

FREDERIC W. COOK & CO., INC.

90 PARK AVENUE, NEW YORK, N.Y. 10016 - TEL. (212) 986-6330

NEW YORK • CHICAGO • LOS ANGELES

Compensation Committee  
Advisory Letter 05-02

April 5, 2005

**TOP EXECUTIVES' TOTAL COMPENSATION**

It is thought that the SEC soon will launch a project to expand the disclosure of executive and director total compensation in company proxy statements.<sup>(1)</sup>

This will likely take the form of (1) tabular display of total compensation received by individual members of the board of directors<sup>(2)</sup>, and (2) changes in and expansion of the format of the Summary Compensation Table for the top five executive officers. The objective of the latter change is a more comprehensive tabulation of each executive's total compensation for the prior year. While the exact format is unknown, we think the expanded disclosure could include:

1. Grant date fair values of new stock option/SAR grants,  
— Instead of the number of option shares granted
2. Actuarial values of individual accruals for defined benefit retirement plans, including Erisa Excess Plans and SERPs
3. Full interest credits on nonqualified deferred compensation balances
4. Dividends paid or credited on unvested restricted stock, performance shares and company stock in nonqualified deferred compensation accounts, and
5. More complete quantification and disclosure of the costs of special benefits and perquisites for executives, including personal use of company aircraft on an incremental cost basis, not the SIFL rate for taxable income.<sup>(3)</sup>
6. A final column of total compensation

---

<sup>(1)</sup> See speech by Alan Beller, The SEC's Director of Corporate Finance, to NASPP conference on October 20, 2004 attached ([Attachment A](#))

<sup>(2)</sup> See attached page from AMD's 2005 proxy statement for example ([Attachment B](#))

<sup>(3)</sup> SEC attached example supplemental disclosure in Alcoa's 2005 proxy, Summary Compensation Table, note (2)(f) ([Attachment C](#))

We believe compensation committees should have advance knowledge of top executives' total compensation so there are no surprises if and when the disclosure requirements change. Also, this could trigger changes in current plans and practices if it is believed such plans and practices should not be continued.

Consequently, we have developed the attached tabular sheet<sup>(4)</sup>, which companies could use, with appropriate modifications, to disclose total compensation amounts for a given year for individual executives.

We do not know whether our tabular attachment will match the SEC's new disclosure requirements. We would like to emphasize that we are only advocating these more-comprehensive total compensation amounts be disclosed to the compensation committee, and perhaps the full board, not to shareholders at this point.

On a related matter, you are undoubtedly aware of the more timely requirement to disclose significant changes in executive compensation on SEC Form 8-K. As compensation committee chair you may wish to ask the company's general counsel to automatically copy you on any such disclosure that concerns executive compensation.

In closing and as usually stated, this letter is a general advisory to chairs of compensation committees where we have a responsibility to provide proactive advice on executive compensation governance.

---

<sup>(4)</sup> See Attachment D

**Speech by SEC Staff:  
Remarks Before Conference of the NASPP, The Corporate Counsel and the Corporate  
Executive**

*by*

**Alan L. Beller**

*Director, Division of Corporation Finance  
U.S. Securities and Exchange Commission*

San Francisco, CA  
October 20, 2004

Thank you, Jesse, for the kind introduction. And I'd like to thank the National Association of Stock Plan Professionals and the Corporate Counsel for giving me the opportunity this afternoon to address the important matter of executive compensation and related subjects. I'd particularly like to thank Jesse and express my appreciation for his unflagging interest in these subjects.

This would be an appropriate time to remind the audience of my necessary disclaimer. The SEC as a matter of policy disclaims responsibility for remarks of its staff, and therefore anything I say today represents my own views and does not necessarily represent the views of the Commission or other members of the staff.

Since early 2002 the environment in which public companies operate has changed dramatically from where it was previously. There are many new legal and regulatory features. They include:

- the Sarbanes-Oxley Act,
- a more vigorous criminal and civil enforcement program, with full SEC participation, targeted at corporate misconduct and financial fraud,
- CEO and CFO certifications and the other new SEC rules that implement the Act and call for more current, better and clearer disclosure,
- listing standards that better promote independence of boards of directors,
- the introduction of disclosure controls,
- the need to assess and audit internal control over financial reporting, and

- the establishment and commencement of operations of the Public Company Accounting Oversight Board.

All these elements have contributed to improved disclosure and better and more responsible corporate governance.

