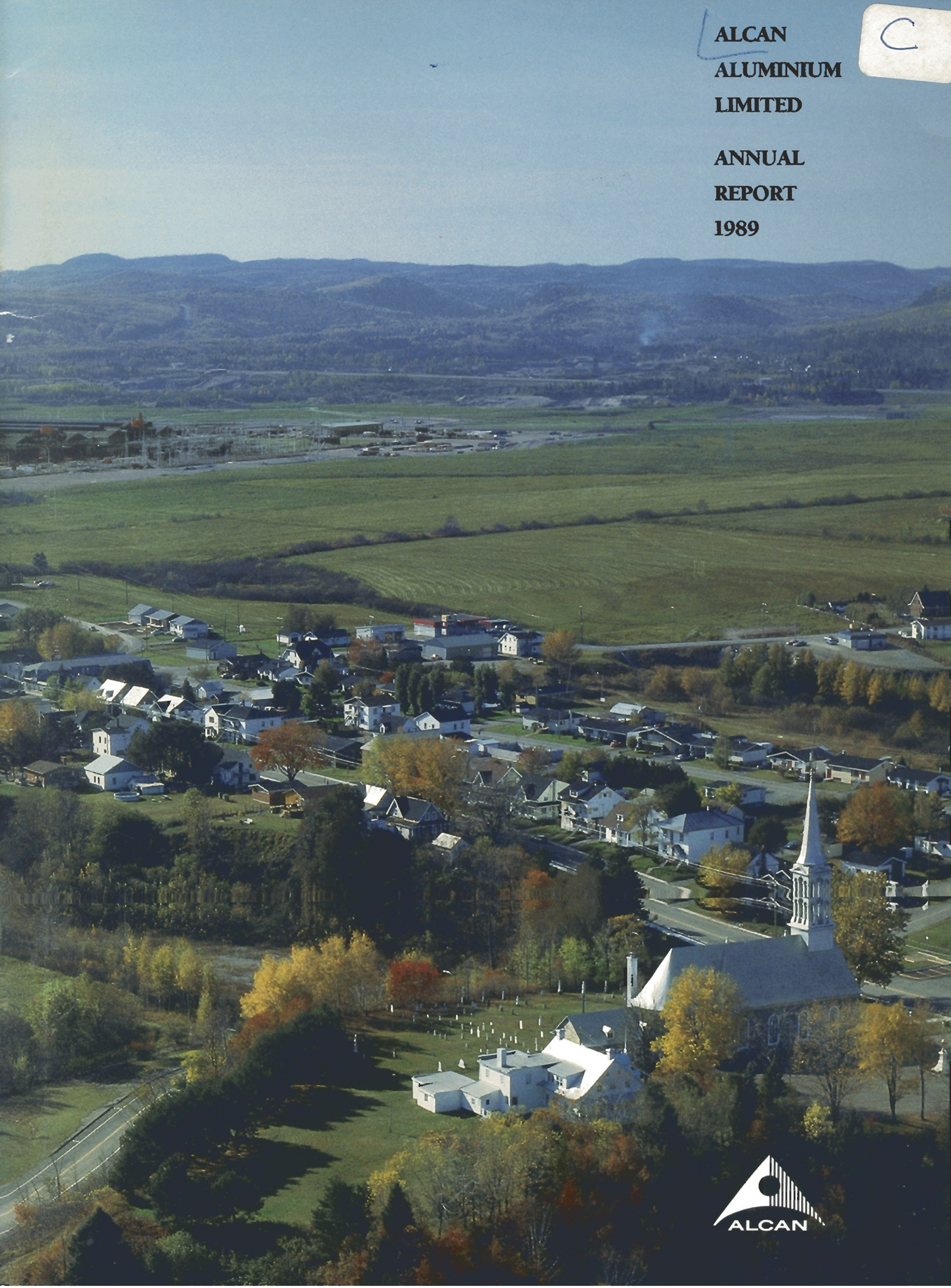
ALCAN ALUMINIUM LIMITED

ANNUAL REPORT 1989



BALANCING CORPORATE AND SOCIAL NEEDS

Today, for every corporation, the community is the context in which it does business. The approval of the community is the key that allows companies to operate successfully, and a good reputation is the new, invisible asset on the balance sheet.

Alcan has held this view for many years. In the seventies, the Company published it as one of its key objectives: "To recognize and seek to balance the interests of our shareholders, employees, customers, suppliers and governments and the public at large, while achieving Alcan's business objectives, taking into account the differing social, economic and environmental aspirations of the countries and communities in which we operate" (from *Alcan, Its Purpose, Objectives and Policies,* 1978).

In this report are illustrated some of the ways in which Alcan fulfills its responsibilities to the community (see pages 4 to 8). The cover photograph shows Alcan's Laterrière smelter in Chicoutimi, Quebec, which came on stream in late 1989. This new smelter brings the benefits of improved environmental performance and working conditions as well as greater efficiency – a real balance of corporate and social needs.

CONTENTS

ANNUAL MEETING

The Annual Meeting of the holders of common shares of Alcan Aluminium Limited will be held on Thursday, April 26, 1990. The meeting will take place at 10:00 a.m. in the West Ballroom of Le Centre Sheraton Montreal at 1201 René-Lévesque Boulevard West, Montreal.

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

VERSION FRANÇAISE

Pour obtenir la version française de ce rapport, veuillez écrire aux Services aux actionnaires d'Alcan dont l'adresse figure en page 37.

COMPANY PROFILE

Alcan, a leading international aluminum company, is vertically integrated throughout all stages of the industry, including bauxite mining, alumina refining, aluminum smelting and fabricating, and sales. The Company is also establishing new businesses with superior growth and profit potential. Alcan has developed a unique combination of competitive strengths with low-cost, owned hydroelectricity in Canada, international diversification and proprietary process technology.

Alcan Aluminium Limited, incorporated in Canada on June 3, 1902, has about 40,000 holders of its common shares widely distributed internationally, the majority of whom are in North America.

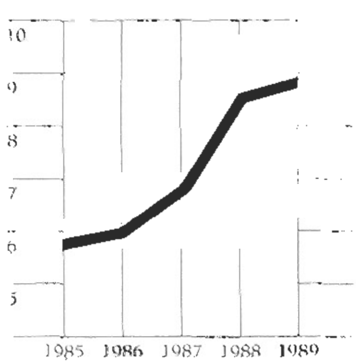
The word ALCAN and the symbol are registered trademarks in more than 100 countries.

HIGHLIGHTS OF 1989

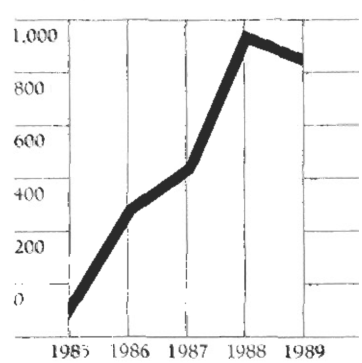
	1989	1988	% change
Principal highlights *(in millions of US$)*			
Sales and operating revenues	8,839	8,529	4
Net income	835	931	(10)
Return (%) on average common shareholders' equity	19	24	—
Total assets (at year-end)	9,508	8,615	10
Capital expenditures	1,466	676	117
Ratio of total borrowings to equity, including minority interests (at year-end)	26:74	26:74	—
Operating data *(in thousands of tonnes)*			
Aluminum shipments			
Fabricated products	1,518	1,446	5
Ingot products	743	832	(11)
Total	2,261	2,278	(1)
Primary aluminum production	1,643	1,619	1
Aluminum purchases	718	716	—
Per common share *(in US$)*			
Net income	3.58	3.85	(7)
Dividends	1.12	0.59	90
Common shareholders' equity (at year-end)	20.30	18.06	12
Market price (NYSE – consolidated trading)			
High	25⅛	22¼	—
Low	20⅛	15⅞	—
Close	22⅞	21¾	—

Amounts reflect the three-for-two share split on May 9, 1989.

SALES AND OPERATING REVENUES
billions of US$



NET INCOME
millions of US$



Nineteen eighty-nine was a year of satisfactory earnings; while not equalling the record of 1988, net income of $835 million was almost double that of 1987 and 50% higher than the previous record year of 1980. The Company's balance sheet and cash generation continued to be very strong. Dividends were increased in February for the fifth time in two years, and expenditure on capital projects was sharply increased.

Earnings were well spread throughout the Group. Moreover, in all areas there are moves to higher value-added products and improved cost competitiveness. The process developments necessary to achieve this are being systematically introduced worldwide through our technology network and are an essential constituent of our capital investment program. The introduction of new products as well as the benefit of improved costs and higher quality will show up increasingly in the coming years.

Environmental issues remain an important priority. The initial phase of the Laterrière smelter came on stream at the end of the year; as this smelter comes to full production, it will progressively replace less environmentally sound and less efficient capacity in Quebec. A new beverage can recycling plant was opened in the United States, doubling our recycling capacity there, and the construction of a similar plant was authorized in the United Kingdom. In the area of process technology, attention is being focused on ways to reduce the volume of waste by-products and also to transform them, wherever possible, into useful material. An example was the announcement, in December, of the development of a new plasma-arc technology to recycle aluminum dross into aluminum and other reusable materials.

Capital investment in the year rose to $1.47 billion from the level of $676 million in 1988. Work continues on the later phases of the Laterrière smelter and on the long-term expansion of our hydroelectric capacity in British Columbia. A $600-million expansion and upgrading program is under way in our North American rolling system, including the expansion of the rolling complex in Logan County, Kentucky, which Alcan owns jointly with Atlantic Richfield Company. The additional capacity at Logan, which effectively doubles the present level, will essentially all be available to Alcan. In the area of recycling, the investment in plants in the U.S. and the U.K. indicates the importance Alcan attaches to recycling as a source of metal, as well as a contributor to the improvement of the environment. We are also making substantial capital investments to update and expand our production capacity in many of our downstream businesses, which are an increasingly important contributor to our earnings.

