ALCAN INC
Form 10-Q
November 09, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

Commission file number 1-3677

ALCAN INC.

(Exact name of registrant as specified in its charter)

CANADA

Inapplicable

(State or Other Jurisdiction of

(I.R.S. Employer Identification No.)

Incorporation or Organization)

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

(Address of Principal Executive Offices and Postal Code)

(514) 848-8000

(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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes_**X**_ No ____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes_ **X** _ No ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes___ No _ **X** _

At November 8, 2005 the registrant had 370,691,124 shares of common stock (without nominal or par value) outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

In this report, all dollar amounts are stated in U.S. dollars and all quantities in metric tons, or tonnes, unless indicated otherwise. A tonne is 1,000 kilograms, or 2,204.6 pounds. The word "Company" refers to Alcan Inc. and, where applicable, one or more of its consolidated subsidiaries.

Item 1. Financial Statements

ALCAN INC.

INTERIM CONSOLIDATED STATEMENT OF INCOME (unaudited)

Third Quarter

Nine Months

Periods ended September 30

2005

2004

2005

2004

(*in millions of US$, except per share amounts)*

Sales and operating revenues

4,887

6,184

15,271

18,412

Costs and expenses

Cost of sales and operating expenses, excluding depreciation and amortization noted below

3,921

4,997

12,141

14,887

Depreciation and amortization

266

322

806

982

Selling, administrative and general expenses

331

398

1,056

1,159

Research and development expenses

66

54

164

173

Interest

92

73

267

253

Other expenses (income) - net (note 11)

55

49

152

100

4,731

5,893

14,586

17,554

Income from continuing operations before income taxes and

other items

156

291

685

858

Income taxes (note 9)

101

134

269

300

Income from continuing operations before other items

55

157

416

558

Equity income

16

13

73

46

Minority interests

1

1

(1)

(14)

Income from continuing operations

72

171

488

590

Income (Loss) from discontinued operations (note 3)

9

(4)

2

14

Net income

81

167

490

604

Dividends on preference shares

2

1

5

4

Net income attributable to common shareholders

79

166

485

600

Earnings (Loss) per share (note 4)

Basic:

Income from continuing operations

0.19

0.46

1.30

1.60

Income (Loss) from discontinued operations

0.02

(0.01)

0.01

0.03

Net income per common share - basic

0.21

0.45

1.31

1.63

Diluted:

Income from continuing operations

0.19

0.46

1.30

1.59

Income (Loss) from discontinued operations

0.02

(0.01)

0.01

0.03

Net income per common share - diluted

0.21

0.45

1.31

1.62

Dividends per common share

0.15

0.15

0.60

0.60

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

ALCAN INC.

INTERIM CONSOLIDATED BALANCE SHEET (unaudited)

September 30, 2005

December 31, 2004

(*in millions of US$)*

ASSETS

Current assets

Cash and time deposits

236

184

Trade receivables (net of allowances of $70 in 2005 and $99 in 2004)

2,490

3,247

Other receivables

925

936

Deferred income taxes

125

214

Inventories (note 12)

2,805

4,040

Current assets held for sale (note 3)

176

791

Total current assets

6,757

9,412

Deferred charges and other assets

2,334

2,877

Deferred income taxes

964

870

Property, plant and equipment

Cost (excluding Construction work in progress)

16,706

21,595

Construction work in progress

1,439

1,177

Accumulated depreciation

(7,097)

(9,478)

11,048

13,294

Intangible assets (net of accumulated amortization of $194 in 2005

and $172 in 2004)

884

1,230

Goodwill

4,958

5,496

Long-term assets held for sale (note 3)

28

162

Total assets

26,973

33,341

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

ALCAN INC.

INTERIM CONSOLIDATED BALANCE SHEET (cont'd) (unaudited)

(*in millions of US$)*	**September 30, 2005**	December 31, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Payables and accrued liabilities	**4,386**	5,843

Short-term borrowings

284

2,486

Debt maturing within one year

841

569

Deferred income taxes

28

23

Current liabilities of operations held for sale (note 3)

75

335

Total current liabilities

5,614

9,256

Debt not maturing within one year

5,503

6,345

Deferred credits and other liabilities

4,307

4,986

Deferred income taxes

1,349

1,543

Long-term liabilities of operations held for sale (note 3)

4

249

Minority interests

73

236

Shareholders' equity

Redeemable non-retractable preference shares

160

160

Common shareholders' equity

Common shares

6,110

6,670

Additional paid-in capital

695

112

Retained earnings

3,340

3,362

Common shares held by a subsidiary

(31)

(35)

Accumulated other comprehensive income (loss) (note 16)

(151)

457

9,963

10,566

10,123

10,726

Commitments and contingencies (note 15)

Total liabilities and shareholders' equity

26,973

33,341

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

ALCAN INC.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Third Quarter

Nine Months

Periods ended September 30

2005

2004

2005

2004

(*in millions of US$)*

OPERATING ACTIVITIES

Net income

81

167

490

604

Loss (Income) from discontinued operations

(9)

4

(2)

(14)

Income from continuing operations

72

171

488

590

Adjustments to determine cash from operating activities:

Depreciation and amortization

266

322

806

982

Deferred income taxes

86

(17)

128

(3)

Equity income, net of dividends

(5)

(11)

(29)

(28)

Asset impairment provisions

5

10

40

20

Loss (Gain) on sale of businesses and investments - net

(5)

(2)

11

(44)

Stock option compensation

4

3

14

7

Change in operating working capital

Change in receivables

125

9

(228)

(509)

Change in inventories

26

(1)

(88)

43

Change in payables and accrued liabilities

104

60

(168)

259

Change in deferred charges, other assets,

deferred credits and other liabilities - net

53

131

(19)

28

Other - net

(34)

38

(119)

68

Cash from operating activities in continuing operations

697

713

836

1,413

Cash from operating activities in discontinued operations

4

31

54

82

Cash from operating activities

701

744

890

1,495

FINANCING ACTIVITIES

Proceeds from issuance of new debt - net of issuance costs

21

743

1,187

1,461

Debt repayments

(210)

(1,017)

(1,406)

(1,471)

Short-term borrowings - net

(52)

(42)

(2,045)

(417)

Common shares issued

6

19

16

52

Dividends - Alcan shareholders (including preference)

(58)

(57)

(173)

(170)

- Minority interests

(1)

(1)

(2)

(5)

Cash used for financing activities in continuing operations

(294)

(355)

(2,423)

(550)

Cash used for financing activities in discontinued operations

(59)

(4)

(55)

(35)

Cash used for financing activities

(353)

(359)

(2,478)

(585)

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

ALCAN INC.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd) (unaudited)

Third Quarter

Nine Months

Periods ended September 30

2005

2004

2005

2004

(*in millions of US$*)

INVESTMENT ACTIVITIES

Purchase of property, plant and equipment

(447)

(272)

(1,192)

(789)

Business acquisitions and purchase of investments

(31)

(37)

(73)

(460)

Net proceeds from disposal of businesses, investments and

other assets

141

5

176

25

Settlement of amounts due from Novelis - net (note 5)

-

-

2,535

-

Cash from (used for) investment activities in continuing

operations

(337)

(304)

1,446

(1,224)

Cash from (used for) investment activities in discontinued

operations

(1)

(9)

63

(13)

Cash from (used for) investment activities

(338)

(313)

1,509

(1,237)

Effect of exchange rate changes on cash and time deposits

4

24

(25)

(4)

Increase (Decrease) in cash and time deposits

14

96

(104)

(331)

Cash and time deposits - beginning of period

222

351

340

778

Cash and time deposits - end of period in continuing operations

236

318

236

318

Cash and time deposits - end of period in current assets held

for sale

-

129

-

129

Cash and time deposits - end of period

236

447

236

447

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

ALCAN INC.

INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)

(in millions of US$)

Preference Shares - Series C and E

Common Shares

Additional Paid-In Capital

Retained Earnings

Common Shares Held by a Subsidiary

Accumulated Other Comprehen-sive Income (Loss)

Total Shareholders' Equity

Balance at December 31, 2004

160

6,670

112

3,362

(35)

457

10,726

Spin-off of Novelis (note 5)

(576)

572

(285)

(71)

(360)

Net income - nine months ended

September 30, 2005

490

490

Other comprehensive loss (note 16)

(537)

(537)

Dividends:

Preference

(5)

(5)

Common

(222)

(222)

Stock option expense

14

14

Exercise of stock options

3

(3)

-

Common shares held by a subsidiary

4

4

Common shares issued for cash:

Executive share option plan

9

9

Dividend reinvestment and share

purchase plans

7

7

Other

(3)

(3)

Balance at September 30, 2005

160

6,110

695

3,340

(31)

(151)

10,123

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

ALCAN INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(unaudited)

(in millions of US$, except per share amounts)

1. ACCOUNTING POLICIES

Basis of Presentation

The unaudited interim consolidated financial statements are based upon accounting policies and methods of their application consistent with those used and described in the Company's annual financial statements as contained in the most recent annual report. The interim financial statements do not include all of the financial statement disclosures included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and therefore should be read in conjunction with the Company's most recent annual report.

In the opinion of management of the Company, the unaudited interim consolidated financial statements reflect all adjustments, which consist only of normal and recurring adjustments, necessary to present fairly the financial position and the results of operations and cash flows in accordance with U.S. GAAP, applied on a consistent basis. The results reported in these interim consolidated financial statements are not necessarily indicative of the results that may be expected for the entire year.

Spin-off of Rolled Products Businesses - Basis of Presentation

On January 6, 2005, Alcan completed the spin-off of Novelis Inc. (Novelis), as described in note 5 - Spin-off of Rolled Products Businesses. Prior to the spin-off, these businesses were owned by Alcan. Alcan's consolidated financial statements as at December 31, 2004 and for the third quarter and nine months ended September 30, 2004 include the operations transferred to Novelis. Alcan's consolidated financial statements as at and for the third quarter and nine months ended September 30, 2005 exclude the operations transferred to Novelis. Management concluded that all income earned and cash flows generated by Novelis entities from January 1 to 5, 2005, were insignificant, except as described in note 5 - Spin-off of Rolled Products Businesses.

2. RECENTLY ISSUED ACCOUNTING STANDARDS

Conditional Asset Retirement Obligations

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. FIN 47 clarifies that the term *conditional asset retirement obligation* as used in FASB Statement (SFAS) No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. According to FIN 47, uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of a liability when sufficient information exists rather than preclude the need to record a liability. This interpretation is effective no later than the end of fiscal years ending after December 15, 2005. Retrospective application for interim financial information is permitted but not required. The Company is studying this interpretation and has not yet determined its impact. The Company may have other asset retirement obligations (AROs) that may arise in the event of a plant closure. An ARO has not been recorded for these obligations due to the fact that the liability is not reasonably estimable, as the plant assets have indeterminate lives.

2. RECENTLY ISSUED ACCOUNTING STANDARDS (cont'd)

Accounting Changes and Error Corrections

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. This statement applies to all voluntary changes in accounting principle and changes the requirements for accounting for and reporting of a change in accounting principle. The statement requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle versus including the cumulative effect of changing to the new accounting principle in net income. SFAS No. 154 carries forward many provisions of APB Opinion No. 20 without change, including the provisions related to the reporting of a change in accounting estimate, a change in the reporting entity, and the correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

3. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Bauxite and Alumina and Primary Metal

On December 29, 2004, the Company announced that, following an extensive evaluation of the Company's operations subsequent to the Pechiney acquisition, it had entered into a binding agreement for the sale of its controlling interest in Aluminium de Grèce S.A. (AdG), as well as the transfer of certain related contracts, to Mytilineos Holdings S.A. of Greece. The Company classified this business in discontinued operations and assets held for sale during the fourth quarter of 2004. The Company owned approximately 13 million shares in AdG, representing a 60.2% equity interest. The transaction was completed on March 15, 2005 at a value of $104. Under the terms of this agreement, Mytilineos Holdings and certain affiliated companies acquired from the Company a 53% equity position in AdG. The balance of the Company's interest in AdG, some 7.2%, may be sold by the Company to Mytilineos Holdings one year after closing pursuant to a three-month put option at a price equivalent to the selling price of the shares. Subsequently, Mytilineos Holdings will have a call option for six months to purchase any remaining interest, at a price equivalent to the selling price of the shares.

Primary Metal

On December 30, 2004, the Company announced that it had reached agreement on the principal terms of a sale of Pechiney Électrométallurgie (PEM) to Ferroatlántica, S.L., of Spain. The Company classified this business in discontinued operations and assets held for sale during the fourth quarter of 2004. The Company's decision to sell this business was based on an extensive evaluation of the Company's operations subsequent to the Pechiney acquisition and is consistent with the Company's strategy of divesting non-core activities. On June 1, 2005, the Company completed the sale of PEM for net proceeds of $150.

Engineered Products

In the first quarter of 2004, the Company committed to a plan to sell certain non-strategic assets that are not part of its core operations. The assets are used to supply castings and components to the automotive industry. The Company is actively pursuing potential purchasers. These assets are classified as held for sale and are included in discontinued operations.

Following a detailed assessment subsequent to the Pechiney acquisition, the Company began restructuring efforts at certain European sites in the fourth quarter of 2004. As a result of this restructuring, the Company committed to a plan to sell two high purity businesses, Mercus and Froges, in France. These businesses were classified in discontinued operations and assets held for sale during the fourth quarter of 2004. In the second quarter of 2005, the Company announced a change in its strategy of selling the businesses due to changes in market and economic conditions. The Company envisions suspending one of two activities at the Mercus high purity metal processing mill and closing the Froges rolling mill. As a result of the change in strategy, these two businesses no longer meet the criteria for discontinued operations and, accordingly, have been reclassified to assets held and used and are included in continuing operations (refer to note 22 - Subsequent Events).

