ALCOA INC
Form 10-Q
October 23, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the Quarter Ended September 30, 2002 Commission File Number 1-3610

ALCOA INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA	25-0317820
(State of incorporation)	(I.R.S. Employer Identification No.)

201 Isabella Street, Pittsburgh, Pennsylvania	15212-5858
(Address of principal executive offices)	(Zip Code)

Office of Investor Relations	212-836-2674
Office of the Secretary	412-553-4707

(Registrant's telephone number including area code)

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 X No

As of October 18, 2002, 844,270,310 shares of common stock, par value $1.00 per share, of the Registrant were outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. - Financial Statements.

Alcoa and subsidiaries
Condensed Consolidated Balance Sheet
(in millions)

ASSETS	(unaudited) September 30 2002	December 31 2001
Current assets:		
Cash and cash equivalents	$ 463	$ 512
Short-term investments	74	15
Receivables from customers, less allowances of $119 in 2002 and $129 in 2001	2,662	2,577
Other receivables	259	288
Inventories (F)	2,388	2,531
Deferred income taxes	382	410
Prepaid expenses and other current assets	538	459
Total current assets	6,766	6,792
Properties, plants and equipment, at cost	23,000	22,536
Less: accumulated depreciation, depletion and amortization	10,787	10,554
Net properties, plants and equipment	12,213	11,982
Goodwill (C)	6,314	5,733
Other assets (C)	3,882	3,848
Total assets	$29,175	$28,355
LIABILITIES		
Current liabilities:		
Short-term borrowings	$ 98	$ 142
Accounts payable, trade	1,591	1,630
Accrued compensation and retirement costs	860	889
Taxes, including taxes on income	621	903
Other current liabilities	1,146	1,336
Long-term debt due within one year	96	103
Total current liabilities	4,412	5,003
Long-term debt, less amount due within one year (G)	7,938	6,388
Accrued postretirement benefits	2,408	2,513
Other noncurrent liabilities and deferred credits	1,817	1,968
Deferred income taxes	588	556
Total liabilities	17,163	16,428
MINORITY INTERESTS	1,284	1,313
COMMITMENTS AND CONTINGENCIES (H)		
SHAREHOLDERS' EQUITY		
Preferred stock	55	56
Common stock	925	925
Additional capital	6,096	6,114
Retained earnings	7,651	7,517
Treasury stock, at cost	(2,845)	(2,706)
Accumulated other comprehensive loss (I)	(1,154)	(1,292)

Total shareholders' equity	10,728	10,614
Total liabilities and equity	$29,175	$28,355

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

Alcoa and subsidiaries
Condensed Statement of Consolidated Income (unaudited)
(in millions, except per share amounts)

	Third quarter ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Sales	$ 5,222	$ 5,511	$ 15,450	$ 17,678
Cost of goods sold	4,165	4,228	12,405	13,548
Selling, general administrative and other expenses	268	273	823	922
Research and development expenses	53	47	156	151
Provision for depreciation, depletion and amortization (C)	290	309	820	939
Special items (B)	39	-	39	212
Interest expense	95	85	253	293
Other(income)expense, net	(23)	3	(112)	(196)
	4,887	4,945	14,384	15,869
Income before taxes on income	335	566	1,066	1,809
Provision for taxes on income	93	175	320	579
Income from operations	242	391	746	1,230
Less: Minority interests' share	49	52	137	180
Income before accounting change	193	339	609	1,050
Cumulative effect of accounting change for goodwill (C)	-	-	34	-
NET INCOME	$ 193	$ 339	$ 643	$ 1,050
EARNINGS PER SHARE (J)				
Basic (before cumulative effect)	$ .23	$ .40	$ .72	$ 1.22
Basic cumulative effect of				

accounting change	-	-	.04	-
Basic (after cumulative effect)	$ .23	$ .40	$ .76	$ 1.22
Diluted (before cumulative effect)	$ .23	$ .39	$ .71	$ 1.21
Diluted cumulative effect of accounting change	-	-	.04	-
Diluted (after cumulative effect)	$ .23	$ .39	$ .75	$ 1.21
Dividends paid per common share	$ .150	$ .150	$ .450	$ .450

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

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Alcoa and subsidiaries
Condensed Statement of Consolidated Cash Flows (unaudited)
(in millions)

	Nine months ended September 30	
	2002	2001
CASH FROM OPERATIONS		
Net income	$ 643	$ 1,050
Adjustments to reconcile net income to cash from operations:		
Depreciation, depletion and amortization	827	949
Change in deferred income taxes	(4)	(15)
Equity income, net of dividends	(32)	(43)
Noncash special items (B)	39	196
Gains from investing activities - sale of assets	(16)	(91)
Minority interests	137	180
Accounting change (C)	(34)	-
Other	48	(43)
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:		
Reduction in receivables	133	364
Reduction (increase) in inventories	193	(217)
Reduction (increase) in prepaid expenses and other current assets	28	(134)
Reduction in accounts payable and accrued expenses	(454)	(438)
(Reduction) increase in taxes, including taxes on income	(265)	160
Net change in noncurrent assets and liabilities	(234)	(190)
CASH PROVIDED FROM OPERATIONS	1,009	1,728
FINANCING ACTIVITIES		
Net changes to short-term borrowings	(310)	(2,625)
Common stock issued for stock compensation plans	48	555

Repurchase of common stock	(224)	(1,338)
Dividends paid to shareholders	(382)	(390)
Dividends paid to minority interests	(122)	(245)
Net change in commercial paper	56	(144)
Additions to long-term debt	1,593	1,985
Payments on long-term debt	(137)	(803)
CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES	522	(3,005)
INVESTING ACTIVITIES		
Capital expenditures	(856)	(813)
Acquisitions, net of cash acquired (E)	(595)	(126)
Proceeds from the sale of assets	54	2,485
Additions to investments	(28)	(87)
Changes in short-term investments	(59)	45
Changes in minority interests	(39)	-
Other	(8)	(10)
CASH (USED FOR) PROVIDED FROM INVESTING ACTIVITIES	(1,531)	1,494
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(49)	(60)
Net change in cash and cash equivalents	(49)	157
Cash and cash equivalents at beginning of year	512	315
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 463	$ 472

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

Notes to Condensed Consolidated Financial Statements
(dollars in millions, except per-share amounts)

A. Basis of Presentation - The Condensed Consolidated Financial Statements are unaudited. These statements include all adjustments, consisting of normal recurring accruals, considered necessary by management to fairly present the results of operations, financial position and cash flows. The results reported in these Condensed Consolidated Financial Statements are not necessarily indicative of the results that may be expected for the entire year.

This Form 10-Q report should be read in conjunction with Alcoa's annual report on Form 10-K for the year ended December 31, 2001.

B. Special Items - During 2001, Alcoa recorded charges of $566 ($355 after tax and minority interests) as a result of a restructuring plan based on a strategic review of the company's primary products and fabricating businesses aimed at optimizing and aligning its manufacturing systems with customer needs, while positioning the company for stronger profitability. The charge of $566 consisted of a charge of $212 ($114 after tax and minority interests) in the second quarter of 2001 and a charge of $354 ($241 after tax and minority interests) in the fourth quarter of 2001. These charges consisted of asset write-downs, employee termination and severance costs related to workforce reductions of approximately 10,400 employees, and other exit costs related to the shutdown of facilities. The second quarter charge was primarily due to actions taken in Alcoa's primary products businesses because of economic and competitive conditions. These actions included the shutdown of three facilities in the U.S.

These actions have been substantially completed with the exception of site remediation work that is ongoing. The fourth quarter charge was primarily due to actions taken in Alcoa's fabricating businesses. These actions include the shutdown of 15 facilities in the U.S. and Europe. Alcoa expects to complete these actions by the end of 2002. The results of operations related to these facilities were not material. For further details on the restructuring plan, see Note B to the audited financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2001.

During 2002, various adjustments were recorded to the 2001 restructuring program reserves. Additional restructuring charges of $9 ($2 of which was recorded in the 2002 third quarter) were recorded for employee termination and severance costs, primarily related to additional severance costs not accruable in 2001 for layoffs of approximately 250 salaried and hourly employees, primarily in Europe and Mexico. Also, reversals of restructuring reserves of $23 ($9 of which was recorded in the 2002 third quarter) were recorded due to changes in estimates of liabilities resulting from lower than expected costs associated with certain plant shutdowns and disposals.