Managing modernization and expansion programs, at the same time as handling fluctuating patterns of demand, is a great challenge to everyone in our Company. On behalf of the Directors, I would like to express appreciation for the unstinted effort and commitment of all Alcan employees during the year.

In July, David Culver, Chairman and Chief Executive Officer, retired after 40 years with the Company and 10 years as its CEO. David Culver's contribution to the Company's achievements has been signal and unique; the tribute paid to him at the last Annual Meeting has been sent to every shareholder. Ihor Suchoversky, Vice President, Research and

David Morton (left), Chairman and Chief Executive Officer, and Jacques Bougie, President and Chief Operating Officer.

Technology, also retired in August from the Company and the Board after 37 years of service. A constant theme of his wide-ranging management career with Alcan was a devotion to the achievement of technological excellence; Alcan's technological strength today is a testament to his perseverance and success.

Allan Gotlieb, until recently Canadian Ambassador to the United States, was elected a director at the Annual Meeting in April. In July, Jacques Bougie became President and Chief Operating Officer and was appointed a director. Dr. Peter Pearse, professor of forestry at the University of British Columbia, was appointed a director in August.

In December, the Company adopted a shareholder rights plan. Shareholders will be asked to approve the continuation of the plan at the next Annual Meeting. The overall objective of this plan is to achieve full and fair value for all shareholders in a variety of possible take-over situations, should these ever arise, by encouraging the route either of a permitted bid, which requires that the bid meet certain standards of fairness, or a bid approved by your Board of Directors.

Looking to 1990, although there are some signs of weakness in the market at the beginning of the year, the fundamentals appear to be sound. However, we may face some short-term turbulence. If this happens, the leanness and flexibility we have built up in earlier years will be in place to respond to the challenge.

David Morton
Chairman and Chief Executive Officer

February 8, 1990

What is corporate responsibility?

There are as many answers as there are human interests. Like beauty, it lies in the eye of the beholder, and like beauty its standards change with time. But if there is one constant in the shifting views of corporate responsibility, it is humanity. Both the community and the company which serves it are each a collection of human needs and concerns. It is the extent to which the company addresses those needs and concerns that measures its corporate responsibility.

Corporations, like individuals, are responsible for their actions. For an industrial company, the need for raw materials and the nature of manufacturing processes inevitably affect the physical environment. Further, equipment that meets all environmental requirements at the time it is installed may be made prematurely obsolete by changing environmental concerns, driven by rising public expectations. Solving the problem lies at the heart of the concept of "sustainable development," and Alcan is committed to helping make this concept a workable proposition to meet environmental expectations.

In Quebec alone, $2.5 billion is being spent over 30 years on a program that began in the mid-1980s to replace Alcan's Soderberg-type smelters. The result, of which the initial stage came on stream at the end of 1989, will be new smelters with state-of-the-art environmental protection equipment as well as improved production efficiency. In the same area, the Company has undertaken major restoration and conservation work on the banks of the 1,057-square-kilometre Lake Saint-Jean, for the lasting benefit of lakefront dwellers, fishermen and boating enthusiasts. In its important bauxite operations in Jamaica and Brazil, Alcan has restored and recultivated the land used for mining. In Jamaica, Alcan has trained local farmers in land and livestock management and participated in schemes to breed specialty high-yield dairy cattle on that same land. In Malaysia, land mined for bauxite is also reclaimed and is now dedicated to sheep and duck farming. In the Hunter Valley in New South Wales, some of the best wines in Australia are grown in sight of Alcan's Kurri Kurri smelter. In British Columbia, Alcan is an enthusiastic supporter of the fish conservation programs in the rivers that form part of its major hydroelectric project. Wherever Alcan operates, a concern for the community and a partnership with local people is the keynote of its activities.

Allied to the protection of the environment is the conservation of resources, and recycling of materials meets both needs. There can be few, if any, industrial materials more valuable to the recycling community than aluminum. Every time it is recycled – and used aluminum cans can be reprocessed directly back into sheet for new cans – it requires only five per cent of the energy originally used to create it. Its value drives the waste recovery systems and makes viable the recovery of other recyclable materials such as glass bottles and newsprint from household waste. To meet growing waste disposal concerns and the need for energy conservation, recyclability is becoming a growing imperative in industrial products. The day may come when aluminum, with its high recyclable value, will be "leased" rather than sold, as aluminum products come back for recycling at the end of their useful life.

The Hunter Valley boasts some of Australia's finest vineyards. It is also home to Alcan's Kurri Kurri aluminum smelter. Since the smelter's opening in 1969, the Company has worked constantly to safeguard the surrounding environment. Its success is evident in the continued excellent quality of the region's wines.

▲ *In Oswego, New York, a 25-acre nature reserve, developed on the grounds of an Alcan rolling mill, was recently opened to the public. The reserve offers a one-mile walking trail and picnic areas in a setting of woods and wetlands.*

▶ *Depleted mining sites in countries such as Brazil, Jamaica and Malaysia are recultivated by Alcan and either reforested or dedicated to agriculture. In Jamaica, Alcan trains tenant farmers in land and livestock management and aids in the breeding of dairy cattle on restored land.*

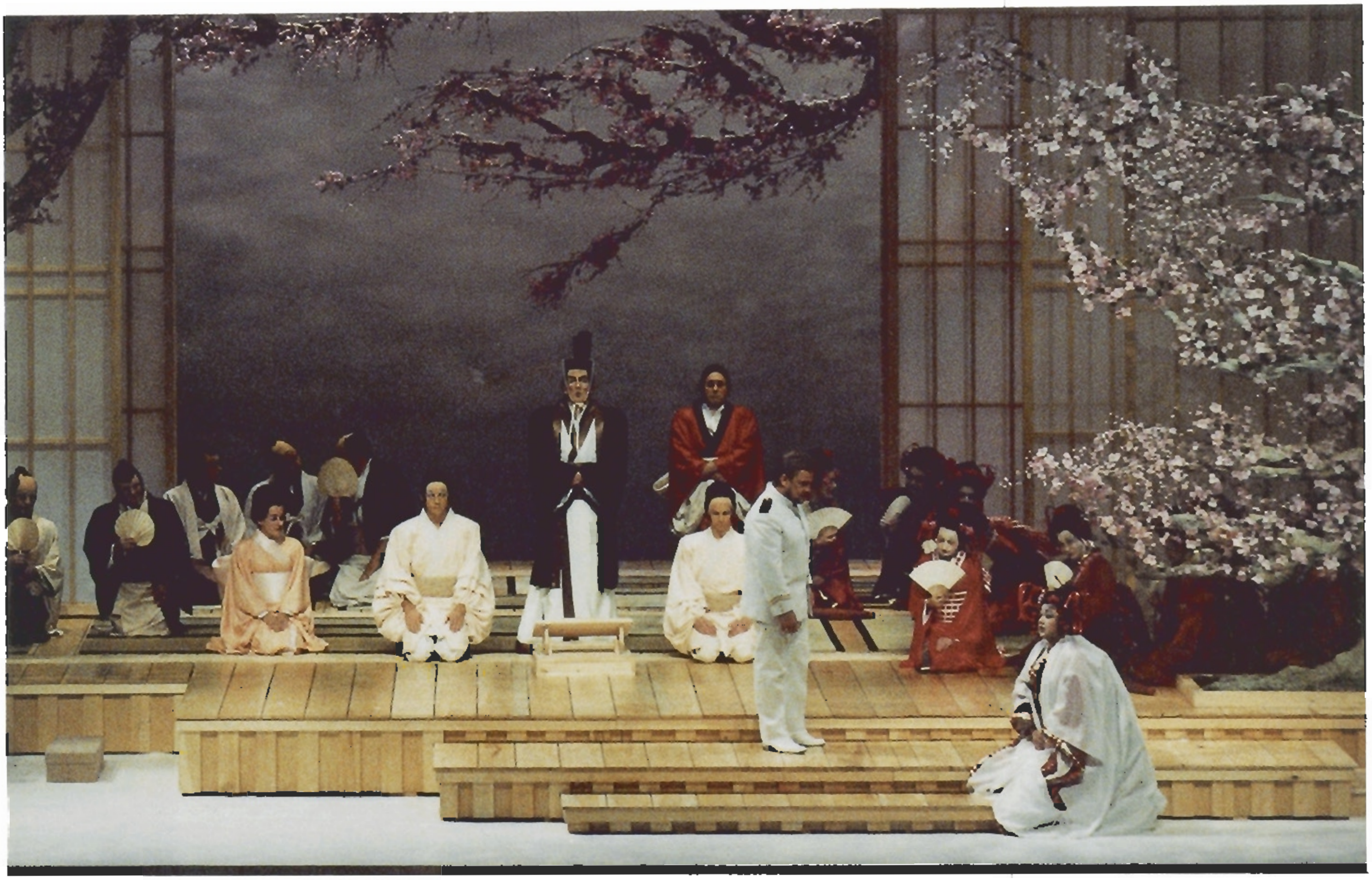
Alcan has just doubled its recycling capacity in the U.S., and, in Canada, it was one of the founders of a fast-growing household waste recovery program. In England, the Company is building a dedicated can recycling plant and is playing an active role in a joint European recycling initiative with other aluminum producers. It is committed not only to help reduce the community's solid waste problem by can recycling but also to help design improved recyclability into aluminum products and improve their overall recovery. This will, at the same time, provide an additional low capital cost source of metal for Alcan's own needs – a clear case of doing well by doing good.