They were also a necessary response to an era of excess. The large number of instances of inexcusable behavior in corporations and mutual funds has long since made the "few bad apples" theory untenable to any disinterested observer. Beyond the most visible wreckage, beyond the Enrons and Worldcoms and Adelphias and the other poster children for misconduct, there was a more general departure from proper standards and an over-emphasis on immediate rewards and what Chairman Donaldson has called "short-termism."

Properly responding to those broader issues requires the reexamination of the principles of corporate governance that is currently ongoing. In particular, doing so requires reaffirmation of the paramount importance of boards of directors in overseeing corporations and of the need of boards of directors to be properly responsive to the interests of shareholders.

And this brings us directly to the issue of executive compensation. An important part of the directors' responsibilities is to oversee and properly incent and reward management. Government should not set compensation levels. But boards of directors, and especially compensation committees and independent directors, must do so in a manner that fulfills their responsibilities.

Too many boards have apparently operated on the principle that compensation must be in the top half or even the top quartile of some benchmark group (the basis of selection of which is often not disclosed) for the company to be competitive in attracting executive talent. (This principle apparently operates without regard to whether performance is commensurate to compensation). This approach produces what I have called the Lake Wobegon effect, where everyone is above average. Boards of directors ought to be able to do better than this.

So if Lake Wobegon does not provide a sound guiding principle, where should boards look? The fiduciary duties of directors, including in respect of executive compensation, are principally matters of state law, and this morning you have already heard a group of state law experts, including members of the judiciary, describe what those duties are and how they are evolving.

The Commission's direct regulatory interest in this area focuses principally on the implementation of the proxy provisions of the Securities Exchange Act of 1934 and our own proxy rules, on our disclosure requirements regarding executive compensation, and on our oversight of the listing standards of our markets regarding independent directors and compensation committees.

Executive compensation is undeniably a "hot topic." I would suggest that two trends have converged to make executive compensation an issue that must be addressed.

First, shareholders and groups that represent their views have concluded either that the interests of executives, demonstrated by their compensation, are not aligned with those of shareholders or that the available information about their compensation is too opaque or unhelpful to allow shareholders to determine whether there is alignment or not. Some of these shareholders and

groups have had this concern for a number of years, but the breadth and depth of these concerns has now reached critical levels.

Second, too many issuers and their advisers have followed a pattern of opaque or unhelpful disclosure that confirms the worst suspicions of concerned investors, whether or not they are in fact true - there's something to hide and it's being hidden. Too much executive compensation disclosure has become an example of the kind of disclosure companies should disavow - disclosure that says as little as possible while seeking to avoid liability, rather than disclosure that seeks to inform.

As to the first trend, one only has to look at two recent pronouncements to see how broad the interest and deep the concern. First, the National Association of Corporate Directors, in its recent report on executive compensation and the role of the compensation committee, reported the finding that "boards need to find better ways to measure and reward performance."<sup>1</sup> The report notes the numerous elements that make up compensation for top executives and their individual and collective complexity. It also notes that the compensation committee must understand these elements, the role each plays in motivating short-term and long-term performance, the cost of each element and the total cost.

Second, the Council of Institutional Investors (or CII), after many years spent on the project, just released its updated policy regarding executive compensation. It takes clear positions on a number of executive compensation issues, but I want to focus on one element of the policy - disclosure.

The keyword in the policy regarding disclosure is transparency. Tell investors what is going on - don't hide the ball. The policy couldn't be clearer in this regard.

"The compensation committee is responsible for ensuring that all aspects of executive compensation are clearly, comprehensively and promptly disclosed, in plain English, in the annual proxy statement regardless of whether such disclosure is required by current rules and regulations. The compensation committee should disclose all information necessary for shareowners to understand how and how much executives are paid and how such pay fits within the overall pay structure of the company. It should provide annual proxy statement disclosure of the committee's compensation decisions with respect to salary, short-term incentive compensation, long-term incentive compensation and all other aspects of executive compensation, including the relative weights assigned to each component of total compensation."<sup>2</sup>

This statement provides a nice segue into the second trend that, in my view, makes executive compensation a "hot topic" - the existence of too much uninformative disclosure.

