ALCAN ALUMINIUM LIMITED

ANNUAL REPORT 1987

ALCAN

CONTENTS

COMPANY PROFILE

Alcan – the leading international aluminum company – is vertically integrated throughout all stages of the industry, including bauxite mining, alumina refining, aluminum smelting and fabricating, and sales. Alcan has developed a unique combination of competitive strengths with low-cost, owned hydro-power in Canada, international diversification, and proprietary and process technology.

Alcan Aluminium Limited, incorporated in Canada on June 3, 1902, has some 46,000 holders of its common shares and 6,800 holders of its preference shares.

The word ALCAN and the symbol are registered trademarks in more than 100 countries.

REORGANIZATION

On July 24, 1987, pursuant to a reorganization, the Company (formerly named Aluminum Company of Canada, Limited) became the publicly-owned parent company of the Alcan Group of companies, and the Company's former parent became a subsidiary. Information in this Annual Report with respect to the parent company of the Alcan Group relates to the former parent until the date of the reorganization and to the Company after that date. The consolidated financial position of the Alcan Group was virtually unchanged by the reorganization and is referred to in note 2 of the Notes to Consolidated Financial Statements.

VERSION FRANÇAISE

Pour obtenir la version française de ce rapport, veuillez écrire aux Services aux actionnaires d'Alcan dont l'adresse figure en page 33.

TERMS

In this report, unless stated otherwise, all dollar amounts are stated in United States dollars and all quantities in metric tons, or tonnes. A tonne is 1,000 kilograms, or 2,204.6 pounds.

A "subsidiary" is a company in which Alcan directly or indirectly owns more than 50 per cent of the voting stock. A company owned 50 per cent or less by Alcan and in which the Company has significant influence over management is referred to as a "related company".

The following abbreviations are used:

/t	per tonne
kt	thousand tonnes
Mt	million tonnes
kt/y	thousand tonnes per year
Mt/y	million tonnes per year

HIGHLIGHTS OF 1987

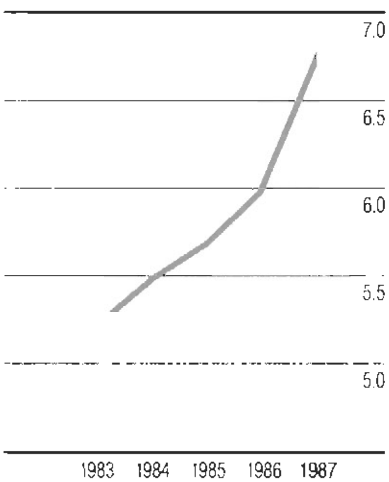
	1987	1986	1985
Principal highlights *(in millions of U.S.$)*			
Sales and operating revenues	6,797	5,956	5,718
Net income (Loss)	433	277	(147)*
Return (%) on average common shareholders' equity	12	8	(6)
Capital employed *(at year-end)*	6,324	5,807	5,600
Ratio of total borrowings to equity, including minority interests *(at year-end)*	27:73	31:69	37:63
Aluminum shipments *(in thousands of tonnes)*			
Fabricated products	1,410	1,388	1,340
Ingot products	787	731	878
Total	2,197	2,119	2,218
Per common share *(in U.S.$)*			
Net income (Loss)	2.52	1.63	(1.21)*
Dividends	0.58	0.53	0.73
Common shareholders' equity *(at year-end)*	22.57	19.77	18.35
Market price (NYSE – consolidated trading)			
High	37⅞	23	20⅞
Low	18	18⅜	15⅛

Amounts reflect the three-for-two share split on May 5, 1987.

**Includes special charges and rationalization expenses of $252 million ($1.69 per common share) after tax.*

SALES AND OPERATING REVENUES

(billions of U.S.$)

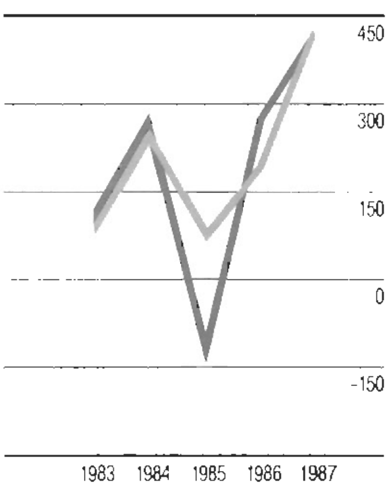


NET INCOME

(millions of U.S.$)

Net income

Net income, excluding non-recurring items



David Morton, President and Chief Operating Officer, and David M. Culver, Chairman and Chief Executive Officer.

In 1987, Alcan's earnings reached their highest level since the record years of 1979 and 1980. They did so on the back of sustained demand and improved prices. More importantly, they did so also on the basis of reduced costs and a leaner organization. It is this tighter management of the factors under our own control which is the satisfying part of Alcan's performance in 1987.

The foundation for this improvement lies in Alcan's strategy, outlined in 1986 but evolved over earlier years. Alcan's Mission Statement, highlighted in last year's Annual Report, makes two major commitments, one in the area of our traditional business and the other to new directions. It is from the first commitment to excellence in the management of selected aluminum businesses that this year's results have sprung. In all sectors of our business, costs have been reduced and, where necessary, operations streamlined and rationalized. In particular, substantial progress has been made in the restructuring of our rolled products operations in North America and Europe. Rationalization and the introduction of advanced technology have reduced rolled product costs in North America in 1987 by 15% and employee numbers by 26%, all without any net loss of business, and further earnings will accrue in 1988. Overall, during 1987, Alcan's annual cost base has been reduced by a further $50 million, on top of the $200 million annual reduction which was achieved during the 1985-1986 period. While such a reduction is a significant achievement, these efforts must and will continue. The containment of costs remains an important priority in running our business. Another is our continuing commitment to improved environmental protection exemplified by investments around the world of $35 million in 1987, specifically for this purpose.

The effect of our cost-cutting measures, together with the tight control of working capital and restrained capital expenditure, has led to a continuing improvement in the Company's overall financial position. Interest costs have been reduced and the debt-to-equity ratio was down to 27:73 by year-end. This was recognized in December by the raising of the Standard & Poor's credit rating on our senior debt. It is a fine performance, resulting from the skilful and dedicated efforts of employees throughout the Alcan Group, and I would like to take this opportunity to underline the appreciation of the Directors for these efforts.

Following common shareholder approval at the Annual Meeting, Aluminum Company of Canada, Limited, which had been Alcan's principal subsidiary, became the parent company of the Alcan Group in July, and changed its name to Alcan Aluminium Limited. This reorganization reduced administrative costs and streamlined our decision-taking process. It also created a stronger and more stable financing base, as the parent company is now an operating as well as a holding and management company.

The second commitment in Alcan's Mission Statement of 1986 was to "building an array of new businesses with superior growth and profit potential". It is a commitment that is vital to our future growth in earnings. We have made a lot of progress towards this goal, the initial objective being to gather knowledge and build alliances in target markets before moving into new businesses on any major scale. While most of the projects we are pursuing are in their early stages, they include a number of exciting possibilities. The progress we have made, and the way in which we are achieving it, is more fully described on pages 4 and 5 of this Annual Report.

During the year, Arthur A. Bruneau, John F. Burlingame and Lionel P. Kent retired from the Board. Arthur Bruneau's retirement came at the end of thirty-eight years of service with Alcan and fifteen years of close involvement with the Board, initially as secretary and latterly as director. He was also the Company's Chief Legal Officer for many years, and his consistent emphasis on the integrity and well-being of the Company earned him the greatest respect. John Burlingame's decision not to stand for re-election in April was received with regret, but we value having had the benefit of his counsel over the past three years. Lionel Kent's eight years of service as director, and especially his chairmanship of the Audit Committee for seven of those years, were a signal asset to the Board and the Company and one for which we owe him a debt of gratitude.

At the Annual Meeting in April 1987, William R. C. Blundell, Chairman and Chief Executive Officer of General Electric Canada Inc., and George Russell, C.B.E., Chief Executive Officer of Marley plc in the United Kingdom, were elected to the Board, and Laurent Beaudoin, O.C., Chairman and Chief Executive Officer of Bombardier Inc. of Montreal, was appointed to the Board in October.

As we enter 1988, the potential fallout from the volatile behaviour of the financial and foreign exchange markets makes it difficult to forecast the business climate for the year ahead. What is certain is that we are in a closely balanced aluminum market. World inventories are at an historic low, producer operating rates are close to effective capacity and there is little new production capacity coming on stream in 1988. The strength of the aluminum industry remains very closely tied to the health of the major world economies and the resulting level of industrial production. So far, demand does not seem to have been affected to any great extent by the financial market turbulence of late 1987. If this situation persists, the outlook remains favourable. If there is a downturn, Alcan enters 1988 better equipped to weather it successfully than it was even as recently as a year ago.

The Company's strategy, in fact, is paying off. A reduced cost base, greater flexibility, a stronger financial position and a developing framework of new businesses are major strengths with which to build the future. We shall face challenges and opportunities, some of them unforeseen. The Company's performance in 1987 gives good grounds for confidence in our ability to profit from both.

David M. Culver

David M. Culver
Chairman and Chief Executive Officer

Montreal, February 3, 1988

In July 1986, Alcan published its new Mission Statement. A major part of this commitment is to excellence and lowest cost in its chosen aluminum businesses. Alcan has successfully moved – and continues to move – to define and select those aluminum businesses in its traditional field of activities in which it has a sustainable competitive advantage. Having done so, it is pressing that advantage to success. The Message to Shareholders highlights this achievement in 1987.

But there is also a commitment in the Mission Statement to move Alcan into new and non-traditional fields – to devote "significant resources to building an array of new businesses with superior growth and profit potential". Here the direction is less obvious, the terrain less familiar.

Alcan has designated certain target sectors for these new businesses, based largely on its existing strengths, whether global, management, technological, operational or marketing. It has put in place pathfinding teams to gain the knowledge of technology and markets necessary to any major advance into new businesses. Laying these foundations is an important first step in the build-up to more extensive investment.

Alcan's strategy in this entry phase is to move forward by a series of discrete steps. These could include, for example, a joint research project, a small acquisition or a strategic alliance. Each move gives a better view of the technology, the distribution channels, or the market picture and establishes a better position from which to make the next move.

With each step, perspectives become broader and, in some cases, may provide an early opportunity for a bigger, bolder move of the kind that will necessarily form part of Alcan's overall investment

An aluminum-bodied Bertone X1/9, built using Alcan's Aluminum Structured Vehicle Technology, proves its durability on the Motor Industry Research Association's testing grounds in the United Kingdom.

plan for new businesses. The new perspectives may help to narrow the focus onto a specific market niche or perhaps change significantly the emphasis for a particular project. Thus gaining knowledge and building alliances in target markets is the current objective, rather than setting out to make major acquisitions at high prices with uncertain returns. Alcan's policy, in fact, is one of effort before equity.

Many projects are under way, each with a different scope and time scale, and a few examples may illustrate the range of activity and the progress being made.

- In the automotive sector, Alcan's new Aluminum-Structured Vehicle Technology allows the production of adhesive-bonded aluminum automobile bodies on conventional production lines, at about half the weight of equivalent steel bodies with little, if any, cost premium. Six aluminum-bodied Bertone XI/9s and two Pontiac Fieros have already been built and successfully proved in structural and racetrack testing.
- In the energy conversion field, Alcan, through its U.S. subsidiary Alupower, has consumer versions of its light-weight aluminum-air battery on the market and is developing it for larger-scale power applications in the longer term. Founded in 1985, Alupower's sales are climbing rapidly following the introduction of four successful new products, and it is test marketing in Japan as well as creating subsidiaries in Canada and the United Kingdom.
- British Alcan's Anotec separations devices, capable of uniform filtration of particles as small as a virus, have obvious relevance in the bio-medical field and trial quantities of three product forms are selling successfully in the United States and Europe.
- Among the advanced materials already in pilot scale production are structural ceramics (joint venture with Lanxide Corporation) and metal matrix composites such as Dural, a high-performance, low-cost composite of aluminum and silicon carbide.