Also in the fourth quarter of 2004, the Company committed to a plan to sell its service centres in France that are not part of its core operations. These assets were classified as held for sale and were included in discontinued operations. On April 20, 2005, the Company completed the sale of these service centres for net proceeds of $4 to Amari Metal France Ltd., which specializes in distributing aluminum, stainless steel and cuprous metal products.

3. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (cont'd)

Packaging

In the second quarter of 2003, the Company committed to a plan to sell certain non-strategic operations (Fibrenyle, Boxal Group, and Suner Cartons), as the businesses were not part of its core operations. These businesses were classified as held for sale and were included in discontinued operations. In the fourth quarter of 2003, the Company recorded the sale of Fibrenyle, in the U.K., for proceeds of $29. In the second quarter of 2004, the Company recorded the sale of the Boxal Group and Suner Cartons, for proceeds of $6 and $19, respectively. As at June 30, 2004, the Company had sold all of the assets of the non-strategic packaging businesses previously classified as held for sale in the second quarter of 2003.

Other

In the second quarter of 2004, the Company classified in discontinued operations its copper and ores and concentrates trading businesses. In the fourth quarter of 2004, the Company sold certain assets of its ores and concentrates trading division to its then current management team, and sold the assets of its zinc and lead metal trading business to Trafigura Ltd., an independent commodity trading company. Following the end of the third quarter of 2005, a decision was taken to close the Company's copper trading business during the fourth quarter of 2005.

Fair values were determined based on either discounted cash flows or expected selling price. Certain financial information has been reclassified in the prior periods to present these businesses as discontinued operations on the statement of income, as assets held for sale and liabilities of operations held for sale on the balance sheet and as cash flows from (used for) discontinued operations on the statement of cash flows.

An impairment charge of nil for the third quarter and nine months ended September 30, 2005 (2004: nil and $6) was recorded in discontinued operations to reduce the carrying values of these businesses to estimated fair values less costs to sell.

Selected financial information for the businesses included in discontinued operations is reported below:

Third Quarter

Nine Months

Periods ended September 30

2005

2004

2005

2004

Sales

37

362

313

1,188

Income (Loss) from operations

3

(7)

11

10

Gain (Loss) on disposal - net

8

5

(2)

32

Asset impairment provisions

-

-

-

(6)

Pre-tax income (loss)

11

(2)

9

36

Income tax expense

(2)

(2)

(7)

(22)

Income (Loss) from discontinued operations

9

(4)

2

14

3. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (cont'd)

The major classes of Assets held for sale and Liabilities of operations held for sale are as follows:

	September 30, 2005	December 31, 2004
Current assets held for sale:		
Cash and time deposits	**-**	156
Trade receivables	**44**	308
Other receivables	**51**	40
Deferred income taxes	**-**	2
Inventories	**81**	285
	176	791
Long-term assets held for sale:		

Deferred charges and other assets

17

21

Deferred income taxes

1

6

Property, plant and equipment - net

10

85

Intangible assets - net

-

50

28

162

Current liabilities of operations held for sale:

Payables and accrued liabilities

74

330

Short-term borrowings

1

5

75

335

Long-term liabilities of operations held for sale:

Deferred credits and other liabilities

-

101

Deferred income taxes

4

7

Minority interests

-

141

4

249

4. EARNINGS PER SHARE - **BASIC AND DILUTED**

Basic and diluted earnings per share are based on the weighted average number of shares outstanding during the period. The treasury stock method for calculating the dilutive impact of stock options is used. The following table outlines the calculation of basic and diluted earnings per share on income from continuing operations.

Third Quarter

Nine Months

Periods ended September 30

2005

2004

2005

2004

Numerator:

Income from continuing operations

72

171

488

590

Less: dividends on preference shares

(2)

(1)

(5)

(4)

Income from continuing operations attributable to

common shareholders

70

170

483

586

Denominator (number of common shares in millions):

Weighted average of outstanding shares - basic

370

368

370

368

Effect of dilutive stock options

-

1

1

1

Adjusted weighted average of outstanding shares - diluted

370

369

371

369

Earnings per common share - basic

0.19

0.46

1.30

1.60

Earnings per common share - diluted

0.19

0.46

1.30

1.59

In the third quarter and for the first nine months of 2005, options to purchase 8,245,958 and 5,065,224 common shares, respectively (2004: 3,680,200 and 3,663,700) at a weighted average grant price of CAN$46.23 and CAN$49.66 per share, respectively (2004: CAN$58.93 and CAN$58.94) were outstanding during the period but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average price of the common shares.

As at September 30, 2005, there were 370,419,460 (2004: 368,737,410) common shares outstanding.

5. SPIN-OFF OF ROLLED PRODUCTS BUSINESSES

On January 6, 2005, Alcan completed the spin-off of Novelis to its shareholders. Alcan shareholders received one Novelis common share for every five Alcan common shares held. Novelis consists of substantially all of the aluminum rolled products businesses held by Alcan prior to its 2003 acquisition of Pechiney, together with some of Alcan's alumina and primary metal-related businesses in Brazil, which are fully integrated with the rolled products operations there, as well as four former Pechiney rolling facilities in Europe.

The effect of the spin-off on the Company's balance sheet is described in the table below. The net assets were transferred at their historical cost.

	Adjusted Amounts(1)	Original Amounts
Carrying amount of spun-off businesses:		
Current assets	2,935	2,935
Non-current assets	2,802	2,802
Current liabilities	(3,129)	(3,160)
Non-current liabilities		

(2,221)

(2,197)

Accumulated other comprehensive income

(71)

(68)

Total

316

312

Derivatives(2)

(31)

(31)

Total amount recorded in retained earnings

285

281

(1) The agreements giving effect to the spin-off provide for various post-transaction adjustments and the resolution of outstanding matters, which are expected to be carried out by the parties by the end of 2005.

(2) Alcan is the counterparty to certain derivative contracts with Novelis; prior to the spin-off, these derivatives were eliminated in the consolidated financial statements. Subsequent to the spin-off, the derivatives are presented in the balance sheet at their fair value. The amount of ($31) represents the mark-to-market adjustment to the derivatives for the period from January 1 to 5, 2005. As described in note 1 - Accounting Policies - Spin-Off of Rolled Products Businesses - Basis of Presentation, all income earned and cash flows generated by Novelis entities during the period from January 1, 2005 to the spin-off date of January 6, 2005 were attributed to Novelis due to immateriality. In addition, the transactions between Alcan and Novelis during this period were also immaterial, with the exception of a net derivative gain as described above.

The spin-off of Novelis reduced total shareholders' equity by $360 (Q1: $353; Q2: $354) by way of a reduction in common shares of $576 (Q1 and Q2: $576), an increase in additional paid-in capital of $572 (Q1 and Q2: $572), a reduction in retained earnings of $285 (Q1: $281; Q2: $279) and a reduction in accumulated other comprehensive income of $71 (Q1: $68; Q2: $71).

Following the spin-off, the Company settled amounts due from Novelis and used the net proceeds of $2.6 billion to settle third party debt, as described in note 10 - Long-Term Debt, and to cover a preliminary payment of $100 made by the Company to Novelis in accordance with a separation agreement between the parties.

6. RESTRUCTURING PROGRAMS

2005 Restructuring Activities

Pechiney

In the third quarter of 2005, the Company incurred $13 of restructuring costs in connection with the exit of certain non-strategic Pechiney activities as a result of changing market conditions and changes in strategy. The charges consist of severance costs of $5, asset impairment charges of $4, and other costs of $4 principally related to the closure of certain packaging facilities located in the U.S. and Europe, and costs incurred to consolidate certain corporate functions (Other).

6. RESTRUCTURING PROGRAMS (cont'd)

In the second quarter of 2005, the Company incurred $34 of restructuring costs in connection with the exit of certain Pechiney activities as a result of changing market conditions and changes in strategy. These charges consist principally of severance costs of $32, consisting of $13 related to the suspension of one of two activities at the Mercus high-purity-metal processing mill and the closure of the Froges rolling mill in France (Engineered Products), and $19 related principally to an organizational realignment of the European Tubes sites of the Packaging Beauty business, mainly in France and Germany, as well as other charges of $2 relating principally to the consolidation of certain corporate functions (Other) and the exit of certain packaging facilities in Mexico. The Company expects to incur $2 of additional charges in 2005 and $11 in 2006 relating to these restructuring activities.

Other 2005 Restructuring Activities

On September 14, 2005, the Company announced that its subsidiary, Société Générale de Recherches et d'Exploitations Minières (Sogerem) (Bauxite and Alumina), has begun an information and consultation process with its employee representatives and local partners due to the exhaustion of mining resources in the Tarn Region of France. The discussions will focus on identifying solutions for all those that would be affected by the potential conclusion of its fluorspar mining operations during the first half of 2006. In relation to this activity, the Company recorded restructuring charges of $9 comprising $6 of severance costs, $2 of other costs and $1 of asset impairment charges during the third quarter of 2005. In addition to the $9 of restructuring charges, $5 relating principally to additional asset retirement obligations were recorded, as a result of this activity, in Cost of sales and operating expenses.

In the second quarter of 2005, the Company announced the restructuring of its Engineered Products facilities in Singen, Germany, and Sierre, Switzerland, in order to improve efficiency and ensure their long-term viability. Alcan will integrate its extrusion activities at the Singen and Sierre sites, and restructure the automotive structures and composites into its operations at Singen. The Company incurred $27 of restructuring charges relating principally to severance costs. The Company expects to incur $4 of additional charges in 2005 and $5 in 2006 relating to these restructuring activities.

In the second quarter of 2005, the Company recorded a severance provision of $1 in relation to the closure of a Balsa composites plant in Guayaquil, Ecuador (Engineered Products).

In the first quarter of 2005, the Company incurred $1 of restructuring charges relating to costs to centralize certain packaging operations at two facilities located in Canada and the U.S. In the second quarter of 2005, the Company incurred an additional $1 of restructuring charges in relation to these activities, consisting primarily of severance costs and costs to relocate equipment. In the third quarter of 2005, the Company incurred an additional $1 of restructuring charges related principally to equipment relocation costs.

2004 Restructuring Activities

In line with the Company's objective of value maximization, the Company undertook various restructuring initiatives in 2004.

Pechiney

In 2004, the Company recorded liabilities of $193 (Q1: nil; Q2: $79; Q3: $21; Q4: $93) for restructuring costs in connection with the exit of certain operations of Pechiney, and these costs were recorded in the allocation of the purchase price of Pechiney. These costs principally comprise severance costs of $121 (Q1: nil; Q2: $79; Q3: nil; Q4: $42) related to the involuntary termination of Pechiney employees in France (Primary Metal, Engineered Products, Packaging and Other), as well as other severance costs of $54 (Q1: nil; Q2: nil; Q3: $21; Q4: $33), principally comprising $21 relating to a plant closure in Barcelona, Spain (Packaging), $17 relating to a planned plant closure in Flemalle, Belgium, $5 relating to a plant closure in Garbagnate, Italy (Packaging), and $1 relating to the downsizing of a plant in Kolin, Czech Republic (Packaging). A restructuring provision of $21 related to the plant closure in Flemalle has been transferred to Novelis in 2005 following the spin-off.

In the first quarter of 2005, the Company incurred additional restructuring costs of $8 in relation to the exit of certain Pechiney activities. These costs consist of severance costs of $3 relating principally to the termination of Pechiney employees in France and Italy (Packaging and Other), asset impairment charges of $3 relating principally to the impairment of assets at a Pechiney facility in China (Engineered Products), and other costs of $2 relating principally to the closure of the Barcelona and Garbagnate facilities (Packaging). In the second quarter of 2005, the Company incurred additional severance costs of $3 and other costs of $3 relating principally to the closure of packaging facilities in Barcelona, as well as other Engineered Products facilities in the U.K. In the third quarter of 2005, the Company incurred an additional $5 in other costs, relating principally to costs to dismantle the Barcelona facility (Packaging). All restructuring costs incurred in 2005 are recorded in the statement of income.

---

6. RESTRUCTURING PROGRAMS (cont'd)

Other 2004 restructuring activities

In the third quarter of 2004, the Company incurred restructuring charges of $19 relating to the consolidation of its U.K. aluminum sheet rolling activities in Rogerstone, Wales, in order to improve competitiveness through better capacity utilization and economies of scale. Production ceased at the rolling mill in Falkirk, Scotland, in December 2004. The charges include $6 of severance costs, $8 of asset impairment charges, $2 of pension costs, $2 of decommissioning and environmental costs and $1 of other charges. These entities and the related restructuring provision of $5 have been transferred to Novelis in 2005 following the spin-off.

In 2004, the Company incurred restructuring charges of $7 (Q1: nil; Q2: $6; Q3: $2; Q4: ($1)) relating to the closure of two corporate offices in the U.K. and Germany (Other). The charges include $4 (Q1: nil; Q2: nil; Q3: $2; Q4: $2) related to severance costs and $3 (Q1: nil; Q2: $6; Q3: nil; Q4: ($3)) related to lease exit costs and costs to consolidate facilities. In the first quarter of 2005, the Company incurred additional severance charges of $1 in relation to the closure of its corporate office in the U.K., and incurred an additional $3 of severance and other exit costs in the second quarter of 2005. The restructuring provision of $3 related to the closure of the corporate office in Germany has been transferred to Novelis in 2005 following the spin-off.

In November 2004, the Company announced the downsizing of its Alcan Mass Transportation Systems business unit in Zurich, Switzerland (Engineered Products) as a result of changing market conditions and business realities. The Company incurred restructuring charges of $5 consisting of $4 of asset impairment charges, and $1 of other charges in the fourth quarter of 2004. In the first quarter of 2005, the Company incurred additional severance charges of $2 and asset impairment charges of $1 relating to the downsizing of this business. During the second quarter of 2005, the Company incurred an additional $1 of severance costs. During the third quarter of 2005, the Company incurred an additional $1 of severance costs and expects to incur an additional $1 of charges in relation to the downsizing of Alcan Mass Transportation Systems.