First, I want to clear up a very unfortunate misconception. We keep hearing the question as to whether disclosure of some aspect or another of executive compensation is necessary even if "literal compliance" with our rules does not require it. Even the CII's policy that I just read calls for disclosure whether or not it is required under current rules. However, our current rules clearly and explicitly require, and I am quoting,

"clear, concise and understandable disclosure of all plan and non-plan compensation awarded to, earned by, or paid to the named executive officers ... and directors ... by any

person for all services rendered in all capacities to the registrant and its subsidiaries, unless otherwise specified...."<sup>3</sup>

So, unless a company has disclosed all plan and non-plan compensation for all services rendered that is awarded to, earned by or paid to the executive officers and directors covered in the proxy statement, whether it is paid currently or deferred, it is not in compliance, literal or otherwise, with our rules. And in my view that basic requirement to disclose all compensation takes precedence over the detailed requirements of the various tables in which disclosure is to be presented under our rules. **All** compensation must be disclosed.

And, if the company for some reason thinks that there is a payment or other information where disclosure is not required under these rules, the company must also think about whether not disclosing the payment or information is a material omission from its disclosure that makes what it has disclosed misleading. Our rules clearly and explicitly require disclosure in those circumstances. So, if there is such a material omission, the company is also not in compliance, literal or otherwise, with our requirements.

Companies and their advisers, especially their legal advisers, face special challenges in this area. While the old cynics' adage that executives just read the compensation disclosure is (and was) presumably false, executives are very interested in how their compensation is described, and for too many of them apparently less disclosure is better. As a result there is sometimes greater tension between what management wants disclosed and what should be disclosed in this area than in other parts of disclosure documents. In such a case, inside and outside counsel must remember that their client is the company and not its management. In the area of executive compensation management's retort to advice to make additional disclosure may too often be "Where does it say we have to disclose that?" Let me help with the answer by repeating in plain English - disclosure is required of all compensation, earned or paid, from all sources, for all services. And there can be no material omissions that make the disclosure misleading.

Let's now talk in more detail about our disclosure requirements. They fall into three general categories: (1) the compensation of the CEO and the company's four other highest paid executives, (2) compensation of directors, and (3) compensation policies. The work of the compensation committee takes on added importance under our rules because our rules require a compensation committee report on executive compensation.

Beyond the general disclosure concerns I've already expressed, there are specific items that I fear companies are routinely omitting from their disclosure that should be included. These include the personal use of company planes and similar perks. Simply stating that company executives must always fly in company planes (or drive in company cars, or accept any other benefit) for security reasons does not relieve a company from considering whether these benefits are perks.

We also fear that some companies are being overly creative when categorizing other items. I'd suggest that a perk, by any other name, is still a perk, and therefore must be considered for disclosure. When companies review their disclosure, they should give serious consideration to items that have previously been called business expenses (e.g. housing, security systems, cars etc.) but actually are perks. I don't think it is very difficult to determine whether or not something is a perk. One question to ask that is not dispositive but may be useful is whether it is an expense that is available to employees generally on a non-discretionary basis, like reimbursement for the

taxi across town for a meeting, or whether it is a benefit for which only a chosen few are eligible (or selected on a discretionary basis).

The valuation of perks also should be carefully examined. We have seen disclosure of large tax gross ups for perks that are themselves not disclosed, and this obviously raises questions. I also remind you that the appropriate measure of value is the aggregate incremental cost to the company, not the tax value of the benefit.

Adequate disclosure in the area of executive compensation is not of interest solely to the Division of Corporation Finance. Material deficiencies in disclosure regarding executive compensation expose companies to potential enforcement actions.

As I'm sure you are all aware, the Commission focused on compensation disclosure recently in a proceeding against General Electric Company. That matter, announced on September 23, related to GE's failure to fully describe the substantial benefits it had agreed to provide its former chairman and CEO Jack Welch, under an "employment and post-retirement consulting agreement." Specifically, the Commission found that GE failed to fully and accurately describe the retirement benefits Welch was entitled to receive from the company.

In December 1996, GE and Welch entered into the agreement under which Welch received, as his principal form of retirement compensation, lifetime access to the perks and benefits he had received as GE's chairman and CEO. The agreement was appended as an exhibit to GE's 1996 annual report, and specifically entitled Welch to receive in retirement "access to Company aircraft, cars, office, apartments, and financial planning services," but did not provide meaningful and complete disclosure.

Moreover, GE's proxy statements only referred to Welch's entitlement to "continued lifetime access to Company facilities and services comparable to those that are currently made available to him by the Company," without providing any other specific information that would allow investors to understand the nature and scope of Welch's retirement benefits. In addition, GE omitted from its proxy statements many of the most significant "facilities and services" that Welch had been provided prior to his retirement, including personal use of GE-owned aircraft, personal use of chauffeured limousines and home security systems.