In the third quarter of 2002, Alcoa recorded a special charge of $39 ($23 after tax and minority interests), primarily as a result of the curtailment of aluminum production at three smelters. Alcoa temporarily curtailed aluminum production at its Badin, North Carolina plant and permanently closed its Troutdale, Oregon plant as well as approximately 25% of the capacity at its Rockdale, Texas facility. The actions taken resulted in charges of $9 for asset write-downs of buildings and equipment, $24 for employee termination and severance costs related to approximately 500 salaried and hourly employees at the various facilities, and charges of $13 primarily for remediation and demolition costs. The remaining carrying value and results of operations related to these facilities were not material. These charges of $46, as previously detailed, were somewhat offset by a net credit of $7, primarily related to reversals of 2001 restructuring reserves as noted above.

As of September 30, 2002, approximately 8,300 of the 11,150 employees had been terminated. The workforce reductions consisted of hourly and salaried employees at various manufacturing facilities-primarily located outside of the U.S.-due to weak market conditions and the shutdowns of several manufacturing facilities.

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The reserve balances and associated activity consisted of:

	Asset Write-downs	Employee Termination and Severance Costs
2001:		

Total restructuring charges	$ 372	$ 178
Cash payments	(3)	(32)
Noncash charges*	(288)	-
Reserve balance at December 31, 2001	$ 81	$ 146
2002:		

Cash payments	(15)	(52)
2002 restructuring charges	9	24
Noncash charges	(9)	-
Additions to 2001 restructuring charges	-	9
Reversals of 2001 restructuring reserves	(10)	(13)
Reserve balance at September 30, 2002	$ 56	$ 114

* Adjusted

C. Recently Adopted Accounting Standards - Alcoa adopted Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" which requires that the purchase method of accounting be applied to all business combinations after June 30, 2001. SFAS No. 141 also established criteria for recognition of intangible assets and goodwill. Effective January 1, 2002, Alcoa adopted SFAS No. 142 "Goodwill and Other Intangible Assets." Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized. This standard also requires, at a minimum, an annual assessment of the carrying value of goodwill and intangibles with indefinite useful lives. If the carrying value of goodwill or an intangible asset exceeds its fair value, an impairment loss shall be recognized. A discounted cash flow model was used to determine the fair value of Alcoa's businesses for purposes of testing goodwill for impairment. The discount rate used was based on a risk-adjusted weighted average cost of capital for each business.

The effects of adopting the new standards on net income and diluted earnings per share for the three-month and nine-month periods ended September 30, 2002 and 2001, follow.

	Third quarter ended September 30:				Nine months ende September 30:		
	Net Income		Diluted EPS		Net Income		Dilu
	2002	2001	2002	2001	2002	2001	2002
Net income	$ 193	$ 339	$ .23	$ .39	$ 643	$1,050	$ .75
Less: cumulative effect income from accounting change for goodwill	-	-	-	-	(34)	-	(.04)
Income, excluding cumulative effect	193	339	.23	.39	609	1,050	.71
Add: goodwill amortization	-	41	-	.05	-	128	-
Income excluding cumulative effect in 2002 and goodwill amortization in 2001	$ 193	$ 380	$ .23	$ .44	$ 609	$1,178	$ .71

The cumulative effect adjustment recognized upon adoption of these new standards was $34 (after tax), consisting of income from the write-off of negative goodwill from prior acquisitions of $49, offset by a $15 write-off for the impairment of goodwill in the automotive business resulting from a change in the criteria for the measurement of impairments under SFAS No. 142 from an undiscounted to a discounted cash flow method. Net income for the three-month and nine-month periods ended September 30, 2001, would have been $41, or five cents per share, and $128, or 15 cents per share, higher if goodwill amortization had been discontinued effective January 1, 2001. Net income for the full year of 2001 would have been $171, or 20 cents per share, higher if goodwill amortization had been discontinued effective January 1, 2001.

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Changes to goodwill and intangible assets during the nine-month period ended September 30, 2002, including the effects of adopting these new accounting standards, follow.

	Goodwill	Intangible assets
Balance at December 31, 2001, net of accumulated amortization	$ 5,733	$ 674
Intangible assets reclassified to goodwill	28	(28)
Write-off of goodwill recognized in cumulative effect adjustment	(15)	-
Additions during the period	602	72
Translation and other adjustments	(34)	4
Amortization expense	-	(50)
Balance at September 30, 2002, net of accumulated amortization	$ 6,314	$ 672

In accordance with the provisions of these new standards, on January 1, 2002, Alcoa transferred $28 (after tax) of customer base intangibles, initially recorded in the Reynolds acquisition, to goodwill (Packaging and Consumer segment). Goodwill also increased $602 during the period related to eight acquisitions (in the Engineered Products segment, the Packaging and Consumer segment, and the Other group) and adjustments to preliminary purchase price allocations from prior periods.

Intangible assets, which are included in other assets, totaled $672, net of accumulated amortization of $345, at September 30, 2002. Of this amount, $169 represents intangibles with indefinite useful lives, consisting of trade names that are not being amortized under SFAS No. 142. The remaining intangibles relate to customer relationships, computer software, patents and licenses. Amortization expense for intangible assets is expected to range from approximately $65 to $40 each year between 2003 and 2007.

Effective January 1, 2002, Alcoa adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 retains the recognition and measurement criteria of SFAS No. 121 for long-lived assets to be held and used, while expanding the measurement requirements of long-lived assets to be disposed of by sale to include discontinued operations. It also broadens the previously existing reporting requirement for the presentation of discontinued operations to include a component of an entity rather than a segment of a business. This new standard did not have a material impact on Alcoa's financial statements during the period.

D. Recently Issued Accounting Standards - In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement

Obligations." This statement establishes standards for accounting for obligations associated with the retirement of tangible long-lived assets. Alcoa must adopt this standard on January 1, 2003. Management is currently assessing the details of the standard and is preparing a plan of implementation.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," under which a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002.

E. Acquisitions - During the first nine months of 2002, Alcoa completed eight acquisitions, the most significant of which was Ivex Packaging Corporation in July 2002. The cost of these eight acquisitions was $915, of which $595 was paid in cash. The Ivex transaction was valued at approximately $790, including debt assumed of $320. The Ivex preliminary purchase price allocation resulted in goodwill of approximately $450. Pro-forma results of the company, assuming all acquisitions had been made at the beginning of each period presented, would not be materially different from the results reported.

On July 17, 2002, Alcoa agreed to acquire the assets of Fairchild Fasteners from The Fairchild Corporation for $657 in cash. Fairchild Fasteners, a leading supplier of aerospace fasteners, will become part of Alcoa's Engineered Products

segment. On October 14, 2002, Alcoa received antitrust clearance from the European Union to complete the Fairchild acquisition. The transaction is expected to close in the fourth quarter of 2002, subject to the completion of customary approvals and approval by The Fairchild Corporation shareholders.

F. Inventories

	September 30 2002	December 31 2001
Finished goods	$ 666	$ 691
Work in process	746	734
Bauxite and alumina	368	410
Purchased raw materials	436	531
Operating supplies	172	165
	$ 2,388	$ 2,531

Approximately 48% of total inventories at September 30, 2002, was valued on a LIFO basis. If valued on an average cost basis, total inventories would have been $603 and $605 higher at September 30, 2002, and December 31, 2001, respectively.

G. Long-Term Debt - In August 2002, Alcoa issued $1,400 of notes. Of these notes, $800 mature in 2007 and carry a coupon rate of 4.25%, and $600 mature in 2013 and carry a coupon rate of 5.375%. The proceeds from these borrowings were used to fund the acquisition of Ivex and to refinance commercial paper.

In April 2002, Alcoa refinanced its $2,000 revolving-credit agreement that was to expire in April 2002 into a revolving-credit agreement that expires in April 2003.