In addition, the Engineered Products group incurred restructuring charges of $9 (Q1: $2; Q2: $1; Q3: $1; Q4: $5) relating to both the closure of a composites facility in the U.S., and process reengineering at certain facilities in Switzerland and Germany. These charges consist of severance costs of $6 (Q1: nil; Q2: $1; Q3: $1; Q4: $4), asset impairment charges of $2 (Q1: $1; Q2: nil; Q3: nil; Q4: $1) and other costs of $1 (Q1: $1; Q2: nil; Q3: nil; Q4: nil). In the first quarter of 2005, the Company incurred additional severance costs of $1 relating to the process reengineering at its Switzerland facility.

In 2004, the Company incurred restructuring charges of $39 (Q1: $6; Q2: $1; Q3: $3; Q4: $29) relating to exit costs incurred in connection with certain non-strategic packaging facilities located in the U.S. and Europe. These charges consist of severance costs of $23 (Q1: $5; Q2: $1; Q3: nil; Q4: $17), asset impairment charges of $11 (Q1: nil; Q2: nil; Q3: nil; Q4: $11) and other charges of $5 (Q1: $1; Q2: nil; Q3: $3; Q4: $1). In the first quarter of 2005, the Company incurred additional severance costs of $2 relating to these activities. In the second quarter of 2005, the Company incurred additional costs of $19 relating to severance costs of $2, asset impairment charges of $16 and other costs of $1. In the third quarter of 2005, the Company incurred additional costs of $4 relating to severance costs of $1 and other charges of $3. The Company expects to incur additional charges of $1 in relation to these restructuring activities.

In early 2004, the Company permanently halted production at its Jonquière Söderberg primary aluminum facility in Saguenay, Quebec (Primary Metal). As a result, the Company recorded charges of $14 (Q1: $5; Q2: $6; Q3: $1; Q4: $2) in 2004 comprising $5 (Q1: $1; Q2: $2; Q3: nil; Q4: $2) of severance costs, $5 (Q1: $4; Q2: $1; Q3: nil; Q4: nil) of asset impairment charges, and $4 (Q1: nil; Q2: $3; Q3: $1; Q4: nil) of other costs. In the first quarter of 2005, the Company incurred additional dismantling costs of $1 relating to the closure of this facility. The Company expects to incur an additional $4 of severance and other costs in 2005 and $4 in 2006 in relation to this restructuring activity.

---

6. RESTRUCTURING PROGRAMS (cont'd)

2001 Restructuring Program

In 2001, the Company implemented a restructuring program aimed at safeguarding its competitiveness, resulting in a series of plant sales, closures and divestments throughout the organization. In the context of the Company's objective of value maximization, a detailed business portfolio review was undertaken in 2001 to identify high cost operations, excess capacity and non-core products. Impairment charges arose as a result of negative projected cash flows and recurring losses. These charges related principally to buildings, machinery and equipment and some previously capitalized project costs. This program was essentially completed in 2003.

In 2004, the Company recorded charges related to the 2001 restructuring program of $7 (Q1: nil; Q2: $1; Q3: $3; Q4: $3) relating principally to the closure of facilities in the U.K. (Bauxite and Alumina) and the closure of cable operations in Canada and the U.S. (Engineered Products), and recorded recoveries of $14 (Q1: $7; Q2: nil; Q3: $7; Q4: nil) relating principally to the sale of assets related to the closure of facilities in Glasgow, U.K. and other recoveries related to the closure of facilities in the U.K. (Bauxite and Alumina). Following the spin-off, $16 of the restructuring provision has been transferred to Novelis.

The schedule provided below shows details of the provision balances and related cash payments for the significant restructuring activities:

	Severance Costs	**Asset Impairment Provisions***	**Other**	**Total**
Provision balance as at January 1, 2004	86	-	46	132
2004:				

Charges recorded in the statement of income

44

30

13

87

Charges recorded in the allocation of the

Pechiney purchase price

175

-

18

193

Cash payments

(99)

-

(33)

(132)

Non-cash items

-

(30)

8

(22)

Provision balance as at December 31, 2004

206

-

52

258

Nine months, 2005:

Provisions transferred to Novelis

(31)

-

(14)

(45)

Charges recorded in the statement of income

87

25

23

135

Cash payments - net

(79)

-

(26)

(105)

Non-cash items

(26)

(25)

(9)

(60)

Provision balance as at September 30, 2005

157

-

26

183

* Fair value of assets was determined using discounted future cash flows.

The schedule below shows details of the charges by operating segment:

Charges (recoveries) recorded in the statement of income in Other expenses (income) - net

Quarter ended September 30, 2005

Severance Costs

Asset Impairment Provisions

Other

Total

Bauxite and Alumina

6

1

2

9

Engineered Products

1

-

-

1

Packaging

6

4

12

22

Other

-

-

1

1

Total

13

5

15

33

-15-

6. RESTRUCTURING PROGRAMS (cont'd)

Nine months ended September 30, 2005

Severance Costs

Asset Impairment Provisions

Other

Total

Bauxite and Alumina

6

1

2

9

Primary Metal

-

-

1

1

Engineered Products

48

3

-

51

Packaging

31

21

21

73

Other

2

-

(1)

1

Total

87

25

23

135

For the third quarter and nine months ended September 30, 2005, $21 and $84, respectively, of the restructuring charges above are excluded from the measurement of the profitability of the Company's operating segments (Business Group Profit), as they relate to major corporate-wide acquisitions or initiatives. See note 7 - Information by Operating Segment.

7. INFORMATION BY OPERATING SEGMENT

The following presents selected information by operating segment, viewed on a stand-alone basis. Subsequent to the spin-off of substantially all of the Company's rolled products businesses to Novelis, the operating management structure is comprised of four operating segments. The four operating segments are Bauxite and Alumina; Primary Metal; Engineered Products; and Packaging. Prior to the spin-off, there were two additional operating segments: Rolled Products Americas and Asia and Rolled Products Europe. All prior periods have been restated to reflect the new operating management structure. The Company's measure of the profitability of its operating segments is referred to as business group profit (BGP). BGP comprises earnings before interest, income taxes, minority interests, depreciation and amortization and excludes certain items, such as corporate costs, restructuring costs (relating to major corporate-wide acquisitions or initiatives), impairment and other special charges, and pension actuarial gains, losses and other adjustments, that are not under the control of the business groups or are not considered in the measurement of their profitability. These items are generally managed by the Company's corporate head office, which focuses on strategy development and oversees governance, policy, legal, compliance, human resources and finance matters. The change in fair market value of derivatives is removed from individual BGP and is shown on a separate line in the reconciliation to income from continuing operations. This presentation provides a more accurate portrayal of underlying business group results and is in line with the Company's portfolio approach to risk management. Transactions between operating segments are conducted on an arm's-length basis and reflect market prices. Thus, earnings from the Primary Metal group represent mainly profit on metal produced by the Company, whether sold to third parties or used in the Company's fabricating operations. Earnings from the

Engineered Products and Packaging groups represent only the fabricating profit on their respective products.

The accounting principles used to prepare the information by operating segment are the same as those used to prepare the consolidated financial statements of the Company, except for the following two items:

(1) The operating segments include the Company's proportionate share of joint ventures (including joint ventures accounted for using the equity method) and certain other equity-accounted investments as they are managed within each operating segment, with the adjustments for equity-accounted joint ventures and certain investments shown on a separate line in the reconciliation to Income from continuing operations; and

(2) Pension costs for the operating segments are based on the normal current service cost with all actuarial gains, losses and other adjustments being included in Intersegment and other.

The operating segments are described below.

7. INFORMATION BY OPERATING SEGMENT (cont'd)

Bauxite and Alumina

Headquartered in Montreal, Canada, this group comprises Alcan's worldwide activities related to bauxite mining and refining into smelter-grade and specialty aluminas, owning and/or operating six bauxite mines and deposits in five countries, five smelter-grade alumina plants in four countries and six specialty alumina plants in three countries. This group also comprises sales of alumina technology and technical assistance and a bauxite and alumina trading business.

Primary Metal

Also headquartered in Montreal, this group comprises smelting operations, power generation, production of primary value-added ingot, manufacturing of smelter anodes and cathodes, as well as aluminum fluoride, smelter technology and equipment sales, engineering services and trading operations for aluminum, operating or having interests in 22 smelters in 11 countries.

Engineered Products

Headquartered in Paris, France, this group produces extruded, rolled and cast aluminum products, engineered shaped products and structures, including cable, wire and rod, as well as composite materials such as aluminum-plastic, fibre reinforced plastic and foam-plastic in 49 plants located in 11 countries. Also included in Engineered Products are 37 service centres in 11 countries offering technical assistance, cutting, shaping, machining and assembling for smaller customers, and nearly 33 offices that sell and source products in 32 countries.

Packaging

Also headquartered in Paris, this group consists of the Company's worldwide food, pharmaceutical and medical, beauty and personal care and tobacco packaging businesses, operating approximately 150 plants in 30 countries.

Intersegment and other

This classification includes the deferral or realization of profits on intersegment sales of aluminum and alumina, corporate office costs as well as other non-operating items.

Third Quarter

Nine Months

Periods ended September 30

	2005	2004	2005	2004
Sales and operating revenues - intersegment				
Bauxite and Alumina	**397**	362	**1,172**	1,151
Primary Metal	**466**	939	**1,460**	2,806
Engineered Products	**4**	176	**172**	547
Packaging	**3**	18	**5**	

51

Entities transferred to Novelis

-

196

-

388

Other

(870)

(1,691)

(2,809)

(4,943)

-

-

-

-

Sales and operating revenues - third parties

Bauxite and Alumina

352

282

1,094

1,079

Primary Metal

1,695

	1,121
	5,030
	3,257
Engineered Products	
	1,393
	1,388
	4,542
	4,204
Packaging	
	1,439
	1,483
	4,601
	4,494
Entities transferred to Novelis	
	-
	1,906
	-
	5,349
Adjustments for equity-accounted joint ventures and	
certain investments	
	(5)
	(6)
	(35)
	-

Other

13

10

39

29

4,887

6,184

15,271

18,412

7. INFORMATION BY OPERATING SEGMENT (cont'd)

Third Quarter

Nine Months

Periods ended September 30

2005

2004

2005

2004

Business Group Profit (BGP)

Bauxite and Alumina

98

124

306

338

Primary Metal

364

353

1,220

1,167

Engineered Products

106

81

322

291

Packaging

157

163

488

499

Entities transferred to Novelis

-

163

-

505

Adjustments for equity-accounted joint ventures and certain investments

(61)

(54)

(212)

(159)

Adjustments for mark-to-market of derivatives

(19)

10

11

(2)

Depreciation and amortization

(266)

(322)

(806)

(982)

Intersegment, corporate offices and other

(131)

(154)

(377)

(546)

Equity income

16

13

73

46

Interest

(92)

(73)

(267)

(253)

Income taxes

(101)

(134)

(269)

(300)

Minority interests

1

1

(1)

(14)

Income from continuing operations

72

171

488

590

September 30, 2005

December 31, 2004

Total Assets

Bauxite and Alumina

4,339

3,496

Primary Metal

10,450

10,342

Engineered Products

4,199

4,601

Packaging

7,443

8,255

Entities transferred to Novelis

-

5,434

Adjustments for equity-accounted joint ventures and

certain investments

(491)

(313)

Other

829

573

Assets held for sale:

Bauxite and Alumina

-

63

Primary Metal

156

		823
Engineered Products	**41**	63
Packaging	**7**	4
Total assets held for sale	**204**	953
	26,973	33,341

Risk Concentration

The Company's consolidated sales and operating revenues for the third quarter and nine months ended September 30, 2005 include $399 and $1,544, respectively, arising from transactions with Novelis. These sales and operating revenues represent 8% and 10% of the consolidated sales and operating revenues for the third quarter and nine months ended September 30, 2005, respectively.

The following table includes sales and operating revenues to Novelis by business group:

Periods ended September 30, 2005	**Third Quarter**	**Nine Months**
Bauxite and Alumina	**10**	**35**
Primary Metal	**373**	

1,429

Engineered Products

10

64

Packaging

6

16

Total

399

1,544

8. STOCK OPTIONS AND OTHER STOCK-BASED COMPENSATION

Alcan Executive Share Option Plan

On January 6, 2005, Alcan executive share options to purchase 1,355,535 shares, granted to Novelis employees who were Alcan employees immediately prior to the spin-off, were cancelled and replaced by Novelis with options to purchase Novelis' common shares.

As a result of the spin-off of Novelis, Alcan executive share options held prior to the spin-off of Novelis have been converted to new options, the number and exercise prices of which were based on the trading prices of Alcan shares immediately before and immediately after the effective date of the spin-off to preserve the economic value of the option grants. This amounts to a conversion ratio of one share under the original grants to 1.1404 shares under the new options and the exercise price per option was reduced accordingly.

Effective January 1, 2004, the Company retroactively adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation. The Black-Scholes valuation model is used to determine the fair value of the options granted. For the third quarter and nine months ended September 30, 2005, the stock-based compensation expense was $4 and $14, respectively (2004: $3 and $7), of which nil and $2, respectively (2004: nil) were related to the incremental cost that arose as a result of the modification of certain stock option terms pursuant to the spin-off of Novelis.

Shares Under Pechiney Options

As a result of the spin-off of Novelis, Pechiney options held prior to the spin-off have been converted in the same manner as described under the Alcan Executive Share Option Plan.

Compensation to be settled in cash

Stock Price Appreciation Unit Plan

On January 6, 2005, 211,035 Stock Price Appreciation Units (SPAUs), representing SPAUs held by Novelis employees who were Alcan employees immediately prior to the spin-off, were cancelled and replaced by Novelis with Novelis' SPAUs. The remaining SPAUs were converted in the same manner as described under the Alcan Executive Share Option Plan.