As the Commission noted in its order, the purpose of the Item 402 disclosures is "to improve shareholders' understanding of all forms of compensation paid to senior executives and directors" and to provide "shareholders ... a clear interest in knowing what contractual commitments the board has made on behalf of the registrant, both with respect to present inducements to join the registrant's top management and future promises."

And GE was not the first enforcement action that Commission took related to disclosure of retirement benefits. In 1997 the Commission found that W.R. Grace failed to fully disclose the substantial retirement benefits provided to its CEO, J. Peter Grace, Jr.<sup>4</sup>

In addition to the questionable disclosure practices regarding items of compensation, I have concerns regarding compensation committee reports. Much disclosure we see in the compensation committee report is just boilerplate and is not very informative. This is the case even though the instructions to the relevant item specifically state that boilerplate should be avoided. I think that a significant number of companies and compensation committees would

benefit from taking a fresh look at their compensation committee reports. The Commission has not provided specific guidance in this area since 1993, in a Commission release, but that guidance is still sound, and companies and compensation committees would benefit from reconsidering it.<sup>5</sup>

Our rules require disclosure in the report of executive compensation policies, the specific relationship of corporate performance to executive compensation, the factors on which the CEO's compensation is based and a specific discussion of the relationship of the company's performance to CEO compensation, including a description of each measure of company performance on which CEO compensation was based.

One way to think about what should be in the best compensation committee reports is to think about what the committee should do. Almost a year ago, the SEC approved a number of new rules of the New York Stock Exchange and the Nasdaq that strengthened the corporate governance standards for their listed companies. These listing standards established stricter, more detailed definitions of independence for directors, and required majority independent boards as well as new rules related to the role of independent directors in a number of areas, including executive compensation.

While there are exceptions and details, the listing standards generally require a compensation committee of independent directors to determine or recommend executive, and especially CEO, compensation.

There is a reason that the SROs focused on the independence of the compensation committee. As the Commission noted in approving these standards, directors that are independent of management are more likely to evaluate the performance of the CEO and other officers impartially and to award compensation on an objective basis. And I would add that directors who set executive pay should be independent in spirit, as well as independent in fact. I would also note that these new listing standards provide a timely opportunity for companies and their boards to reexamine the way they have been looking at the role of the compensation committee and executive pay.

Many have noted that there needs to be a better focus on long-term performance of the company and its executives in all respects, not just short-term results or limited specific measures. I also hope that compensation committees have begun to take to heart suggestions that they reexamine their relationships with compensation consultants to insure that the consultants work for the committee, not the executives whose pay is being considered.

Finally, and I admit this does not go directly to disclosure, I wonder how a compensation committee fulfills its duties to shareholders if it doesn't regularly evaluate all components of compensation. Members of the committee should consider each component of compensation to see how it fits into the overall compensation package to insure it makes sense.

For example, I believe that compensation committees should be asking, among other things, how bonuses and other compensation awarded directly or indirectly effect post-retirement packages. How do related items, such as tax gross ups, impact the overall compensation picture? What is contained in post-retirement and change in control packages? What is the impact of supplemental executive retirement plans (SERPs)? What is the aggregate cost to the company?



And to return to the compensation committee report, while those seeking the narrowest interpretation and least disclosure would presumably argue that there is no specific requirement to discuss the items I have just enumerated in the report, I would at least suggest that companies and their advisers should consider whether the required report can be written unless the compensation committee undertakes these deliberations and then also considers what resulting disclosure is appropriate.

I want to close with a few thoughts about what we are considering regarding possible future developments for our executive compensation rules. I recognize that our rules in this area, which generally date from 1992, are very detailed and specific. So far as I can tell, the Commission went in that direction at that time because it was concerned that another approach would not capture all compensation and because the detailed tables fostered comparability over time periods and between companies. As I've already discussed, our rules currently require disclosure of all items of compensation. However, it may be time to revisit some areas of our executive compensation disclosure rules.

For example, the 1992 rules are not only detailed but also static. They may need updating to address more effectively new methods and approaches for executive compensation.