H. Commitments and Contingencies - Various lawsuits, claims and proceedings have been or may be instituted or asserted against Alcoa, including those pertaining to environmental, product liability, and safety and health matters. While the amounts claimed may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are pending or asserted will not have a materially adverse effect on the financial position of the company.

Alcoa Aluminio S.A. (Aluminio) is a participant in several hydroelectric construction projects in Brazil for purposes of increasing its energy self-sufficiency and providing a long-term, low-cost source of power for its facilities. As a participant in Machadinho, one of its hydroelectric construction projects in Brazil, Aluminio has guaranteed up to 36% of the project's total debt of approximately $315. Aluminio committed to taking a share of the output of the completed project for 30 years at cost (including cost of financing the project), which began in the first quarter of 2002. In the event that other participants in this project fail to fulfill their financial responsibilities, Aluminio may be required to fund a portion of the deficiency. In accordance with the agreement, if Aluminio funds any such deficiency, its participation and share of the output from the project will increase proportionately.

Aluminio also entered into agreements in 2001 to participate in four additional hydroelectric construction projects in Brazil that are scheduled to be completed at various dates ranging from 2005 to 2008. These projects are Barra Grande, Santa Isabel, Pai-Quere and Serra do Facao. Aluminio's share of the output from these hydroelectric facilities, when completed, ranges from 20% to 39.5%. Total costs for all four projects are estimated at $1,400, with Aluminio's share of total project costs totaling approximately 30%. The plans for financing these projects have not yet been finalized. Aluminio may be required to provide guarantees of project financing or commit to additional investments as these projects progress. At September 30, 2002, Aluminio had provided $16 of guarantees on these hydroelectric construction projects in the form of performance bonds.

In July 2002, Aluminio was the successful bidder in a public auction to participate in Estreito, an additional hydroelectric construction project in Brazil. This project is scheduled to be completed in 2007. Aluminio's share of the output from this hydroelectric facility, when completed, will be 19% and total costs for this project are estimated at $555, of which Aluminio's share is $105. The plans for financing this project have not yet been finalized. Aluminio may be required to

provide guarantees of project financing or commit to additional investments as this project progresses.

Aluminio accounts for its investments in these hydroelectric projects on the equity method. Aluminio's investment in these projects was $92 and $108 at September 30, 2002, and December 31, 2001, respectively.

In January 2002, Alcoa raised its equity stake in Elkem ASA, a Norwegian metals producer, above 40%, which, under Norwegian law, required Alcoa to initiate an unconditional cash tender offer for the remaining outstanding shares of Elkem. Under the tender offer that expired in February 2002, Alcoa acquired additional shares, raising its total equity stake in Elkem to 40.2%. In the third quarter of 2002, Alcoa purchased additional shares of Elkem that resulted in an increase of its equity ownership in Elkem to 46.3%.

On July 19, 2002, Alcoa signed a Memorandum of Understanding (MOU) with the Government of Iceland and Landsvirkjun, Iceland's national power company, formalizing their cooperation in the evaluation and potential development of a 320,000-mt per year (mtpy) aluminum smelter in eastern Iceland. The MOU encompasses the development of a 500-megawatt hydropower facility by Landsvirkjun in eastern Iceland; environmental and engineering studies of the smelter by Alcoa; and development of harbor and port facilities and related infrastructure improvements in eastern Iceland by Icelandic municipalities.

I. Comprehensive Income

	Third quarter ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Net income	$ 193	$ 339	$ 643	$1,050
Other comprehensive income (loss):				
Changes in:				
Unrealized losses on available-for-sale securities	(47)	-	(50)	-
Minimum pension liability	-	-	(31)	-
Unrealized translation adjustments	(49)	(42)	145	(258)
Unrecognized gains/losses on derivatives	7	(37)	74	(165)
Comprehensive income	$ 104	$ 260	$ 781	$ 627

J. Earnings Per Share - The details of basic and diluted EPS follow (shares in millions).

	Third quarter ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Income before cumulative effect	$ 193	$ 339	$ 609	$1,050
Less: Preferred stock dividends	1	1	2	2
Income available to common stockholders before cumulative effect	192	338	607	1,048
Cumulative effect of accounting change	-	-	34	-
Income available to common stockholders after cumulative effect	$ 192	$ 338	$ 641	$1,048
Average shares outstanding - basic	844	856	846	861

Effect of dilutive securities:				
Shares issuable upon exercise of dilutive outstanding stock options	3	8	5	9
Average shares outstanding - diluted	847	864	851	870
Basic EPS (before cumulative effect)	$ .23	$ .40	$ .72	$ 1.22
Basic EPS (after cumulative effect)	$ .23	$ .40	$ .76	$ 1.22
Diluted EPS (before cumulative effect)	$ .23	$ .39	$ .71	$ 1.21
Diluted EPS (after cumulative effect)	$ .23	$ .39	$ .75	$ 1.21

Options to purchase 67 million shares of common stock at an average exercise price of $36.00 were outstanding as of September 30, 2002, but were not included in the computation of diluted EPS because the option exercise price was greater than the average market price of the common shares.

K. Segment Information - The following details sales and after-tax operating income (ATOI) for each reportable segment for the three-month and nine-month periods ended September 30, 2002 and 2001. Also included below are the balances of goodwill at September 30, 2002, as well as goodwill amortization expense for the three-month and nine-month periods ended September 30, 2001 for each reportable segment. For more information on segments, see Management's Discussion and Analysis and the segment disclosures included in Alcoa's Form 10-K for the year ended December 31, 2001.

Segment Information:

Third quarter ended September 30, 2002	Alumina & Chemicals	Primary Metals	Flat-Rolled Products	Engineered Products	Packaging & Consumer	Othe
Sales:						
Third-party sales	$ 469	$ 792	$1,162	$ 1,311	$ 757	$ 73
Intersegment sales	235	888	21	8	-	
Total sales	$ 704	$1,680	$1,183	$ 1,319	$ 757	$ 73
After-tax operating income	$ 93	$ 175	$ 46	$ 25	$ 51	$
Third quarter ended September 30, 2001						
Sales:						
Third-party sales	$ 454	$ 808	$1,219	$ 1,514	$ 671	$ 84
Intersegment sales	246	839	20	9	-	
Total sales	$ 700	$1,647	$1,239	$ 1,523	$ 671	$ 84

After-tax operating income	$ 115	$ 216	$ 59	$ 62	$ 47	$
Goodwill amortization included in ATOI (2)	$ -	$ (6)	$ 2	$ (15)	$ (4)	$ (

Segment Information:

Nine months ended September 30, 2002	Alumina & Chemicals	Primary Metals	Flat-Rolled Products	Engineered Products	Packaging & Consumer	Othe
Sales:						
Third-party sales	$1,313	$2,344	$3,510	$ 4,118	$2,059	$2,10
Intersegment sales	697	2,767	54	26	-	
Total sales	$2,010	$5,111	$3,564	$ 4,144	$2,059	$2,10
After-tax operating income	$ 231	$ 493	$ 173	$ 121	$ 134	$ 3
Goodwill (1)	$ 24	$ 933	$ 153	$ 2,351	$ 850	$ 36
Nine months ended September 30, 2001						
Sales:						
Third-party sales	$1,491	$2,747	$3,817	$ 4,689	$2,018	$2,91
Intersegment sales	804	2,593	51	26	-	
Total sales	$2,295	$5,340	$3,868	$ 4,715	$2,018	$2,91
After-tax operating income	$ 411	$ 774	$ 198	$ 162	$ 137	$ 9
Goodwill amortization included in ATOI (2)	$ -	$ (17)	$ 4	$ (45)	$ (12)	$ (2

(1) Goodwill balances by segment at December 31, 2001, are as follows: Alumina & Chemicals $35, Primary Metals $929, Flat-Rolled Products $145, Engineered Products $2,312, Packaging & Consumer $331 and Other $271. Goodwill of $1,638 and $1,710 at September 30, 2002, and December 31, 2001, respectively, is included in corporate.

(2) Goodwill amortization of $11 and $33 is included in corporate for the three-month and nine-month periods ended September 30, 2001, respectively.

The following table reconciles segment information to consolidated totals.