In addition, there are many new or improved products emerging from Alcan's mainstream businesses around the world. In 1987, there were 77 such products in North America alone. Across a wide range of technologies, these and many other projects add up to an impressive ground-swell of innovation.

A good example of Alcan's step-by-step build-up to a new business is that of high-performance automotive engine components. Know-how from Alcan's castings company in Germany, a supplier of high-performance aluminum pistons and castings to BMW, Mercedes, Porsche and Volkswagen, has been added to a recently-acquired castings operation in Ontario to provide a platform for serving the fast-growing North American automotive casting market. From this base, it is planned to move to the supply of complete sub-assemblies to automobile manufacturers, and then, in the next phase, to incorporate Alcan's new advanced materials to upgrade performance still further – an orchestrated approach to putting Alcan into a high added-value position in a large and fast-growing market for aluminum.

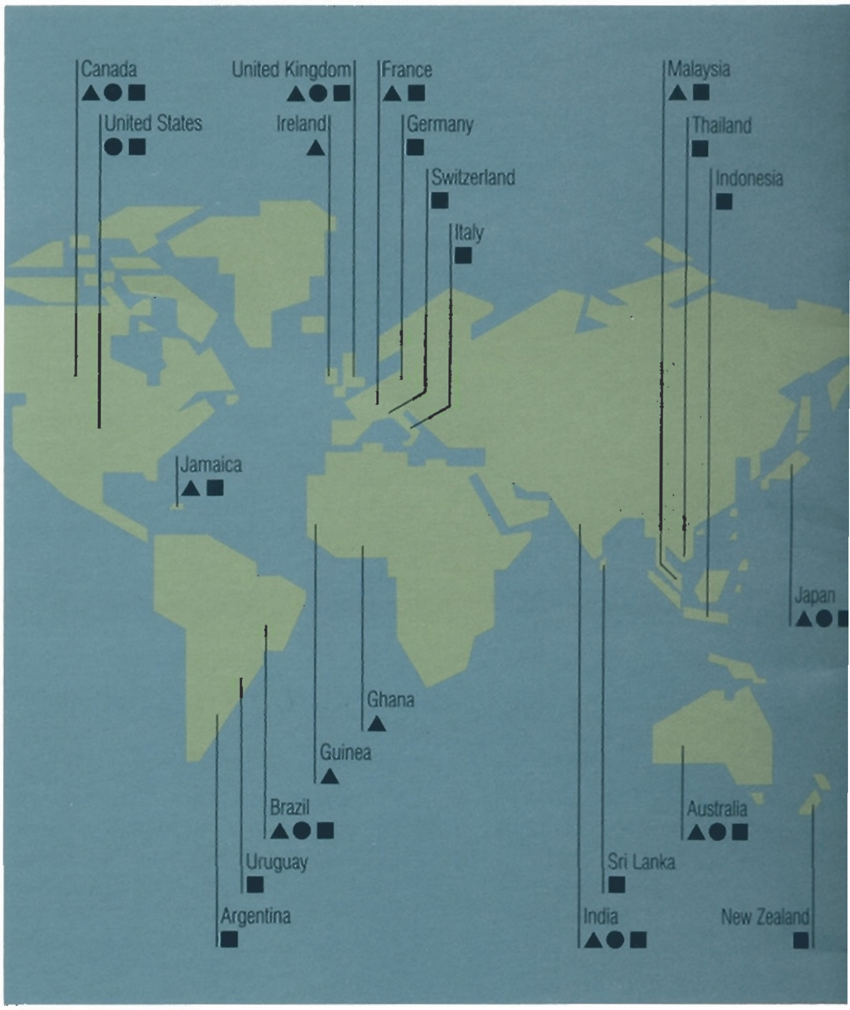
In this and similar ways, the base of Alcan's knowledge in its chosen areas of new business is being broadened and its commercial links established. Small operating teams function in a network largely coordinated in North America through Alcan's business development office in Cambridge, Massachusetts, and in Europe through its office in Geneva, Switzerland. The teams draw on Alcan's research, marketing and operations people for the right skills and often include outside experts as full team members. A climate of openness and cooperation exists between project teams and operating companies, both sharing the Company's commitment to innovation.

As programmes develop, projects are either moved to early commercialization, changed in scope or focus, or terminated. In the stage of early commercialization, some businesses may fail or be sold, just as others will flourish. It is from this organized breeding-ground of opportunities that are emerging the winners for the years and decades to come. Some of the winners will be large, some will remain modest; all will contribute above-average growth and profitability. Alcan's culture is changing and, in the change, its Mission is being realized.

Nineteen eighty-seven was a year of accomplishment for Alcan as the Company's operations around the world made significant gains in profitability.

The year also marked substantial further progress in the implementation of the corporate strategy, as outlined in the Message to Shareholders. Throughout the world, Alcan has reduced costs, modernized facilities, and rationalized and consolidated operations. These and future actions will ensure that the Company remains one of the lowest-cost competitors in the industry. In addition, Alcan continues to work on specific environmental challenges as part of its long-standing commitment to this area.

In 1987, most of the markets served by Alcan showed improvement. The world-wide primary aluminum market strengthened throughout the year with prices rising substantially above those of 1986. Although prices for fabricated products also rose during the year, they have not yet fully reflected the higher prices in the primary market.



Alcan's broad geographical diversification has meant that the implementation of the corporate strategy has taken different forms throughout the world.

- In Alcan's low-cost, primary aluminum production base in North America, the emphasis has been on improving productivity and renewing existing facilities.
- North American rolling operations have now been rationalized on a continental basis resulting in substantial cost savings.
- In Europe, where Alcan is the major fabricator of rolled products, the rolling operations are also based on a continent-wide strategy.
- In the Pacific region, operations in Australia and New Zealand are being consolidated to create a more effective organization.
- Latin American operations are improving their profitability despite adverse economic conditions.
- In addition, as described on pages 4 and 5, Alcan is making steady progress in developing new products and businesses to secure its future.

CANADA

Net income rose by 51% to $227 million. Shipments to customers in Canada increased by 11%.

Raw Materials: The emphasis in Alcan's alumina operations has been on reducing costs and increasing flexibility. Since 1983, production costs of alumina at the Vaudreuil, Quebec, facility have been reduced by approximately 22%. In addition, a new red mud treatment process at this plant will contribute to environmental protection.

Smelting: In 1987, the Canadian smelter system produced 1,050 thousand tonnes (kt) of aluminum. Already one of the world's lowest-cost smelter operations, productivity improvements have increased production per employee by over 38% in the last five years.

Health and safety of the employees remains a high priority. During 1987, both the frequency and severity of accidents reached their lowest level in history.

Alcan is committed to modernizing its Canadian smelter system. In 1988, construction will commence on the Laterrière, Quebec, smelter which is intended to replace older capacity and improve environmental conditions. The project will be carried out in four phases, the first of which consists of the construction of 50 thousand tonnes per year (kt/y) of capacity at a cost of $180 million. When completed, the smelter will have a total capacity of 200 kt/y and cost approximately $550 million.

During 1987, construction of a 80 kt/y sheet ingot casting facility was completed at the Grande Baie, Quebec, smelter complex.

Alcan signed an agreement with the governments of Canada and British Columbia resolving a dispute over the water flows in the Nechako River. This agreement is a major step forward in allowing the Company eventually to complete its hydroelectric generating development in British Columbia.

At the end of August, labour contracts with employees at Alcan's unionized Quebec smelters expired and negotiations are under way with the unions. Labour disruptions, however, forced Alcan to suspend operations at its 84 kt/y Shawinigan, Quebec, smelter at the end of October.

Fabricating: Reflecting strength in the industrial, housing and renovation markets, Alcan's building product, extrusion, and wire and cable businesses reported substantially higher profits.

Demand for can sheet grew by over 25%, and substantial further growth is anticipated next year.

During 1987, two uneconomic foil rolling facilities were closed and a flexible foil packaging operation was sold.

New businesses: In July, Alcan acquired the business and assets of CAE DieCast, a producer of automotive castings, which provides an entry into the North American automotive casting market.

Map

▲ Alumina and bauxite locations

● Smelter locations

■ Fabricating operations

NET INCOME

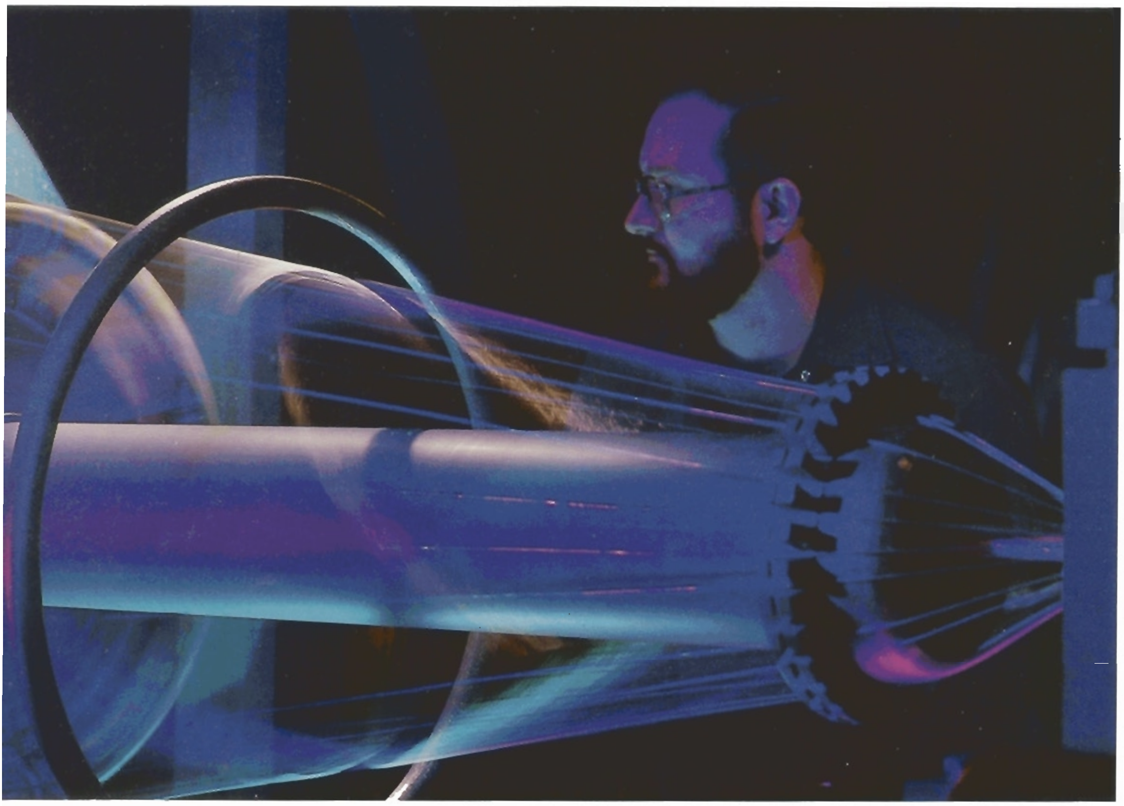
(millions of U.S.$)

SHIPMENTS*

(thousands of tonnes)

*to third parties in Canada

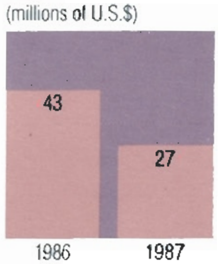
Operator Gaetan Chayer guides extrusion ingots out of a casting pit at Alcan's facilities in Jonquière, Quebec, Canada. Alcan is the leading supplier of aluminum billet to the world-wide extrusion market.