But corporate responsibility is not limited to a company's products and processes. It reaches out to support the community on which it depends. It does so in many ways – by involvement in community projects, by support of education, the arts, health care and welfare. As governments become less interventionist, a growing responsibility falls on corporations, as well as individuals, to pick up the slack in supporting those activities that touch the spirit of society.

In numerous countries, Alcan promotes aluminum recycling initiatives, be they curbside recycling schemes such as Ontario's "blue box" multimaterial recycling program (top) or the collection of used beverage cans by schoolchildren in Italy (above).

▲ *Alcan's interest in preserving society's architectural heritage is evident in countries such as Italy where the Company aids in the restoration of historical buildings.*

▶ *In Ouro Preto, Brazil, Alcan has taken on the task of restoring and preserving two aging churches and also supports research into preserving the many soapstone monuments.*



Through its subsidiaries and related companies, Alcan is active in many such endeavours in the more than 20 countries in which it operates. From the restoration of architectural masterpieces in Italy and Brazil, to the endowment of a chair in sustainable development at the University of the West Indies, from an International Jazz Festival in Montreal to support of research for the preservation of the Great Barrier Reef in Australia, or the establishment of an occupational health centre shared with the community of Alupuram, India, Alcan is a welcome and active partner in the countries in which it operates. Some of its activities come close to home – particularly those affecting its employees – such as supporting education and medical facilities. Others represent a return to the community on the resources – physical and social – from which the Company draws its livelihood. In all cases, it is a demonstration of Alcan's long-held belief that it is in striking the right balance between all its stakeholders that true corporate responsibility lies.

Alcan is a strong supporter of cultural activities in many of the communities in which it operates. In Montreal, the Company funds organizations such as L'Opéra de Montréal (above) and les Grands Ballets canadiens and is a key sponsor of the city's renowned International Jazz Festival

As part of its endeavours to support the community, Alcan sponsors a mobile arts-participation program in Vancouver, Canada. Arts Umbrella's "Van Go" helps brighten the lives of children in inner-city schools by introducing them to the riches of the visual arts.

Aluminum demand continued to grow in 1989, but the rate of growth slowed in the latter part of the year. While revenues increased to $9.0 billion compared to $8.6 billion in 1988, lower ingot prices restrained the Company's ability to recover increased costs of ingot and fabricated products. Earnings at $835 million, although down 10% from 1988's record level, still represented a healthy 18.7% return on shareholders' equity.

The shifting emphasis of the business in favour of higher value-added products was evidenced by a 5% increase in fabricated aluminum shipments. This was achieved in part by acquisitions in the extrusion, building products, foil conversion and packaging businesses. In addition, new business development started to show encouraging results especially in the transportation field.

CANADA

Profits from Canadian operations declined to $368 million, principally reflecting lower smelter margins. Primary production, at 1,035 thousand tonnes (kt), represented 63% of Alcan's total primary production. Three-quarters of this was exported to the Company's fabricating operations and third party customers, principally in the United States. Total shipments to customers in Canada were 265 kt compared to 273 kt in 1988.

Smelting

A gradual decline during the year in ingot selling prices, coupled with a continued increase in raw material and other production costs, resulted in reduced margins compared to 1988.

An exceptionally dry summer left Alcan's reservoir system in Quebec abnormally low by early fall, thereby limiting the ability to generate hydroelectricity for the smelting process. This situation forced the Company to take a number of measures to secure power availability for the winter. These measures included the use of outside power as well as the restricted start-up of the initial phase of the new Laterrière smelter and the accelerated shutdown of one Soderberg potline at the Arvida smelter.

In 1989, the Company continued to improve its service to ingot products customers. The Alcan Modular Insulated Mould (AMIM) technology reached an advanced stage of commercialization at a number of the Company's smelters. The maturing of this technology has resulted in the attainment of higher levels of quality in extrusion billet. Better coordination of logistics throughout the smelter system, from receipt of order through shipment, resulted in a 35% improvement in delivery performance to Alcan Group customers with consequent inventory reduction.

Construction work continued on new casting centres that will add 270 thousand tonnes per year (kt/y) to sheet ingot capacity over the next two years in the Company's Laterrière smelter in Quebec and its Kitimat smelter in British Columbia.

During the year, two new ice-strengthened bulk cargo ships were purchased which, together with improved handling and storage facilities at Port Alfred, Quebec, will permit the year-round shipping of bauxite and alumina to the Quebec refinery and smelter system.

Red-mud stacking has been introduced at the Vaudreuil alumina refinery in Quebec. Developed at Alcan's Jamaican alumina refineries, this technology offers considerable environmental benefits over traditional red-mud disposal methods.

The two major capital projects – the Laterrière smelter and the Kemano hydroelectric expansion in British Columbia – are both proceeding smoothly and on target. The new smelter will progressively replace aging

Soderberg potlines at Arvida Works with environmentally cleaner and more energy-efficient capacity. The first such replacement occurred with the start-up of the initial phase of Laterrière. This took place on December 1, 1989, on time and on budget, although output was restricted to 40% of capacity in light of the need to conserve water reserves over the winter. These two investments will help ensure Alcan remains among the lowest-cost, environmentally responsible aluminum producers well into the next century.

Fabricating

Alcan's fabricating operations in Canada are responding to the challenges and opportunities presented by the Canada/U.S. Free Trade Agreement with improvements to product quality and customer service while maintaining cost-competitiveness. For example, the Company has strengthened its market leadership in household foil and semi-rigid foil containers in Canada, having increased sales by 10% through continued emphasis on customer service. With the acquisition of Hunter Douglas Canada Limited, a manufacturer and distributor of building products, and consequent rationalization of production facilities, Alcan has also consolidated its leadership in aluminum building products.

The Company continues to work closely with the U.S. and Canadian automobile industry in the developing market for cast aluminum engine components. In 1989, within two years of the automotive castings division's inception, it completed the automation of three production lines and received Ford Motor Company's coveted Q1 Preferred Quality Award.

Aluminum beverage can usage in Canada continued to increase, alongside the growing curbside collection and recycling programs for aluminum cans in Ontario and elsewhere.

UNITED STATES

Aluminum shipments to U.S. customers were 883 kt compared to 893 kt in 1988, with a 14% increase in fabricated products shipments offset by lower ingot sales. Growth in U.S. aluminum demand slowed in 1989, most notably in the construction and automotive markets. Profits from operations in the U.S. were $15 million against $101 million in 1988, reflecting lower ingot volumes and margins.

Fabricating

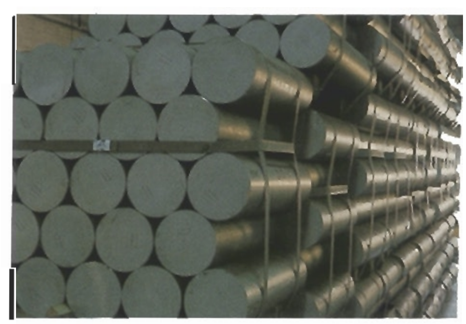
The Rolled Products division continued to outpace the annual rate of growth of the North American aluminum industry, achieving a 7% increase in shipments. The Company's performance was particularly strong in beverage can sheet, where Alcan increased its market penetration substantially.

Alcan's program of focusing its North American rolling mills to specialize in selected products has made the Company a leading low-cost producer of quality rolled products in the markets it serves. At the same time, major emphasis is being placed on Alcan's "First in Quality" program, which stresses employee involvement in quality planning, improvement, awareness and commitment at each step in the customer-supplier chain.

Alcan's commitment to leadership and low-cost excellence in rolled products was underscored by major investment projects. An investment of $175 million will be made over the next three years to upgrade and modernize the Oswego, New York, sheet rolling mill. At Terre Haute, Indiana, an $85-million program is under way providing new wide foil, lacquering and continuous annealing facilities. A further $280 million will be invested to expand the Logan Aluminum Inc. rolling mill, 40%-owned by Alcan, at Russellville, Kentucky. This expansion, which will effectively double the capacity of the plant, will be almost entirely financed by Alcan who will market the additional production.

Alcan also occupies significant market positions in the U.S. in residential and commercial building products, cable, powders and pigments, foil products and metal distribution. Alcan continues to be the leading supplier of aluminum service cable and building wire and, during the year, announced the construction of a new aluminum cable plant in Roseburg, Oregon, scheduled for completion early in 1991.

During 1989, Alcan acquired Jarl Extrusions Inc., a quality aluminum extruder with plants in Elizabethton, Tennessee, and Franklin, New Hampshire. In its first year under Alcan ownership, it has achieved an encouraging 24% increase in sales.



An increasing proportion of Alcan's ingot sales are in the form of value-added products such as the extrusion billet shown here. Alcan's newly developed casting technology allows the production of thin-shelled billet that offers quality and productivity benefits to both Alcan and its billet customers.

Electrical wire and cable products, manufactured of aluminum, combine good conductivity with light weight. Aluminum wire is also used in applications such as welding wire, rivets and zippers. Alcan's principal wire and cable operations are in Canada, the United Kingdom, Brazil and the United States, with a new plant now under construction in Oregon

Alcan-Toyo America, Inc., effectively 59.9%-owned by Alcan, is a joint venture, at Joliet, Illinois, with Toyo Aluminium K.K. of Japan. It commissioned a new state-of-the-art atomized powder plant in December that provides the necessary capacity to maintain leadership in aerospace propulsion as well as to supply aluminum powder to new and developing markets.

Tarco, a 50%-owned joint venture formed in 1984 with Thrall Car Manufacturing Company, had a breakthrough year. Prototype aluminum rail cars for transporting coal have amassed over 8 million trouble-free kilometres, and, by the end of 1989, Tarco had received in excess of $100 million of orders. This new market for aluminum looks very promising for the 1990s and beyond.