Therefore, a group within the Division of Corporation Finance is in the early stage of considering what, if any, action we might recommend to the Commission regarding compensation disclosure. While these thoughts are in a very preliminary stage, among the issues we are looking at are:

- **Perks.** We are examining how companies might be inappropriately avoiding categorizing items as perks. We also are considering how companies value perks, and whether there are better approaches to valuation. In particular, is incremental cost to the company the best approach where the object of our requirements is to disclose compensation?
- **Retirement Benefits and Deferred Compensation.** We have been reviewing our disclosure requirements, as well as companies' disclosure, related to SERPs and non-qualified deferred compensation plans, including our position regarding disclosure of above-market elements. We are also looking at other retirement, severance and change-in-control elements. We will also be considering the impact on those disclosures, if any, of the American Jobs Creation Act recently passed by Congress, which includes provisions related to the taxation of non-qualified deferred compensation.
- **Total Compensation.** We are considering whether we should seek to provide enhanced disclosure of total compensation and how that might be achieved.
- **Named Executive Officers.** We are also examining whether the current criteria for determining the named executive officers is still appropriate. For example, we are considering whether companies should be required disclose the compensation of other specific officers, such as the CFO and/or general counsel.

- **Director Compensation.** We will also be looking at disclosure of overall director compensation, both to see if companies are following the current requirements, as well as whether our rules in this area should be expanded. We proposed rules in 1995 to expand the disclosure of director compensation. Those rules were not adopted.
- **Compensation Committee Reports.** We are considering the current compensation committee report disclosure requirements and whether they adequately address disclosure of the policies, operation and determinations of the compensation committee. I should note in this area that, at the request of companies and their advisers and in an extra step to encourage transparency in these reports, the Commission provided that compensation committee reports are not "filed" under the Securities Exchange Act of 1934 and are not incorporated by reference in registration statements. I would submit that companies and their advisers have not reciprocated with more transparent disclosure. We may consider whether this special treatment should continue or how we can achieve disclosure that merits the treatment.
- **Related-Party Disclosure.** Finally, it has been even longer since the Commission has addressed the relationship between Item 402 and the related-party disclosure under Item 404 of Regulation S-K. Several rules petitions have also been received in this area. We are therefore reviewing this area as it relates to executive compensation.

As I noted, all of this is in the preliminary stages of consideration by the staff. It is too early to tell what if anything we would recommend by way of rule-making or Commission interpretation. And of course anything that we might suggest would be subject to the Commission's decision.

I will stop at this point. I'd like to thank you again for the opportunity to address you today on the important subject of executive compensation.

## Endnotes

---

<sup>1</sup> Report of the NACD Blue Ribbon Commission on Executive Compensation and the Role of the Compensation Committee (2003).

<sup>2</sup> The Counsel of Institutional Investors Corporate Governance Policies (updated October 13, 2004), available at [www.cii.org](http://www.cii.org).

<sup>3</sup> 17 CFR §229.402(b).

<sup>4</sup> *In the Matter of W.R. Grace & Co.*, 53 SEC 225, 229 (Sept. 30, 1997).

<sup>5</sup> *Proposing Release: Executive Compensation Disclosure; Securityholder List and Mailing Requests*, Securities Act Release No. 7009 (Aug. 6, 1993).

## DIRECTORS' COMPENSATION AND BENEFITS

In 2004, we paid each director who was not an employee of AMD an annual fee of \$30,000, a fee of \$2,000 for attendance at each regular or special meeting of the Board and a fee of \$1,200 for attendance at each meeting of any committee on which the director served. In addition, in 2004, we paid the Chair of the Audit Committee an annual fee of \$20,000, the Chair of the Compensation Committee an annual fee of \$10,000, the Chair of the Finance Committee an annual fee of \$10,000 and the lead independent director an annual fee of \$20,000, for service in these capacities. In 2004, we provided Ms. Eberhart a laptop computer powered by our mobile AMD Athlon™ XP-M processor 2500+ and two sample microprocessors. We also provided each Board member with our Personal Internet Communicator device. We also reimbursed reasonable out-of-pocket expenses incurred by directors in connection with attending meetings and performing other Board-related services for AMD, and, on a few occasions, travel expenses of their spouses.

The following chart shows the cash amounts paid to each non-employee director for their service in 2004:

	Board Member Fees	Board Meeting Fees	Committee Chair and Lead Director Fees	Committee Meeting Fees	Total Amounts Paid
W. Michael Barnes .....	\$30,000	\$18,000	\$ 2,500	\$24,000	\$74,500
Charles W. Blalack .....	\$30,000	\$16,000	\$ 0	\$31,200	\$77,200
R. Gene Brown .....	\$30,000	\$16,000	\$20,000	\$31,200	\$97,200
Bruce L. Clafflin .....	\$30,000	\$14,000	\$ 0	\$21,600	\$65,600
H. Paulett Eberhart .....	\$22,500	\$12,000	\$ 0	\$16,800	\$51,300
David J. Edmondson .....	\$ 7,500	\$ 4,000	\$ 0	\$ 0	\$11,500
Robert B. Palmer .....	\$30,000	\$18,000	\$20,000	\$16,800	\$84,800
Leonard M. Silverman .....	\$30,000	\$18,000	\$10,000	\$13,200	\$71,200

Beginning January 1, 2005, we will pay each non-employee director an annual retainer of \$65,000. We will no longer pay meeting attendance fees, unless a committee or the Board of Directors meets more than eight times in any year. In that case, the meeting fees remain the same as noted above. We will continue to pay the Chair fees and lead independent director fee as noted above.