Aluminum wire is stranded into cable at Alcan's plant in Williamsport, Pennsylvania. Controlling the process is operator Robert Hanner. Aluminum cable is widely used in the transmission and distribution of electricity.

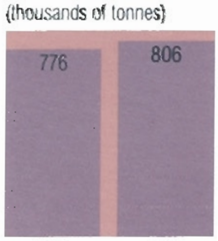
NET INCOME

(millions of U.S.$)



SHIPMENTS*

(thousands of tonnes)



*to third parties in the U.S.

UNITED STATES

Shipments to the U.S. market were 806 kt, and net income was $27 million. While the Company's operations continued to perform well, the reduction in net income from 1986 reflects the increased costs associated with developing new businesses.

Smelting: During the year, Alcan increased production at its 163 kt/y Sebree, Kentucky, smelter. Operating only one of three potlines during the first half of the year, the Company restarted the smelter's second potline in July in response to strong demand for aluminum. In December, Alcan announced plans to restart the third potline during the first quarter of 1988.

Fabricating: For the second consecutive year, demand for rolled products continued at record high levels. Realizations on sales of fabricated products, however, did not fully reflect the rising level of primary aluminum prices during the year.

Alcan has organized its rolled products operations on a continental basis and is focusing on those businesses in which it has a significant competitive advantage and market share.

Investments in the latest automation and technology are providing customers with superior sheet products, particularly for the highly-competitive can-sheet market.

In 1987, North American rolling operations reduced total operating expenses by approximately 15% and its workforce by over 26% while maintaining 1986 net shipment levels. Further gains under this programme are expected in 1988.

During the year, certain uneconomic hot-rolling operations at the Terre Haute, Indiana, plant were closed, and it will now concentrate on the production of foil for the semi-rigid container and household foil markets. The specialization of the Warren, Ohio, plant to coat can-end stock was also completed.

The successful restructuring of the Metal Goods division, the largest distributor of corrosion-resistant metals in the United States, led to a substantial improvement in its profitability and market share in 1987.

In December, Alcan announced the planned construction of a beverage can recycling plant in the mid-west United States. The plant will have an annual capacity of 109 kt/y of sheet ingot and will cost $50 million.

Employee accident rates at Alcan's fabricating operations continued to decline in 1987, falling to record low levels. Loss prevention audits were performed during the year under the new Alcan Safety and Health Evaluation System.

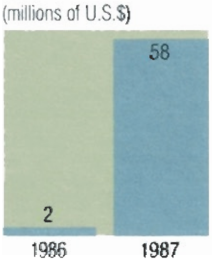
New businesses: During the year, Alcan continued the development of new businesses in the packaging, electronics, transportation, advanced materials, communication and energy conversion fields as highlighted on pages 4 and 5.

Alcan and 49.9%-owned Toyo Aluminium K.K. formed a joint venture to produce and market aluminum powder and paste in the United States. The operation will focus its efforts on becoming a leading supplier to the automotive and aerospace markets.

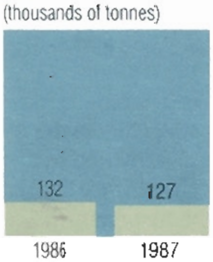
The Company acquired Rapak Inc., a small manufacturer of equipment for the emerging, bulk liquid packaging market.

In Pindamonhangaba, Brazil, operator José Jacó Cesar prepares the tubing connections on a *Roll-bond* heat-exchanger panel. *Roll-bond* technology is used in a variety of applications from refrigerators to solar panels.

NET INCOME
(millions of U.S.$)



SHIPMENTS*
(thousands of tonnes)



*to third parties in Latin America

LATIN AMERICA

Net income rose to $58 million, and shipments were 127 kt.

Brazil: The economic environment in Brazil continued to be difficult in 1987. Sparked by high inflation and recessionary pressures, demand for aluminum fell from the high levels experienced in 1986.

Despite these adverse economic conditions, which include price controls and exchange restrictions, Alcan's Brazilian subsidiary maintained its market position and achieved a major improvement in earnings.

Brazilian operations, particularly extrusion and foil conversion, achieved significant gains in productivity during the year.

Power rationing in northeast Brazil, which ended in January 1988, affected primary aluminum production. As a result, the Company was forced to cut production by 12% at its 58 kt/y Aratu smelter.

Negotiations for a more competitive bauxite price continue with 24%-owned Mineraçao Rio do Norte in Brazil.

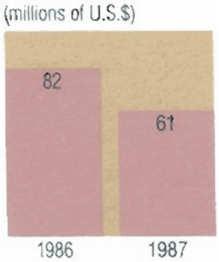
The substantial reduction in emissions into the atmosphere at Ouro Preto, as part of Alcan's commitment to protecting the environment, was cited as an exemplary initiative by Brazilian authorities.

Argentina: Shipments from operations rose 10% in 1987, but net income declined due to higher metal costs and lower domestic prices.

Uruguay: Operations were very successful, with higher volumes and record earnings.

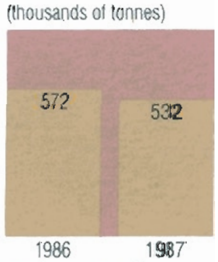
NET INCOME

(millions of U.S.$)



SHIPMENTS*

(thousands of tonnes)



*to third parties in Europe

EUROPE

Net income was $61 million compared to $82 million in 1986 which included $52 million from income tax recoveries and gains on sales of assets. Shipments to the European market were 532 kt in 1987.

In 1987, Alcan continued to strengthen its position as a leading supplier of rolled products in Europe. One of the Company's notable achievements during the year was the successful marketing of retortable aluminum containers for pet food.

With its modern and efficient production base, the Company is now the largest producer of sheet products in Europe and an increasingly large competitor in the foil market. As in North America, the rolled products operations now reflect a continental strategy.

United Kingdom: Led by the strength in the building and transportation markets, demand for aluminum fabricated products in the U.K. increased by 10% in 1987 as the economy experienced substantial growth.

A new sheet ingot casting facility at the Lynemouth smelter was completed which will enhance product quality and increase production capacity. The new casting facility complements the modernization and cost reduction programmes under way at the Rogerstone and Falkirk sheet mills which will further improve Alcan's competitive position in the British and continental sheet markets.

Germany: In 1987, Alcan's operations in Germany faced strong competition in their domestic and export markets due to the strength of the deutsche mark. Despite this and the rising cost of purchased aluminum, the Company increased its earnings.

New sheet production capacity came on stream in 1987 as the fourth cold rolling mill at 50%-owned Aluminium Norf GmbH (Alunorf) commenced production. A new pretreatment line at Göttingen, which will finish Alunorf coils for the packaging market, also started during the year.

The construction of a 2.1 metre-wide continental foil mill at Ohle started in 1987, with first production scheduled for early 1989. The plant will strengthen Alcan's position in the specialty foil market.

In March, Alcan closed its 44 kt/y Ludwigshafen smelter due to uneconomic energy costs.

Italy: Alcan acquired a 35 kt/y sheet rolling plant which has been integrated with the European rolling system.

Switzerland: A new line to produce foil laminates for retortable containers will start in 1988.

France: Operations have been restructured to concentrate on value-added consumer products for the building and renovation markets.

Spain: The San Ciprian smelter of Industría Española del Aluminio S.A., 23.9% owned by Alcan, has been closed since mid-December due to a labour disruption.

Ireland: At 65%-owned Aughinish Alumina Limited, there was substantial further progress towards reducing costs. Savings from new contract rates for power and bauxite, together with productivity gains, more than offset increased costs of oil and caustic soda and the adverse impact of the stronger Irish currency.

Laboratory technician Martin Ratter conducts a sealing test on the lid of an aluminum container for pet food. Alcan's foil plant in Plettenberg-Ohle, West Germany, produces *Alucon* semi-rigid foil containers in a wide range of shapes and dimensions.

PACIFIC

Net income rose to $32 million, and shipments totalled 411 kt.

The major economies in the Pacific experienced healthy growth in 1987 and demand for aluminum was strong. The building products and transportation markets, especially in Australia, Japan and India, showed particular strength.

Australia: Results from Alcan Australia Limited, owned 73% by Alcan, improved significantly in 1987 due to the strengthening of aluminum prices. Both primary and fabricating facilities operated at peak capacity.

During the year, Alcan Australia acquired 98.7% of the common shares of Alcan New Zealand Limited, which included Alcan's 69.2% interest in that company. The move will increase the operating effectiveness of both companies.

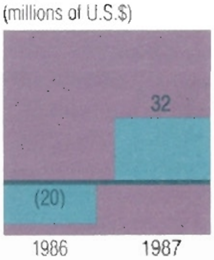
Japan: Benefiting from the strong domestic demand for aluminum and the results of its cost reduction efforts, Nippon Light Metal Company Ltd., owned 50% by Alcan, made a significant recovery from its poor results of the last few years.

Toyo Aluminium K.K., owned 49.9% by Alcan, continued to perform well in 1987. Toyo is one of the world's major producers of aluminum foil, paste and powder products.

India: During the year, the Indian Aluminium Company, Limited (Indal) undertook a local financing in order to support its diversification plans. This issue reduced Alcan's equity stake in Indal from 50.5% to 39.9%.

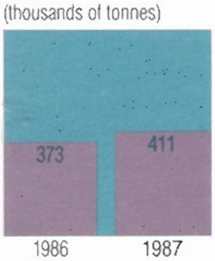
NET INCOME

(millions of U.S.$)



SHIPMENTS*

(thousands of tonnes)



*to third parties in the Pacific

Extruded sections from Alcan's new powder-coat paintline at Granville, New South Wales, Australia, are checked for surface quality by inspector Lou Bojic. These aluminum sections will be used in the manufacture of residential windows.

OTHER AREAS

Jamaica: Following arbitration to clarify certain provisions of their joint venture agreement, Alcan and the Government of Jamaica confirmed their intention to work within the agreement. Discussions regarding the bauxite levy and income taxes will be resumed.

Alcan carried out an environmental and occupational health audit at its Jamaican facilities, covering among other topics emissions and handling of hazardous materials and toxic wastes.

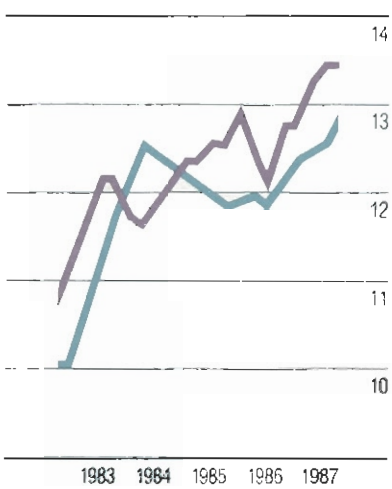
In 1987, sales rose to record levels and net income increased by 56% over 1986. Improved market conditions gave rise to higher realizations on the sales of the Company's products. This, combined with Alcan's continuing efforts to reduce costs and improve productivity, led to the significant improvement in earnings.

WESTERN WORLD PRIMARY ALUMINUM PRODUCTION AND SHIPMENTS

(millions of tonnes/year)

Production

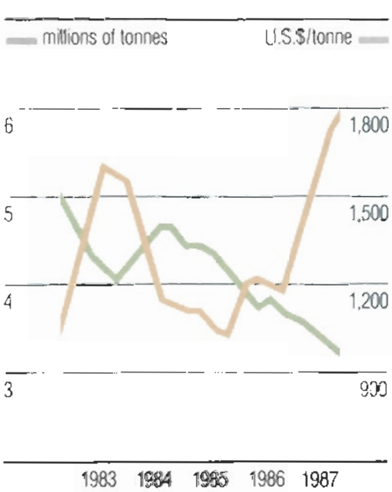
Shipments (seasonally adjusted)



TOTAL PRIMARY ALUMINUM INVENTORIES AND SPOT INGOT PRICES

Total inventories (IPAI, Japanese stockpile, LME, Comex)

Spot ingot prices (average of LME cash and "Metals Week" U.S. quotation)



PRIMARY ALUMINUM MARKET

The primary ingot market responded strongly to improvements in the demand/supply balance. Rising demand, low inventories held by producers and an industry operating at near effective capacity resulted in aluminum prices reaching their highest levels since 1980.