The announcement, in December, that Jaguar is putting into production its XJ220 supercar using Alcan's Aluminum-Structured Vehicle Technology (ASVT) is a significant pointer towards the wider use of aluminum structures by the automotive industry. ASVT provides equal structural performance at significantly reduced weight compared to steel, while offering greater corrosion resistance, improved fuel economy and fewer emissions as well as economical recyclability at the end of the vehicle's life.

Smelting

Alcan also produces primary and recycled aluminum in the U.S. The Sebree, Kentucky, smelter produced 177 kt of primary metal in 1989, and the recycling plant at Greensboro, Georgia, cast 70 kt of sheet ingot.

Late in 1989, a 109 kt/y used beverage can recycling plant, the world's largest, was commissioned at Berea, Kentucky, effectively doubling Alcan's North American can recycling capacity.

Jaguar's exciting new XJ220 will be the first production car to use Alcan's Aluminum-Structured Vehicle Technology. ASVT allows the cost-competitive production of energy-saving aluminum automotive bodies on conventional production lines. This technology has the potential to open up a large new market for aluminum.

EUROPE

Europe experienced a year of remarkable change in 1989. As well as continued progress towards the European Community's single market, there were dramatic political changes in Eastern Europe. While no one can predict the effect of these latter changes, the "Europe 1992" measures will undoubtedly be a stimulus to the economy of Western Europe. Looking to the short term, a continuation of steady economic growth is expected.

Alcan's European activities include alumina refining, smelting and the manufacture of semi-finished and finished goods. Net income was $73 million, compared to $120 million in 1988, the decline being due to pressure on fabricated product prices coupled with higher costs. At 603 kt, shipments to European customers, largely of fabricated products, were in line with those of 1988.

Investment continued during the year in modernizing and upgrading the Company's rolling facilities as part of its European rolling strategy.

Germany

Alcan's German operations in sheet, foil, foil products and automotive castings benefited from the continued strength of the domestic economy as well as growing exports. Demand from transportation and building markets remains buoyant.

All plants operated at full capacity in 1989, and the rolled products and foil products businesses both improved their strong market position.

The start-up of the new foil mill at Ohle reinforces Alcan's position in the European foil market. The new mill is built to the latest environmental standards, including fume extraction and oil recycling systems.

Other investments under way include increased lacquering capacity and expansion of lithographic sheet production, building on the Company's technological leadership in this product.

United Kingdom

The U.K. economy, although growing strongly in early 1989, exhibited slower growth as the year progressed, with a significant decline in residential construction and home improvement markets. While demand for many of the Company's products was flat, some sectors, including commercial construction, beverage can stock, aerospace and specialty chemicals, still exhibited strong growth. The Company is investing in additional zirconium chemicals capacity that will come on stream in 1990 to meet the strong and growing demand for these products.

Alcan's Lynemouth and West Highlands smelters produced 169 kt of primary aluminum, most of it in higher value-added forms. Secondary output from Warrington and the 50%-owned Bradford secondary smelter amounted to 50 kt. In 1989, Alcan announced the construction at Warrington of a dedicated used beverage can recycling plant, which will have a 50 kt annual capacity. This investment will be backed up by the Company's programs, already under way, to promote, and provide facilities for, aluminum can collection and recycling.

France

Alcan's building systems subsidiary, Technal, achieved an 11% increase in sales revenue in a strong market for building extrusions, but margins declined due to higher metal costs. Improvements to the Toulouse plant and to logistics have resulted in customer service levels reaching an all-time high; further improvements will be realized in 1990 with the introduction of "just-in-time" operations management.

Distributor shipments of rolled products increased 6%, with strong growth in transportation and construction markets.

Italy

The Italian economy again exhibited good growth, but there was some slowing in the rate of increase of aluminum demand.

Investment to modernize and expand rolling facilities continued as part of the European rolled products strategy. Construction began on a new cold-rolling mill at Pieve, incorporating the most advanced environmental protection equipment. Capital investment at the secondary smelter at Borgofranco was aimed at improving environmental and working conditions and reducing waste.

During the year, the Company acquired a semi-rigid container manufacturing plant as well as a household foil and packaging company.

Switzerland

In Switzerland, Alcan produces high quality foil for the packaging and semi-rigid container markets. The latter market is still growing rapidly and the Company's modern, low-cost capacity and technological supremacy enable it to maintain a position of market leadership.

Ireland

At the 65%-owned Aughinish Alumina Limited refinery, production was adversely affected by variations in bauxite quality outside the design limits of the plant. This meant that maximum output could not be achieved in 1989, but steps are being taken to remedy this situation. Following the increase in capacity from 800 kt/y to 900 kt/y in 1989, work commenced on a further capacity increase to 1,000 kt/y, which will come on stream in 1990.

Producing aluminum sheet for beverage cans demands a high technological and manufacturing proficiency. Alcan's ability to meet increasingly strict quality standards has been the key to its success in this market in North America and is unlocking opportunities elsewhere.

LATIN AMERICA

Net income from Latin American operations was $63 million compared to $72 million in 1988. Aluminum shipments in the region were 114 kt.

Brazil

Despite Brazil's turbulent economic conditions and very high inflation, domestic demand for aluminum grew 4%, with particularly strong growth seen for rolled and extruded products. Alcan increased its share of the domestic market with fabricated shipments up by 10%.

The introduction of the two-piece aluminum beverage can to the Brazilian market late in 1989 is expected to provide a strong stimulus to demand. Alcan is the only local producer of beverage can sheet.

The rate of capital investment has been stepped up from the level of recent years in order to expand capacity and take advantage of market opportunities.

The acquisition of Polipel Embalagens Ltda., a major foil converter, has broadened the Company's product range in flexible packaging, placing it in a leading position in the Brazilian market for these products.

Mineração Rio do Norte S.A. (MRN), 24%-owned by Alcan, mines bauxite in the Trombetas region of northern Brazil. It had a successful year, with production of over 6 million tonnes and improved earnings. As well as following its long-standing policy of reforestation, MRN has invested $80 million in a pioneering move to return all mud tailings to the excavation pit, thus assuring minimum ecological impact.

Argentina

Very high inflation and unemployment made for difficult business conditions in Argentina, resulting in a large decline in shipments and a loss for the year. The Company has, through judicious cash management, emerged from this critical period with a strong balance sheet.

PACIFIC

Alcan has subsidiaries in Australia, New Zealand, Malaysia, Hong Kong and Thailand, as well as related companies in India and Japan. Shipments by consolidated subsidiaries to customers in this region were 348 kt. Earnings from operations in the Pacific region were again strong, at $162 million against $176 million the previous year. Asian aluminum demand continued to be buoyant, supported by strong economic growth. In contrast, some weakening of demand was apparent in Australia.

Australia

Alcan Australia Limited is 73.3%-owned by Alcan and engages in smelting and fabricating activities in Australia and New Zealand. The Kurri Kurri smelter encountered some operating difficulties and produced just below its rated capacity of 150 kt/y. The downstream businesses operated close to capacity, with weaker overall demand offset by increased market share in rolled products, extrusions and foundry ingot. Profitability, however, was affected by lower margins on ingot sales.

Upgrading of rolling facilities will be completed early in 1990, which will reduce unit costs as well as extend the company's capabilities. Construction is under way on two new process-scrap remelts, with a total capacity of 70 kt/y, which will recycle purchased as well as self-generated scrap.

Queensland Alumina Limited, 21.4%-owned by Alcan, and the world's largest alumina plant, produced nearly 3 million tonnes in 1989 and commenced work on a 10% increase in capacity.

Japan

Alcan's participation in Japan is through its interest in two related companies, Nippon Light Metal Company, Ltd. (NLM) and Toyo Aluminium K.K. (Toyal).

The Japanese economy continued to exhibit steady growth, and aluminum demand increased approximately 4% in 1989 with the transportation and capital goods sectors particularly strong.

NLM's revenue growth continued in its fabricated products, alumina chemicals and foundry ingot businesses. The return to profitability seen last year was maintained in 1989. The Company's equity ownership in NLM was reduced to 46.1% at the end of 1989, through the exercise of exchange rights attached to Alcan's Eurodollar exchangeable debentures.

Toyal, owned 49.9% by Alcan, again performed well with increased sales volume, revenue and profits over 1988. The company is a leading producer of aluminum foil, paste and powders.

India

Indian Aluminium Company, Limited, 39.6%-owned by Alcan, marked its Golden Jubilee year with record sales revenue and earnings. Favourable market conditions and strong export sales resulted in a 60% revenue increase and a 55% return on equity.

OTHER AREAS

Jamaica

Alcan's 93%-owned alumina refineries in Jamaica increased their capacity during the year from 860 kt/y to 950 kt/y following the completion of additional red-mud dry stacking facilities. Further alumina capacity increases are planned for 1990.

Guinea

At 13.8%-owned Compagnie des Bauxites de Guinée, record production of over 11 million tonnes of bauxite was achieved.

Alcan increased its holding in Frialco, an integrated bauxite mine and 600 kt/y alumina refinery in Guinea, from 10% to 20%. This proportionately increased the Company's share of production effective January 1990.

Construction and renovation projects in both the commercial and residential fields are important outlets for rolled and extruded aluminum products. Alcan participates in these markets throughout the

world by offering a variety of building products in aluminum and other materials, along with design and other support services.

PRIMARY ALUMINUM MARKET

Following two exceptional years of growth, the rate of increase in primary aluminum demand eased in 1989 in response to the slower pace of activity in the major economies of the world. The supply and demand situation in the primary market relaxed from the extreme tightness of 1988 and remained in reasonable balance for most of the year.

Western World shipments of primary aluminum grew by 2% to 13.9 million tonnes (Mt) in 1989. This growth, however, did not occur uniformly around the world. In the United States, the single largest market for aluminum, economic growth slowed and domestic demand for aluminum products declined below that of the previous year. In Japan and in most of the European Community, the economies continued to grow, albeit at slower rates than in 1988. Aluminum shipments in these areas shared the slower growth of the economies at large.