Under a non-discretionary formula approved by the stockholders, and contained in our 2004 Equity Incentive Plan, we grant initial options to purchase 50,000 shares of common stock to non-employee directors on their first election to the Board. These initial options are granted in four installments each year of 12,500 shares each and vest 4,166 shares on the anniversary of the first installment of the grant, with the balance vesting monthly over the next two years. If the director remains on the Board, we automatically grant annual supplemental options to purchase 25,000 shares of common stock on each re-election. These annual options are granted in four installments each year of 6,250 shares each and vest 2,083 shares on April 30 of the year following the first grant, with the balance vesting monthly over the next two years.

The options vest only if the director is serving on the Board on the vesting date. On February 4, 2005, in recognition of Dr. Brown's 35 years of service on the Board, the Board of Directors voted to amend the AMD 2004 Equity Incentive Plan to accelerate the vesting of all of Dr. Brown's unvested options on April 27, 2005 to April 27, 2005 (a total of 34,728 shares). The Board also voted to amend the AMD 2004 Equity Incentive Plan to correct an unintended consequence related to the scheduling of this Stockholder Meeting on April 28, 2005 on the vesting of Mr. Blalack's stock options, by accelerating his options that vest on April 28, 29 and 30, 2005 to April 27, 2005 (a total of 9,724 shares). The exercise price of each option is the fair market value of our common stock on the date of grant. The options expire on the earlier of ten years plus one day from the grant date or 12 months (for options granted before April 26, 2001) or 24 months (for options granted after April 26, 2001) following termination of a director's service on the Board.

**SUMMARY COMPENSATION TABLE**

This table summarizes the compensation for services in all capacities to Alcoa and its subsidiaries for the periods shown for Alcoa's chief executive officer and the four other most highly compensated executive officers in 2004 (listed in alphabetical order).

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		All Other Compensation <sup>(5)</sup> (\$)
		Salary <sup>(1)</sup> (\$)	Bonus <sup>(1)</sup> (\$)	Other Annual Compensation <sup>(2)</sup> (\$)	Awards		
					Restricted Stock Awards <sup>(1)(3)</sup> (\$)	Securities Underlying Options <sup>(4)</sup> (#)	
Alain J. P. Belda <sup>(6)</sup> Chairman of the Board and Chief Executive Officer	2004	\$1,275,000	\$1,550,000	\$ 168,481	\$1,773,500	590,456	\$249,097
	2003	1,216,923	1,300,000	165,451	0	1,041,420	249,525
	2002	896,923	1,108,400	201,137	0	1,236,710	245,325
Ricardo E. Belda <sup>(6)</sup> Executive Vice President- European Region	2004	469,040	515,300	290,134	721,815	200,103	27,600
	2003	449,938	370,000	449,013	0	320,801	26,610
	2002	341,238	275,900	174,049	0	131,829	20,130
Richard B. Kelson Executive Vice President and Chief Financial Officer	2004	599,186	520,000	29,801	721,815	178,639	59,879
	2003	579,087	470,000	43,802	0	212,300	72,200
	2002	481,587	446,000	20,750	0	364,113	69,497
Bernt Reitan Executive Vice President and Group President, Global Primary Products	2004	428,333	450,000	84,943	721,815	91,400	160,186
	2003	310,000	350,000	470,998	0	105,400	54,105
	2002	264,000	110,500	178,972	0	68,400	49,225
Paul D. Thomas Executive Vice President-People, ABS and Culture	2004	461,667	459,600	262,964	721,815	129,424	33,286
	2003	436,300	250,000	1,200	0	183,888	47,800
	2002	327,600	214,200	7,957	0	153,602	42,656

- (1) The most highly compensated executive officers are those with the highest annual salary and bonus for 2004. The bonus calculation for 2004 includes (a) cash incentive earned, which is reported in the Bonus column, and (b) the market value on the date of grant of the target number of performance share awards granted in 2004 for the one-year 2004 performance period, which is reported in the Restricted Stock Awards column for 2004 and described in note (3). Subject to the performance and vesting contingencies described in note (3), the earned amount of the performance share awards will be payable in 2007 in the form of shares of Alcoa common stock.