Western World aluminum shipments rose by 5.8% in 1987 to 13.1 million tonnes (Mt) with growth occurring in most areas of the world. Much of this increase reflected the healthy level of economic activity in the United States and Japan. The greatest improvement occurred in Japan where aluminum imports rose by 56% over 1986 as consumption increased and the decline in domestic inventories, evident in prior years, ceased.

Industry shipments exceeded production for the third consecutive year, and inventories held by producers and commodity exchange warehouses continued to fall. By year-end, total inventories had declined by over 0.5 Mt to 3.2 Mt, their lowest level since 1974, representing approximately a twelve-week supply. Reflecting these tightening market conditions, international spot aluminum prices averaged $1,590 per tonne (/t), up 33.6% from the average price in 1986.

In response to rising demand and higher prices, Western World aluminum production rose by 5.9% to 12.6 Mt in 1987. Although some of the increase in world production was due to the start-up of new smelters, much of it resulted from the restart of U.S. smelters which had been closed when aluminum prices fell to levels which rendered them uneconomic to operate. With these restarts, the capacity utilization rate averaged 92% during the year. By December, the utilization rate reached 95%, close to the industry's effective capacity.

While demand for aluminum will be closely tied to overall economic growth in 1988, the aluminum industry begins the year with the lowest inventories, and the highest shipments and capacity utilization rates of this decade.

PRINCIPAL END-USE MARKETS

Containers and packaging: Alcan's sales continued to expand at a rapid rate with revenues in 1987 up 44.1% above the level of two years ago. The United States remains the largest market and recorded further growth in 1987. The Company's fastest sales growth, however, occurred in Continental Europe where substantial investment has been made in the modernization and expansion of Alcan's rolling capacity. Significant increases also occurred in sales to Asia and Latin America, reflecting rising levels of foil consumption. In Canada, revenues rose due to aluminum's greater penetration of the beverage can market.

Building and construction: Sales in Canada, the United Kingdom and Japan rose strongly as the housing construction and renovation markets in these countries enjoyed substantial growth during the year. In Continental Europe, revenues declined due to the sale of six extrusion plants at the end of 1986.

Electrical: Sales grew by 12.5% in 1987 with approximately half of this growth occurring in Canada. The Canadian operations fully participated in the strong local construction markets and successfully competed for export sales.

Transportation: Approximately 50% of revenues were from markets in Europe, with North America accounting for most of the remainder. In the United Kingdom, sales rose substantially due to strong growth of the automobile industry. In North America, the acquisition of an automotive castings plant contributed to sales growth.

Other: Ingot products accounted for approximately half of the sales in this category. The rise in revenues principally reflected the increasing realizations on these ingot products. The other major sectors in this category include chemical and alumina markets which also benefited from rising realizations.

Results of Operations

Net income was $433 million in 1987 compared to $277 million in 1986 and a loss of $147 million in 1985. Income in 1987 included non-operating losses of $12 million, whereas 1986 income included non-operating gains of $63 million and a $20 million initial gain from the change in pension accounting rules. Results in 1985 included special charges and rationalization expenses of $252 million after tax.

Sales and operating revenues rose to $6,797 million, an increase of 14.1% over 1986 and 18.9% above the level in 1985. While shipments have been steady over this period, revenues increased mainly due to higher realizations. The improvement in realizations reflected increased prices for the Company's products and the translation of stronger local currencies into U.S. dollars.

In 1987, the cost of sales and operating expenses rose by 10.4% to $5,117 million following a slight decrease in 1986 from 1985. As a percentage of sales and operating revenues, however, costs in 1987 fell to 75.3% from 77.8% in 1986 and 82.1% in 1985.

The increase in costs in 1987 was principally due to the translation of stronger local currencies into U.S. dollars and the purchase of greater quantities of aluminum scrap and ingot from third parties at rising prices. Approximately three quarters of the 10.1% increase in selling, administrative and general expenses was due to the translation of local currencies into U.S. dollars.

In local currency terms, Alcan has been able to reduce the operating costs of most of its businesses around the world. During the year, cost reduction programmes implemented throughout the organization reduced the annual operating costs of its continuing businesses by over $50 million. Combined with past actions taken in 1985 and 1986, Alcan has been able to reduce annual costs by over $250 million before tax from what they otherwise would have been.

Interest costs, including amounts capitalized, at $183 million, were down 15.7% from the prior year and 32.5% below the level in 1985. Total borrowings have been reduced by 21.4% since the end of 1985.

In 1987, Alcan further increased its efforts in the development of new products and businesses. As a result, research and development expenditures rose to $95 million, compared to $77 million in each of 1986 and 1985. The proportion of this total directed to new product development in 1987 increased to 44% from 10% in 1984.

The increase in other expenses in 1987 reflects rationalization costs and other project-related and business development expenses.

Sales by Market 1987

(millions of U.S.$)

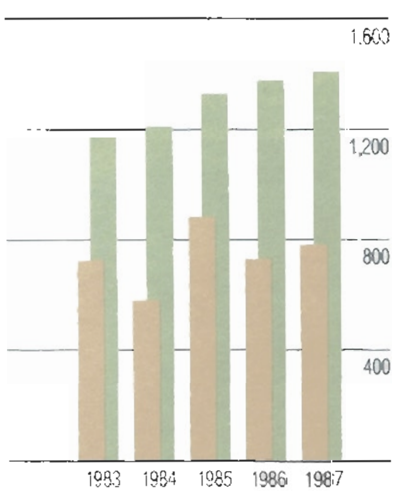
	1985	1986	1987	
Containers and packaging	1,113	1,352	1,604	25%
Transportation	418	467	497	8%
Electrical	490	490	552	8%
Building and construction	1,160	1,319	1,468	22%
Other	2,330	2,128	2,426	37%

Shipments of Aluminum Products

(thousands of tonnes)

Fabricated

Ingot



1983	1,174	728
1984	1,213	577
1985	1,340	878
1986	1,388	731
1987	1,410	787

Revenues by Product 1987

(millions of U.S.$)

	1983	1984	1985	1986	1987	
Flat-rolled products	1,873	2,161	2,320	2,584	2,821	41%
Extruded, rolled, drawn	996	1,126	1,042	1,142	1,166	17%
Other fabricated	326	281	357	344	470	7%
Ingot products	975	817	979	892	1,182	17%
Other products	799	887	813	794	907	13%
Operating revenues and other income	336	304	320	300	332	5%

Gross Profit by Product 1987

(millions of U.S.$)

	1983	1984	1985	1986	1987	
Total fabricated products (integrated)	507	710	598	749	947	64%
Ingot products	153	175	45	154	244	16%
Other products	85	101	96	96	111	8%
Operating revenues and other income	160	152	171	171	179	12%

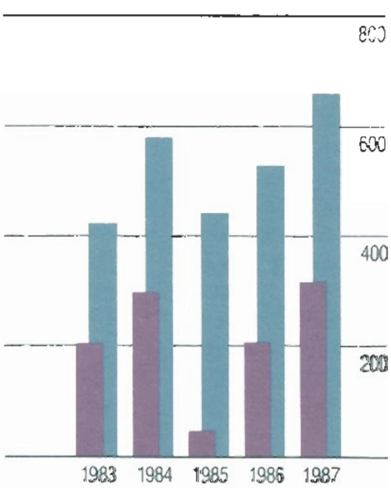
Gross Margins on Sales of Aluminum Products

(U.S.$/tonne)

Fabricated

Ingot

	Fabricated	Ingot
1983	432	210
1984	585	303
1985	446	51
1986	540	211
1987	672	310



Principal Products

Shipments of aluminum in all forms increased in 1987 to 2,197 kt from 2,119 kt in 1986. Consolidated primary aluminum production, however, declined by 3.3% principally due to the closure of the Ludwigshafen smelter in Germany and the interruption of operations at the Shawinigan smelter in Canada.

Total aluminum inventories continued to fall and by year-end were 496 kt, down 83 kt from 1986. Since early 1985, Alcan has reduced total inventories by 283 kt, or 36.3%.

Fabricated Products: At 1,410 kt, shipments of fabricated products were up 1.6% from a year ago when shipments included 70 kt from European extrusion businesses which were sold late that year.

Since 1982, shipments of fabricated products have increased by 48.6%, as Alcan pursued its strategy of increasing the sales of these value-added products.

Average realizations on the sales of fabricated products increased by $231/t or 7.9% from a year ago which, in combination with reduced costs, resulted in gross margins on the sales of fabricated products increasing by $132/t or 24.4%.

Ingot Products: Shipments of ingot products rose in 1987 to 787 kt from 731 kt a year ago.

Average realizations on the sale of ingot products in 1987 increased by $280/t or 22.9% over 1986 levels. The Company's simplified management structure allowed it to move quickly during the year to take advantage of the improving market conditions. In addition, Alcan shipped more value-added ingot products which command premium prices. As a result, average gross margins on ingot products were $310/t compared to $211/t in 1986.

Other Products: Sales of other products rose in 1987 compared to 1986 after experiencing a slight decline from 1985. The increase during the year reflected stronger demand and better prices for Alcan's non-aluminum products such as alumina, copper and steel.

Operating Revenues: In 1987, operating revenues were $251 million compared to $200 million in 1986 and $207 million in 1985. During the year, increased revenues from tolling, principally in Canada and Germany, accounted for nearly 41% of these revenues. The other major component was the sale of surplus power to third parties.

Other Income: Income from other sources was lower in 1987, as the prior year included gains on sales of several investments.

Liquidity & Capital Resources

Cash generated by operations before dividends rose to $879 million in 1987 from $725 million in 1986 and $586 million in 1985. The ratio of total borrowings to shareholders' equity declined to 27:73 at year-end from 31:69 and 37:63 at the end of 1986 and 1985 respectively. In recognition of Alcan's improved financial position and results, the Company's senior debt obligations were upgraded by two major North American credit rating agencies.

In July, the quarterly common dividend was increased by 12.5% to $0.15 per share after adjusting for the three-for-two share split on May 5, 1987. In February 1988, the dividend was further increased to $0.18 per share.

Investments: In 1987, capital expenditures and investments totalled $415 million compared to $342 million in 1986 and $597 million in 1985. Over this three-year period, asset sales totalled $279 million. Major projects during 1987 included the completion of the new hot rolling mill in Brazil, the upgrading of North American rolling operations and the construction of a casting center in Quebec.

In 1988, capital expenditures are planned to be approximately $650 million. Major projects are the construction of the first phase of the Laterrière, Quebec, smelter, a beverage can recycling unit in the United States, and a foil mill in Germany, as well as the improvement of alumina production facilities in Quebec.

Financing: Alcan has reduced debt and increased cash reserves for the second consecutive year. At year-end, total borrowings were $1,525 million, down $91 million from a year ago and $414 million below the level at the end of 1985. Cash reserves rose to $493 million from $316 million in 1986 and $177 million in 1985.

During the year, Alcan announced plans to purchase, under appropriate circumstances, up to 10 million of its outstanding common shares but has not yet purchased any.

During 1987, the Company reduced its term credit lines with banks by $95 million to $848 million. As at year-end, only $212 million of these lines of credit were being used.

In January 1987, Alcan issued SFr178 million of 16-year bonds, which were subsequently swapped for U.S. dollars, and redeemed CAN$24 million of 1991 sinking fund debentures. In March, CAN$10 million of cumulative redeemable retractable preference shares were issued. In May, $31 million of sinking fund notes, due in 1994, were redeemed.

