continuing operations was $1,786 million, an increase of $1,631 million compared to 2005. The significant increase in income reflected improved results across most business segments, most notably Primary Metal due to higher aluminum prices (LME aluminum prices were up on average 37% compared to 2005 reflecting extremely strong industry fundamentals), as well as reduced charges for OSIs of $572 million and foreign currency balance sheet translation of $74 million, offset in part by increased costs for key inputs across all businesses and the negative effects of the weaker US dollar on operating costs. In 2006, the Company benefited not just from higher aluminum prices, but also from improved sales mix and pricing as well as increased volumes in the downstream businesses. As in 2005, cost pressures were most significant in the Packaging business where prices for raw materials, most notably aluminum, experienced a sharp increase. This effect continued to be mitigated by increases in selling prices and operational improvements in the Packaging business.

Included in income from continuing operations for 2006 were foreign currency balance sheet translation losses of $12 million, a decrease of $74 million compared to 2005. Foreign currency balance sheet translation effects arise from translating monetary items (principally deferred income taxes and long-term liabilities) denominated in Canadian and Australian dollars into US dollars for reporting purposes. Although balance sheet translation effects are primarily

non-cash in nature, they can have a significant impact on the Company s net income. At 31 December 2006, the closing value of the US dollar against the Canadian dollar was approximately the same compared to the value at 31 December 2005. At 31 December 2006, the closing value of the US dollar was 8% higher against the Australian dollar than the value at 31 December 2005.

Income from continuing operations for 2006 included a net after-tax charge of $98 million for OSIs, a decrease of $572 million compared to 2005. In 2006, OSIs included after-tax charges of $115 million mainly related to restructuring initiatives across all Business Groups, asset impairment charges of $51 million mainly related to the Affimet aluminum recycling plant in Compiègne (France) and the Gove alumina refinery in Australia, a net loss on

business divestments of $23 million principally in relation to the sale of the Packaging bottles business, partially offset by favourable tax adjustments of $79 million, principally related to a deferred tax benefit arising from a reduction in the Canadian federal tax rates enacted in June 2006 and a gain of $41 million arising on the sale of bankruptcy claims against Enron.

After including the results of discontinued operations and the cumulative effect of an accounting change, the Company s net income was $1,786 million in 2006, an increase of $1,657 million compared to 2005.

2005 vs. 2004

In 2005, income from continuing operations was $155 million, a decrease of $88 million compared to 2004. Lower results for 2005 reflected increased charges for OSIs of $266 million, offset in part by a positive year-over-year change in foreign currency balance sheet translation of $67 million. In 2005, the Company benefited from higher prices, an improved sales mix and increased volumes in the primary aluminum and engineered products businesses, as well as synergy gains associated with the Pechiney acquisition. LME aluminum prices were up on average 10% compared to 2004 reflecting further improvement in industry fundamentals. Offsetting these positive factors were substantially higher costs for key inputs across all businesses, the negative effects of the weaker US dollar on operating costs and the loss of contribution from the rolled products businesses spun-off into Novelis on 6 January 2005. Cost pressures were especially severe in the Packaging business where prices for raw materials, most notably resins and films, experienced a sharp increase since mid-2004. The Packaging Business Group was largely successful in mitigating the resulting pressure on margins through selling price increases and operational improvements.

Included in income from continuing operations for 2005 were foreign currency balance sheet translation losses of $86 million compared to losses of $153 million in 2004. While lower than in the previous year, the translation losses in 2005 reflected the continued weakening of the US dollar against the Canadian dollar, partially offset by the appreciation of the US dollar against the Australian dollar. At 31 December 2005, the closing value of the US dollar was 3% lower against the Canadian dollar than the value at 31 December 2004. At 31 December 2005, the closing value of the US dollar was 7% higher against the Australian dollar than the value at 31 December 2004.

Income from continuing operations for 2005 included a net after-tax charge of $670 million for OSIs compared to a charge of $404 million in 2004. In 2005, OSIs included restructuring and asset impairment charges of $162 million and $314 million respectively, mainly for the restructuring of certain Packaging businesses, notably Global Beauty Packaging and Food Packaging Europe, the closures of the Steg and Lannemezan smelters in Europe and the rationalization of certain Engineered Products operations, including the Vernon (California, US) cast plate facility. Also included in OSIs was a goodwill impairment charge of $122 million. As required under US GAAP, the Company annually tests for goodwill impairment. Due to an increasingly competitive environment for Global Beauty Packaging, the Company concluded that part of the goodwill associated with this business should be written down. OSIs also reflected costs of $57 million incurred in connection with the capture of Pechiney acquisition synergies.