The salary column includes base salary, and for employees with 25 or more years of service, when chosen by the employee, an extra week's pay instead of vacation.

(2) Other Annual Compensation consists of the following:

	Year	Mr. A. Belda	Mr. R. Belda	Mr. Kelson	Mr. Reitan	Mr. Thomas
Tax reimbursement payments (a)	2004	\$123,216	\$ 0 <sup>(b)</sup>	\$12,697	\$ 12,745	\$ 661
	2003	121,120	86,036 <sup>(c)</sup>	8,442	176,079 <sup>(d)</sup>	0
	2002	116,042	0 <sup>(e)</sup>	5,803	101,245 <sup>(d)</sup>	5,383
Financial counseling	2004	2,062	0	5,000	6,800	0
	2003	4,968	900	5,000	195	0
	2002	4,653	1,188	10,000	1,304	0
Tax services	2004	1,600	2,144	1,200	1,811	1,200
	2003	8,200	2,190	1,200	8,564	1,200
	2002	10,675	1,000	1,458	1,034	1,200
Club membership dues	2004	1,282	0	2,975	0	0
	2003	0	0	2,962	0	0
	2002	180	0	1,882	0	0
Personal use of company aircraft/spousal travel <sup>(f)</sup>	2004	40,321	2,274	7,929	1,953	1,103
	2003	31,163	0	26,198	0	0
	2002	69,587	0	1,607	0	1,374
Expatriate program/relocation plan payments <sup>(g)</sup>	2004	0	285,716 <sup>(h)</sup>	0	61,634 <sup>(i)</sup>	260,000 <sup>(i)</sup>
	2003	0	359,887 <sup>(h)</sup>	0	286,160 <sup>(i)</sup>	0
	2002	0	171,861 <sup>(h)</sup>	0	75,389 <sup>(i)</sup>	0
Total	2004	168,481	290,134	29,801	84,943	262,964
	2003	165,451	449,013	43,802	470,998	1,200
	2002	201,137	174,049	20,750	178,972	7,957

- (a) Unless otherwise noted in (b) through (j) below, the amounts represent the reimbursement of taxes on certain personal benefits, including the insurance referred to in note (5).
- (b) Excludes tax equalization payments made by the company of \$249,000 in connection with Mr. R. Belda's international assignment in Europe, which were offset by \$795,606 in tax equalization payments made by him in accordance with the company's expatriate program, resulting in a net tax equalization payment by the company in 2004 of \$(546,606).
- (c) Represents tax equalization payments made by the company in connection with Mr. R. Belda's international assignment in Europe, after deducting Mr. Belda's contributions to those payments.
- (d) Includes tax equalization payments made by the company of \$53,425 in 2003 and \$25,579 in 2002 in connection with Mr. Reitan's international assignment in Europe, after deducting Mr. Reitan's contributions to those payments, and tax reimbursements of \$122,655 in 2003 and \$75,667 in 2002 on certain personal benefits.
- (e) Excludes tax equalization payments made by the company of \$208,281 in connection with Mr. R. Belda's international assignment in Europe, which were offset by \$212,745 in tax equalization payments made by him in accordance with the company's expatriate program, resulting in a net tax equalization payment by the company in 2002 of \$(4,464).
- (f) The incremental cost to the company of personal use of company aircraft is calculated based on the variable operating costs to the company, including fuel costs, mileage, trip-related maintenance, universal weather-monitoring costs, on-board catering, landing/ramp fees and other miscellaneous variable costs. Fixed costs which do not change based on usage, such as pilot salaries, the lease costs of the company aircraft, and the cost of maintenance not related to trips, are excluded. Amounts for personal use of company aircraft by Mr. A. Belda are included in the table, although