Executive and Non-Executive Directors Deferred Share Unit Plan

On January 6, 2005, Executive and Non-Executive Directors Deferred Share Units held prior to the spin-off of Novelis have been converted in the same manner as described under the Alcan Executive Share Option Plan.

Total Shareholder Return Performance Plan

On January 6, 2005, all Novelis employees who were Alcan employees immediately prior to the spin-off ceased to actively participate in and accrue benefits under this plan. The accrued award amounts for these employees were converted by Novelis into restricted share units in Novelis. No cash payments were made to these employees as a result of the spin-off nor does Alcan have any liability to make future cash payments to these individuals.

Restricted Stock Units

As a result of the spin-off, Restricted Stock Units held prior to the spin-off of Novelis have been converted in the same manner as described under the Alcan Executive Share Option Plan.

Deferred Share Agreements

As a result of the spin-off of Novelis, 33,500 deferred shares held by a Novelis employee who was an Alcan employee immediately prior to the spin-off were cancelled and replaced by Novelis with Novelis deferred shares.

Compensation Cost

For the third quarter and nine months ended September 30, 2005, the stock-based compensation expense (income) for arrangements that can be settled in cash was $4 and $(9), respectively (2004: $21 and $17).

-19-

9. INCOME TAXES

Third Quarter

Nine Months

Periods ended September 30

2005

2004

2005

2004

Current

15

151

141

303

Deferred

86

(17)

128

(3)

101

134

269

300

The composite of the applicable statutory corporate income tax rates in Canada is 32% (2004: 32%). The increase in the effective tax rate in the third quarter of 2005 resulted from balance sheet translation losses due to the strengthening of the Canadian dollar.

10. LONG-TERM DEBT

Following the spin-off, the Company settled amounts due from Novelis and received net proceeds of $2.6 billion in the first quarter of 2005. In addition to these proceeds, approximately $200 in debt was transferred to Novelis. These net proceeds were used to reduce two term loans and Alcan's commercial paper balance included in Short-term borrowings and Debt not maturing within one year as at December 31, 2004.

On May 31, 2005, the Company issued $500 of 5.00% Notes due in 2015 and $300 of 5.75% Notes due in 2035. The net proceeds of these offerings were used to repay outstanding commercial paper debt.

11. OTHER EXPENSES (INCOME) - NET

	Third Quarter		Nine Months	
Periods ended September 30	**2005**	2004	**2005**	2004
Restructuring and other costs (recoveries) - net	**30**	15	**121**	

60

Asset impairment provisions

5

10

40

20

Loss (Gain) on disposal of businesses

and investments - net

(5)

(2)

11

(44)

Provision for legal claims

1

3

12

5

Environmental provisions

-

-

8

-

Derivatives losses (gains) - net(1)

16

(28)

21

1

Interest revenue

(7)

(2)

(37)

(10)

Pechiney integration costs

-

11

14

24

Exchange losses (gains) - net

31

41

(9)

30

Other

(16)

1

(29)

14

55

49

152

100

(1) On forward and fixed price contracts qualifying as cash flow hedges, there was hedge ineffectiveness of $(13) and $(9) for the third quarter and nine months ended September 30, 2005, respectively (2004: nil and nil).

12. INVENTORIES

	September 30, 2005	December 31, 2004
Aluminum operating segments		
Aluminum	**974**	1,881
Raw materials	**715**	733
Other supplies	**335**	576
	2,024	3,190
Packaging operating segments		
Raw materials and other supplies	**307**	347
Work in progress		

153

147

Finished goods

321

356

781

850

2,805

4,040

13. SALE OF RECEIVABLES

In March 2005, the Company entered into a new program to sell to a third party an undivided interest in certain trade receivables, with limited recourse, for maximum cash proceeds of $200. The maximum credit exposure to the Company is held in reserve by the third party and is recorded in Deferred charges and other assets. The Company acts as a service agent and administers the collection of the receivables sold. As at September 30, 2005, the Company sold trade receivables of $231 under this program, with $31 held in reserve by the third party. This program replaces a $300 program that was discontinued in January 2005 due to the spin-off of Novelis.

14. SUPPLEMENTARY INFORMATION

Third Quarter

Nine Months

Periods ended September 30

2005

2004

2005

2004

Income Statement

Interest on long-term debt

88

67

254

213

Capitalized interest

(8)

(3)

(18)

(7)

September 30, 2005

December 31, 2004

Balance Sheet

Payables and accrued liabilities include the following:

Trade payables

1,894

2,816

Accrued liabilities

2,492

3,027

15. COMMITMENTS AND CONTINGENCIES

The Company has guaranteed the repayment of approximately $183 of indebtedness by third parties. Alcan believes that none of these guarantees is likely to be invoked. These guarantees relate primarily to debt held by equity-accounted joint ventures, obligations related to businesses sold, customer contracts, employee housing loans and potential environmental remediation at former Alcan sites.

The Company carries insurance covering liability, including defence costs, of directors and officers of the Company, incurred as a result of their acting as such, except in the case of failure to act honestly and in good faith. The policy provides coverage against certain risks in situations where the Company may be prohibited by law from indemnifying the directors or officers. The policy also reimburses the Company for certain indemnity payments made by the Company to such directors or officers, subject to a $10 deductible in respect of each insured loss.

Alcan, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. The Company is named as a defendant in relation to environmental contingencies at approximately 38 existing and former Alcan sites and third-party sites. Accruals have been made in specific instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. The Company has transferred to Novelis certain environmental contingencies of Alcan Aluminum Corporation, as described in Item 3(A) - Legal Proceedings - Environmental Matters of the Company's Form 10-K filed on March 16, 2005.

Alcan has agreed to indemnify Novelis and each of its directors, officers and employees against liabilities relating to:

- liabilities of the Company other than those of an entity forming part of Novelis or otherwise assumed by Novelis pursuant to its separation agreement with Novelis;
- any liability of the Company or its subsidiaries, other than Novelis, retained by Alcan under the separation agreement; and
- any breach by the Company of its separation agreement with Novelis or any of its ancillary agreements with Novelis.

Although there is a possibility that liabilities may arise in other instances for which no accruals have been made, the Company, further to reasonably diligent review, does not believe that any losses in excess of accrued amounts would be sufficient to significantly impair its operations, have a material adverse effect on its financial position or liquidity, or materially and adversely affect its results of operations for any particular reporting period, absent unusual circumstances.

-21-

16. COMPREHENSIVE INCOME

Third Quarter

Nine Months

Periods ended September 30

2005

2004

2005

2004

Net income

81

167

490

604

Other comprehensive income (loss):

Net change in deferred translation adjustments

4

133

(555)

(19)

Net change in excess of market value over book value of

"available-for-sale" securities

-

1

(4)

(1)

Valuation of derivatives, net of tax of $23 and $(6), respectively, for the quarter and nine months ended

September 30, 2005 (2004: $7 and $12)

Net change from periodic revaluations

(55)

(18)

(12)

(34)

Net amount reclassified to income

6

3

26

9

Net change in minimum pension liability, net of tax of

$(4)and $(16), respectively, for the quarter and nine months ended September 30, 2005 (2004: $1 and $2)

12

(2)

8

(4)

(33)

117

(537)

(49)

Comprehensive income (loss)

48

284

(47)

555

September 30, 2005

December 31, 2004

Accumulated other comprehensive income (loss)

Deferred translation adjustments

404

1,063

Unrealized gain on "available-for-sale" securities

4

8

Minimum pension liability

(509)

(550)

Derivatives

(50)

(64)

Accumulated other comprehensive income (loss)

(151)

457

17. SALES AND ACQUISITIONS OF BUSINESSES AND INVESTMENTS

2005

Canada

On May 16, 2005, the Company announced that it had reached an agreement to purchase Interglass, a privately owned company located in Woodbridge, Ontario, Canada, specialized in the converting of glass tubing. The acquisition was completed on May 31, 2005 for a cost of $9.

United States

On July 8, 2005, the Company announced its acquisition of Prewired Systems LLC based in Pacoima, California, a company specializing in manufactured wiring systems for the electrical industry for a cost of $4.

Asia and Other Pacific

On March 22, 2005, the Company announced the creation of a new company in the Chinese Suzhou region, which will be equipped to fabricate packaging for beauty and personal care products. The Company has signed an agreement with the local government of the Mudu New District for the manufacturing site, which will initially produce plastic and aluminum packaging for cosmetics and skincare. Production will commence in the fourth quarter of 2005.

On April 18, 2005, the Company announced its acquisition of the tobacco packaging interests of CM Printing Sdn Bhd in Malaysia for a cost of $2. Located at Rawang, Alcan Packaging Malaysia Sdn Bhd will incorporate modern equipment and infrastructure to further complement Alcan Packaging's existing tobacco and flexibles printing capability in South-East Asia.

On September 20, 2005, the Company announced its acquisition of the capsules and closures distribution businesses of Classic Packaging and Nellie Products, subsidiaries of Foster's Group, an Australian beer, wine and spirit producer, for a total cost of $15.

17. SALES AND ACQUISITIONS OF BUSINESSES AND INVESTMENTS (cont'd)

France, United Kingdom, Germany, Other Europe

On February 15, 2005, the Company announced that it reached an agreement with the U.K. administrators of Parkside International, to acquire the assets of Parkside's flexible food packaging plant in Zlotow, Poland. The acquisition was completed on May 2, 2005 for a cost of $14, following the approval of Polish and German anti-trust authorities.

On March 16, 2005, the Company completed the sale of Guardian Espanola S.A. to its current local management team. Located in Vitoria, Spain, Guardian Espanola S.A. produces flexible packaging and promotional items.

On April 1, 2005, the Company completed the sale of its aluminum tubes business for net proceeds of $10 to its then current management team and 21 Centrale Partners, an investment fund specialized in high potential mid-size industrial companies. The sale consists of three plants located in Saumur (France), Kolin (Czech Republic) and Cividate al Piano (Italy).

On June 2, 2005, the Company announced that it has completed the sale of its airfreight container business, a minor part of its operations at its Singen, Germany, facility, to Driessen Aerospace Group in the Netherlands, a manufacturer of containers, trolleys and related products for the aerospace market. As at September 30, 2005, the sale was not recognized due to the Company's continuing involvement in the business.

On June 7, 2005, the Company completed the sale of Decoplast, its European Beauty blow-molded bottle business, to IPH Groupe Spid, a French leader in plastic conversion. IPH Groupe Spid is specialized in the injection of technical and design parts for the automotive, food and general packaging markets. The sale includes the two sites of Decoplast in La Roche sur Foron and Senlis (France).

On July 13, 2005, Alcan Service Centres, part of the Engineered Products business group, announced that it had taken full ownership of Almet AG by purchasing the outstanding 36.6% minority interest held by its current management team at a cost of $10.

On August 5, 2005, the Company completed the sale of Pet Plas Packaging Ltd. food plastic bottles company to Esterform Packaging Limited, based in the U.K., for net proceeds of $19.

On September 1, 2005, the Company completed the sale of Alcan Print Finishers Ltd., the U.K. decorative print finishing company, to Celloglas Holdings Limited for net proceeds of $30.

On September 6, 2005, Alcan announced the sale of Alcan Packaging Sutton Ltd. in the U.K. and the Italian Laffon plant for net proceeds of $51 and $(1), respectively. Alcan Packaging Sutton Ltd. was sold to the Impress Group, an international provider of metal packaging for food, seafood, paints and coatings, and aerosols. The Laffon plant, located in Venegono, Italy, manufactures mass-market stock compacts and was sold to its General Manager, Luca Rossi.

2004

Asia and Other Pacific

On March 10, 2004, the Company announced that it had secured the necessary regulatory and government approvals to move forward with its previously announced definitive joint venture agreement, signed in October 2003, with the Qingtongxia Aluminium Group Company Limited and the Ningxia Electric Power Development and Investment Co. Ltd. Under the agreement, Alcan invested $110 for a 50% participation and for a secure power supply in an existing 150-kilotonne (kt) modern pre-bake smelter located in the Ningxia autonomous region in the People's Republic of China. The agreement provides for the joint venture to obtain long-term access to dedicated power on competitive terms sufficient to meet the energy requirements of the smelter. The joint venture also gives Alcan a substantial operating role and the option to acquire, through additional investment, up to 80% of a new 250-kt potline, already under construction. The investment is accounted for using the equity method.

Other Europe

In 2004, the Company recorded in Other expenses (income) - net a gain of $46 (Q1: nil; Q2: $42; Q3: nil; Q4: $4) due to the dilution of its ownership interest in Aluminium & Chemie Rotterdam B.V. (Primary Metal).

-23-

17. SALES AND ACQUISITIONS OF BUSINESSES AND INVESTMENTS (cont'd)

All other

On June 29, 2004, the Company announced that Alcan officials and a South African delegation are continuing to examine the best value-creating alternatives offered by the aluminum smelter project originally proposed by Pechiney in Coega, South Africa. On November 18, 2004, the Company announced that it will conduct a new feasibility study for the construction of a new aluminum smelter with the South African Government and Industrial Development Corporation.

On November 24, 2004, the Company announced that it had signed a protocol of negotiation with Alcoa World Alumina LLC (Alcoa) and the Government of the Republic of Guinea (the Government) for the development of a 1.5-million tonne per year alumina refinery in the West African nation. This protocol sets out the items and framework for the alumina refinery project, which will be negotiated with the Government during the upcoming months as part of the Memorandum of Understanding between the parties, announced in May, 2004.

Pursuant to a Memorandum of Understanding signed in June 2004, on February 23, 2005, the Company announced the signing of a Shareholders' Agreement with Oman Oil Company S.A.O.C. and the Abu Dhabi Water and Electricity Authority for a 20% equity interest in the development of a proposed 325-kt aluminum smelter project in Sohar, Oman. The Company has the option of acquiring up to 60% of a planned second potline for an additional 330 kt of aluminum. The agreement provides that the Company would license its AP35 smelter technology. Subject to successful completion of the project agreements and financing arrangements, construction is expected to commence in the fourth quarter of 2005 and result in the first metal production by 2008.