During the year, Western World aluminum production continued to rise, increasing by 4.4% to 14.1 Mt. In the first half of the year, smelter operating rates rose to over 100% of nominal capacity. This level of activity proved hard to maintain, however, as alumina supply problems and damage caused by Hurricane Hugo curtailed some aluminum production in the United States. At year-end, the industry was still operating at approximately 98% of capacity.

With operating rates continuing at historically high levels, future increases in production will have to come from new smelter start-ups. To the end of 1991, planned capacity increases are expected to add a little over 2% per year to existing world capacity. After 1991, the situation is less clear as there are presently many smelter projects under discussion that could add substantially to world capacity.

As production ran ahead of shipments for the first time in four years, it resulted in some building of inventories in the hands of producers and commodity exchange warehouses. By year-end, inventories reached 3.4 Mt, an increase of 200 kt from the end of 1988. Despite the increase, inventory tonnage at the end of 1989 only represented 12 weeks' supply, a very low level for the industry.

The easing of the supply/demand balance during the year caused spot aluminum prices to decline from the high levels evident in 1988. International spot aluminum prices averaged $1,950 per tonne (/t) in 1989, 25% less than the average price in the previous year.

The aluminum industry begins 1990 in relatively good shape. Inventories are low, operating rates high and there is little new capacity coming on stream. While economic conditions for 1990 are uncertain, the aluminum market should, nevertheless, remain reasonably balanced over the next two years.

PRINCIPAL END-USE MARKETS

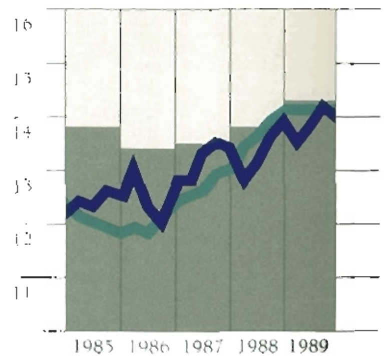
Containers and packaging:

Alcan's worldwide sales to this market continued to increase in 1989, rising 15% above the prior year's level. Much of the gain came from the U.S. where shipments of beverage can sheet exhibited strong growth. In Europe, and especially the United Kingdom, the Company fully participated in the expansion of the foil and beverage can markets. Sales also rose strongly in Brazil due to the acquisition of a packaging company. Alcan's Brazilian operations are now supplying sheet to the first manufacturer in that country of all-aluminum beverage cans.

Building and construction:

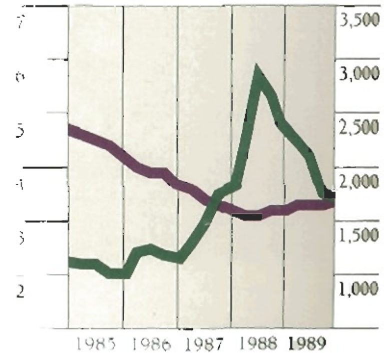
Sales to this market rose 6.7% in 1989, spurred by healthy construction markets in Brazil and Continental Europe and the acquisition of Hunter Douglas Canada Limited. Construction markets in North America continued to be weak and the Company undertook a rationalization of its product lines, resulting in reduced sales of lower margin products.

WESTERN WORLD PRIMARY ALUMINUM PRODUCTION AND SHIPMENTS
millions of tonnes/year



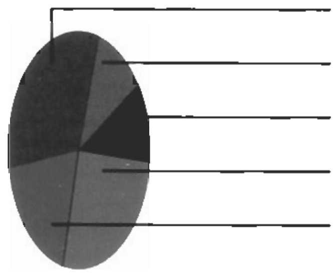
Production
Shipments (seasonally adjusted)
Capacity at year-end

TOTAL PRIMARY ALUMINUM INVENTORIES AND SPOT INGOT PRICES
millions of tonnes US$/tonne



Total inventories (IPAI, Japanese stockpile, LME, Comex)
Spot ingot prices (average of LME cash and "Metals Week" U.S. quotation)

1989 FABRICATED AND NON-ALUMINUM SALES BY MARKET
millions of US$



		1989	1988	1987	1986	1985
Containers and packaging	32%	2,228	[illegible]	[illegible]	[illegible]	[illegible]
Transportation	10%	720	[illegible]	[illegible]	[illegible]	[illegible]
Electrical	11%	765	[illegible]	552	[illegible]	[illegible]
Building and construction	27%	1,935	[illegible]	1,468	[illegible]	[illegible]
Other	20%	1,394	[illegible]	[illegible]	1,236	[illegible]
Total fabricated and non-aluminum sales	100%	7,042	6,429	[illegible]	4,864	[illegible]
Aluminum ingot sales		1,537	[illegible]	[illegible]	[illegible]	[illegible]
Total sales		8,579	[illegible]	6,547	[illegible]	[illegible]

Transportation

Sales rose 16.7% with increases coming from operations in Europe, North America and Brazil. The Company increased its sales across the range of automotive products it produces such as pistons and other castings, finstock and truck body sheet. Alcan's European operations increased sales to the aerospace industry.

Electrical

Sales were up 2.5% in 1989 with North America accounting for approximately 70% of the total sales to this market. While U.S. sales rose marginally, Canadian sales dropped with the completion of several major transmission line projects by provincial power utilities. In Brazil, despite reduced investment by utilities, Alcan's operations in the country achieved a modest increase in sales.

Other uses:

Sales revenues in this category increased 6.1%. Higher alumina and bauxite sales reflected improved price realizations on the sales of these products. This was partially offset by lower sales of those products sold through distributors that cannot readily be allocated to specific end-use markets.

RESULTS OF OPERATIONS

Alcan reported net income for 1989 of $835 million, down from the record high level of $931 million reached in 1988, but still almost double the 1987 level of $433 million.

Net income for the year included net non-operating gains of $69 million. A gain of $81 million after tax resulting from the exchange of $105 million of the Company's Eurodollar exchangeable debentures for shares of Nippon Light Metal Company, Ltd., a related company in Japan, was offset by the $12-million write-down of certain investments.

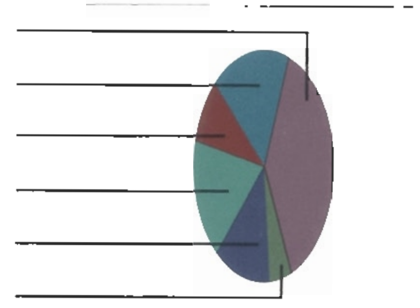
The Company's average return on equity for the year declined to 18.7% from 23.5% in 1988, but remained well above the 11.9% return achieved in 1987.

The weakening price environment for aluminum during 1989 precluded the Company from recovering increased costs and resulted in lower earnings for the year.

In 1989, the U.S. dollar was generally stronger against European currencies than in 1988. This had the effect of reducing the reported profits from operations in Europe.

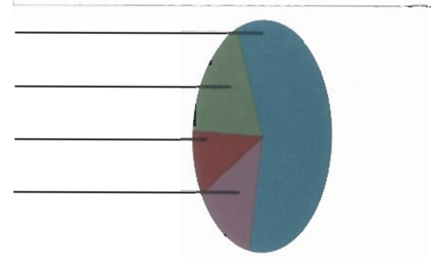
		1989	1988	1987	1986	1985
Flat rolled products	38%	3,406	[illegible]	[illegible]	[illegible]	[illegible]
Extruded, rolled, drawn products	18%	1,640	1,578	[illegible]	[illegible]	1,042
Other fabricated products	9%	781	666	470	[illegible]	[illegible]
Ingot products	17%	1,537	1,846	[illegible]	802	[illegible]
Other products	13%	1,215	1,033	[illegible]	[illegible]	[illegible]
Operating revenues and other income	5%	468	351	[illegible]	300	[illegible]
Total	100%	9,047	8,626	[illegible]	[illegible]	[illegible]

1989 REVENUES BY PRODUCT
millions of US$



1989 GROSS PROFIT BY PRODUCT
millions of US$

		1989	1988	1987	1986	1985
Total fabricated products (integrated)	59%	1,210	[illegible]	[illegible]	740	[illegible]
Ingot products	18%	370	[illegible]	[illegible]	154	[illegible]
Other products	9%	182	[illegible]	[illegible]	[illegible]	[illegible]
Operating revenues and other income	14%	290	189	179	[illegible]	[illegible]
Total	100%	2,052	2,255	1,481	[illegible]	[illegible]



Sales and operating revenues rose to $8.8 billion from $8.5 billion in 1988, on virtually identical shipment levels. Sales and operating revenues in 1987 were $6.8 billion. The 1989 increase in revenues reflected higher average realizations for fabricated products and a greater concentration of these products in the sales mix.

Cost of sales and operating expenses were $6.7 billion compared to $6.1 billion in 1988 and $5.1 billion in 1987. The 10% increase in 1989 reflected the shift in the sales mix towards higher cost fabricated products and higher costs of labour and raw materials.

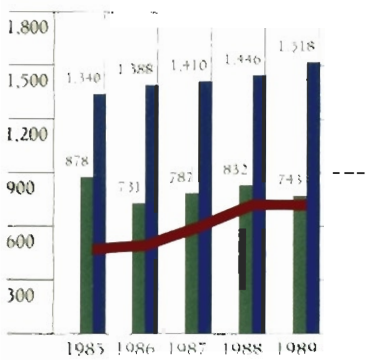
Selling, administrative and general expenses rose 14% to $600 million. The rise reflected additional costs from new businesses acquired and normal wage increases. These expenses rose 17% in 1988 and 10% in 1987.