	Third quarter ended September 30	Nine months ended September 30

	2002	2001	2002	2001
Total after-tax operating income	$ 398	$ 503	$1,186	$1,781
Impact of intersegment profit eliminations	(5)	(14)	(9)	(18)
Unallocated amounts (net of tax):				
Interest income	7	10	26	30
Interest expense	(62)	(55)	(165)	(191)
Minority interests	(49)	(52)	(137)	(180)
Corporate expense	(40)	(45)	(151)	(177)
Special items (B)	(25)	-	(25)	(148)
Accounting change (C)	-	-	34	-
Other	(31)	(8)	(116)	(47)
Consolidated net income	$ 193	$ 339	$ 643	$1,050

The following table represents segment assets.

Segment assets:	September 30 2002	December 31 2001
Alumina and Chemicals	$ 2,740	$ 2,797
Primary Metals	7,052	7,122
Flat-Rolled Products	3,449	3,453
Engineered Products	6,269	6,231
Packaging and Consumer	3,279	2,498
Other	1,991	1,883
Total segment assets	$24,780	$23,984

The change in segment assets within the Packaging and Consumer segment is primarily due to the acquisition of Ivex in the third quarter of 2002. The increase in assets in the Other group is primarily due to Alcoa Fujikura Ltd.'s (AFL) acquisition of the remaining 50% interest in Engineered Plastic Components, Inc. as well as several smaller acquisitions in the AFL telecommunications business.

Report of Independent Accountants

To the Shareholders and Board of Directors
Alcoa Inc. (Alcoa)

We have reviewed the accompanying unaudited condensed consolidated balance sheet of Alcoa and subsidiaries as of September 30, 2002, the related unaudited condensed statement of consolidated income for the three-month and nine-month periods ended September 30, 2002 and 2001, and the unaudited condensed statement of consolidated cash flows for the nine-month periods ended September 30, 2002 and 2001. These financial statements are the responsibility of Alcoa's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Alcoa and subsidiaries as of December 31, 2001, and the related statements of consolidated income, shareholders' equity, and cash flows for the year then ended (not presented herein). In our report dated January 9, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2001, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note C to the unaudited condensed consolidated financial statements, Alcoa changed its method of accounting for goodwill and other intangible assets effective January 1, 2002.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
October 4, 2002

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(dollars in millions, except per share amounts and ingot prices; shipments in thousands of metric tons (mt))

Certain statements in this report under this caption and elsewhere relate to future events and expectations and, as such, constitute forward-looking statements. Forward-looking statements include those containing such words as "anticipates," "believes," "estimates," "expects," "hopes," "targets," "should," "will," "will likely result," "forecast," "outlook," "projects" or similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Alcoa to be different from those expressed or implied in the forward-looking statements. For a discussion of some of the specific factors that may cause such a difference, see Note H to the financial statements; the disclosures included below under Segment Information, Market Risks and Environmental Matters; and the Business section in Alcoa's Form 10-K for the year ended December 31, 2001.

Results of Operations

	Third quarter ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Sales	$ 5,222	$ 5,511	$15,450	$17,678
Net income	$ 193	$ 339	$ 643	$ 1,050
Income (excluding cumulative effect adjustment in 2002 and goodwill amortization in 2001)	$ 193	$ 380	$ 609	$ 1,178
Basic earnings per common share (after cumulative effect)	$ .23	$ .40	$ .76	$ 1.22
Diluted earnings per common share (after cumulative effect)	$ .23	$ .39	$ .75	$ 1.21
Shipments of aluminum products (mt)	1,321	1,212	3,913	3,824
Shipments of alumina (mt)	1,939	1,789	5,560	5,550
Alcoa's average realized ingot price	$ .66	$ .71	$ .66	$ .74
Average 3-month LME price	$ .60	$ .64	$ .62	$ .68

Earnings Summary

Net income for the 2002 third quarter and 2002 nine-month period was $193, or 23 cents per diluted share, and $643, or 75 cents per share, respectively. The decline in net income of 43% in the 2002 third quarter and 39% in the 2002 nine-month period, when compared to the corresponding 2001 periods, is primarily due to lower realized prices for alumina and aluminum, lower volumes in businesses serving the aerospace, industrial gas turbine and telecommunications markets, and the absence of power sales that were recognized in the 2001 periods. Partly offsetting these declines were continued cost reduction efforts; special charges of $114 (after tax and minority interests) that were recognized in 2001 as compared with a special charge of $23 (after tax and minority interests) recognized in 2002; as well as the fact that goodwill is no longer amortized in 2002, resulting in positive impacts of $41 and $128 in the 2002 third quarter and nine-month period, respectively. Additionally, net income in the 2002 nine-month period included income of $34 from the cumulative effect of the change in accounting for goodwill under SFAS No. 142. This income is primarily the result of the write-off of negative goodwill from prior acquisitions.

Third quarter 2002 sales decreased 5% from the 2001 third quarter and sales for the 2002 nine-month period decreased 13% from the corresponding 2001 period. Lower prices for alumina and aluminum, lower volumes in downstream businesses serving the aerospace, industrial gas turbine and telecommunications markets, the lack of power sales in 2002 and the divestiture of Reynolds' metal distribution business (RASCO) contributed to the revenue decline in both the 2002 third quarter and 2002 nine-month period compared with the corresponding 2001 periods. Additionally, the disposition of Thiokol in 2001 also contributed to the decline in revenues in the 2002 nine-month period compared with the 2001 nine-month period. These decreases in the 2002 third quarter and nine-month period were somewhat offset by increased volumes in the alumina and primary metals businesses as well as the acquisitions of Ivex and several smaller businesses.

Annualized return on shareholders' equity was 7.9% for the 2002 nine-month period, compared with 12.6% for the 2001 nine-month period. The decrease was primarily due to lower earnings in the 2002 period.

Cost of goods sold (COGS) as a percentage of sales in the 2002 third quarter and nine-month period was 79.8% and 80.3%, respectively, versus 76.7% and 76.6% in the corresponding 2001 periods. The higher percentages in 2002 were due to lower realized prices and the lack of power sales, offset somewhat by ongoing cost reductions generated by productivity and purchasing cost savings.

Selling and general administrative expenses (S&GA) decreased 2% from the 2001 third quarter and 11% from the 2001 nine-month period. The decreases were primarily due to lower spending, lower employee compensation costs, the disposition of RASCO, and lower bad debt expense and bad debt recoveries. S&GA as a percentage of sales was 5.1% and 5.3% for the 2002 third quarter and nine-month period, respectively, compared to 5.0% and 5.2% in the corresponding 2001 periods.

The provision for depreciation, depletion and amortization decreased by 6% in the 2002 third quarter and 13% in the 2002 nine-month period compared with the corresponding 2001 periods. These decreases were primarily the result of ceasing amortization of goodwill in 2002 under the provisions of SFAS No. 142. The decrease in amortization expense of $41 in the 2002 third quarter was partially offset by increases in depreciation expense related to acquisitions in the 2002 period.

In the third quarter of 2002, Alcoa recorded a special charge of $39 ($23 after tax and minority interests), primarily as a result of the curtailment of aluminum production at three smelters. Alcoa temporarily curtailed aluminum production at its Badin, North Carolina plant and permanently closed its Troutdale, Oregon plant as well as approximately 25% of the capacity at its Rockdale, Texas facility. Actions taken in the third quarter resulted in charges of $9 for asset write-downs of buildings and equipment, $24 for employee termination and severance costs related to approximately 500 salaried and hourly employees at the various facilities, and charges of $13 primarily for remediation and demolition costs. These charges were somewhat offset by a net credit of $7, primarily related to reversals of 2001 restructuring reserves due to changes in estimates of liabilities resulting from lower than expected costs associated with certain plant shutdowns and disposals.

Special charges of $212 ($114 after tax and minority interests) were recorded in the 2001 nine-month period as a result of Alcoa's ongoing segment review to optimize assets and lower costs. These actions were substantially completed in 2001, with the exception of site remediation work that is ongoing.

Interest expense increased 12% in the 2002 third quarter compared with the 2001 third quarter due to higher debt levels in 2002 related to acquisitions, as well as higher interest rates from a shift to longer term debt. Interest expense decreased 14% in the 2002 nine-month period compared with the 2001 nine-month period due to lower average effective interest rates.