18. POST-RETIREMENT BENEFITS

Alcan and its subsidiaries have established pension plans in the principal countries where they operate, generally open to all employees. Most plans provide pension benefits that are based on the employee's service and highest average eligible compensation before retirement. Pension benefits are periodically adjusted for cost of living increases, either by Company practice, collective agreement or statutory requirement. Plan assets consist primarily of publicly-traded stocks and high-rated debt securities, excluding securities in Alcan, and include only small amounts in other categories, except for the Swiss plan, whose target allocation is evenly distributed between equity, bonds and real estate.

Components of Net Periodic Benefit Cost

Pension benefits

Other Benefits

Third Quarter

Nine Months

Third Quarter

Nine Months

Periods ended September 30

2005

2004

2005

2004

2005

2004

2005

2004

Service cost

42

46

124

137

3

4

9

12

Interest cost on benefit obligation

136

136

411

406

14

15

42

45

Expected return on plan assets

(137)

(129)

(412)

(385)

-

-

-

-

Amortization:

Actuarial (gains) losses

23

17

71

51

-

-

(2)

-

Prior service cost

16

18

46

53

-

-

-

-

Curtailment/settlement gains

-

-

-

(23)

-

-

-

-

Net periodic benefit cost

80

88

240

239

17

19

49

57

The expected long-term rate of return on plan assets is 7% in 2005.

Employer Contributions

Alcan previously disclosed in its financial statements for the year ended December 31, 2004, that it expected to contribute $206 to its funded pension plans in 2005. The contributions are expected to be fully comprised of cash. As at September 30, 2005, $141 has been contributed, and the Company expects to contribute an additional $60 over the remainder of the year. As previously disclosed in its financial statements for the year ended December 31, 2004, the Company expected to pay in 2005, $76 of unfunded pension benefits and lump sum indemnities from operating cash flows. As at September 30, 2005, $48 has been paid, and the Company expects to pay an additional $16 over the remainder of the year. The lower contributions are principally due to the spin-off of Novelis.

-24-

18. POST-RETIREMENT BENEFITS (cont'd)

Spin-off of Novelis

In 2005, the following transactions transpired related to existing Alcan pension plans covering Novelis employees:

a) In the U.S., for Novelis employees previously participating in the Alcancorp Pension Plan and the Alcan Supplemental Executive Retirement Plan, Alcan agreed to recognize up to one year of additional service in its plan as long as such employee worked for Novelis and Novelis paid to Alcan the normal cost (in the case of the Alcancorp Pension Plan) and the current service cost (in the case of the Alcan Supplemental Executive Retirement Plan). Novelis decided that it will transfer in 2006 to a Novelis plan its share of pension assets and liabilities for past service for all active employees on December 31, 2005.

b) In the U.K., the sponsorship of the Alusuisse Holdings U.K. Ltd Pension Plan was transferred from Alcan to Novelis. Employees who transferred from British Alcan Aluminium plc to Novelis continue to participate in the British Alcan Retirement Income Plan in 2005 and the contribution required to fund their additional service shall be paid by Novelis. Novelis decided that it will transfer in 2006 to a Novelis plan its share of pension assets and liabilities (for active employees who elect such a transfer) for benefits accrued in the Alcan Plan through December 31, 2005.

c) In Switzerland, employees who transferred from Alcan to Novelis continue to participate in the Alcan retirement schemes in 2005 and the contribution required to fund their additional service is being paid by Novelis.

d) In Canada, Novelis decided that it will transfer in 2006 to a Novelis plan its share of pension assets and liabilities (for active employees who elect such a transfer) for credited service in the Alcan Plan through December 31, 2004.

The benefit obligation at December 31, 2004 of pension benefits and other benefits of $11,384 and $1,050, respectively included $550 and $115 of pension and other benefit obligations, respectively, that were transferred to Novelis on January 6, 2005, as part of the spin-off of Novelis described in note 5 - Spin-off of Rolled Products Businesses. The market value of plan assets at December 31, 2004 of pension benefits of $8,468 included $290 that was transferred to Novelis. In addition, certain entities of Novelis, prior to the spin-off, participated in defined benefit pension plans in Canada, the U.S., the U.K., and Switzerland managed by Alcan. Included in the net periodic benefit cost for the third quarter and nine months ended September 30, 2004 are $(5) and $5 of pension and $2 and $6 of other benefits, respectively, related to Novelis. The expected contribution of $206 to funded pension plans in 2005 included $14 to be paid by Novelis. The expected payment of $76 of unfunded pension benefits and lump sum indemnities in 2005 included $7 to be paid by Novelis.

19. FINANCIAL INSTRUMENTS

In conducting its business, the Company uses various derivative and non-derivative instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates, aluminum prices and other commodity prices. Generally, such instruments are used for risk management purposes only. The Company is the counterparty to a number of such contracts with the businesses spun-off to Novelis. In 2004, these contracts represented intercompany balances and transactions and were eliminated in the consolidated financial statements. Subsequent to the spin-off of Novelis, these contracts represent third party balances and transactions and they have been included in the relevant disclosures below. Also, the Company's interest rate swaps and electricity derivatives outstanding as at December 31, 2004 were transferred to Novelis at the time of the spin-off.

-25-

19. FINANCIAL INSTRUMENTS (cont'd)

Derivatives – Currency

The Company enters into forward currency contracts and options that are designated as hedges of certain identifiable foreign currency revenue and operating cost exposures. Foreign currency forward contracts and swaps are also used to hedge certain foreign currency denominated debt and intercompany foreign currency denominated loans.

		September 30, 2005	December 31, 2004
Financial Instrument	**Hedge**	**Fair Value**	Fair Value
Forward exchange contracts	Future firm net operating cash flows	**10**	(62)
Forward exchange contracts	To swap intercompany foreign currency denominated loans to US$, € and CHF	**(19)**	(5)
Forward exchange contracts	To hedge € net equity investment	**(34)**	(167)
Forward exchange contracts	Future commitments (1)	**2**	5
Forward exchange contracts	To swap CAN$ commercial paper borrowings to US$	**8**	31

Currency options

Future US$ sales against € and £

(1)

15

Cross currency interest swap

To swap US$ third party borrowings to KRW

-

(8)

Cross currency interest swap

To swap € 21 million medium term notes to £14 million

1

2

Embedded derivatives

1

-

(1) Mainly Australian dollar, principally for the expansion of the Gove alumina refinery in Australia.

Derivatives and Commodity Contracts - Aluminum

Depending on supply and market conditions, as well as for logistical reasons, the Company may sell primary metal to third parties and may purchase primary and secondary aluminum on the open market to meet its fabricated products requirements. In addition, the Company may hedge certain commitments arising from pricing arrangements with some of its customers as well as the effects of price fluctuations on inventories. The Company may also hold for trading purposes physical metal purchase and sales contracts with third parties.

Through the use of forward purchase and sales contracts and options, the Company seeks to limit the negative impact of low metal prices.

September 30, 2005

December 31, 2004

Financial Instrument

Forward contracts (principally forward sales contracts) and physical trading contracts

Maturing principally in years

2006 to 2007

2005 to 2006

Fair value

(35)

(104)

Forward fixed price sales agreements

Maturing principally in years

2005 to 2006

-

Fair value

(39)

-

Call options purchased

Maturing principally in years

2006 to 2007

2005

Fair value

9

36

Call options sold

Maturing principally in years

2006 to 2007

2005

Fair value

(9)

(10)

Embedded derivatives

Maturing principally in years

-

2005

Fair value

-

(10)

---

20. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

The following material adjustments to the unaudited consolidated financial statements would be required to conform with accounting principles generally accepted in Canada (Canadian GAAP). Information on the nature of these adjustments is described in note 35 of the Company's 2004 annual report.

Reconciliation of U.S. and Canadian GAAP

Periods ended September 30

Third Quarter, 2005

Third Quarter, 2004

As reported

Ref.

Amount

Canadian

GAAP

As reported

Ref.

Amount

Canadian

GAAP

Statement of Income

Sales and operating revenues

4,887

(g)

1

4,888

6,184

-

6,184

Cost and expenses

Cost of sales and operating expenses

3,921

(a)

2

3,860

4,997

(a)

(2)

4,932

excluding depreciation and

(g)

(63)

(g)

(63)

amortization noted below

Depreciation and amortization

266

(f)

1

290

322

(f)

1

349

(g)

23

(g)

26

Selling, administrative and general

expenses

331

(g)

1

332

398

(g)

1

399

Research and development expenses

66

-

66

54

-

54

Interest

92

(g)

4

96

73

(g)

4

77

Other expenses (income) - net

55

(a)

1

60

49

(a)

30

81

(g)

4

(g)

2

4,731

(27)

4,704

5,893

(1)

5,892

Income from continuing operations before

income taxes and other items

156

28

184

291

1

292

Income taxes

101

(a)

(1)

112

134

(a)

1

148

(g)

16

(g)

13

(h)

(4)

Income from continuing operations

before other items

55

17

72

157

(13)

144

Equity income (loss)

16

(g)

(16)

-

13

(g)

(17)

(4)

Minority interests

1

-

1

1

-

1

Income from continuing operations

72

1

73

171

(30)

141

Income (Loss) from discontinued operations

9

-

9

(4)

-

(4)

Net income

81

1

82

167

(30)

137

Dividends on preference shares

2

-

2

1

-

1

Net income attributable to

common shareholders

79

1

80

166

(30)

136

(a) Derivatives

(b) Currency translation

(c) Investments

(d) Minimum pension liability

(e) Deferred translation adjustments

(f) Acquired in-process research and development

(g) Joint ventures

(h) Income taxes

20. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (cont'd)

Reconciliation of U.S. and Canadian GAAP

Periods ended September 30

Nine Months, 2005

Nine Months, 2004

As reported

Ref.

Amount

Canadian

GAAP

As reported

Ref.

Amount

Canadian

GAAP

Statement of Income

Sales and operating revenues

15,271

(g)

20

15,291

18,412

(g)

(20)

18,392

Cost and expenses

Cost of sales and operating expenses

12,141

(a)

10

11,987

14,887

(a)

(18)

14,678

excluding depreciation and

(g)

(164)

(g)

(191)

amortization noted below

Depreciation and amortization

806

(f)

3

880

982

(f)

3

1,064

(g)

71

(g)

79

Selling, administrative and general

expenses

1,056

(g)

3

1,059

1,159

(g)

4

1,163

Research and development expenses

164

(g)

1

165

173

-

173

Interest

267

(g)

12

279

253

(g)

10

263

Other expenses (income) - net

152

(a)

2

133

100

(a)

28

132

(g)

(21)

(g)

4

14,586

(83)

14,503

17,554

(81)

17,473

Income from continuing operations before income taxes and other items

685

103

788

858

61

919

Income taxes

269

(a)

(5)

306

300

(a)

5

335

(f)

(1)

(f)

(1)

(g)

47

(g)

31

(h)

(4)

Income from continuing operations

before other items

416

66

482

558

26

584

Equity income

73

(g)

(71)

2

46

(g)

(43)

3

Minority interests

(1)

-

(1)

(14)

-

(14)

Income from continuing operations

488

(5)

483

590

(17)

573

Income from discontinued operations

2

-

2

14

-

14

Net income

490

(5)

485

604

(17)

587

Dividends on preference shares

5

-

5

4

-

4

Net income attributable to

common shareholders

485

(5)

480

600

(17)

583

20. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (cont'd)

Earnings Per Share - Canadian GAAP

	Third Quarter		Nine Months	
Periods ended September 30	**2005**	2004	**2005**	2004
Earnings (Loss) Per Share				
Basic:				
Income from continuing operations	**0.19**	0.38	**1.29**	1.55

Net income attributable to

Income (Loss) from discontinued operations

0.02

(0.01)

0.01

0.03

Net income per common share - basic

0.21

0.37

1.30

1.58

Diluted:

Income from continuing operations

0.19

0.38

1.29

1.54

Income (Loss) from discontinued operations

0.02

(0.01)

0.01

0.03

Net income per common share - diluted

0.21

0.37

1.30

1.57

Consolidated Statement of Retained Earnings - Canadian GAAP

Nine months ended September 30

	2005	2004
Retained earnings - beginning of period	**3,379**	3,350
Net income	**485**	587
Spin-off of Novelis	**(278)**	-
Dividends		
Common	**(222)**	(223)

Preference

(5)

(4)

Retained earnings - end of period

3,359

3,710

20. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (cont'd)

Reconciliation of U.S. and Canadian GAAP (cont'd)

September 30, 2005

December 31, 2004

As reported

Ref.

Amount

Canadian

GAAP

As reported

Ref.