- the Board of Directors has required the company's chief executive officer to use company aircraft for all travel whenever practicable for security reasons. The amounts reported reflect a change in valuation methodology from prior years in which the cost of the personal use of company aircraft had been calculated using the Standard Industrial Fare Level (SIFL) tables found in the tax regulations. The 2003 and 2002 amounts have been re-calculated so that amounts are reported on a consistent basis. Expenses for spouse travel include amounts paid or reimbursed by the company, although the spouse was invited to attend the event for appropriate business purposes.
- (g) The reported amounts are paid under the company's expatriate program for employees on international assignments or its relocation plan for relocations to the New York office, as applicable.
- (h) The reported amounts include a goods and services differential allowance of \$95,654 in 2004, \$107,992 in 2003, and \$77,411 in 2002; a housing, maintenance and utility allowance (after deducting Mr. R. Belda's contributions to those costs) of \$149,686 in 2004, \$187,983 in 2003, and \$51,571 in 2002; and other related allowances under the expatriate program.
- (i) The reported amounts include a housing allowance (after deducting Mr. Reitan's contribution to those costs) of \$40,064 in 2004, \$44,096 in 2003, and \$51,769 in 2002, and other related allowances under the expatriate program. The 2003 amount also includes a relocation payment of \$210,000.
- (j) The reported amount represents a relocation payment.
- (3) As discussed in the Report of the Compensation and Benefits Committee on page 31, performance share awards were granted in 2004 under the Alcoa Stock Incentive Plan. The awards represent a commitment by Alcoa to issue on the third anniversary of the grant date from 0 to 200% of the target number of shares of Alcoa common stock covered by the award, contingent upon Alcoa's 2004 return on capital percentile rank within a comparator group of companies. The value of the earned awards is not calculable through the latest practicable date, as the data for the comparator group is not yet available. That calculation will be made, and the exact amount of stock to be received under the awards, if any, will be determined, no later than July 14, 2005. Amounts shown in the column represent the dollar value on the date of grant of the target number of performance share awards granted in 2004. The dollar value of the awards is based on the closing price of Alcoa common stock on the New York Stock Exchange on the date of grant (\$35.47 per share). The target number of performance shares granted were: Mr. A. Belda, 50,000 shares, Mr. R. Belda, 20,350 shares, Mr. Kelson, 20,350 shares, Mr. Reitan, 20,350 shares, and Mr. Thomas, 20,350 shares.

The following table shows examples of the number of shares of Alcoa common stock that would be received by the named executive officers if the earned awards for 2004 are determined to be issuable at various levels ranging from 0% to 200% of target:

Number of Shares of Alcoa Common Stock Issuable Under 2004 Performance Share Awards at Various Percentages of Target							
	0%	40%	80%	100%	120%	160%	200%
Mr. A. Belda	0	20,000	40,000	50,000	60,000	80,000	100,000
Mr. R. Belda	0	8,140	16,280	20,350	24,420	32,560	40,700
Mr. Kelson	0	8,140	16,280	20,350	24,420	32,560	40,700
Mr. Reitan	0	8,140	16,280	20,350	24,420	32,560	40,700
Mr. Thomas	0	8,140	16,280	20,350	24,420	32,560	40,700

For Year \_\_\_\_\_

**TOTAL COMPENSATION TALLY SHEETS**

\_\_\_\_\_ (Name of Executive) \_\_\_\_\_

**ANNUAL PAY**

- |                                                          |                 |
|----------------------------------------------------------|-----------------|
| 1. Salary Earned                                         | \$ _____        |
| 2. Annual Incentive Earned                               | _____           |
| 3. Other Annual Compensation <sup>(1)</sup>              | _____           |
| 4. Dividends Paid Currently on Restricted/Deferred Stock | _____           |
| <b>Sub-total Annual Compensation</b>                     | <b>\$ _____</b> |

**LONG-TERM PAY**

- |                                         |                 |
|-----------------------------------------|-----------------|
| 5. Stock Option Grant Fair Values       | \$ _____        |
| 6. Restricted Stock Grant Values        | _____           |
| 7. LTIP Payout Values                   | _____           |
| <b>Sub-total Long-Term Compensation</b> | <b>\$ _____</b> |

**OTHER COMPENSATION**

- |                                                                   |                 |
|-------------------------------------------------------------------|-----------------|
| 8. Annual 401(K) Plan Contribution                                | _____           |
| 9. Annual Defined Benefit Increase/Decrease in Benefit Value      | _____           |
| 10. Other SERP Accrual Values                                     | _____           |
| 11. Dividends Credited or Reinvested in Restricted/Deferred Stock | _____           |
| 12. Other <sup>(2)</sup>                                          | _____           |
| <b>Sub-total Other Annual</b>                                     | <b>\$ _____</b> |

**TOTAL** \$ \_\_\_\_\_

Notes

- (1) Include all W-2 items, broken out on an attached sheet, for financial counseling, tax preparation, company-provided transportation facilities for personal use at net operating cost, perk allowances, car allowances, tax gross-ups, etc.
- (2) Include COLI premiums and directors' fees from Co. or affiliated entities