Other income increased $26 in the 2002 third quarter, while declining $84 in the 2002 nine-month period compared with the corresponding 2001 periods. The increase in the 2002 third quarter compared with the 2001 third quarter is primarily due to favorable currency translation adjustments of $30 quarter-over-quarter, somewhat offset by lower equity earnings at Elkem. The decrease in the 2002 nine-month period compared with the corresponding 2001 period was due to $76 higher net gains on asset sales recognized in 2001, primarily attributable to the sales of Thiokol, Alcoa Proppants, Inc. and Alcoa's interest in a Latin American cable business and a decrease of $41 in equity earnings, driven by a restructuring at Elkem. These decreases were somewhat offset by $28 related to several favorable nonoperating gains.

The effective tax rate of 30% in 2002 differs from the 2001 rate of 32% and the statutory rate of 35% due to taxes on foreign income, the impact of ceasing goodwill amortization, the sale of Thiokol, and adjustments to prior year taxes.

Minority interests' share of income from operations decreased 6% and 24% in the 2002 third quarter and nine-month period, respectively, compared with the corresponding 2001 periods. The decrease of 6% in the 2002 third quarter is due to lower earnings at Alcoa World Alumina and Chemicals (AWAC), partially offset by higher earnings at Alcoa Aluminio and other Latin America holdings. The decrease of 24% in the 2002 nine-month period is primarily due to lower earnings at AWAC and Alcoa Fujikura Ltd. (AFL).

Segment Information

I. Alumina and Chemicals

	Third quarter ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Alumina production	3,348	2,984	9,661	9,572
Third-party alumina shipments	1,939	1,789	5,560	5,550
Third-party sales	$ 469	$ 454	$1,313	$1,491
Intersegment sales	235	246	697	804
Total sales	$ 704	$ 700	$2,010	$2,295
After-tax operating income	$ 93	$ 115	$ 231	$ 411

Third-party sales for the 2002 third quarter increased 3% from the 2001 third quarter as higher shipments more than offset a 4% decline in realized prices. For the 2002 nine-month period, third-party sales decreased 12% due to lower realized prices. Intersegment sales for the 2002 third quarter and nine-month period decreased 4% and 13%, respectively, from the corresponding 2001 periods due to lower prices.

ATOI for this segment decreased 19% and 44% from the 2001 third quarter and nine-month period, respectively. The decreases were primarily due to lower realized prices. Higher volumes and cost savings in the 2002 third quarter and 2002 nine-month period partly offset the negative impact of lower realized prices compared with the corresponding 2001 periods.

Volume in the fourth quarter is anticipated to remain flat with third quarter levels, while prices are expected to trend downward due to a pricing lag as compared to the LME.

II. Primary Metals

	Third quarter ended September 30	Nine months ended September 30

	2002	2001	2002	2001
Aluminum production	891	846	2,610	2,654
Third-party aluminum shipments	517	448	1,527	1,418
Third-party sales	$ 792	$ 808	$2,344	$2,747
Intersegment sales	888	839	2,767	2,593
Total sales	$1,680	$1,647	$5,111	$5,340
After-tax operating income	$ 175	$ 216	$ 493	$ 774

Third-party sales decreased 2% in the 2002 third quarter and 15% in the 2002 nine-month period compared with the corresponding 2001 periods. Higher shipments in both periods were more than offset by lower realized prices and the absence of power sales resulting from production curtailments at plants located in the northwestern U.S. in 2001. Alcoa's average realized third-party price for ingot declined 7% from the 2001 third quarter and 11% from the 2001 nine-month period.

ATOI for this segment decreased 19% from the 2001 third quarter and 36% from the 2001 nine-month period. The decreases were driven by lower realized prices and the absence of power sales, which net of power and other contractually required costs and the impact of lost aluminum sales, contributed approximately $14 and $84 to ATOI in the 2001 third quarter and nine-month period, respectively. These decreases were somewhat offset by increased volumes and lower tax rates.

Alcoa has approximately 438,000 mt per year (mtpy) of idle capacity on a base capacity of 3,948,000 mtpy.

Volume in the fourth quarter is anticipated to remain flat with third quarter levels, while current LME prices would indicate lower realized prices in the fourth quarter.

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III. Flat-Rolled Products

	Third quarter ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Third-party aluminum shipments	446	442	1,341	1,362
Third-party sales	$1,162	$1,219	$3,510	$3,817
Intersegment sales	21	20	54	51
Total sales	$1,183	$1,239	$3,564	$3,868
After-tax operating income	$ 46	$ 59	$ 173	$ 198

Third-party sales decreased 5% in the 2002 third quarter and 8% in the 2002 nine-month period compared with the corresponding 2001 periods. Lower shipments and lower metal prices for rigid container sheet and lower prices and a weaker product mix for sheet and plate in the U.S. and Europe due to continued weakness in the aerospace market contributed to the revenue decline in both the 2002 third quarter and nine-month period compared with the corresponding 2001 periods.

ATOI for this segment declined 22% and 13% in 2002 compared with the 2001 third-quarter and nine-month period, respectively. The decreases in the 2002 third quarter and 2002 nine-month period were primarily due to unfavorable product mix for sheet and plate in the U.S. and Europe due to continued weakness in the aerospace market. Further contributing to the ATOI decline in the 2002 nine-month period were lower volumes and lower prices in Europe, while cost savings in rigid container sheet helped to offset the declines in ATOI in the 2002 nine-month period compared with the corresponding 2001 period.

For the fourth quarter, overall shipments are expected to decline slightly with rigid container sheet experiencing seasonal volume softening. Aerospace volumes are expected to track declining build rates and automotive volumes are expected to remain steady.

IV. Engineered Products

	Third quarter ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Third-party aluminum shipments	231	232	711	728
Third-party sales	$1,311	$1,514	$4,118	$4,689
Intersegment sales	8	9	26	26
Total sales	$1,319	$1,523	$4,144	$4,715
After-tax operating income	$ 25	$ 62	$ 121	$ 162

Third-party sales declined 13% and 12% in the 2002 third quarter and nine-month period compared to the corresponding 2001 periods, primarily due to lower volumes as the aerospace, industrial gas turbine, and commercial building and construction markets continued to decline, while the commercial transportation market continued to show favorable increases.

ATOI for this segment decreased 60% for the 2002 third quarter and 25% for the 2002 nine-month period versus the corresponding 2001 periods. These decreases resulted from declining volumes due to continued weak market conditions for aerospace and industrial gas turbines. These declines were partially offset by higher volumes due to continued strength in the commercial transportation market, productivity and purchasing cost savings, as well as the absence of goodwill amortization of $15 and $45 in the 2002 third quarter and nine-month period, respectively.

In the fourth quarter, we anticipate commercial transportation market activity to be reduced, continued build rate declines in the industrial gas turbine market, and seasonal slowdowns in the building and construction market. Aerospace volumes are expected to track declining build rates. Automotive volumes are expected to remain steady.

V. Packaging and Consumer

	Third quarter ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Third-party aluminum shipments	47	33	109	116
Third-party sales	$ 757	$ 671	$2,059	$2,018
After-tax operating income	$ 51	$ 47	$ 134	$ 137

Third-party sales for the 2002 third quarter and nine-month period were up 13% and 2%, respectively, compared to the corresponding 2001 periods. These increases were primarily due to the acquisition of Ivex in the third quarter of 2002, which contributed $88, as well as higher volumes for the closures and packaging design businesses. These increases in the 2002 third quarter and nine-month period were partly offset by lower volumes, lower prices, and currency devaluation in Latin America, as well as lower prices and lower volumes across other businesses within the segment.

For this segment, ATOI rose 9% in the 2002 third quarter, while declining 2% in the 2002 nine-month period compared with the comparable 2001 periods. The increase in ATOI in the 2002 third quarter is primarily due to higher volumes and lower conversion costs in the packaging design business as well as higher volumes in the closures business, somewhat offset by lower volumes, lower prices and currency devaluation in Latin America. The decrease in ATOI in the 2002 nine-month period is primarily due to business conditions in Latin America as noted previously, partially offset by higher volumes in closures and higher volumes and lower conversion costs in the packaging design and consumer products businesses.