Amount

Canadian

GAAP

Balance Sheet

Current assets

Cash and time deposits

236

(g)

49

285

184

(g)

53

237

Trade receivables

2,490

(g)

34

2,524

3,247

(g)

(133)

3,114

Other receivables

925

(a)

17

985

936

(a)

103

1,113

(g)

43

(g)

74

Deferred income taxes

125

(a)

(13)

112

214

(a)

(34)

180

Inventories

2,805

(g)

124

2,929

4,040

(g)

153

4,193

Current assets held for sale

176

-

176

791

-

791

Total current assets

6,757

254

7,011

9,412

216

9,628

Deferred charges and other assets

2,334

(a)

21

973

2,877

(a)

21

1,272

(c)

(4)

(c)

(8)

(g)

(1,378)

(g)

(1,618)

Deferred income taxes

964

-

964

870

(g)

3

873

Property, plant and equipment

Cost (excluding Construction work in

progress)

16,706

(g)

1,442

18,148

21,595

(g)

2,343

23,938

Construction work in progress

1,439

(g)

22

1,461

1,177

(g)

16

1,193

Accumulated depreciation

(7,097)

(g)

(638)

(7,735)

(9,478)

(g)

(1,180)

(10,658)

11,048

826

11,874

13,294

1,179

14,473

Intangible assets, net of accumulated

amortization

884

(a)

4

774

1,230

(a)

4

1,105

(d)

(242)

(d)

(253)

(f)

44

(f)

46

(g)

84

(g)

78

Goodwill

4,958

(g)

670

5,628

5,496

(g)

837

6,333

Long-term assets for sale

28

-

28

162

-

162

Total assets

26,973

279

27,252

33,341

505

33,846

Current liabilities

Payables and accrued liabilities

4,386

(a)

(40)

4,344

5,843

(a)

(11)

5,896

(g)

(2)

(g)

64

Short-term borrowings

284

(g)

25

309

2,486

-

2,486 Debt maturing within one year

841

(g)

114

955

569

(g)

81

650 Deferred income taxes

28

(g)

3

31

23

(a)

(2)

27

(g)

6

Current liabilities of operations held for sale

75

-

75

335

-

335

Total current liabilities

5,614

100

5,714

9,256

138

9,394

Debt not maturing within one year

5,503

(g)

110

5,613

6,345

(g)

198

6,543

Deferred credits and other liabilities

4,307

(a)

(10)

3,371

4,986

(a)

21

4,044

(d)

(958)

(d)

(1,036)

(g)

32

(g)

73

Deferred income taxes

1,349

(a)

27

1,765

1,543

(a)

9

2,005

(d)

207

(d)

233

(f)

16

(f)

16

(g)

170

(g)

204

(h)

(4)

Long-term liabilities of operations held for sale

4

-

4

249

-

249

Minority interests

73

(a)

1

74

236

-

236

20. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (cont'd)

Reconciliation of U.S. and Canadian GAAP (cont'd)

September 30, 2005

December 31, 2004

As reported

Ref.

Amount

Canadian

GAAP

As reported

Ref.

Amount

Canadian

GAAP

Shareholders' equity

Redeemable non-retractable

preference shares

160

-

160

160

-

160

Common shareholders' equity:

Common shares

6,110

-

6,110

6,670

-

6,670

Additional paid-in capital

695

-

695

112

-

112

Retained earnings

3,340

(a)

29

3,359

3,362

(a)

42

3,379

(b)

(42)

(b)

(55)

(f)

28

(f)

30

(h)

4

Common shares held by a subsidiary

(31)

-

(31)

(35)

-

(35)

Deferred translation adjustments

-

(a)

(28)

418

-

(a)

(29)

1,089

(b)

42

(b)

55

(e)

404

(e)

1,063

Accumulated other comprehensive

income

(151)

(a)

50

-

457

(a)

64

-

(c)

(4)

(c)

(8)

(d)

509

(d)

550

(e)

(404)

(e)

(1,063)

9,963

588

10,551

10,566

649

11,215

10,123

588

10,711

10,726

649

11,375

Total liabilities and shareholders' equity

26,973

279

27,252

33,341

505

33,846

21. PRIOR YEAR AMOUNTS

Certain prior year amounts have been reclassified to conform with current period presentation.

22. SUBSEQUENT EVENTS

On October 3, 2005, the Company announced that it had entered into preliminary discussions with a Valais-based consortium lead by Albert Bass over the potential sale of the Steg, Switzerland aluminum smelter. Subject to the successful completion of the preliminary discussions, a definitive timeframe for the sale will be determined.

On October 7, 2005, the Company announced that it had reached an agreement in principle with Praxair Inc. for the sale of its high-purity activity at the Mercus processing mill in France (refer to note 3 - Discontinued Operations and Assets Held for Sale). The transaction should be completed in the first quarter of 2006.

On October 13, 2005, the Company announced that it had begun discussions with its local stakeholders over a project regarding the definitive and progressive closure process of its Lannemezan, France, aluminum smelter. The closure process is expected to begin by June 2006 and would be completed during the course of 2008, depending on economic and operational conditions.

-31-

Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>

(In millions of US$, except per share amounts, aluminum prices and as otherwise stated)

Prior period information has been retroactively adjusted to reflect the reclassification of certain businesses as discontinued operations. 2004 amounts in this report include Alcan's former rolled products business (Novelis), which was spun-off on January 6, 2005. This Management's Discussion and Analysis includes some measures for which no meaning is prescribed by generally accepted accounting principles (GAAP). Refer to the section "Definitions" for an explanation of these measures.

Overview

The Company reported third quarter income from continuing operations of $72 or $0.19 per common share versus $171 or $0.46 per common share a year earlier and $208 or $0.56 per share in the second quarter of 2005. While the Company benefited from better pricing and sales mix across most businesses, increased ingot volumes and continued progress on synergy capture, income from continuing operations declined year-over-year due to a higher charge for Other Specified Items (OSIs), higher costs for energy and raw materials, the impact of the rolled products spin-off, the negative effects of the weaker U.S. dollar and unfavorable derivative mark-to-market impacts. Income from continuing operations was lower than in the second quarter, reflecting lower aluminum prices and market premia, unfavourable derivative mark-to-market impacts, seasonality in downstream businesses, and unfavourable foreign currency balance sheet translation effects, partially offset by a lower charge for OSIs, the benefits of an improved sales mix upstream, higher ingot volumes and synergy capture. The terms "Other Specified Items" and "Foreign Currency Balance Sheet Translation" are defined under "Definitions" at the end of Management's Discussion and Analysis (MD&A).

Income from continuing operations for the third quarter of 2005 included a primarily non-cash, after-tax loss of $115 or $0.31 per common share for the effects of foreign currency balance sheet translation, compared to an after-tax loss of $123 or $0.33 per common share in the year-ago quarter and an after-tax gain of $4 or $0.01 per common share in the second quarter of 2005. Also included in income from continuing operations for the third quarter were net after-tax costs for OSIs of $10 or $0.03 per common share.

Third Quarter

Nine Months

Second Quarter

2005

2004

2005

2004

2005

Included in income from continuing operations are:

Foreign currency balance sheet translation

(115)

(123)

(81)

(51)

4

Other Specified Items (OSIs)

(10)

24

(137)

(48)

(82)

Income from continuing operations

72

171

488

590

208

Income (Loss) from discontinued operations

9

(4)

2

14

(17)

Net income

81

167

490

604

191

Earnings per share *($ per share)*

Income from continuing operations

0.19

0.46

1.30

1.60

0.56

Net income

0.21

0.45

1.31

1.63

0.52

Average number of shares outstanding (millions)

370.3

368.4

370.2

367.8

370.2

2004 amounts include Novelis but have been retroactively adjusted to reflect the reclassification of certain businesses as discontinued operations.

Third Quarter

Nine Months

Second Quarter

2005

2004

2005

2004

2005

Sales & operating revenues

4,887

6,184

15,271

18,412

5,206

Shipments *(thousands of tonnes)*

Ingot products*

801

471

2,269

1,463

744

Aluminum used in engineered products & packaging

311

364

974

1,124

336

Subtotal

1,112

835

3,243

2,587

1,080

Rolled products

-

740

-

2,120

-

Total aluminum volume

1,112

1,575

3,243

4,707

1,080

Ingot product realizations *($ per tonne)**

1,959

1,880

2,017

1,827

2,034

Average LME 3-month price *($ per tonne)*

1,846

1,716

1,843

1,689

1,796

**Includes primary and secondary ingot and scrap aluminum. Realized prices generally lag LME price changes by one month.*

2004 amounts include Novelis but have been retroactively adjusted to reflect the reclassification of certain businesses as discontinued operations.

Sales and operating revenues were $4.9 billion in the third quarter, down $1.3 billion from the year ago quarter mainly reflecting the impact of the spin-off of the rolled products business on 6 January 2005. Compared to the second quarter of 2005, sales and operating revenues declined by $319 due to seasonally lower volumes in downstream businesses and lower ingot product realizations.

Total aluminum volume, at 1,112 thousand tonnes (kt), was down 463kt from a year earlier principally due to the spin-off of the rolled products business on 6 January 2005. The significant year-over-year increase in ingot product shipments principally reflects third-party sales of ingot to Novelis that were previously classified as intercompany sales. The sequential-quarter increase in ingot shipments mainly reflected successful efforts to reduce inventories.

The bulk of Alcan's ingot product sales are based on the LME 3-month price with a one month lag plus a local market premium and any applicable product premium. In the third quarter, the average LME 3-month price with a one month lag was $1,811 per tonne, compared to $1,700 per tonne a year earlier and $1,868 per tonne in the second quarter of 2005.

The average realized price on sales of ingot products during the third quarter was $1,959 per tonne, up $79 per tonne from the year ago quarter but down $75 per tonne from the second quarter of 2005. The year-over-year increase reflected the impact of higher LME prices partly offset by lower local market premia, while the sequential-quarter decline reflected the impact of lower prices and premia.

Third Quarter

Second Quarter

2005

2004

2005

Other Specified Items (after-tax)

Synergy costs

(15)

3

(33)

Restructuring charges

(10)

(17)

(19)

Asset impairments

(1)

-

(16)

Gains (losses) from non-routine sales of assets, businesses and

investments

15

5

(8)

Tax adjustments

4

46

-

Novelis costs

-

-

5

Purchase-accounting adjustments

-

(11)

-

Other

(3)

(2)

(11)

Other Specified Items

(10)

24

(82)

2004 amounts include Novelis but have been retroactively adjusted to reflect the reclassification of certain businesses as discontinued operations.

The principal OSIs in the third quarter of 2005 included after-tax restructuring charges of $10 principally for the closure of the Sogerem fluorspar mining operations in France, after-tax costs of $15 related to the realization of Pechiney synergy benefits and a net after-tax gain of $15 for the sale of certain assets. The principal items included in OSIs in the third quarter of 2004 were a deferred tax recovery of $46 related to further restructuring of Pechiney legal entities, after-tax restructuring charges of $17 mainly related to the closure of a rolled products facility in the United Kingdom and an after-tax charge of $11 for a purchase accounting adjustment related to inventory. The principal items included in OSIs in the second quarter of 2005 were after-tax costs of $28 mainly related to the restructuring of certain Engineered Products facilities, principally in Europe, after-tax costs of $24 associated with the Pechiney synergy program and after-tax asset impairments of $16.

Income from continuing operations for the third quarter of 2005 included after-tax mark-to-market losses on derivatives of $0.04 per common share as compared to gains of $0.04 per common share a year ago and gains of $0.06 per common share in the second quarter of 2005. Results for the third quarter of 2005 included non-cash pre-tax expenses of $4 for the stock options as compared to $3 in the year-ago quarter and $5 in the second quarter of 2005.

Net Income

In the third quarter of 2005, the copper trading business and certain non-core Engineered Products operations remained classified as discontinued operations. Collectively, discontinued operations recorded after-tax income of $9 in the third quarter compared to an after-tax loss of $4 in the year-ago quarter and an after-tax loss of $17 in the second quarter of 2005. The results for the second quarter included a loss on the sale of Pechiney Électrométallurgie. Following the end of the third quarter, the decision was taken to close the copper trading business during the fourth quarter of 2005.

Including results from discontinued operations, the Company reported net income of $81, or $0.21 per common share, compared to net income of $167 or $0.45 per common share a year earlier and net income of $191 or $0.52 per common share in the second quarter of 2005.

Synergies

Results for the third quarter included incremental pre-tax synergy benefits of about $62 over the year-ago quarter and $25 over the second quarter of 2005. The annualized synergy run-rate at the end of the third quarter of 2005 was $352.

Operating Segment Review

The term "Business Group Profit" (BGP) is defined under "Definitions" at the end of the MD&A.

Third Quarter

Nine Months

Second Quarter

2005

2004

2005

2004

2005 **Business Group Profit (BGP)**

Bauxite and Alumina

98

124

306

338

111 Primary Metal

364

353

1,220

1,167

425 Engineered Products

106

81

322

291

101 Packaging

157

163

488

499

177 Subtotal

725

721

2,336

2,295

814 Equity accounted joint venture eliminations

(61)

(54)

(212)

(159)

(77) Change in fair market value of derivatives

(19)

10

11

(2)

33 Novelis entities

-

163

-

505

-

645

840

2,135

2,639

770 **Corporate Items**

Intersegment, corporate offices and other

(131)

(154)

(377)

(546)

(161) Depreciation & amortization

(266)

(322)

(806)

(982)

(268) Interest

(92)

(73)

(267)

(253)

(90) Income taxes

(101)

(134)

(269)

(300)

(70) Equity income

16

13

73

46

28 Minority interests

1

1

(1)

(14)

(1) **Income from continuing operations**

72

171

488

590

208

2004 amounts have been retroactively adjusted to reflect the reclassification of certain businesses as discontinued operations and the impact of the Novelis spin-off completed on January 6, 2005.

Bauxite and Alumina: BGP was $98 in the third quarter, which included $13 of OSIs related to the closure of the Sogerem operations in France. Excluding these OSIs, BGP was $111, unchanged from the second quarter but $13 lower than in the year-ago third quarter. Year over year, the group's BGP benefited from higher LME-linked contract prices for alumina, but these were more than offset by the negative effects of higher input costs, most notably for energy, maritime freight and caustic soda, the stronger Australian and Canadian dollars and reduced production following the sale of Aluminium de Grèce in March 2005. On a sequential quarter basis, the benefits of increased spot sales of alumina were offset by higher input costs and unfavourable balance sheet translation effects. For the fourth quarter, BGP is expected to be lower than the third-quarter level of $111 excluding OSIs, mainly due to higher raw material and energy costs.

Primary Metal: BGP for the third quarter was $364, an increase of $11 from the year-ago quarter. Benefits from increased shipments, higher LME prices and an improved sales mix were largely offset by the impact of a weaker U.S. dollar, lower North American market premia and higher input costs, most notably energy and raw materials prices. On a sequential quarter basis, BGP declined by $61 as the benefits of higher shipments, an improved sales mix and lower operating costs were more than offset by reduced LME prices and market premia, on a one-month lag basis, and unfavourable balance sheet translation effects. Increased shipments in the third quarter were largely the result of successful efforts to reduce inventories from their levels at the end of the second quarter. For the fourth quarter, the expected benefit of higher average ingot price realizations will be partially offset by lower shipments and normal seasonal increases in operating costs, particularly for maintenance.