Interest costs, including amounts capitalized, were $180 million versus $150 million in 1988 and $183 million in 1987. The charge against income, however, decreased in 1989 with 28% of interest costs capitalized compared to 9% and 3% in 1988 and 1987 respectively, reflecting the increased level of capital spending.

Research and development expenditures increased to $136 million from $132 million in 1988 and $95 million in 1987. The majority of the expenditures were directed towards Alcan's ongoing programs to improve process technology and product quality, with the balance allocated to the development of new applications for aluminum. Spending in 1990 is expected to reach $145 million.

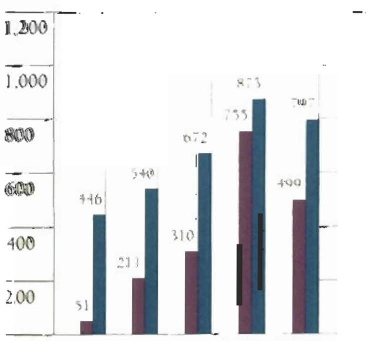
The effective income tax rate for the year declined to 32% from 37% in 1988. The drop in the effective rate reflected lower statutory tax rates in Canada, Australia and the United States. In addition, a higher proportion of income in 1989 was from capital gains that are taxed at lower rates than operating income. In 1987, the effective tax rate was 36%.

ALUMINUM SHIPMENTS AND PURCHASES
thousands of tonnes



Shipments of fabricated products
Shipments of ingot products
Purchases

GROSS MARGINS ON SALES OF ALUMINUM PRODUCTS
US$/tonne



Fabricated products
Ingot products

PRINCIPAL PRODUCTS

Shipments of aluminum in all forms were 2,261 kt in 1989 compared to 2,278 kt in 1988 and 2,197 kt in 1987. Fabricated products, however, accounted for a greater percentage of shipments, rising to 67% of the total in 1989 from 64% over the previous two years.

Consolidated aluminum production during the year rose to 1,643 kt as the Company's smelters operated at higher rates. In 1989, Alcan's average smelter operating rate was 98% compared to 96% and 94% in 1988 and 1987, respectively.

During 1989, Alcan's total purchases of aluminum were 718 kt, which included 630 kt of ingot and scrap purchased at market-related prices. Total purchases were 716 kt in 1988 and 593 kt in 1987.

Aluminum inventories at year-end were 539 kt, which was 59 kt higher than at the end of the previous year. This level of inventory represented approximately 13 weeks' supply.

Ingot products:

Third party shipments of ingot products fell 89 kt to 743 kt in 1989 as a greater percentage of the metal produced was used in the Company's fabricating operations. Over 57% of ingot shipments were in the form of higher value-added products, such as sheet ingot, extrusion billet and foundry alloys, compared to 47% in 1988.

Average realizations on the sale of ingot products fell 7% from $2,219/t to $2,070/t. The decline reflected the weaker market price for primary aluminum.

Gross margins fell 34% to $499/t, reflecting lower sales realizations and higher costs. Cost increases stemmed from the rising cost of certain raw materials, such as caustic soda and coke.

Fabricated products

Shipments of fabricated products rose from 1,446 kt in 1988 to 1,518 kt in 1989 reflecting the buoyant market for most of the Company's products during the year, together with increased penetration of certain sectors.

With fabricated product prices remaining fairly stable during the year, average sales realizations in 1989 at $3,837/t were 3% higher than in the previous year. Higher costs, however, resulted in gross margins falling by 9% to $797/t.

Other products

Sales revenues of other products increased 17.6% reflecting higher prices for stainless steel, nickel and specialty chemicals as well as increased shipments of vinyl products to building and construction markets.

Operating revenues

Revenues were $260 million compared to $254 million in 1988 and $251 million in 1987. These revenues are principally generated from aluminum tolling and the sale of electric power to third parties.

Other income

Income from other sources was $208 million in 1989 compared to $97 million in 1988 and $81 million in 1987. The increase in 1989 was primarily due to $101 million of pre-tax gains realized when holders of some of the Company's Eurodollar exchangeable debentures exchanged them for shares held in Nippon Light Metal Company, Ltd., a related company in Japan. The balance of the other income is derived largely from interest revenue.

LIQUIDITY AND CAPITAL RESOURCES

Cash generated by operations continued at a healthy level in 1989, although somewhat lower than the record level set in the prior year. For the 12 months, cash generation was $970 million compared to $1,370 million in 1988 and $879 million in 1987.

The Company's strong cash position allowed it to increase its capital investment program, repurchase some of its common shares and increase the quarterly dividend to common shareholders.

At the end of 1989, the ratio of total borrowings to equity was unchanged from the previous year at 26:74. At the end of 1987, the ratio was 27:73.

In February 1989, Alcan raised its quarterly dividend to 28 cents per common share. For the year, total dividends were $1.12 per share which equated to approximately a 5% yield based on the average price of the Company's common shares for that period. Dividends on common shares were 59 cents in 1988 and 39 cents in 1987. All per-share amounts reflect the three-for-two share split of May 1989.

Investments:

Capital spending totalled $1,466 million in 1989, up significantly from the $676 million recorded in 1988 and the $415 million in 1987.

About one-half of the 1989 expenditure was for major projects, which included the continuation of the Laterrière smelter project in Quebec; the completion of a beverage can recycling centre in the United States; the start of the Kemano hydroelectric expansion project in British Columbia; and the upgrade of the European and North American rolled products operations.

Also included in 1989 spending were the acquisitions of Hunter Douglas Canada Limited, Jarl Extrusions Inc. in the U.S.A., and Polipel Embalagens Ltda. in Brazil.

In 1990, net capital investment is expected to reach $1.0 billion as work continues on major projects, such as Kemano and Laterrière. The Company will also undertake the expansion of the Logan County, Kentucky, sheet rolling facilities at a total cost of $280 million.

Financing:

During the year, the Company purchased 1.6 million of its common shares on the open market under "normal course issuer bids". In 1988, the Company purchased 10.3 million shares under similar bids. These purchases increased earnings per share. Alcan has regulatory approval until October 26, 1990, to purchase up to an additional 14.2 million shares.

In June, Alcan listed its common shares on the Tokyo Stock Exchange, giving the Company access to the Japanese capital market. With the listing, Alcan's shares are now listed on all the major stock exchanges of the world.

In July, the Company made a public offering of $150 million of 9-5/8% Sinking fund debentures, due in 2019. The proceeds of the issue were for general corporate purposes, including refinancings and capital expenditures.

Alcan redeemed all of its outstanding 15-3/4% Eurodollar debentures and 14-1/4% notes, both due in 1992. The total amount redeemed was $175 million.

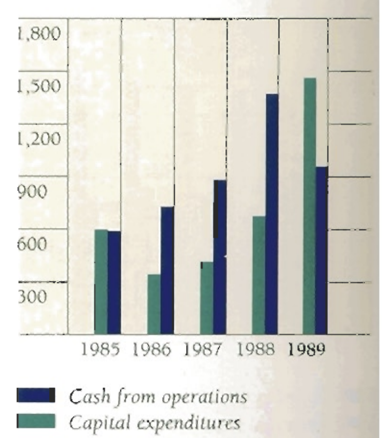
In January, 1990, the Company made a public offering in the United States of $100 million of 9-1/2% Debentures, due in 2010. The debentures are redeemable at the Company's option starting in the year 2000.

These financing activities have resulted in longer average maturity of the Company's debt and lower interest costs.

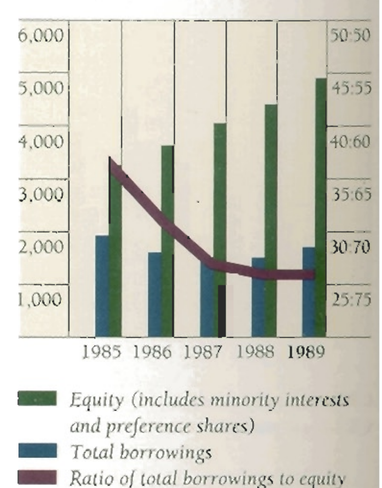
Term credit lines with banks were increased to $1,091 million during the year, from $844 million in 1988. At the end of the year, only $367 million of these lines of credit were being used.

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

CAPITAL EXPENDITURES AND CASH FROM OPERATIONS
millions of US$



TOTAL BORROWINGS AND EQUITY
(at December 31)
millions of US$ *ratio*



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. A reconciliation with accounting principles generally accepted in the United States is also presented. 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, including internal audit staff, 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 the 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 list of significant 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, 1989, 1988 and 1987 and the consolidated statements of income, retained earnings and cash flows for each of the years in the three year period ended December 31, 1989. 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, 1989, 1988 and 1987 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 1989, in accordance with generally accepted accounting principles in Canada applied on a consistent basis.