Demand in the fourth quarter is expected to increase due to seasonal increases in the consumer products market, somewhat offset by seasonal slowdowns anticipated for closures. Ivex is expected to contribute to ATOI beginning in the fourth quarter.

VI. Other

	Third quarter ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Third-party aluminum shipments	80	57	225	200
Third-party sales	$ 731	$ 845	$2,106	$2,916
After-tax operating income	$ 8	$ 4	$ 34	$ 99

For this group, third-party sales decreased 13% in the 2002 third quarter and 28% in the 2002 nine-month period compared with the corresponding 2001 periods. The decreases were the result of the divestitures of Thiokol and RASCO in 2001, as well as lower volumes and lower prices in the AFL telecommunications business as the market for this business continued to decline. These decreases in the 2002 third quarter and nine-month period were somewhat offset by increases in the automotive businesses, which were aided by the acquisition of the remaining 50% interest in Engineered Plastic Components, Inc.

ATOI for this group increased $4 in the 2002 third quarter, while declining $65 in the 2002 nine-month period compared with the corresponding 2001 periods. The increase in ATOI in the 2002 third quarter is primarily due to increased volumes and productivity and purchasing cost improvements in the automotive businesses as well as the absence of goodwill amortization that favorably impacted the segment by $7 in the 2002 third quarter. These increases more than offset continued volume and price declines in the telecommunications business as well as lower volumes and higher costs in the building products business. The decrease in ATOI in the 2002 nine-month period is primarily due to volume declines in the telecommunications business and the absence of gains on the sales of Thiokol, Alcoa Proppants and Alcoa's interest in a Latin American cable business which were recognized in 2001, partially offset by performance improvements in the automotive businesses and the absence of goodwill amortization which favorably impacted the segment by $25 in the 2002 nine-month period.

In the fourth quarter, seasonal slowdowns are expected in the building and construction market and the telecommunications market is expected to remain depressed. Automotive volumes are expected to remain steady.

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Reconciliation of ATOI to Consolidated Net Income

Items required to reconcile ATOI to consolidated net income include: corporate adjustments to eliminate any remaining profit or loss between segments; interest income and expense; minority interests; corporate expense, comprised of the general administrative and selling expenses of operating the corporate headquarters and other global administrative facilities along with depreciation on corporate-owned assets; special items; accounting change; and other, which includes the impact of LIFO, differences between estimated tax rates used in the segments and the corporate effective tax rate, and other nonoperating items such as foreign exchange.

The following table reconciles segment information to consolidated totals.

	Third quarter ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Total after-tax operating income	$ 398	$ 503	$ 1,186	$ 1,781
Impact of intersegment profit eliminations	(5)	(14)	(9)	(18)
Unallocated amounts (net of tax):				
Interest income	7	10	26	30
Interest expense	(62)	(55)	(165)	(191)
Minority interests	(49)	(52)	(137)	(180)
Corporate expense	(40)	(45)	(151)	(177)
Special items	(25)	-	(25)	(148)
Accounting change	-	-	34	-
Other	(31)	(8)	(116)	(47)
Consolidated net income	$ 193	$ 339	$ 643	$ 1,050

The significant changes in the reconciling items between ATOI and consolidated net income for the 2002 third quarter compared with the corresponding 2001 period consisted of: an increase in special items of $25 (after tax, before minority interests) primarily related to smelter production curtailments in the 2002 third quarter, and an increase of $23 in other primarily due to intracompany profit eliminations, the impact of LIFO adjustments, and differences between estimated tax rates used in the segments and the corporate effective tax rate, partially offset by favorable currency translation adjustments.

The significant changes in the reconciling items between ATOI and consolidated net income for the 2002 nine-month period compared with the corresponding 2001 period consisted of: a decrease of $26 in interest expense due to lower average effective interest rates; a decrease of $43 in minority interests due to lower earnings at AWAC and AFL; a decrease of $26 in corporate expense due to lower employee compensation costs; a decrease of $123 in special items due to restructuring charges of $148 (after tax, before minority interests) recorded in 2001; an increase of $34 in accounting change as a result of the cumulative effect of the accounting change for goodwill recognized in 2002; and an increase of $69 in other related to the items noted above for the 2002 third quarter increase in other.

Market Risks

In addition to the risks inherent in its operations, Alcoa is exposed to financial, market, political and economic risks. The following discussion provides additional detail regarding Alcoa's exposure to the risks of changing commodity prices, foreign exchange rates and interest rates.

Derivatives

Alcoa's commodity and derivative activities are subject to the management, direction and control of the Strategic Risk Management Committee (SRMC). SRMC is composed of the chief executive officer, the chief financial officer and other officers and employees that the chief executive officer selects. SRMC reports to the Board of Directors on the scope of its derivative activities.

All of the aluminum and other commodity contracts, as well as various types of derivatives, are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility, and cover underlying exposures. The company is not involved in energy trading activities or weather derivatives or to any material extent in other nonexchange commodity trading activities.

Commodity Price Risks - Alcoa is a leading global producer of aluminum ingot and aluminum fabricated products. As a condition of sale, customers often require Alcoa

to enter into long-term fixed-price commitments. These commitments expose Alcoa to the risk of fluctuating aluminum prices between the time the order is committed and the time the order is shipped.

Alcoa's aluminum commodity risk management policy is to manage, through the use of futures and options contracts, the aluminum price risk associated with a portion of its fixed price firm commitments. At September 30, 2002, these contracts totaled approximately 87,000 mt with a fair value loss of approximately $51 (pre-tax).

Alcoa sells products to various third parties at prices that are influenced by changes in LME aluminum prices. From time to time, the company may elect to sell forward a portion of its anticipated primary aluminum and alumina production to reduce the risk of fluctuating market prices on these sales. Toward this end, Alcoa may enter into short positions using futures and options contracts. At September 30, 2002, these contracts totaled 5,000 mt. The fair value of these contracts at September 30, 2002 was not material. These contracts act to fix a portion of the sales price related to these sales contracts.

Alcoa purchases natural gas and fuel oil to meet its production requirements. These purchases expose the company to the risk of higher natural gas and fuel oil prices. To hedge this risk, Alcoa enters into long positions, principally futures and options. Alcoa follows a stable pattern of purchasing natural gas and fuel oil; therefore, it is highly likely that anticipated purchases will occur. At September 30, 2002, the fair value of the contracts for natural gas and fuel oil was a gain of approximately $34 (pre-tax).

Alcoa also purchases certain other commodities, such as electricity, for its operations and may enter into futures and options contracts to eliminate volatility in the price of these commodities. None of these contracts were material at September 30, 2002.

Financial Risk

Currencies - Alcoa is subject to exposure from fluctuations in foreign currencies. Foreign currency exchange contracts are used to hedge the variability in cash flows from the forecasted payment or receipt of currencies other than the functional currency. These contracts cover periods commensurate with known or expected exposures, generally within three years. The fair value of these contracts was a gain of approximately $49 (pre-tax) at September 30, 2002.

In addition, certain contracts are used to offset a portion of the impact of exchange and interest rate changes on foreign currency denominated debt. These contracts are marked to market and offset a portion of the impact of the exchange differences on the debt. The mark to market gains on these contracts were $118 (pre-tax) at September 30, 2002.

Interest Rates - Alcoa uses interest rate swaps to help maintain a reasonable balance between fixed- and floating-rate debt and to keep financing costs as low as possible. The company has entered into pay floating, receive fixed interest rate swaps to change the interest rate risk exposure of a portion of its outstanding fixed-rate debt. The fair value of these swaps was a gain of approximately $42 (pre-tax) at September 30, 2002.

Material Limitations - The disclosures with respect to commodity prices, interest rates, and foreign exchange risk do not take into account the underlying anticipated purchase obligations and the underlying transactional foreign exchange exposures. If the underlying items were included in the analysis, the gains or losses on the futures and options contracts may be offset. Actual results will be determined by a number of factors that are not under Alcoa's control and could vary significantly from those factors disclosed.