Engineered Products: BGP was $106 in the third quarter, which included OSIs of $8 largely for costs incurred in connection with the renewal of the Ravenswood labour contract. Excluding these OSIs, BGP was $114, which represented an increase of $33 or 41% from the year-ago third quarter. The year-over-year increase reflected strong demand from aerospace and other key markets, improved pricing in the cable segment and synergy benefits from the Pechiney acquisition, which more than compensated for higher energy and raw material costs. Excluding OSIs, BGP on a sequential quarter basis declined $17 or 13% due to normal seasonality in Europe. BGP in the second quarter included OSIs of $30 for the costs of restructuring operations in Switzerland and Germany. BGP for the fourth quarter is expected to be modestly below the third quarter level of $114, excluding OSIs, reflecting some softening in market conditions and seasonal maintenance spending.

-35-

Packaging: BGP was $157 in the third quarter, down $6 from the year-ago quarter. The group's BGP margin held steady at 11%, reflecting successful efforts in dealing with rising costs for key raw materials, most notably resins. It is estimated that as of the end of the quarter the group has on average been able to fully pass through the sharp increase in resin costs that started in 2004. Year over year, the impact of weak business conditions in Europe together with major raw material price increases across all businesses have been almost fully offset by volume growth in other geographic areas, aggressive price increases to recover higher raw material costs, excellent progress on synergy benefit capture and favorable currency movements. On a sequential quarter basis, BGP was down $20 or 11% due to normal seasonality, the impact of business disposals and unfavorable currency movements, which more than offset ongoing operational cost progress and benefits from synergy and restructuring activities. BGP for the fourth quarter is expected to be lower than third quarter levels due to a further sharp increase in resin and energy costs following Hurricane Katrina, as well as normal seasonal volume patterns.

Corporate Items

The Intersegment, corporate offices and other expense category includes corporate head office costs as well as other non-operating items and the elimination of profits on intersegment sales of aluminum. In the third quarter of 2005, the other expense category included OSIs of $6 pre-tax. Included in OSIs were pre-tax costs of $23 related to the realization of Pechiney synergy benefits, partially offset by a net pre-tax gain of $16 for the sale of certain assets.

Depreciation and amortization expenses, at $266, were $56 lower than in the year-ago quarter primarily reflecting the impact of the rolled products business spin-off.

Interest expense was $92 in the third quarter compared to $73 in the prior-year quarter. Last year's third quarter included purchase accounting adjustments that reduced interest expense by $13. Adjusting for this, the year-over-year increase in interest expense mainly reflects higher interest rates.

Investments in entities over which Alcan has significant influence but not control are accounted for using the equity method. Equity income was $16 in the third quarter, $3 higher than in year-ago quarter but $12 lower than in the second quarter of 2005. The sequential quarter decline mainly reflects the absence of mark-to-market gains on power-related derivatives at the Company's 50%-owned SORAL joint venture in Norway.

The Company's effective tax rate on income from continuing operations was 65% in the third quarter and 39% year to date. The higher effective tax rate in the third quarter resulted from balance sheet translation losses due to the strengthening of the Canadian dollar. In the second quarter, the effective tax rate was 28%, which reflected the impact of balance sheet translation gains. Income tax expense for the third quarter of 2005 included benefits of $27 mainly for the finalization of tax provisions related to prior periods, of which $4 is included in OSIs.

Liquidity and Capital Resources

Operating Activities

Cash from operating activities in continuing operations was $697 in the third quarter of 2005 compared to $713 a year earlier and $242 in the second quarter of 2005. Year ago cash flow included contributions from Alcan's former rolled products business. Compared to the second quarter of 2005, the increase in cash from operating activities in continuing operations was due to lower working capital which reflected seasonal business patterns together with successful efforts to reduce inventory levels. After dividends of $59 and capital expenditures of $447, free cash flow from continuing operations was $191 for the third quarter of 2005. In the year-ago quarter, after dividends of $58 and capital expenditures of $272, free cash flow from continuing operations was $383. The year-over-year increase in capital spending was mainly due to the expansion of the Gove alumina refinery in Australia. The term "Free cash flow" is defined under "Definitions" at the end of Management's Discussion and Analysis.

Financing Activities

Debt as a percentage of invested capital as at September 30, 2005 was 39%, down from 40% at the end of the second quarter of 2005 and 45% at the end of the prior-year quarter.

The term "Debt as a percentage of invested capital" is defined under "Definitions" at the end of Management's Discussion and Analysis.

Debt as a Percentage of Invested Capital

	30 September		30 June
	2005	2004	2005
Debt			
Short-term borrowings	**284**	1,024	339
Debt maturing within one year	**841**	544	854
Debt not maturing within one year	**5,503**	7,509	5,630
Debt of operations held for sale	**1**	9	1

Total debt

6,629

9,086

6,824

Equity

Minority interests

73

206

91

Redeemable non-retractable preference shares

160

160

160

Common shareholders' equity

9,963

10,588

9,969

Total equity

10,196

10,954

10,220

Total invested capital

16,825

20,040

17,044

Debt as a percent of invested capital (%)

39%

45%

40%

Investment Activities

Capital expenditures during the third quarter of 2005 were $447 compared to $272 a year earlier. Capital expenditures were higher in the current year's quarter as a result of the spending on the Gove alumina refinery expansion. Capital expenditures for the Gove alumina refinery expansion were $256 for the quarter and $610 year to date. Due to the Gove expansion, capital expenditures for the full year are expected to be above depreciation expense.

Liquidity

Alcan has access to a $3 billion committed credit facility, which is used primarily to support Alcan's commercial paper programs. As at the date of this report, November 9, 2005, Alcan has $1.2 billion of commercial paper outstanding, and as a result, the unused portion of the credit facility was $1.8 billion. Based on the Company's forecasts, the Company believes that the cash from continuing operations together with available credit facilities will be more than sufficient to meet the cash requirements of operations, planned capital expenditures, dividends and any short-term debt refinancing requirements. In addition, the Company believes that its ability to access global capital markets, as demonstrated by the $800 long term notes issuance in May 2005, provides any additional liquidity that may be required to meet unforeseen events.

Contractual Obligations

The Company has future obligations under various contracts relating to debt payments, capital and operating leases, long-term purchase arrangements, pensions and other post-employment benefits, and guarantees. The table below provides a summary of these contractual obligations (based on undiscounted future cash flows) as at September 30, 2005. There are no material off-balance sheet arrangements other than the receivables securitization program described in Note 13 to the Consolidated Financial Statements.

Payments due by period

Total

Less than 1 year

1 - 3 years

3 - 5 years

More than 5 years

Long-term debt (1)

6,344

841

42

1,382

4,079

Capital lease obligations

19

1

7

3

8

Operating leases

360

32

158

73

97

Purchase obligations

6,634

783

915

802

4,134

Unfunded pension plans (3)

2,170

63

128

131

1,848

Other post-employment benefits (3)

2,341

64

131

142

2,004

Funded pension plans (3) (4)

(4)

201

405

417

(4)

Guarantees (2)

183

63

120

-

-

Total

2,048

1,906

2,950

(1) *Refer to Note 10, Long-Term Debt, of the accompanying financial statements.*

(2) *Refer to Note 15, Commitments and Contingencies, of the accompanying financial statements.*

(3) *Refer to Note 18, Post-Retirement Benefits, of the accompanying financial statements.*

(4) *Pension funding generally includes the contribution required to finance the annual service cost, except where the plan is largely overfunded, and amortization of unfunded liabilities over periods of 15 years, with larger payments made over the initial period where required by pension legislation. Contributions depend on actual returns on pension assets and on deviations from other economic and demographic actuarial assumptions. Based on management's long-term expected return on assets, annual contributions for years after 2009 are projected to be in the same range as in prior years and to grow in relation with payroll.*

Selected Annual Information

Selected unaudited financial data for each of the Company's three most recently completed financial years is as follows:

31 December

2004

2003

2002

Sales and operating revenues

24,948

13,850

12,483

Income from continuing operations

243

262

421

Net income (Loss)

258

64

(348)

Total assets

33,341

31,948

17,761

Total long-term debt

6,914

7,778

3,369

($ per common share)

Income from continuing operations per share - basic and diluted

0.64

0.79

1.29

Net income (Loss) per share - basic and diluted

0.69

0.18

(1.10)

Dividends per common share	0.60	0.60	0.60

-38-

Selected Quarterly Information

Selected unaudited financial data for each of the Company's eight most recently completed quarters is as follows:

Q3-05

Q2-05

Q1-05

Q4-04

Q3-04

Q2-04

Q1-04

Q4-03

Sales and operating revenues

4,887

5,206

5,178

6,536

6,184

6,208

6,020

3,567

Income (Loss) from continuing operations

72

208

208

(347)

171

285

134

115

Net income (Loss)

81

191

218

(346)

167

331

106

96

($ per common share)

Income (Loss) from continuing operations per share - basic

0.19

0.56

0.56

(0.95)

0.46

0.77

0.36

0.36

Income (Loss) from continuing operations per share - diluted

0.19

0.56

0.56

(0.94)

0.46

0.77

0.36

0.36

Net income (Loss) per share - basic

0.21

0.52

0.58

(0.94)

0.45

0.89

0.29

0.30

Net income (Loss) per share - diluted

0.21

0.52

0.58

(0.94)

0.45

0.89

0.28

0.30

Commitments and Contingencies

The Company's commitments and contingencies are described in Note 15 to the Consolidated Financial Statements.

Related Party Transactions

The only related party transactions are those with the joint ventures accounted for under the equity method. These transactions are undertaken on an arm's length, negotiated basis. For more details, refer to Note 13 to the Consolidated Financial Statements in the most recent Annual Report on Form 10-K.

Accounting Policies

The preparation of financial statements in conformity with GAAP in Canada and the United States requires management to make estimates, judgements and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates are associated with the critical accounting policies relating to post-retirement benefits; environmental liabilities; property, plant and equipment; goodwill; income taxes; and business combinations. These critical accounting policies 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 judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The Company's critical accounting policies are more fully described in Note 3 to the Consolidated Financial Statements and Management's Discussion and Analysis, contained in the most recent Annual Report on Form 10-K.

-39-

Comparison of Canadian and U.S. GAAP

A reconciliation of Alcan's Consolidated Statement of Income and Consolidated Balance Sheet between U.S. GAAP and Canadian GAAP is contained in Note 20 of the financial statements. The impact of material differences is discussed below.

Third Quarter

Third Quarter

Nine Months

Nine Months

GAAP

2005

2004

Sept. 30, 2005

Sept. 30, 2004

($ per common share)

Cdn

U.S.

Cdn

U.S.

Cdn

U.S.

Cdn

U.S.

Income from continuing operations

per share - basic

0.19

0.19

0.38

0.46

1.29

1.30

1.55

1.60

Net income per share - basic

0.21

0.21

0.37

0.45

1.30

1.31

1.58

1.63

Net income per common share under Canadian GAAP was $0.21 and $1.30 compared to $0.21 and $1.31 under U.S. GAAP for the third quarter and nine months ended September 30, 2005, respectively. The difference relates principally to accounting for derivatives and income taxes. For the third quarter and nine months ended September 30, 2004, net income per common share under Canadian GAAP was $0.37 and $1.58, respectively, compared to $0.45 and $1.63, respectively, under U.S. GAAP. The principal reason for the difference was derivatives. The differences in net income had no material impact on the discussion of results of operations for the periods presented.

Joint Ventures

The major difference between U.S. GAAP and Canadian GAAP relates to the accounting for joint ventures. Under U.S. GAAP, joint ventures, other than those over which Alcan has an undivided interest in the assets, are accounted for using the equity method while under Canadian GAAP, joint ventures are accounted for using the proportionate consolidation method. This different accounting treatment affects only the display and classification of financial statement items and has no impact on net income or shareholders' equity. This difference had no material impact on the discussion of the results of operations. The major impact of the difference in accounting treatment on the balance sheet was to increase operating working capital from continuing operations at September 30, 2005 by $203 ($30 at December 31, 2004) under Canadian GAAP compared to U.S. GAAP. Under Canadian GAAP, net property, plant and equipment at September 30, 2005 was $826 higher than under U.S. GAAP ($1,179 at December 31, 2004). Under Canadian GAAP, goodwill was higher by $670 at September 30, 2005 ($837 at December 31, 2004). Under Canadian GAAP, deferred charges and other assets (which include investments accounted for under the equity method) were $1,378 lower ($1,618 at December 31, 2004) as compared to U.S. GAAP.

Debt as a percentage of invested capital as at September 30, 2005 and December 31, 2004 was the same under Canadian GAAP as under U.S. GAAP. For the third quarter and nine months ended September 30, 2005, interest expense under Canadian GAAP was higher than under U.S. GAAP by $4 and $12, respectively (2004: $4 and $10).

Accounting for Derivatives

Beginning in 2004, Canadian GAAP is aligned with U.S. GAAP with respect to the criteria to be met for hedge accounting. For certain derivatives as at December 31, 2003, that do not qualify for hedge accounting in 2004 under Canadian GAAP but qualified for hedge accounting prior to 2004 under Canadian GAAP but not under U.S. GAAP, there will be an impact on the Company's Canadian GAAP income for a transitional period ending with the maturities of the derivatives. Under U.S. GAAP, these derivatives had been marked-to-market prior to December 31, 2003.

In addition, Canadian GAAP does not permit the recognition of embedded derivatives.

The impact of the different accounting treatments for derivatives was to decrease net income under Canadian GAAP by $2 and $7, respectively, for the third quarter and nine months ended September 30, 2005 (decrease of $29 and $15, respectively, to net income for the third quarter and nine months ended September 30, 2004). This difference had no material impact on the discussion of results for the periods presented.