Montreal, Canada
February 8, 1990

Price Waterhouse
Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME

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

Years ended December 31	**1989**	1988	1987
Revenues			
Sales and operating revenues	**$8,839**	$8,529	$6,797
Other income *(note 12)*	**208**	97	81
	9,047	8,626	6,878
Costs and expenses			
Cost of sales and operating expenses	**6,682**	6,072	5,117
Depreciation	**333**	316	296
Selling, administrative and general expenses	**600**	525	447
Research and development expenses	**136**	132	95
Interest *(note 14)*	**130**	137	177
Other expenses	**62**	91	113
	7,943	7,273	6,245
Income before income taxes and other items	**1,104**	1,353	633
Income taxes *(note 4)*	**350**	497	230
Income before other items	**754**	856	403
Equity income *(note 5)*	**97**	97	35
Minority interests	**(16)**	(22)	(5)
Net income *(note 3)*	**$ 835**	$ 931	$ 433
Dividends on preference shares	**21**	30	36
Net income attributable to common shareholders	**814**	901	397
Net income per common share *(notes 1 and 9)*	**$ 3.58**	$ 3.85	$ 1.68
Dividends per common share	**$ 1.12**	$ 0.59	$ 0.39

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(in millions of US$)

Years ended December 31	**1989**	1988	1987
Retained earnings – beginning of year	**$2,874**	$2,282	$1,977
Net income	**835**	931	433
	3,709	3,213	2,410
Premium on purchase of common shares *(note 9)*	**23**	161	—
Premium on redemption of preference shares	**—**	10	—
Dividends – Common	**255**	138	92
– Preference	**21**	30	36
Retained earnings – end of year *(note 11)*	**$3,410**	$2,874	$2,282

CONSOLIDATED BALANCE SHEET

(in millions of US$)

December 31	**1989**	1988	1987
ASSETS			
Current assets			
Cash and time deposits	**$ 247**	$ 670	$ 493
Receivables	**1,345**	1,403	1,207
Inventories			
Aluminum	**1,169**	1,067	949
Raw materials	**335**	290	253
Other supplies	**375**	340	296
	3,471	3,770	3,198
Deferred charges and receivables	**326**	190	199
Investments *(note 5)*	**451**	375	298
Property, plant and equipment			
Cost *(note 6)*	**9,098**	7,860	7,328
Accumulated depreciation	**3,838**	3,580	3,363
	5,260	4,280	3,965
Total assets	**$9,508**	$8,615	$7,660
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Payables	**$1,327**	$1,081	$ 912
Short-term borrowings (principally from banks)	**581**	250	109
Income and other taxes	**123**	255	58
Debt maturing within one year	**64**	69	80
	2,095	1,655	1,159
Debt not maturing within one year *(note 7)*	**1,079**	1,199	1,336
Deferred credits and other liabilities	**393**	362	366
Deferred income taxes	**1,044**	1,006	754
Minority interests	**75**	73	75
Redeemable retractable preference shares *(note 8)*	**9**	8	202
Redeemable non-retractable preference shares *(note 8)*	**203**	203	203
Common shareholders' equity			
Common shares *(note 9)*	**1,162**	1,147	1,183
Retained earnings *(note 11)*	**3,410**	2,874	2,282
Deferred translation adjustments *(note 2)*	**38**	88	100
	4,610	4,109	3,565
Commitments and contingencies *(note 13)*			
Total liabilities and shareholders' equity	**$9,508**	$8,615	$7,660

Approved by the Board: David Morton, Director
Allan A. Hodgson, Director

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of US$)

Years ended December 31	**1989**	1988	1987
Operating activities			
Income before other items	**$ 754**	$ 856	$ 403
Adjustments to determine cash from operating activities:			
Depreciation	**333**	316	296
Deferred income taxes	**43**	254	191
Dividends from related companies	**34**	25	15
Change in receivables	**58**	(196)	(236)
Change in inventories	**(182)**	(199)	(39)
Change in payables	**246**	169	123
Change in income and other taxes payable	**(132)**	197	11
Change in deferred charges, receivables and credits	**(105)**	5	3
Changes in operating working capital due to:			
Deferred translation adjustments	**(14)**	(37)	135
Acquisitions, disposals and deconsolidations	**37**	(9)	(47)
Other – net *(note 12)*	**(102)**	(11)	24
Cash from operating activities	**970**	1,370	879
Financing activities			
New debt	**269**	225	328
Debt repayments	**(360)**	(209)	(431)
	(91)	16	(103)
Short-term borrowings – net	**318**	28	(56)
Common shares issued	**23**	16	11
Common shares purchased for cancellation	**(31)**	(213)	—
Preference shares issued	**—**	—	8
Redemption of preference shares	**—**	(213)	(36)
Redemption of preferred shares of subsidiary companies	**(1)**	(21)	—
Dividends – Alcan shareholders (including preference)	**(276)**	(168)	(128)
– minority interests	**(9)**	(6)	(5)
Cash used for financing activities	**(67)**	(561)	(309)
Total cash available before investment activities	**903**	809	570
Investment activities			
Property, plant and equipment	**(1,273)**	(660)	(409)
Investments	**(193)**	(16)	(6)
	(1,466)	(676)	(415)
Sales of fixed assets and investments	**137**	35	38
Cash used for investment activities	**(1,329)**	(641)	(377)
Effect of exchange rate changes on cash and time deposits	**3**	9	9
Increase (Decrease) in cash and time deposits	**(423)**	177	202
Cash of company deconsolidated	**—**	—	(25)
Cash and time deposits – beginning of year	**670**	493	316
Cash and time deposits – end of year	**$ 247**	$ 670	$ 493

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of US$)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements, which are expressed in U.S. dollars, the principal currency of international trade and of Alcan's business, are prepared in accordance with generally accepted accounting principles in Canada. They 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.

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.

Certain prior years' amounts have been reclassified to conform with the 1989 presentation.

Net income per common share is calculated by dividing Net income attributable to common shareholders by the average number of common shares outstanding (1989: 227.5 million; 1988: 234.2 million; 1987: 236.6 million).

2. CURRENCY TRANSLATION AND EXCHANGE ADJUSTMENTS

Gains and losses arising from the translation of foreign currency denominated items are included in other income/expense, except as described below.

The financial statements of self-sustaining foreign operations are translated into U.S. dollars at prevailing exchange rates. Differences arising from exchange rate changes are included in the Deferred translation adjustments (DTA) component of Common shareholders' equity. If there is a reduction in the Company's ownership in the foreign operation, the relevant portion of DTA is recognized in income at that time.

Gains or losses on forward exchange contracts, which serve to hedge certain identifiable foreign currency exposures principally in respect of ongoing Canadian dollar operating costs, are recognized on maturity and are included in cost of sales and operating expenses.

The following are the amounts recognized in the financial statements:

	1989	1988	1987
Translation gains (losses)	**$ 11**	$ (2)	$ (19)
Deferred translation adjustments:			
Balance – beginning of year	**$ 88**	$100	$ (33)
Effect of exchange rate changes	**(45)**	(16)	129
Amounts realized on investment disposals	**(5)**	4	4
Balance – end of year	**$ 38**	$ 88	$100
Gains (losses) on forward exchange contracts	**$ 27**	$ 8	$ (6)

Based on rates of exchange at December 31, 1989, there was an unrealized gain of $83 on outstanding forward exchange contracts totalling $1,542. These contracts mature over the next three years.

3. 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 as used under U.S. GAAP.

Tax recovery

Under Canadian GAAP, tax benefits of a purchased subsidiary arising from losses which occurred prior to acquisition 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 as reported with the net income that would have been reported under U.S. GAAP together with the cumulative effect on Retained earnings and Deferred translation adjustments.

	1989		1988		1987	
	As Reported	**U.S. GAAP**	As Reported	U.S. GAAP	As Reported	U.S. GAAP
Net income						
First quarter*	**$ 269**	**$ 274**	$ 175	$ 161	$ 71	$ 57
Second quarter*	**244**	**250**	243	244	104	113
Third quarter*	**180**	**171**	258	260	122	113
Fourth quarter*	**142**	**132**	255	249	136	130
Net income from continuing operations	**$ 835**	**$ 827**	$ 931	$ 914	$ 433	$ 413
Net income attributable to common shareholders	**$ 814**	**$ 807**	$ 901	$ 884	$ 397	$ 377
Net income per common share	**$ 3.58**	**$ 3.54**	$ 3.85	$ 3.78	$ 1.68	$ 1.59
Retained earnings						
End of year	**$3,410**	**$3,428**	$2,874	$2,900	$2,282	$2,325
Deferred translation adjustments						
End of year	**$ 38**	**$ (19)**	$ 88	$ 33	$ 100	$ 46

The difference between 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

Net income from continuing operations and per common share amounts for the years 1989, 1988 and 1987 are as shown above. Net income (Loss) from continuing operations on a U.S. GAAP basis for the years 1986 and 1985 was $234 and $(199), respectively, compared to $251 and $(183), respectively, as reported. Net income (Loss) from continuing operations per common share on a U.S. GAAP basis for the years 1986 and 1985 was $0.89, and $(1.04), respectively, compared to $0.97 and $(0.97), respectively, as reported.

No effect has been provided for the Financial Accounting Standards Board Statement No. 96 concerning Accounting for Income Taxes. The Company intends to adopt Statement No. 96 for U.S. GAAP reporting commencing January 1, 1992. The impact on 1992 earnings cannot reliably be estimated at this time and will depend upon tax legislation and exchange rates prevailing at that time.