Alcoa is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, as well as credit or performance risk with respect to its hedged customers' commitments. Although nonperformance is possible, Alcoa does not anticipate nonperformance by any of these parties. Futures and options contracts are with creditworthy counterparties and are further supported by cash, treasury bills or irrevocable letters of credit issued by carefully chosen banks. In addition, various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts.

Environmental Matters

Alcoa continues to participate in environmental assessments and cleanups at a number of locations. These include approximately 28 owned or operating facilities and adjoining properties, approximately 38 previously owned or operating facilities and adjoining properties and approximately 71 Superfund and other waste sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated.

As assessments and cleanups proceed, the liability is adjusted based on progress made in determining the extent of remedial actions and related costs and damages. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements and technological changes. Therefore, it is not possible to determine the outcomes or to estimate with any degree of accuracy the potential costs for certain of these matters. For example, there are issues related to Alcoa's Massena, New York site where investigations are ongoing and where natural resource damage or off-site contaminated sediments have been alleged. The following discussion provides additional details regarding the current status of certain sites.

MASSENA. Alcoa has been conducting investigations and studies of the Grasse River, adjacent to Alcoa's Massena, New York plant site, under order from the U.S. Environmental Protection Agency (EPA) issued under the Comprehensive Environmental Response, Compensation and Liability Act, also known as Superfund. Sediments and fish in the river contain varying levels of polychlorinated biphenyl (PCB).

In the fourth quarter of 1999, Alcoa submitted an Analysis of Alternatives Report to the EPA. This report identified potential courses of remedial action related to the PCB contamination of the river. The EPA indicated to Alcoa that it believed additional remedial alternatives needed to be included in the Analysis of Alternatives Report. During 2000 and 2001, Alcoa completed certain studies and investigations on the river, including pilot tests of sediment-capping techniques and other remediation technologies. In February 2002, Alcoa submitted a revised draft Analysis of Alternatives Report to the EPA based on these additional evaluations and included additional remedial alternatives required by the EPA. The additional alternatives required by the EPA involve removal of more sediment than was included in the 1999 Analysis of Alternatives Report. The range of costs associated with the remedial alternatives evaluated in the 2002 report is between $2 and $525. Alcoa believes that several of those alternatives, involving the largest amounts of sediment removal, should not be selected for the Grasse River remedy. Alcoa believes the alternatives that should be selected are those ranging from monitored natural recovery ($2) to a combination of moderate dredging and capping ($90). A reserve of $2 has been recorded for any probable losses, as no one of the alternatives is more likely to be selected than any other.

Portions of the St. Lawrence River system adjacent to a former Reynolds plant are also contaminated with PCB, and during 2001, Alcoa substantially completed a dredging remedy for the St. Lawrence River. Further analysis of the condition of the sediment is being performed. Any required additional dredging or capping of residual contamination is likely to be completed during the 2003 construction season. The most probable cost of any such additional remediation is fully reserved and Alcoa does not believe that any additional liability for this site is reasonably possible.

POINT COMFORT/LAVACA BAY. Since 1990, Alcoa has undertaken investigations and evaluations concerning alleged releases of mercury from its Point Comfort, Texas facility into the adjacent Lavaca Bay pursuant to a Superfund order from the EPA. In March 1994, the EPA listed the "Alcoa (Point Comfort)/Lavaca Bay Site" on the National Priorities List. In December 2001, the EPA issued its Record of Decision (ROD) selecting the final remedial approach for the site, which is fully reserved. The company is negotiating a Consent Order with the EPA under which it will undertake to implement the remedy. The company and certain federal and state natural resource trustees, who previously served Alcoa with notice of their intent to file suit to recover damages for alleged loss or injury of natural resources in Lavaca Bay, have cooperatively identified restoration alternatives and approaches for Lavaca Bay. The cost of such restoration is reserved and Alcoa anticipates negotiating a Consent Decree with the trustees under which it will implement the restoration. Alcoa does not believe that any additional liability for this site is reasonably possible.

TROUTDALE, OREGON. In 1994, the EPA added Reynolds' Troutdale, Oregon primary aluminum production plant to the National Priorities List of Superfund sites. Alcoa has been cooperating with the EPA under a September 1995 consent order to identify cleanup solutions for the site. Further analyses were done to determine the effects

of the July 2002 decision to permanently close the Troutdale production plant on the number and scope of remedial alternatives for the facility. In August 2002, the EPA issued a preliminary remedial action plan representing the most probable scope and cost of cleanup. That cost has been fully reserved and Alcoa does not believe that any additional liability for this site is reasonably possible.

SHERWIN, TEXAS. In connection with the sale of the Sherwin alumina refinery in Texas, which was required to be divested as part of the Reynolds merger in 2000, Alcoa has agreed to retain responsibility for the remediation of then existing environmental conditions, as well as a pro rata share of the final closure of the active waste disposal areas, which remain in use. Alcoa's share of the closure costs is proportional to the total period of operation of the active waste disposal areas. Alcoa estimated its liability for the active disposal areas by making certain assumptions about the period of operation, the amount of material placed in the area prior to closure, and the appropriate technology, engineering and regulatory status applicable to final closure. The most probable cost for remediation has been reserved. It is reasonably possible that an additional liability, not expected to exceed $75, may be incurred if actual experience varies from the original assumptions used.

Based on the above, it is possible that Alcoa's results of operations, in a particular period, could be materially affected by matters relating to these sites. However, based on facts currently available, management believes that adequate reserves have been provided and that the disposition of these matters will not have a materially adverse effect on the financial position or liquidity of the company.

Alcoa's remediation reserve balance at September 30, 2002 was $407 (of which $68 was classified as a current liability) and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. Remediation costs charged to the reserve in the 2002 third quarter were $16. They include expenditures currently mandated, as well as those not required by any regulatory authority or third party.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be about 2% of cost of goods sold.

Liquidity and Capital Resources

Cash from Operations

Cash from operations for the 2002 nine-month period totaled $1,009, compared with $1,728 in the corresponding 2001 period. The decrease of $719, or 42%, resulted primarily from a decrease of $575 in net income after non-cash adjustments, with the remaining $144 decrease primarily due to higher tax payments. The decrease in adjustments for non-cash items was primarily due to lower depreciation and amortization expense, primarily due to the change in accounting for goodwill under SFAS No. 142, and the special items charges recognized in 2001.

Financing Activities

Financing activities provided $522 of cash in the 2002 nine-month period, compared with $3,005 used in the corresponding 2001 period. The change in cash provided from financing activities in the 2002 nine-month period compared with the 2001 nine-month period is primarily due to the following: a change of $2,315 in short-term borrowings due to repayments of short-term debt in the 2001 nine-month period that were funded by the proceeds from the sales of operations required to be divested from the Reynolds merger, the sale of Thiokol and the issuance of additional debt; a decrease of $507 related to common stock issued for stock plans; a decrease in share repurchases of the company's common stock, using $224 to repurchase 6,313,100 shares in the 2002 nine-month period versus $1,338 used to repurchase 36,146,236 shares in the 2001 nine-month period; an increase of $123 in cash due to a decrease in dividend payments to minority interests; and an increase of $474 in cash due to net borrowings on long-term debt, including commercial paper, in 2002 which exceeded net borrowings in 2001.

In August 2002, Alcoa issued $1,400 of notes. Of these notes, $800 mature in 2007 and carry a coupon rate of 4.25%, and $600 mature in 2013 and carry a coupon rate of 5.375%. The proceeds from these borrowings were used to fund the acquisition of Ivex and to refinance commercial paper.

In August 2002, Moody's Investors Service downgraded the long-term debt ratings of Alcoa from A1 to A2 and its rated subsidiaries principally from A2 to A3. Alcoa's Prime-1 short term rating was not included in the review. In October 2002, Standard

& Poor's lowered Alcoa's long-term corporate credit rating to A from A+, while affirming Alcoa's A-1 short-term corporate credit and commercial paper ratings. The impact of the downgrades is not expected to be material to the company.

In April 2002, Alcoa refinanced its $2,000 revolving-credit agreement that was to expire in April 2002 into a revolving-credit agreement that expires in April 2003.