During the year, Alcan redeemed its CAN$2.00 Tax Deferred Cumulative Redeemable Retractable First Preferred Shares. Alcan Australia Limited redeemed $20 million of 8-1/2% bonds, due in 1989, and refinanced a $100 million credit facility with a $125 million note issuance facility.

In December, under an agreement with its Brazilian subsidiary's creditor banks, Alcan acquired approximately $80 million of the outstanding loans to that company in exchange for other Brazilian debt which had been purchased at a substantial discount.

In summary, Alcan continues to generate substantial funds from operations. The Company's strong financial condition also allows access to additional external financing as required. Management believes these financial resources are sufficient to meet the anticipated cash requirements of operations and planned capital expenditures.

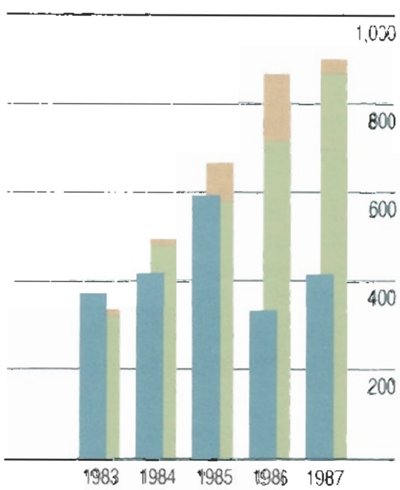
Capital Expenditures, Cash from Operations and Disposal of Assets

(millions of U.S.$)

Capital expenditures

Cash from operations, before dividends

Disposal of assets



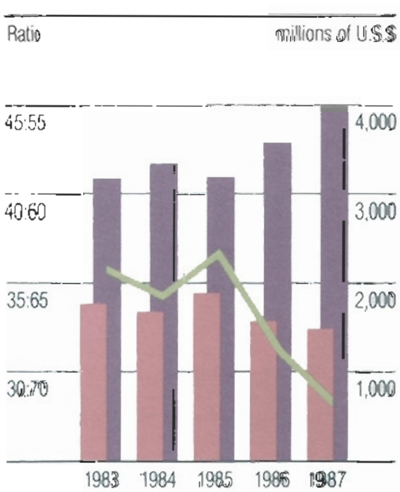
Total Borrowings and Equity

(at December 31)

Total borrowings

Equity (including minority interests)

Ratio of total borrowings to equity



Responsibility for the Annual Report

Alcan's management is responsible for the integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada, conforming in all material respects with those of the International Accounting Standards Committee. Financial and operating data elsewhere in the Annual Report are consistent with those contained in the accompanying financial statements.

Alcan's policy is to maintain systems of internal accounting and administrative controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets are adequately accounted for and safeguarded. The Audit Committee, which is comprised of directors who are not employees, meets regularly with representatives of Price Waterhouse, the shareholders' independent auditors, and with members of management to satisfy themselves that Alcan's policy is being followed.

The financial statements have been reviewed by the Audit Committee and, together with the other required information in this Annual Report, have been approved by the Board of Directors. In addition, the financial statements have been examined by Price Waterhouse, whose report is provided below.

OECD Guidelines

In 1976, the Organization for Economic Cooperation and Development (OECD), which consists of 24 industrialized countries including Canada, adopted a set of guidelines for multinational enterprises. The same year, Alcan expressed its support for, and compliance with, these guidelines.

Alcan welcomed the guidelines as a positive statement of what is good practice for multinational companies and as part of a package of declarations establishing an acceptable framework of reciprocal rights and responsibilities between multinational enterprises and host governments.

Alcan continues to support and comply with the OECD guidelines, and the Company's own statement, "Alcan, Its Purpose, Objectives and Policies", is consistent with them. The statement, first published in 1978, was distributed in 11 languages to Alcan employees worldwide to strengthen their awareness of the basic principles and policies which have guided the conduct of Alcan's business over the years.

The statement, as well as the Company's annual 10-K report which contains a complete list of Alcan Group companies worldwide, is available to shareholders on request.

Auditors' Report

To the Shareholders of
Alcan Aluminium Limited

We have examined the consolidated balance sheet of Alcan Aluminium Limited as at December 31, 1987, 1986 and 1985 and the consolidated statements of income, retained earnings and changes in financial position for each of the years in the three year period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1987, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1987, in accordance with generally accepted accounting principles in Canada applied, except for the change in accounting in 1986, with which we concur, as described in note 3, on a consistent basis.

Price Waterhouse
Chartered Accountants

Montreal, Canada
February 3, 1988

CONSOLIDATED STATEMENT OF INCOME

Years ended December 31 *(in millions of U.S.$, except per share amounts)*	1987	1986	1985
Revenues			
Sales and operating revenues	$6,797	$5,956	$5,718
Other income	81	100	113
	6,878	6,056	5,831
Costs and expenses			
Cost of sales and operating expenses	5,117	4,635	4,692
Depreciation	296	276	258
Selling, administrative and general expenses	447	406	385
Research and development expenses	95	77	77
Interest *(note 15)*	177	202	232
Other expenses	113	52	53
	6,245	5,648	5,697
Income before special charges and rationalization expenses, income taxes and other items	633	408	134
Special charges and rationalization expenses *(note 11)*	—	—	416
Income (Loss) before income taxes and other items	633	408	(282)
Income taxes *(note 6)*	230	160	(87)
Income (Loss) before other items	403	248	(195)
Equity income	35	5	15
Minority interests *(note 2)*	(5)	(2)	(3)
Income (Loss) before income tax recovery	433	251	(183)
Income tax recovery applicable to prior years' losses *(note 5)*	—	26	36
Net income (Loss) *(notes 2, 3 and 5)*	$ 433	$ 277	$ (147)
Dividends on preference shares	36	33	33
Net income (Loss) attributable to common shareholders	397	244	(180)
Income (Loss) per common share *(notes 1 and 13)*			
Before income tax recovery	$ 2.52	$ 1.46	$ (1.45)
Income tax recovery	—	0.17	0.24
Total per common share	$ 2.52	$ 1.63	$ (1.21)
Dividends per common share	$ 0.58	$ 0.53	$ 0.73

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31 *(in millions of U.S.$)*	1987	1986	1985
Retained earnings – beginning of year	$1,977	$1,813	$2,103
Net income (Loss)	433	277	(147)
	2,410	2,090	1,956
Dividends – Common	92	80	110
– Preference *(note 2)*	36	33	33
Retained earnings – end of year *(note 14)*	$2,282	$1,977	$1,813

CONSOLIDATED BALANCE SHEET

ASSETS

December 31 *(in millions of U.S.$)*	1987	1986	1985
Current assets			
Cash and time deposits	$ 493	$ 316	$ 177
Receivables	1,207	971	904
Inventories			
Aluminum	949	917	922
Raw materials	253	265	303
Other supplies	296	277	272
	3,198	2,746	2,578
Deferred charges and receivables	199	183	137
Investments *(note 7)*	298	240	271
Property, plant and equipment			
Cost *(note 10)*	7,328	6,954	6,618
Accumulated depreciation	3,363	3,005	2,743
	3,965	3,949	3,875
Total assets	$7,660	$7,118	$6,861

LIABILITIES AND SHAREHOLDERS' EQUITY

	1987	1986	1985
Current liabilities			
Payables	$ 912	$ 789	$ 736
Short-term borrowings (principally from banks)	109	160	261
Income and other taxes	58	47	51
Debt maturing within one year	80	90	78
	1,159	1,086	1,126
Debt not maturing within one year *(note 9)*	1,336	1,366	1,600
Deferred credits and other liabilities	280	244	190
Provision for rationalization and related liabilities *(note 11)*	86	231	284
Deferred income taxes	754	554	409
Minority interests *(note 2)*	75	100	108
Redeemable retractable preference shares *(notes 2 and 12)*	202	218	249
Redeemable non-retractable preference shares *(notes 2 and 12)*	203	203	149
Common shareholders' equity			
Common shares *(note 13)*	1,183	1,172	1,032
Retained earnings *(note 14)*	2,282	1,977	1,813
Deferred translation adjustments *(note 4)*	100	(33)	(99)
	3,565	3,116	2,746
Commitments and contingencies *(note 16)*			
Total liabilities and shareholders' equity	$7,660	$7,118	$6,861

Approved by the Board:
David M. Culver, *Director*
Allan A. Hodgson, *Director*

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended December 31 *(in millions of U.S.$)*	1987	1986	1985
Operating activities			
Income (Loss) before other items	$ 403	$ 248	$ (195)
Depreciation	296	276	258
Special charges and rationalization expenses	—	—	395*
Deferred income taxes	191	166	(120)
Operating working capital	(53)	110	245
Other – net	42	(75)	3
	879	725	586
Dividends – Alcan shareholders (including preference)	(128)	(113)	(143)
– minority interests	(5)	(8)	(7)
Cash from operating activities	746	604	436
Financing activities			
New debt	328	295	619
Debt repayments	(431)	(570)	(441)
	(103)	(275)	178
Short-term borrowings – net	(56)	(156)	(57)
Common shares issued *(note 13)*	11	140	17
Preference shares issued	8	54	37
Redemption of preference shares	(36)	(33)	(34)
Shares of subsidiary companies	—	(3)	24
Cash from financing activities	(176)	(273)	165
Total cash available before investment activities	570	331	601
Investment activities			
Property, plant and equipment	409	318	569
Investments	6	24	28
Operating working capital acquired	—	—	274*
	415	342	871
Sales and disposals	(38)	(148)	(93)
Cash used for investment activities	377	194	778
Increase (Decrease) in cash before deferred translation adjustments	193	137	(177)
Deferred translation adjustments relating to cash and time deposits	9	2	(7)
Increase (Decrease) in cash and time deposits for the year	202	139	(184)
Cash of company deconsolidated	(25)	—	—
Cash and time deposits – beginning of year	316	177	361
Cash and time deposits – end of year	$ 493	$ 316	$ 177
Changes in operating working capital			
Receivables	$ 236	$ 67	$ 118
Inventories	39	(38)	(15)
Payables	(123)	(53)	(13)
Income and other taxes	(11)	4	21
Deferred translation adjustments	(135)	(79)	(106)
Less: Operating working capital acquired	—	—	(274)*
Other	47	(11)	24
Increase (Decrease) for the year	$ 53	$ (110)	$ (245)

**Net of cash items*

(in millions of U.S.$)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements, which are prepared in accordance with generally accepted accounting principles in Canada, include the accounts of all companies more than 50% owned. Joint ventures, irrespective of percentage of ownership, are included to the extent of Alcan's participation. In addition, consolidated net income includes Alcan's equity in the net income or loss of companies owned 50% or less where Alcan has significant influence over management, and the investment in these companies is increased or decreased by Alcan's share of their undistributed net income or loss since acquisition. Investments in companies in which Alcan does not have significant influence over management are carried at cost less amounts written off.

Intercompany items and transactions, including profits in inventories, are eliminated.

Translation of accounts into United States dollars

The consolidated financial statements are expressed in U.S. dollars, the principal currency of international trade and of Alcan's business, under translation procedures recommended by The Canadian Institute of Chartered Accountants (CICA).

Other

Aluminum, raw materials and other supplies are stated at cost (determined for the most part on the monthly average method) or net realizable value, whichever is the lower.

Depreciation is calculated on the straight-line method using rates based on the estimated useful lives of the respective assets.

Income (Loss) per common share is calculated by dividing Net income (Loss) attributable to common shareholders by the average number of common shares outstanding (1987: 157.7 million; 1986: 149.9 million; 1985: 149.1 million).