In addition, because Canadian GAAP does not have the concept of Other Comprehensive Income, certain amounts related to cash flow hedges classified in shareholders' equity on the balance sheet under U.S. GAAP were reclassified to various asset and liability accounts under Canadian GAAP.

Minimum Pension Liability

Canadian GAAP does not require the recognition of a minimum pension liability if the accumulated benefit obligation exceeds the market value of the plan assets. This difference had no impact on net income but did result in shareholders' equity under Canadian GAAP being higher by $509 at September 30, 2005 ($550 at December 31, 2004). At September 30, 2005, total assets were lower by $242 ($253 at December 31, 2004) and total pension liabilities were lower by $958 ($1,036 at December 31, 2004) under Canadian GAAP.

Cautionary Statement

Statements made in this quarterly report which describe the Company's or management's objectives, projections, estimates, expectations or predictions of the future may be "forward-looking statements" within the meaning of securities laws, which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should", "estimates", "anticipates" or the negative thereof or other variations thereon. 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. The Company cautions that, by their nature, forward-looking statements involve risk and uncertainty and that the Company's actual actions or results could differ materially from those expressed or implied in such forward-looking statements or could affect the extent to which a particular projection is realized. Important factors which could cause such differences include: global supply and demand conditions for aluminum and other products; aluminum ingot prices and changes in raw materials' costs and availability; changes in the relative value of various currencies; cyclical demand and pricing within the principal markets for the Company's products; changes in government regulations, particularly those affecting environmental, health or safety compliance; fluctuations in the supply of and for power in the areas in which the Company maintains product facilities; the consequences of transferring most of the aluminum rolled products businesses operated by the Company to Novelis Inc.; potential discovery of unanticipated commitments or other liabilities associated with the acquisition and integration of Pechiney; major changes in technology that affect the Company's competitiveness; the risk of significant losses from trading operations, including losses due to market and credit risks associated with derivatives; changes in prevailing interest rates and equity market returns related to pension plan investments; potential catastrophic damage, increased insurance and security costs and general uncertainties associated with the increased threat of terrorism or war; the effect of international trade disputes on the Company's ability to import materials, export its products and compete internationally; economic developments; relationships with and financial and operating conditions of customers and suppliers; the effects of integrating acquired businesses and the ability to attain expected benefits; other factors within the countries in which the Company operates or sells its products and; other factors relating to the Company's ongoing operations including, but not limited to, litigation, labour negotiations and fiscal regimes.

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.

Definitions

"$" all amounts are in U.S. dollars.

"Business Group Profit" (BGP) comprises earnings before interest, income taxes, minority interests, depreciation and amortization and excludes certain items, such as corporate costs, pension actuarial gains and losses and other adjustments, as well as certain OSIs (definition below) including restructuring costs (relating to major corporate-wide acquisitions or initiatives), impairment and other special charges that are not under the control of the business groups or are not considered in the measurement of their profitability. These items are generally managed by the Company's corporate head office, which focuses on strategy development and oversees governance, policy, legal, compliance, human resources and finance matters. Financial information for individual business groups includes the results of certain joint ventures and other investments accounted for using the equity method on a proportionately consolidated basis, which is consistent with the way the business groups are managed. However, the BGP of these joint ventures and equity-accounted investments is removed from total BGP for the Company and the net after-tax results are reported as equity income. The change in the fair market value of derivatives has been removed from individual business group results and is shown on a separate line within total BGP. This presentation provides a more accurate portrayal of underlying business group results and is in line with the Company's portfolio approach to risk management.

"Debt as a percentage of invested capital" does not have a uniform definition. Because other issuers may calculate debt as a percentage of invested capital differently, Alcan's calculation may not be comparable to other companies' calculations. The reconciliation presented earlier explains the calculation. The figure is calculated by dividing borrowings by total invested capital. Total invested capital is equal to the sum of borrowings and equity, including minority interests. The Company believes that debt as a percentage of invested capital can be a useful measure of its financial leverage as it indicates the extent to which it is financed by debt holders. The measure is widely used by the investment community and credit rating agencies to assess the relative amounts of capital put at risk by debt holders and equity investors.

-41-

"Derivatives" including forward contracts, swaps and options are financial instruments used by the Company to manage the specific risks arising from fluctuations in exchange rates, interest rates, aluminum prices and other commodity prices. Mark-to-market gains and losses on derivatives will be offset over time by gains and losses on the underlying exposures.

"Foreign currency balance sheet translation" effects largely arise from translating monetary items (principally deferred income taxes and long-term liabilities) denominated in Canadian and Australian dollars into U.S. dollars for reporting purposes. Although these effects are primarily non-cash in nature, they can have a significant impact on the Company's net income.

"Free cash flow from continuing operations" consists of cash from operating activities in continuing operations less capital expenditures and dividends. Management believes that free cash flow, for which there is no comparable GAAP measure, is relevant to investors as it provides an indication of the cash generated internally that is available for investment opportunities and debt service.

"GAAP" refers to Generally Accepted Accounting Principles.

"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.

"Synergy run-rate" is the annualized rate of savings resulting from actions taken to date under the Pechiney synergy program.

All tonnages are stated in metric tonnes, equivalent to 2,204.6 pounds.

All figures are unaudited.

Additional information on Alcan is available on the Company's website at www.alcan.com and the Company's regulatory filings can be viewed on the Canadian Securities Administrators' site at www.sedar.com and on the U.S. Securities and Exchange Commission's site at www.sec.gov. All website addresses contained in this report are textual references and information from referenced websites is not incorporated by reference into this report.

The number of common shares outstanding as at November 8, 2005 is 370,691,124.

-42-

Item 3. Quantitative and Qualitative Disclosures about Market Risk

(in millions of US$, except LME prices)

Changes in interest rates, foreign exchange rates and the market price of aluminum are among the factors that can impact the Company's cash flow. See risk factors on page 4 of the Company's annual report on Form 10-K for the year ended December 31, 2004.

Interest Rates

The impact of a 10% increase in interest rates on the Company's variable rate debt outstanding at September 30, 2005 net of its invested surplus cash and time deposits at September 30, 2005 would be to reduce net income for a 12-month period by $3. The fixed rate debt will be held to maturity and the Company does not intend to refinance its fixed rate debt prior to maturity. Transactions in interest rate financial instruments for which there is no underlying interest rate exposure to the Company are prohibited. For accounting policies for interest rate swaps used to hedge interest costs on certain debt, see note 3 - Summary of Significant Accounting Policies on page 61 of the Company's most recent annual report.

Currency Derivatives

The schedule below presents fair value information and contract terms relevant to determining future cash flows categorized by expected maturity dates of the Company's currency derivatives (principally forward and option contracts) outstanding as at September 30, 2005.

2010

Total

and

Nominal

Fair

(In US$ millions, except contract rates)

2005

2006

2007

2008

2009

Thereafter

Amount

Value

FORWARD CONTRACTS

To purchase USD against the foreign currency

GBP

Nominal amount

17

6

-

-

-

-

23

-

Average contract rate

0.562

0.571

-

-

-

-

CHF

Nominal amount

7

26

-

-

-

-

33

1

Average contract rate

1.220

1.233

-

-

-

-

JPY

Nominal amount

3

3

-

-

-

-

6

-

Average contract rate

111.5

108.9

-

-

-

-

MXN

Nominal amount

1

-

-

-

-

-

1

-

Average contract rate

10.91

-

-

-

-

-

To sell USD against the foreign currency

GBP

Nominal amount

59

3

-

-

-

-

62

(1)

Average contract rate

To sell USD against the foreign currency	192

0.560

0.540

-

-

-

-

CHF

Nominal amount

4

1

-

-

-

-

5

-

To sell USD against the foreign currency

Average contract rate

1.231

1.313

-

-

-

-

AUD

Nominal amount

94

156

-

-

-

-

250

2

Average contract rate

1.338

1.332

-

-

-

-

ISK

Nominal amount

12

-

-

-

To sell USD against the foreign currency

-

-

12

-

Average contract rate

63.01

-

-

-

-

-

Other

Nominal amount

2

-

-

-

-

-

2

-

To sell EUR against the foreign currency

USD

Nominal amount

206
1,295
24
12
1
3
1,541
(28)

Average contract rate

To sell EUR against the foreign currency

1.245
1.200
1.223
1.113
1.333
1.367

2010

Total

and

Nominal

Fair

(In US$ millions, except contract rates)

To sell EUR against the foreign currency

2005

2006

2007

2008

2009

Thereafter

Amount

Value

GBP

Nominal amount

1

-

-

-

-

-

1

-

Average contract rate

0.693

-

-

-

-

-

CHF

Nominal amount

13

25

2

1

-

-

41

(1)

Average contract rate

1.527

1.504

1.522

1.513

-

-

CAD

Nominal amount

1

-

-

-

-

-

1

-

Average contract rate

1.628

-

-

-

-

-

ZAR

Nominal amount

1

1

-

-

-

-

2

-

Average contract rate

8.177

8.043

To sell EUR against the foreign currency

-

-

-

-

To buy EUR against the foreign currency

USD

Nominal amount

181

64

20

-

-

-

265

6

Average contract rate

1.211

1.101

1.201

-

-

-

GBP

Nominal amount

17

26

1

-

-

-

44

-

Average contract rate

0.695

0.697

0.694

-

-

-

CHF

Nominal amount

2

-

-

-

-

-

2

-

Average contract rate

1.515

-

-

-

-

-

AUD

Nominal amount

1

-

-

-

To buy EUR against the foreign currency

-

-

1

-

Average contract rate

1.693

-

-

-

-

-

JPY

Nominal amount

2

1

	-
	-
	-
	-
	3
-	
Average contract rate	
	132.7
	135.2
	-
	-
	-
	-

CAD

Nominal amount

	2
	4
	2
	-
	-
	-
	8
-	
Average contract rate	
	1.592
	1.490
	1.525
	-
	-
	-

SEK

Nominal amount

1

-

-

-

-

-

1

-

Average contract rate

9.399

-

-

-

-

-

To buy CHF against the foreign currency

AUD

Nominal amount

1

1

-

-

-

-

2

-

Average contract rate

1.107

1.087

-

-

-

-

JPY

Nominal amount

5

2

-

-

-

-

7

-

Average contract rate

88.26

87.27

-

-

-

-

DKK

Nominal amount

1

1

-

-

-

-

2

-

Average contract rate

4.857

4.847

-

-

-

-

To sell CHF against the foreign currency

Other

Nominal amount

2

-

-

-

-

-

2

-

OPTIONS

To buy USD against the foreign currency

EUR

Nominal amount

22

	-
	-
	-
	-
	40
-	

Average contract rate

0.800

0.800

-

-

-

-

2010

Total

and

Nominal

Fair

(In US$ millions, except contract rates)

2005

2006

2007

2008

2009

Thereafter

Amount

Value

To sell USD against the foreign currency

EUR

Nominal amount

	9
	137
	20
	-
	-
	-
	166
	(1)
Average contract rate	
	1.028
	0.759
	0.758
	-
	-
	-

Any negative impact of currency movements on the currency contracts that the Company has entered into to hedge identifiable foreign currency commitments to purchase or sell goods and services, would be offset by an equal and opposite favourable exchange impact on the commitments being hedged. Transactions in currency related financial instruments for which there is no underlying foreign currency exchange rate exposure to the Company are prohibited. For accounting policies relating to currency contracts, see note 3 - Summary of Significant Accounting Policies on page 61 of the Company's most recent annual report.

Derivative Commodity Contracts

The effect of a reduction of 10% in aluminum prices on the Company's aluminum forward and options contracts outstanding at September 30, 2005 would be to increase net income over the period ending December 31, 2007 by approximately $108 ($29 in 2005, $45 in 2006 and $34 in 2007). These results reflect a 10% reduction from the September 30, 2005, three-month LME aluminum closing price of $1,851 per tonne and assume an equal 10% drop has occurred throughout the aluminum forward price curve existing as at September 30, 2005. The Company's aluminum forward contract positions, producing the above results, are entered into to hedge anticipated future sales of metal. Consequently, any negative impact of movements in the price of aluminum on the forward contracts would be offset by an equal and opposite impact on the sales being hedged.

Transactions in metal-related financial instruments for which there is no underlying metal price exposure to the Company are prohibited, except for a small trading portfolio of metal forwards not exceeding 25,000 tonnes, which is marked-to-market.

Item 4. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

As at September 30, 2005, an evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

b) Changes in Internal Control Over Financial Reporting

Except as noted below, there have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company will provide management's assessment of the effectiveness of the Company's internal control over financial reporting in the Company's Annual Report on Form 10-K for 2005.

In the third quarter of 2005, the Company completed the integration of the financial reporting and other accounting activities of entities in the former Pechiney group into the company's existing financial consolidation.

PART II. OTHER INFORMATION

Items 1., 3., 4. and 5.

The registrant has nothing to report under these items.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

As of January 1, 2004, the Company's subsidiary, Alcan Packaging Puerto Rico, Inc., added to its Thrift and Deferred Compensation Plan (the "Plan") an investment option that enables participants in the Plan to purchase units in a fund that invests in the Company's common shares. Share purchases by the Plan in respect of this investment option from January 1, 2005 to September 29, 2005 totalled approximately 540 common shares, purchased at an average price of $35.13. Share purchases were effected on the open market and the Company did not receive any proceeds from the sales. A registration statement with respect to the Plan was filed on September 30, 2005.

Item 6. Exhibits

(31.1) Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.

(31.2) Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.

(32.1) Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2) Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

-47-

SIGNATURE

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.

ALCAN INC.

By:

/s/ Thomas J. Harrington

Thomas J. Harrington

Vice President and Controller

(A Duly Authorized Officer)

Dated: 9 November 2005

-48-

EXHIBIT INDEX

Exhibit Number	Description
(31.1)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.
(31.2)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under Securities Exchange Act of 1934.
(32.1)	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.