Investing Activities

Investing activities used cash of $1,531 in the 2002 nine-month period, compared with cash provided from investing activities of $1,494 in the corresponding 2001 period. The change in cash of $3,025 in the 2002 nine-month period is primarily due to proceeds received from the dispositions of assets required to be divested from the Reynolds merger, as well as proceeds from the sale of Thiokol, which returned $2,485 in the 2001 period. In addition, $469 more of cash was used in the 2002 nine-month period related to acquisitions.

Critical Accounting Policies

A summary of the company's significant accounting policies is included in Note A to the audited consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2001. Management believes that the application of these policies on a consistent basis enables the company to provide the users of the financial statements with useful and reliable information about the company's operating results and financial condition.

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Areas of uncertainty that require judgments, estimates and assumptions include the accounting for derivatives, environmental and tax matters as well as the annual testing of goodwill for impairment. Management uses historical experience and all available information to make these judgments and estimates and actual results will inevitably differ from those estimates and assumptions that are used to prepare the company's financial statements at any given time. Despite these inherent limitations, management believes that Management's Discussion and Analysis and the financial statements and footnotes provide a meaningful and fair perspective of the company. A discussion of the judgments and uncertainties associated with accounting for derivatives and environmental matters can be found in the Market Risks and Environmental Matters sections of Management's Discussion and Analysis.

Recent declines in equity markets and interest rates have had a negative impact on Alcoa's pension plan liability and fair value of plan assets. As a result, the fair value of plan assets is projected to be lower than the accumulated pension benefit obligation at the end of 2002. Based on current fair values of plan assets and current interest rates, we anticipate a charge to shareholders' equity of approximately $700 - $1,000. The charge to be recorded is subject to changes in market conditions experienced through the remainder of the year.

Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement establishes standards for accounting for obligations associated with the retirement of tangible long-lived assets. Alcoa must adopt this standard on January 1, 2003. Management is currently assessing the details of the standard and is preparing a plan of implementation.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," under which a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Alcoa's Chief Executive Officer and Chief Financial Officer have evaluated the company's disclosure controls and procedures as of October 21, 2002, and they concluded that these controls and procedures are effective.

(b) Changes in Internal Controls

There are no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to October 21, 2002.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

In May through September of 2002, eleven lawsuits were filed against Reynolds and Alcoa in the District Court of Wharton County, Texas, two of which have since been dismissed. In the same timeframe, an additional lawsuit was filed in the United States District Court, Southern District of Texas, Victoria Division. The lawsuits seek to recover damages relating to the presence of trichloroethylene in the groundwater near a former Reynolds extrusion facility in El Campo, Texas. Additional defendants included in some of the lawsuits are the current operators to whom Reynolds sold the facility in 1997, Bon L. Campo Limited Partnership (Bon L. Campo) and Tredegar Corporation, a few former employees of the current plant operators and two neighboring businesses. Some of the cases request class certification to include other allegedly affected individuals as plaintiffs. Damages sought include those for the contamination of private wells, diminution of property value, medical monitoring and punitive damages. The defendants have answered the complaints and removed all but one of the cases to the United States District Court, Southern District of Texas, Houston Division. Alcoa and Reynolds have filed counterclaims and requests that the litigation be stayed temporarily in order to permit their continued performance with the Voluntary Cleanup Program administered by the Texas Commission of Environmental Quality (TCEQ, formerly TNRCC) to identify the source of the contamination and plan appropriate remediation. Reynolds owned and operated the facility from 1971 to 1997 and sold it to Bon L. Campo before Alcoa acquired Reynolds. Currently, the amount of any possible loss cannot be estimated.

In August of 2000, the U.S. Department of Justice (DOJ) notified IPC, Inc. (IPC), a wholly owned subsidiary of Ivex, and Consolidated Fibers, Inc. (CFI), a wholly owned subsidiary of IPC, that they were potentially responsible parties (PRPs) under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) at the Agriculture Street Landfill Superfund Site, New Orleans, Louisiana (the Site). In August of 2002, the DOJ extended an offer to CFI to engage in pre-filing settlement discussions regarding the United States claim for response costs at the Site. The DOJ stated that the government had incurred approximately $40.6 million in response costs at the Site and sought a settlement amount of approximately $13.8 million to be paid collectively by CFI and other PRPs. Ivex has agreed to further discussions with the DOJ.

As previously reported in Alcoa's Form 10-Q for the quarter ended June 30, 2002, in the first half of 2002, Alcoa discovered that a former Reynolds' distribution entity, RASCO, may have sold upwards of 800,000 pounds of aluminum plate made by an unrelated company for use in the Northwest maritime industry that may not be suitable for that use. Reynolds and the current owner of the business and the manufacturer of the metal are working jointly to identify the issues and find resolutions. All customers have been notified of the issue, inspection protocols have been put into place and the United States Coast Guard has been notified and is involved in the resolution process. Three lawsuits were originally filed by ship owners or operators. Two lawsuits were settled and one is still pending. The parties have been working cooperatively toward satisfactory resolutions. Currently, the amount of any possible loss cannot be estimated.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

12. Computation of Ratio of Earnings to Fixed Charges
15. Letter regarding unaudited interim financial information

(b) Reports on Form 8-K. During the third quarter of 2002, Alcoa filed the following reports on Form 8-K with the Securities and Exchange Commission, reporting matters under Item 5:

(1) a Form 8-K dated July 1, 2002, reporting that Alcoa had completed its previously announced agreement to acquire Chicago-based Ivex Packaging Corporation;
(2) a Form 8-K dated July 17, 2002, reporting that Alcoa had agreed to acquire the assets of Fairchild Fasteners, a leading supplier of aerospace fasteners, from The Fairchild Corporation for $657 million in cash;

(3) a Form 8-K dated August 7, 2002, reporting that Alcoa's Chairman and Chief Executive Officer, Alain J.P. Belda, and Executive Vice President and Chief Financial Officer, Richard B. Kelson, submitted sworn statements to the SEC affirming the SEC filings made by the company in 2002; and
(4) a Form 8-K dated August 13, 2002, reporting that Alcoa completed the offering and sale of $800,000,000 principal amount of 4.25% Notes due 2007 and $600,000,000 principal amount of 5.375% Notes due 2013 in an underwritten public offering under Registration Statement No. 333-74874 on Form S-3 filed under the Securities Act of 1933, as amended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Alcoa Inc.

October 22, 2002	By /s/ RICHARD B. KELSON
Date	Richard B. Kelson Executive Vice President and Chief Financial Officer (Principal Financial Officer)

October 22, 2002	By /s/ CHARLES D. MCLANE, JR.
Date	Charles D. McLane, Jr. Vice President - Alcoa Business Support Services and Controller (Chief Accounting Officer)

CERTIFICATIONS

I, Alain J. P. Belda, Chairman of the Board and Chief Executive Officer of Alcoa Inc. (Alcoa), certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alcoa;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of Alcoa as of, and for, the periods presented in this quarterly report;

4. Alcoa's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for Alcoa and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to Alcoa, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of Alcoa's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. Alcoa's other certifying officer and I have disclosed, based on our most recent evaluation, to Alcoa's auditors and the audit committee of Alcoa's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect Alcoa's ability to record, process, summarize and report financial data and have identified for Alcoa's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in Alcoa's internal controls; and

6. Alcoa's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 22, 2002

/s/ ALAIN J. P. BELDA

Title: Chairman of the Board and Chief Executive Officer (Principal Executive Officer)

I, Richard B. Kelson, Executive Vice President and Chief Financial Officer of Alcoa Inc. (Alcoa), certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alcoa;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of Alcoa as of, and for, the periods presented in this quarterly report;

4. Alcoa's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for Alcoa and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to Alcoa, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of Alcoa's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. Alcoa's other certifying officer and I have disclosed, based on our most recent evaluation, to Alcoa's auditors and the audit committee of Alcoa's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect Alcoa's ability to record, process, summarize and report financial data and have identified for Alcoa's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in Alcoa's internal controls; and

6. Alcoa's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 22, 2002

/s/ RICHARD B. KELSON

Title: Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

EXHIBITS

12. Computation of Ratio of Earnings to Fixed Charges
15. Letter regarding unaudited interim financial information