2. REORGANIZATION

As a result of the implementation of a reorganization approved by common shareholders, Aluminum Company of Canada, Limited replaced Alcan Aluminium Limited as the parent of the Alcan Group and also changed its name to Alcan Aluminium Limited on July 24, 1987. The consolidated financial statements presented herein are identical to those of the original Alcan Aluminium Limited had the reorganization not taken place, except that outstanding preference shares of Aluminum Company of Canada, Limited (now named Alcan Aluminium Limited) and the dividends thereon are classified separately and not included in Group minority interests.

The financial statements for the prior periods have been presented to conform to the new corporate structure.

3. ACCOUNTING CHANGE

In 1986, the Company adopted the CICA's recommendations on accounting for pension costs and obligations. The effect of this change, applied prospectively, was to increase net income by $20 ($0.13 per common share) in each of 1987 and 1986. See also note 17.

4. CURRENCY TRANSLATION

Currency translation losses included in income were $19 in 1987 ($13 in 1986 and $7 in 1985).

Following is an analysis of the Deferred translation adjustments component of Common shareholders' equity:

	1987	1986	1985
Balance – beginning of year	$ (33)	$ (99)	$(202)
Effect of exchange rate changes	129	54	62
Transferred to income: amounts related to realized and anticipated losses on certain investments	4	12	41
Balance – end of year	$ 100	$ (33)	$ (99)

5. Differences between Canadian and United States Generally Accepted Accounting Principles (GAAP)

Currency translation

Under Canadian GAAP, unrealized exchange gains and losses on translation of long-term monetary items are deferred and amortized over the life of those items, whereas under U.S. GAAP, such gains and losses are absorbed in income immediately. Also, under Canadian GAAP, deferred income taxes of companies using the temporal method are translated at historical exchange rates rather than at current exchange rates used under U.S. GAAP.

Tax recovery

In 1986 and 1985, $18 and $28, respectively, of the "Income tax recovery applicable to prior years' losses" relates to tax benefits of a purchased subsidiary arising from losses which occurred prior to acquisition by Alcan. Under Canadian GAAP, such tax benefits are recorded in income in the year of realization. Under U.S. GAAP, such tax benefits are recorded in the year of realization as a reduction of the fixed assets of the purchased subsidiary and are recognized in income through lower depreciation charges over the useful lives of these fixed assets.

The following table compares Net income (Loss) as reported with the net income (loss) that would have been reported under U.S. GAAP together with the cumulative effect on retained earnings and deferred translation adjustments.

	1987		1986		1985	
	As Reported	U.S. GAAP	As Reported	U.S. GAAP	As Reported	U.S. GAAP
Consolidated net income (loss)						
First quarter*	$ 71	$ 57	$ 40	$ 43	$ 38	$ 21
Second quarter*	104	113	114	98	3	(16)
Third quarter*	122	113	62	33	15	23
Fourth quarter*	136	130	61	68	(203)	(219)
	$ 433	$ 413	$ 277	$ 242	$ (147)	$ (191)
Net income (Loss) attributable to common shareholders	$ 397	$ 377	$ 244	$ 209	$ (180)	$ (224)
Net income (Loss) per common share	2.52	2.39	1.63	1.39	(1.21)	(1.51)
Income (Loss) before income tax recovery**	433	413	251	234	(183)	(199)
Per common share	2.52	2.39	1.46	1.34	(1.45)	(1.56)
Consolidated retained earnings						
End of year	2,282	2,325	1,977	2,040	1,813	1,911
Deferred translation adjustments						
End of year	100	46	(33)	(86)	(99)	(155)

The difference between amounts shown as Deferred translation adjustments under 'As Reported' and 'U.S. GAAP' arises principally from the different treatment of exchange on long-term debt at January 1, 1983.

**Unaudited*

***Equivalent to Net income (Loss) from continuing operations. Income before income tax recovery for 1984 and 1983 on a U.S. GAAP basis was $273 and $82 respectively (compared to $247 and $89 as reported). Income before income tax recovery per common share for 1984 and 1983 on a U.S. GAAP basis was $1.65 and $0.37 respectively (compared to $1.47 and $0.43 as reported).*

No effect has been provided in this note for the Financial Accounting Standards Board Statement No. 96 concerning Accounting for Income Taxes. Its adoption for U.S. GAAP reporting is required for fiscal years beginning after December 15, 1988, with earlier adoption being optional. The Company expects the adoption of Statement No. 96 to reduce Deferred income taxes and increase Common shareholders' equity and earnings in the year of adoption.

6. INCOME TAXES

	1987	1986	1985
Income (Loss) before income taxes and other items			
Canada	$ 353	$ 258	$(289)
Other countries	280	150	7
	633	408	(282)
Current income taxes			
Canada	4	(26)	(7)
Other countries	35	20	40
	39	(6)	33
Deferred income taxes			
Canada	124	96	(147)
Other countries	67	70	27
	191	166	(120)
Total income tax provision	$ 230	**$ 160**	**$ (87)**

The composite of the applicable statutory corporate income tax rates in Canada is 45.4% (46.9% in 1986 and 44.9% in 1985). The following is a reconciliation of income taxes calculated at the above composite rates with the total income tax provision:

	1987	1986	1985
Income taxes at the composite rate	$ 287	$ 191	$(127)
Increase (Reduction) attributable to:			
Investment and other allowances	(29)	(35)	(31)
Exchange translation items	(14)	30	30
Income and expenses without tax effect	(1)	(24)	49
Other – net	(13)	(2)	(8)
Income tax provision	$ 230	$ 160	$ (87)

The principal items giving rise to the deferred portion of income taxes are:

	1987	1986	1985
Inventory valuation	$ 16	$ 13	$ (15)
Depreciation	138	71	19
Prior years' losses	—	36	36
Investment and foreign tax credits	25	21	9
Special charges and rationalization expenses	—	—	(164)
Other – net	12	25	(5)
	$ 191	$ 166	$(120)

7. INVESTMENTS

	1987	1986	1985
Companies accounted for under the equity method *(note 1)*	$ 284	$ 225	$ 240
Other investments – at cost, less amounts written off	14	15	31
	$ 298	$ 240	$ 271

The combined results of operations and the financial position of the companies accounted for under the equity method are summarized below:

	1987	1986	1985
Results of operations for the year			
Revenues	$4,454	$3,798	$3,751
Costs and expenses	4,182	3,647	3,575
Income before income taxes	272	151	176
Income taxes	144	106	109
Net income	$ 128	$ 45	$ 67
Alcan's share of net income	35	5	15
Dividends received by Alcan	15	25	23
Financial position at December 31			
Current assets	$2,387	$2,227	$2,021
Current liabilities	2,068	1,989	1,649
Working capital	319	238	372
Property, plant and equipment – net	1,710	1,703	1,546
Other assets – net	311	207	223
	2,340	2,148	2,141
Debt not maturing within one year	1,455	1,427	1,305
Net assets	$ 885	$ 721	$ 836
Alcan's equity in net assets	284	225	235

Net income from certain investments, previously allocated to cost of sales, is now included in equity income and, accordingly, certain amounts for prior years have been reclassified.

Effective December 31, 1987, the Company's investment in Indian Aluminium Company, Limited was reduced from 50.5% to 39.9% and from that date is accounted for under the equity method.

8. ABATABLE PREFERRED SHARES

Payment terms for assets acquired in January 1985 from Atlantic Richfield Company included contingent consideration in the form of abatable preferred shares with an initial total nominal value of $400. Of these, $80 have been fully abated and $40 will be fully abated based on 1987 prices. The outstanding shares will either qualify for dividend and redemption or be subject to abatement depending upon whether or not Alcan and three other designated aluminum producers realize certain specified prices for ingot products (ranging from $1.16 per pound to $1.99 per pound) in the years to 1994.

To the extent the shares are not abated, the qualifying amount will be reflected in the financial statements and a corresponding amount, together with a cumulative dividend of 9% per annum payable thereon, at the time the shares qualify, retroactive to the date of issue (January 18, 1985), will be added to the book value of the assets acquired and amortized against income over the remaining lives of the fixed assets acquired. Such qualifying shares are subject to retraction by the holder on January 18, 1997, but may be redeemed earlier at the option of Alcan.

9. Debt not maturing within one year

	1987	1986	1985
Alcan Aluminium Limited			
Bank loans under credit agreements*	$ —	$ —	$ 50
Notes payable (commercial paper)	—	—	116
Notes payable*	—	—	120
9½% Sinking fund debentures	—	—	20
15¾% Eurodollar debentures, due 1992 (DM 141)**	89	75	75
14¼% Notes, due 1992	100	100	100
9½% Sinking fund debentures	—	—	51
11¼% Debentures, due 1995	100	100	100
9⅞% Debentures, due 1998	100	100	—
9⅜% Sinking fund debentures	—	17	19
10¾% Sinking fund debentures	—	—	35
8¾% Loan, due 1988/1992 (£20)	36	34	40
5⅜% Swiss franc bonds, due 2003***	105	—	—
Other debt, due 1988/2001	25	25	38
Alcan Aluminum Corporation			
9½% Notes	—	31	34
9.956% Bank loan, due 1995	25	25	25
Other debt, due 1988/2013	27	36	28
Alcan Empreendimentos Ltda and subsidiary companies (Brazil)			
Bank loans, due 1988/1992*	72	182	195
Other debt, due 1988/1993	25	26	21
British Alcan Aluminium plc and subsidiary companies			
10⅜% Debentures, due 2011 (£30)	56	44	—
Bank loans, due 1988/1996 (£80)*	148	124	127
Other debt, due 1988/1996 (£13)	25	24	29
Alcan Deutschland GmbH and subsidiary companies			
Bank loans, due 1988/1996 (DM 87)*	54	31	24
Bank loans at 7.16% due 1988/1996 (DM 119)	75	81	40
Alcan South Pacific Limited and subsidiary companies			
Notes payable, due 1989*	75	75	75
Notes payable	—	100	100
Notes payable, due 1992*	100	—	—
Bank loans and other debt due 1988/1991 (A$15 and U.S.$30)*	41	49	59
8½% Bonds	—	20	20
Other companies			
Bank loans, due 1988/1993*	74	59	63
Other debt, due 1988/1999	64	98	74
	1,416	1,456	1,678
Debt maturing within one year included in current liabilities	(80)	(90)	(78)
	$1,336	$1,366	$1,600

**Interest rates fluctuate principally with lender's prime commercial rate, or the commercial bank bill rate, or is related to the London interbank offered rate.*

***In August 1987, the 15¾% $75 Eurodollar debentures have effectively been swapped for a DM obligation for a two-year period with an effective interest rate of 12.6%. The debt is treated as a hedge of the Company's investment in Germany and, accordingly, the exchange gain or loss is allocated to the Deferred translation adjustments component of Common shareholders' equity.*

****These bonds were issued as SFr 178 of 16-year bonds at 5⅜% and immediately swapped for $105 at an effective interest rate of 8.98%.*

Based on rates of exchange at year-end, debt repayment requirements over the next five years amount to $80 in 1988, $165 in 1989, $67 in 1990, $96 in 1991 and $368 in 1992.

10. PROPERTY, PLANT AND EQUIPMENT, AT COST

	1987	1986	1985
Land, and property rights	$ 113	$ 109	$ 99
Buildings, machinery and equipment	6,933	6,626	6,179
Construction work in progress	282	219	340
	$7,328	$6,954	$6,618

Capital expenditures in 1988 are expected to be about $650.

11. SPECIAL CHARGES AND RATIONALIZATION EXPENSES

In 1985, Alcan made provisions aggregating $416 to cover losses, asset write-downs and expenses related to several rationalization programmes. Of this amount, $330 has been utilized for these programmes to the end of 1987 and the balance is expected to be utilized for rationalizations and write-downs of identified businesses.

12. PREFERENCE SHARES

Authorized

2,000,000 Cumulative Redeemable First Preferred Shares.