The most significant OSIs in 2004 included: a goodwill impairment charge of $154 million mainly related to European fabricating assets in the Engineered Products group, acquired as part of Pechiney; purchase accounting and other adjustments related to Pechiney of $122 million, primarily on inventory; asset impairment charges of $66 million related to two rolling mills in Italy; restructuring charges of $41 million mainly related to the closures of two rolled products facilities in the UK and Belgium; synergy costs of $44 million related to the Pechiney and FlexPac acquisitions; gains of $54 million on the sale of assets and investments principally related to the dilution in the Company s interest in an anode-producing operation in the Netherlands; and expenses of $31 million related to the Novelis Spin-off.

After including the results of discontinued operations and the cumulative effect of an accounting change, the Company s net income was $129 million in 2005, a decrease of $129 million compared to 2004.

Sales and Operating Revenues

Revenues and Aluminum Volumes

* Includes ingot shipments (primary, secondary and scrap) and, in respect of 2004, rolled products shipments.

Sales Price Realizations

2006 vs. 2005

Sales and operating revenues were $23.6 billion in 2006, an increase of $3.3 billion, or 16%, compared to 2005. The increase principally reflected higher aluminum prices, improved sales mix and pricing as well as higher downstream volumes. LME aluminum prices were up on average 37% compared to 2005 reflecting extremely strong industry fundamentals. Improved sales mix and pricing were mainly attributable to price increases in the downstream businesses to recover raw material price escalation, most notably in respect of aluminum. Increased volumes across most Engineered Products businesses and the Food Americas and Tobacco Packaging businesses also contributed to higher revenues.

2005 vs. 2004

Sales and operating revenues were $20.3 billion in 2005, a decrease of $4.6 billion, or 19%, compared to 2004. The decrease reflected the impact of the Novelis Spin-off. Sales and operating revenues increased by 4% in 2005 compared to 2004 based on Alcan s pro forma 2004 sales of $19.6 billion as shown in note 6 Spin-Off of Rolled Products Businesses to the Financial Statements. After giving effect to the Novelis Spin-off, the increase was mainly due to higher LME aluminum prices, which were up on average 10% compared to 2004, increased ingot shipments and higher prices and volumes in downstream businesses.

Revenues by Market

	2006	2005	2004
Packaging	***27%***	*30%*	*37%*
Aluminum Ingot	***33%***	*30%*	*17%*
Beverage Cans	***3%***	*3%*	*10%*
Building and Construction	***3%***	*3%*	*6%*
Electrical	***3%***	*3%*	*3%*
Transportation	***7%***	*8%*	*8%*
Other	***24%***	*23%*	*19%*
Total	***100%***	*100%*	*100%*

Costs and Expenses

Over the last three years, Alcan s costs have increased due to escalating prices for energy, freight and key raw materials such as coke, pitch, plastics and resins as well as from the impact of the weaker US dollar. Alcan has been able to partially offset the cost penalty through higher selling prices for end products, productivity improvements and more efficient use of raw materials. While the depreciation of the US dollar was not as pronounced in 2006 compared to prior years, it nonetheless had an unfavourable impact on costs incurred in other currencies, which are translated into US dollars for reporting purposes. The economic impact of the depreciation in the US dollar over the last three years has been marked in countries such as Canada and Australia, where the Company s bauxite, alumina and aluminum smelting operations have a local currency cost base but US dollar revenues. This has resulted in escalating costs in US dollar terms without any offsetting increase in revenues in US dollar terms, inflating overall costs as a percentage of sales.

Continuous Improvement (CI) remains a core component of Alcan s Integrated Management System (AIMS). It equips Alcan entities with the tools necessary to consistently maximize improvement opportunities and thereby enhance the Company s competitive position. Alcan estimates that improvement initiatives have contributed over $250 million to Business Group Profit (BGP) since the introduction of CI in 2003. Refer to the Operating Segment Review on page 59 for a definition of BGP. Alcan now has about 3,000 trained CI experts, known as Black Belts and Green Belts, throughout the Company.

Costs and Expenses

	For the Year Ended			
2006	**% of Sales**	2005	% of	% of