An unlimited number of Preference Shares (issuable in series):

■ Cumulative Redeemable Retractable Preference Shares

series A	7,747,000 shares
series B	1,839,500 shares
series F	400,000 shares

■ Floating Rate Cumulative Redeemable Non-retractable Preference Shares

series C	1984	4,200,000 shares
	1985	1,500,000 shares
series D	1984	1,300,000 shares
	1985	400,000 shares

■ Cumulative Redeemable Non-retractable Preference Shares

series E 3,000,000 shares

An unlimited number of Junior Preferred Shares. None are outstanding as at December 31, 1987.

All shares are without nominal or par value.

	Number (in thousands)			Stated Value (in millions)		
Outstanding	1987	1986	1985	1987	1986	1985
Redeemable retractable preference shares						
First Preferred (redeemed during 1987)	—	1,761	1,761	$ —	$ 32	$ 32
Second Preferred (redeemed during 1986)	—	—	1,333	—	—	33
Preference, series A	7,747	7,747	7,747	148	140	138
Preference, series B	1,840	1,843	1,843	46	46	46
Preference, series F	400	—	—	8	—	—
				$202	$218	$249
Redeemable non-retractable preference shares						
Preference, series C	5,700	5,700	5,700	$106	$106	$106
Preference, series D	1,700	1,700	1,700	43	43	43
Preference, series E	3,000	3,000	—	54	54	—
				$203	$203	$149

12. PREFERENCE SHARES *(CONT'D)*

Dividends

Outstanding shares are eligible for quarterly dividends as follows:

- Preference, series A – CAN$2.3125 per share per annum.
- Preference, series B – U.S.$2.1875 per share per annum.
- Preference, series C and D – An amount related to the average of the Canadian prime interest rates for series C and the average of the U.S. prime interest rates for series D quoted by two major Canadian banks for stated periods.
- Preference, series E – CAN$2.16 per share per annum up to October 31, 1991, and thereafter at an amount related to the average of the Canadian prime interest rates quoted by two major Canadian banks for stated periods.
- Preference, series F – CAN$2.00 per share per annum.

Retraction privileges

Holders of outstanding shares have the following retraction privileges:

- Preference, series A – At CAN$25.00 per share on December 31, 1989.
- Preference, series B – At U.S.$25.00 per share on December 31, 1989.
- Preference, series F – At CAN$25.00 per share on March 31, 1992.

Redemption

Outstanding shares may be called for redemption at the option of the Company on 30 days' notice as follows:

- Preference, series A (denominated in Canadian dollars) and B (denominated in U.S. dollars) – At $26.25 per share during the twelve-month period commencing December 31, 1987, and reducing by $0.25 per share in each of the succeeding twelve-month periods until December 31, 1992, after which the shares may be redeemed at $25.00 per share.
- Preference, series C (denominated in Canadian dollars) and D (denominated in U.S. dollars) – At $26.50 per share during the twelve-month period commencing January 1, 1988, and reducing by $0.30 per share in each of the succeeding twelve-month periods until December 31, 1992, after which the shares may be redeemed at $25.00 per share.
- Preference, series E – At CAN$25.00 per share commencing October 31, 1991.
- Preference, series F – At CAN$25.00 per share commencing March 31, 1992.

Any partial redemption must be made on a pro rata basis or by lot.

Purchase obligations

The Company is obliged to make reasonable efforts to purchase in the open market for cancellation 38,125 Preference, series A shares per quarter and 13,875 Preference, series B shares per quarter up to December 31, 1989, and thereafter 1% per quarter of the shares outstanding on January 1, 1990, at prices not exceeding CAN$25.00 per Preference, series A share and U.S.$25.00 per Preference, series B share. The purchase obligations are cumulative only within each calendar year.

13. COMMON SHARES

The authorized common share capital is an unlimited number of common shares without nominal or par value. Changes in the number and stated value of outstanding common shares are summarized below:

	Number (in thousands)			Stated Value (in millions)		
	1987	1986	1985	1987	1986	1985
Outstanding – beginning of year	157,562	149,670	148,677	$1,172	$1,032	$1,015
Issued for cash:						
Executive share option plan	124	54	44	3	1	1
Dividend reinvestment and share purchase plans	290	191	595	8	4	10
Exercise of warrants	—	7,557	—	—	133	—
Issued under stock dividend plan	—	90	354	—	2	6
Outstanding – end of year	157,976	157,562	149,670	$1,183	$1,172	$1,032

13. COMMON SHARES *(CONT'D)*

Under the Executive share option plan, key employees may purchase common shares at a price not less than 90% of the market value on the effective date of each option. The average price of the shares covered by the outstanding options is CAN$28.70 per share. These options expire at various dates during the next ten years. Changes in shares under option are summarized below:

	1987	1986	1985
Outstanding – beginning of year	632,042	573,515	538,644
Granted	618,000	219,900	109,950
Exercised	(123,047)	(54,228)	(43,659)
Cancelled	(197,409)	(107,145)	(31,420)
Outstanding – end of year	929,586	632,042	573,515

Included in the issued common share capital of the Company is $41 of subordinate non-voting common shares. As all of these shares are held by a wholly-owned subsidiary, they have been eliminated upon consolidation.

The Company has regulatory approval to purchase, through October 26, 1988, up to 10 million of its common shares, representing approximately 6.3% of the outstanding common shares. Purchases may be made on the Montreal, Toronto and New York stock exchanges. No shares have been purchased to date.

The common shares were split three-for-two on May 5, 1987. All share and per share amounts have been restated to reflect the share split.

14. RETAINED EARNINGS

Consolidated retained earnings at December 31, 1987, include:

- $138 of undistributed earnings of companies accounted for under the equity method.
- $1,109 of undistributed earnings of subsidiaries, some part of which may be subject to certain taxes and other restrictions on distribution to the parent company; no provision is made for such taxes because these earnings are reinvested in the business.

15. SUPPLEMENTARY INCOME STATEMENT INFORMATION

	1987	1986	1985
Repairs and maintenance	$476	$436	$395
Taxes, other than payroll and income taxes	127	118	104
Interest on long-term debt	147	168	174
Capitalized interest	(6)	(15)	(39)

16. Commitments and Contingencies

To ensure long-term supplies of bauxite and access to alumina and fabricating facilities, Alcan participates in several long-term cost sharing arrangements with related companies. Alcan's fixed and determinable commitments, which comprise long-term debt service in one joint venture and "take-or-pay" obligations in certain others, are estimated at $130 in 1988, $131 in 1989, $132 in 1990, $129 in 1991, $131 in 1992 and $491 thereafter. Total charges from these related companies were $231 in 1987, $201 in 1986 and $185 in 1985. In addition, there are guarantees for the repayment of approximately $34 of indebtedness by related companies. Commitments with third parties for supplies of other inputs are estimated at $45 in 1988, $37 in 1989, $33 in 1990, $28 in 1991, $28 in 1992 and $227 thereafter. Total charges from these third parties were $41 in 1987, $24 in 1986 and in 1985.

Minimum rental obligations amount to $66 in 1988, $66 in 1989, $43 in 1990, $37 in 1991, $34 in 1992 and lesser annual amounts thereafter. Total rental expenses amounted to $87 in 1987, $72 in 1986 and $83 in 1985.

Alcan, in the course of its operations, is subject to claims and law suits. The Company does not believe that these matters will materially impair its operations or have a material adverse effect on its financial position.

See also reference to abatable preferred shares in note 8, debt repayments in note 9, capital expenditures in note 10 and preference share retractions and purchase obligations in note 12.

17. Pension Plans

Alcan and its subsidiaries have established pension plans in the principal countries where they operate, for the greater part contributory and generally open to all employees. Most plans provide pension benefits that are based on the employee's highest average eligible compensation during any consecutive thirty-six month period before retirement. Plan assets consist primarily of listed stocks and bonds.

Alcan's funding policy is to contribute the amount required to provide for benefits attributed to service to date with projection of salaries to retirement and to amortize unfunded actuarial liabilities for the most part over periods of 15 years or less.

Pension Cost	1987	1986
Service cost for the year	$ 63	$ 53
Interest cost on projected benefit obligations	130	112
Actual return on assets	(84)	(280)
Variance of actual return from expected long-term rate of 8.0% (1986: 7.9%) being deferred and amortization of other gains and losses	(111)	122
Net cost for year	$ (2)	$ 7
The plans' funded status at December 31 was:		
Actuarial accumulated benefit obligation, including vested benefit obligations of $1,544 (1986: $1,255)	$1,571	$1,284
Plan assets at market value	2,204	1,996
Actuarial projected benefit obligation based on average compensation growth of 6.1% (1986: 5.9%) and discount rate of 8.1% (1986: 7.9%)	1,879	1,551
Plan assets in excess of projected benefit obligation	325	445
Unamortized actuarial gains (net)*	(139)	(125)
Unamortized prior service cost*	150	15
Unamortized portion of actuarial surplus at January 1, 1986*	(329)	(357)
Pension asset (liability) in balance sheet	$ 7	$ (22)

**Being amortized over expected average remaining service of employees, generally 15 years.*

The above costs for 1987 and 1986 are based on accounting standards introduced in 1986. The accounting practice until 1986 was generally to expense the contributions made in the year, which were based on actuarial valuations prepared for funding purposes. Under that accounting method, pension costs were $65 in 1985.

In 1985, based on actuarial reports, the accumulated benefit obligation was $1,042 including vested benefit obligations of $1,025. The value of the net assets available for benefits was $1,442 at market prices prevailing at the time of actuarial valuation. The discount rate used to measure pension obligations and the expected long-term rate of return on assets were 7.2%.

18. INFORMATION BY GEOGRAPHIC AREAS

	Location	1987	1986	1985
Sales and operating revenues to subsidiaries	Canada	$1,380	$1,205	$ 862
	United States	143	102	83
	Latin America	17	9	5
	Europe	49	93	85
	Pacific	4	50	37
	All other	113	203	175
	Sub total		1,662	1,247
	Consolidation eliminations		(1,662)	(1,247)
	Total		$ —	$ —
Sales and operating revenues to third parties	Canada	$ 909	$ 794	$ 921
	United States	2,181	1,998	1,957
	Latin America	407	348	339
	Europe	2,285	2,065	1,756
	Pacific	920	665	664
	All other	95	86	81
	Total	$6,797	$5,956	$5,718

Sales to subsidiary companies are made at a fair market price recognizing volume, continuity of supply and other factors.

	Location	1987	1986	1985
Net income (Loss)	Canada	$ 227	$ 150	$ (41)
	United States	27	43	14
	Latin America	58	2	20
	Europe	61	82	(7)
	Pacific	32	(20)	(13)
	All other	56	25	—
	Consolidation eliminations	(28)	(5)	(120)
	Total	$ 433	$ 277	$ (147)
Total assets *at December 31*	Canada	$2,936	$2,575	$2,476
	United States	1,145	1,115	1,110
	Latin America	728	713	705
	Europe	2,366	1,956	1,829
	Pacific	831	878	821
	All other	383	496	268
	Consolidation eliminations	(729)	(615)	(348)
	Total	$7,660	$7,118	$6,861
Capital expenditures	Canada	$ 144	$ 98	$ 152
	United States	48	52	136
	Latin America	26	60	57
	Europe	149	96	161
	Pacific	42	27	61
	All other	6	9	30
	Total	$ 415	$ 342	$ 597
Average number of employees *(in thousands)*	Canada	15	16	17
	United States	7	7	7
	Latin America	9	9	10
	Europe	18	20	20
	Pacific	12	13	14
	All other	2	2	2
	Total	63	67	70

QUARTERLY FINANCIAL DATA*

(in millions of U.S.$)	First	Second	Third	Fourth	Year
1987					
Revenues	$1,540	$1,716	$1,728	$1,894	$6,878
Cost of sales and operating expenses	1,183	1,289	1,273	1,372	5,117
Depreciation	72	74	73	77	296
Income taxes	29	64	62	75	230
Interest and other items	185	185	198	234	802
Net income	$ 71	$ 104	$ 122	$ 136	$ 433
Dividends on preference shares	(9)	(9)	(9)	(9)	(36)
Net income attributable to common shareholders	62	95	113	127	397
Net income per common share *(in U.S.$)*	$ 0.39	$ 0.60	$ 0.72	$ 0.81	$ 2.52
1986					
Revenues	$1,453	$1,607	$1,492	$1,504	$6,056
Cost of sales and operating expenses	1,154	1,189	1,144	1,148	4,635
Depreciation	66	69	68	73	276
Income taxes	23	66	39	32	160
Interest and other items	178	177	186	193	734
Income tax recovery	8	8	7	3	26
Net income	$ 40	$ 114	$ 62	$ 61	$ 277
Dividends on preference shares	(8)	(8)	(8)	(9)	(33)
Net income attributable to common shareholders	32	106	54	52	244
Income per common share *(in U.S.$)*					
Before income tax recovery	0.17	0.65	0.31	0.33	1.46
Income tax recovery	0.05	0.05	0.05	0.02	0.17
Total per common share	$ 0.22	$ 0.70	$ 0.36	$ 0.35	$ 1.63
1985					
Revenues	$1,408	$1,493	$1,442	$1,488	$5,831
Cost of sales and operating expenses	1,121	1,195	1,158	1,218	4,692
Depreciation	62	63	64	69	258
Income taxes	26	(3)	30	(140)	(87)
Interest and other items	173	177	183	202	735
Special charges and rationalization expenses	—	66	—	350	416
Income tax recovery	12	8	8	8	36
Net income (Loss)	$ 38	$ 3	$ 15	$ (203)	$ (147)
Dividends on preference shares	(8)	(8)	(8)	(9)	(33)
Net income (Loss) attributable to common shareholders	30	(5)	7	(212)	(180)
Income (Loss) per common share *(in U.S.$)*					
Before income tax recovery	0.12	(0.09)	(0.01)	(1.47)	(1.45)
Income tax recovery	0.08	0.05	0.06	0.05	0.24
Total per common share	$ 0.20	$ (0.04)	$ 0.05	$ (1.42)	$ (1.21)

**Unaudited*

Income (Loss) per common share calculations are based on the average number of common shares outstanding in each period.

All per share amounts reflect the three-for-two share split on May 5, 1987.

A FIVE-YEAR SUMMARY

		1987	1986	1985	1984	1983
CONSOLIDATED INCOME STATEMENT ITEMS	**Revenues**					
	Sales and operating revenues	6,797	5,956	5,718	5,467	5,208
	Other income	81	100	113	109	97
	Total revenues	6,878	6,056	5,831	5,576	5,305
(in millions of U.S.$)	**Costs and expenses**					
	Cost of sales and operating expenses	5,117	4,635	4,692	4,228	4,185
	Depreciation	296	276	258	250	238
	Selling, administrative and general expenses	447	406	385	393	392
	Research and development expenses	95	77	77	66	60
	Interest	177	202	232	244	255
	Special charges and rationalization expenses	—	—	416	—	—
	Other expenses	113	52	53	38	32
	Income taxes	230	160	(87)	151	73
	Minority interests	(5)	(2)	(3)	(5)	9
	Equity income	35	5	15	46	10
	***Net income (Loss) from continuing operations**	433	251	(183)	247	89
	Extraordinary gain	—	26	36	37	15
	***Net income (Loss)**	433	277	(147)	284	104
	Preference dividends	36	33	33	31	31
	***Net income (Loss) attributable to common shareholders**	397	244	(180)	253	73
CONSOLIDATED BALANCE SHEET ITEMS	**Working capital**	2,039	1,660	1,452	1,488	1,452
	Property, plant and equipment – net	3,965	3,949	3,875	3,600	3,550
	Total assets	7,660	7,118	6,861	6,690	6,600
	Long-term debt	1,336	1,366	1,600	1,350	1,499
	Deferred income taxes	754	554	409	562	537
(in millions of U.S.$)	**Preference shares**	405	421	398	405	337
	Common shareholders' equity	3,565	3,116	2,746	2,916	2,799
PER COMMON SHARE	***Net income (Loss) from continuing operations**	2.52	1.46	(1.45)	1.47	0.43
	***Net income (Loss)**	2.52	1.63	(1.21)	1.73	0.54
	Dividends paid	0.58	0.53	0.73	0.80	0.60
(in U.S.$)	**Common shareholders' equity**	22.57	19.77	18.35	19.61	19.25
	Market price NYSE close	26.88	18.83	19.33	19.17	26.50
OPERATING DATA	**Consolidated aluminum shipments**					
	Ingot and ingot products	787	731	878	577	728
	Fabricated products	1,410	1,388	1,340	1,213	1,174
(in thousands of tonnes)	Total aluminum shipments	2,197	2,119	2,218	1,790	1,902
	Consolidated primary aluminum production	1,587	1,641	1,644	1,560	1,383
	Consolidated aluminum inventories *(end of year)*	496	579	625	708	534
	Primary aluminum capacity					
	Consolidated subsidiaries	1,680	1,841	1,841	1,646	1,619
	Total consolidated subsidiaries and related companies	1,861	1,905	1,905	2,097	2,070
OTHER STATISTICS	**Cash from operating activities, before dividends** *(in millions of U.S.$)*	879	725	586	489	324
	Capital expenditures *(in millions of U.S.$)*	415	342	597	427	382
	Ratio of total borrowings to equity *(%)*	27:73	31:69	37:63	34:66	36:64
	Average number of employees *(in thousands)*	63	67	70	70	71
	Common shareholders *(in thousands at end of year)*	46	49	59	67	59
	Common shares outstanding *(in millions at end of year)*	158	158	150	149	145
	Registered in Canada *(%)*	44	43	46	56	48
	Registered in the United States *(%)*	53	52	49	39	48
	Registered in other countries *(%)*	3	5	5	5	4
	Return on average common shareholders' equity *(%)*	12	8	(6)	9	3

**All net income figures include the after tax impact of unusual charges, such as special charges and rationalization expenses of $252 million ($1.69 per common share) in 1985, and the gains and losses from the disposal of various assets and investments.*

All per share amounts reflect the three-for-two share split on May 5, 1987.

See note 5 to the financial statements for U.S. GAAP information.

Directors

Sonja I. Bata, O.C.[1]
Director of Bata Limited, *Toronto*

Laurent Beaudoin, O.C.
Chairman and Chief Executive Officer of Bombardier Inc., *Montreal*

William R. C. Blundell
Chairman and Chief Executive Officer of General Electric Canada Inc., *Toronto*

Warren Chippindale, F.C.A.[2]
Director of various companies, *Montreal*

David M. Culver, O.C.[3]
Chairman and Chief Executive Officer, *Montreal*

Dr. John R. Evans[3]
Chairman and Chief Executive Officer of Allelix Inc., *Toronto*

Dr. Lawrence E. Fouraker[4]
Director and trustee of various organizations, *Boston*

Allan A. Hodgson
Vice President and Chief Financial Officer, *Montreal*

David Morton
President and Chief Operating Officer, *Montreal*

J. Edward Newall[3]
Chairman, President and Chief Executive Officer of Du Pont Canada Inc., *Toronto*

Hon. John L. Nichol, O.C.[1,3]
President of a private investment company, *Vancouver*

Lord Peyton of Yeovil[3]
Director of various companies, *London*

Jean-Marie Poitras, O.C.[1]
Chairman of The Laurentian Mutual Insurance, *Québec*

George Russell, C.B.E.
Chief Executive Officer of Marley plc., *Kent, England*

Ihor Suchoversky
Vice President, Research and Technology, *Montreal*

Officers

David M. Culver
Chairman and Chief Executive Officer

David Morton
President and Chief Operating Officer

Archie F. Black
Executive Vice President

Ronald C. Bales
Vice President, Business Development

Allan A. Hodgson
Vice President and Chief Financial Officer

John W. Kelly, M.D.
Vice President, Environment, Occupational Health and Safety

Roger J. Maggs
Vice President, Personnel

Michael C. d'E. Miller
Vice President, Corporate Affairs

P. K. Pal
Vice President and Chief Legal Officer

Ihor Suchoversky
Vice President, Research and Technology

Maurice D. Taylor
Treasurer

Suresh Thadhani
Controller

Richard S. Porter
Secretary

Principal Operating Executives

Archie F. Black
Executive Vice President, Pacific Region, *Vancouver*

Stephen R. Brown
President, Alcan Rolled Products Company (Canada and U.S.A.), *Cleveland, Ohio*

Gerald Clark
Executive Director, Raw Materials, *Montreal*

J. Hugh Faulkner
President, Alcan Aluminium S.A., *Geneva*

S. Bruce Heister
President, Alcan Enterprises (Canada and U.S.A.), *Montreal*

Douglas M. Ritchie
Managing Director, British Alcan Aluminium plc, *Chalfont Park, England*

E. Ian Rugeroni
President, Metal Marketing, *Montreal*

Everaldo Santos
President, Alcan Aluminio do Brasil S.A., *São Paulo*

François Senécal-Tremblay
President, Alcan Smelters and Chemicals Limited, *Montreal*

Timothy C. Tuff
President, Alcan Aluminum Corporation, *Cambridge, Massachusetts*

Reinhold Wagner
President, Alcan Deutschland GmbH, *Eschborn, West Germany*

1 Member of Audit Committee
2 Chairman of Audit Commitee
3 Member of Personnel Committee
4 Chairman of Personnel Committee

ANNUAL MEETING

The Annual Meeting of Shareholders of Alcan Aluminium Limited will be held on Thursday, April 28, 1988, at 10 a.m. at the Ritz-Carlton Hotel, Montreal.

COMMON SHARES

The principal markets for trading in the common shares are the New York and Toronto stock exchanges. The common shares are also traded on the Montreal, Vancouver, Midwest, Pacific, London, Paris, Brussels, Amsterdam, Frankfurt, Basel, Geneva, Lausanne and Zurich stock exchanges.

The transfer agents for the common shares are National Trust Company in Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver; Manufacturers Hanover Trust Company in New York; Manufacturers Hanover Trust Company of California in San Francisco; and The Royal Trust Company in London.

PREFERENCE SHARES

The preference shares are listed on the Montreal, Toronto and Vancouver stock exchanges. The transfer agent for the preference shares is the Royal Trust Company.

DIVIDENDS AND PRICES PER COMMON SHARE

	Dividend*	Price*			
1987		NYSE – U.S.$**		TSE – CAN$**	
Quarter	U.S.$	High	Low	High	Low
First	0.133	26⅝	19	35	26
Second	0.150	32¼	25	43¼	32
Third	0.150	37⅜	30⅜	49	40⅛
Fourth	0.150	37⅞	18	49½	27½
Year	0.583				
1986					
Quarter					
First	0.133	23	19	32¼	26½
Second	0.133	22⅜	18½	30¾	26⅜
Third	0.133	22⅛	18½	30⅝	25⅜
Fourth	0.133	21⅜	18⅜	29¾	25½
Year	0.532				

Amounts reflect the three-for-two share split on May 5, 1987.
*******The share prices are those reported as New York Stock Exchange Consolidated Trading and reported by the Toronto Stock Exchange.*

INVESTMENT PLANS

The Company offers holders of common shares two convenient ways of buying additional Alcan common shares at regular intervals and without payment of brokerage commissions. These are known as the Dividend Reinvestment Plan and the Share Purchase Plan. For information, contact Alcan Shareholder Services.

10-K REPORT

A copy of the Company's annual 10-K report for 1987, to be filed with the United States Securities and Exchange Commission, will be available to shareholders after April 1 and may be obtained upon request to Alcan Shareholder Services.

HEAD OFFICE

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H3A 3G2.

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