4. INCOME TAXES

	1989	1988	1987
Income before income taxes and other items			
Canada	**$ 658**	$ 756	$ 353
Other countries	**446**	597	280
	1,104	1,353	633
Current income taxes			
Canada	**164**	138	4
Other countries	**143**	105	35
	307	243	39
Deferred income taxes			
Canada	**42**	149	124
Other countries	**1**	105	67
	43	254	191
Income tax provision	**$ 350**	$ 497	$ 230

The composite of the applicable statutory corporate income tax rates in Canada is 38.0% (41.4% in 1988 and 45.4% in 1987). The following is a reconciliation of income taxes calculated at the above composite statutory rates with the income tax provision:

	1989	1988	1987
Income taxes at the composite statutory rate	**$ 420**	$ 560	$ 287
Increase (Reduction) attributable to:			
Investment and other allowances	**(39)**	(30)	(29)
Exchange translation items	**(2)**	(13)	(14)
Reduced rate or tax exempt items	**(24)**	(12)	(1)
Foreign tax rate differences	**(1)**	(16)	(11)
Tax rate changes on previously recorded benefits	**—**	13	—
Other – net	**(4)**	(5)	(2)
Income tax provision	**$ 350**	$ 497	$ 230

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

	1989	1988	1987
Realization of tax benefit carryovers	**$ 11**	$ 87	$ 77
Depreciation	**69**	63	61
Research expense carryovers	**3**	39	3
Inventory valuation	**(26)**	36	16
Investment and foreign tax credits	**(9)**	17	25
Other – net	**(5)**	12	9
	$ 43	$ 254	$ 191

5. *INVESTMENTS*

	1989	1988	1987
Companies accounted for under the equity method *(note 1)*	$ 423	$ 352	$ 284
Other investments – at cost, less amounts written off	28	23	14
	$ 451	$ 375	$ 298

The activities of the major equity accounted companies are the procurement and processing of raw materials in Brazil, Australia and Guinea, integrated aluminum operations in Japan and aluminum rolling operations in Germany. Their combined results of operations and financial position are summarized below:

	1989	1988	1987
Results of operations for the year			
Revenues	$6,234	$5,827	$4,454
Costs and expenses	5,634	5,322	4,182
Income before income taxes	600	505	272
Income taxes	333	230	144
Net income	$ 267	$ 275	$ 128
Alcan's share of net income	$ 97	$ 97	$ 35
Dividends received by Alcan	$ 34	$ 25	$ 15
Financial position at December 31			
Current assets	$3,294	$2,788	$2,387
Current liabilities	2,985	2,665	2,068
Working capital	309	123	319
Property, plant and equipment – net	1,950	1,864	1,710
Other assets – net	280	274	311
	2,539	2,261	2,340
Debt not maturing within one year	1,330	1,211	1,455
Net assets	$1,209	$1,050	$ 885
Alcan's equity in net assets	$ 423	$ 352	$ 284

6. *PROPERTY, PLANT AND EQUIPMENT, AT COST*

	1989	1988	1987
Land, and property rights	$ 133	$ 114	$ 113
Buildings, machinery and equipment	7,894	7,246	6,933
Construction work in progress	1,071	500	282
	$9,098	$7,860	$7,328

Capital expenditures, net of disposals, are expected to be about $1,000 in 1990.

7. DEBT NOT MATURING WITHIN ONE YEAR

	1989	1988	1987
Alcan Aluminium Limited			
15-3/4% Eurodollar debentures	$ —	$ 79	$ 89
14-1/4% Notes	—	100	100
11-1/4% Debentures, due 1995	**100**	100	100
9-7/8% Debentures, due 1998	**100**	100	100
5-3/8% Swiss franc bonds, due 2003 (a)	**105**	105	105
9-5/8% Sinking fund debentures, due 2019 (b)	**150**	—	—
Other debt, due 1990/2001	**36**	48	61
Alcan Aluminum Corporation			
9.956% Bank loan, due 1995	**25**	25	25
Other debt, due 1990/2013	**26**	28	27
Alcan Empreendimentos Ltda and subsidiary companies (Brazil)			
Bank loans, due 1990/1992 (c)	**15**	34	72
Other debt, due 1990/1994	**26**	22	25
British Alcan Aluminium plc and subsidiary companies			
Bank loans, due 1990/1997 (£70) (c)	**112**	156	148
Bank loan, due 1997 (£45) (c)	**72**	—	—
10-3/8% Debentures, due 2011 (£30)	**48**	54	56
Other debt, due 1990/2001 (£10)	**16**	21	25
Alcau Deutschland GmbH and subsidiary companies			
7.3% Bank loans, due 1990/1996 (DM103)	**61**	68	75
Bank loans, due 1990/1996 (DM55) (c)	**33**	32	54
Alcan South Pacific Limited and subsidiary companies			
Notes payable	—	—	175
Bank loans and other debt, due 1990/1993	**1**	2	41
Other companies			
Bank loans, due 1990/1998 (c)	**82**	52	43
5-5/8% Swiss franc bank loan, due 1993 (SFr40) (d)	**26**	26	31
4% Eurodollar exchangeable debentures, due 2003 (e)	**45**	150	—
Other debt, due 1990/2002	**64**	66	64
	1,143	1,268	1,416
Debt maturing within one year included in current liabilities	**(64)**	(69)	(80)
	$1,079	$1,199	$1,336

(a) These bonds were issued as SFr178 and immediately swapped for $105 at an effective interest rate of 8.98%.

(b) Under certain designated events, the rate of interest must be adjusted or the debentures redeemed by the Company prior to July 30, 1994 at 103% or may be retracted by the holders at 100% between July 30, 1994 and July 30, 1999.

(c) Interest rates fluctuate principally with the lender's prime commercial rate, or the commercial bank bill rate, or are related to the London interbank offered rate.

(d) The debt is treated as a hedge of the Company's investment in Switzerland and, accordingly, the exchange gain or loss is allocated to the Deferred translation adjustments component of Common shareholders' equity.

(e) Debenture holders are entitled to receive at their option 1,562 common shares held by the Company in Nippon Light Metal Company, Ltd., a related company, in exchange for each ten thousand dollar principal amount of debentures.

In January 1990, the Company issued $100 of 9-1/2% debentures due 2010.

Based on rates of exchange at year-end, debt repayment requirements over the next five years amount to $64 in 1990, $68 in 1991, $76 in 1992, $100 in 1993 and $77 in 1994.

8. PREFERENCE SHARES

Authorized:
2,000,000 Cumulative Redeemable First Preferred Shares; an unlimited number of Preference Shares issuable in series; and an unlimited number of Junior Preferred Shares. All shares are without nominal or par value.

Authorized and Outstanding:	Number (in thousands)			Stated Value		
	1989	1988	1987	**1989**	1988	1987
Redeemable retractable preference shares						
Preference, series A (redeemed during 1988)	—	—	7,747	$ —	$ —	$148
Preference, series B (redeemed during 1988)	—	—	1,840	—	—	46
Preference, series F	**400**	400	400	**9**	8	8
				$ 9	$ 8	$202
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	3,000	**54**	54	54
				$203	$203	$203

Outstanding shares are eligible for quarterly dividends as follows:
- 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 hanks for stated periods.
- Preference, series F – CAN$2.00 per share per annum.

Outstanding shares may be called for redemption at the option of the Company on 30 days' notice as follows:
- Preference, series C (denominated in Canadian dollars) and D (denominated in U.S. dollars) – At $25.90 per share during the twelve-month period commencing January 1, 1990 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 (retractable at the option of the holder at CAN$25.00 per share on March 31, 1992).

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

9. COMMON SHARES

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

	Number (in thousands)			Stated Value		
	1989	1988	1987	**1989**	1988	1987
Outstanding – beginning of year	**227,539**	236,964	236,343	**$1,147**	$1,183	$1,172
Purchased for cancellation	**(1,556)**	(10,340)	—	**(8)**	(52)	—
Issued for cash :						
Executive share option plan	**448**	452	185	**8**	7	3
Dividend reinvestment and share purchase plans	**640**	463	436	**15**	9	8
Outstanding – end of year	**227,071**	227,539	236,964	**$1,162**	$1,147	$1,183

Under the executive share option plan, certain 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$22.68 per share. These options expire at various dates during the next 10 years. Changes in shares under option are summarized below:

	1989	1988	1987
Outstanding – beginning of year	**859,411**	1,394,379	948,063
Granted	**864,000**	—	927,000
Exercised	**(447,957)**	(452,324)	(184,570)
Cancelled	**(87,419)**	(82,644)	(296,114)
Outstanding – end of year	**1,188,035**	859,411	1,394,379

During 1989, the Company purchased and cancelled 1,555,600 (1988: 10,340,250) of its common shares at a total cost of $31 (1988: $213) and at year end had regulatory approval to purchase an additional 14,193,400 shares to October 26, 1990.

A three-for-two share split was effected on May 9, 1989. All share and per share amounts have been restated to reflect retroactively the share split.

Shareholder Rights Plan

The Board of Directors has adopted a Shareholder Rights Plan effective December 14, 1989. Continuation of the Plan is subject to ratification by shareholders at the Annual Meeting on April 26, 1990. Under the Plan, each common share of the Company carries one right to purchase additional common shares. Such rights are not currently exercisable but may become so in a variety of circumstances, the most important of which will arise upon the acquisition by one person, or a related group, of 20% or more of the Company's outstanding voting shares. Holders of rights, with the exception of such person or group, in such circumstances are entitled to purchase from the Company, upon payment of the exercise price (currently $100.00) such number of additional common shares as can be purchased for twice the exercise price based on the current market value of the Company's common shares at the time the rights become exercisable. Also, in the event of a proposed transaction such as an amalgamation, all holders of the Company's common shares have the right to purchase from that other amalgamating entity, common shares of that entity at a 50% discount to market.

The rights expire in 1999, but may be redeemed earlier by the Company for 1 cent per right in certain events.

The Plan provides a procedure whereby a person making a take-over bid, satisfying certain fairness tests, and provided such person holds 5% or less of the Company's voting shares at the time of the bid, may request shareholder approval of the bid at a shareholder meeting. If the shareholders, other than such person, approve the bid by a majority of votes cast, the bid will be permitted to proceed without the rights becoming exercisable.

10. 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, $160 have been fully abated and $40 are expected to be fully abated based on 1989 metal 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 $1.47 per pound in 1990 to $1.99 per pound in 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 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.

11. RETAINED EARNINGS

Consolidated retained earnings at December 31, 1989 include:

- $211 of undistributed earnings of companies accounted for under the equity method;
- $1,725 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.

12. OTHER INCOME

Other income in 1989 includes a gain of $101 resulting from $105 of the Company's debentures being tendered in exchange for shares held by Alcan in Nippon Light Metal Company, Ltd. (NLM), a related company in Japan. As a result of the exchange, Alcan's holding in NLM was reduced from 50% to 46.1%. The net gain, after applicable taxes, has been allocated to the Pacific area in the Information by geographic areas (note 16).

13. 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 and "take-or-pay" obligations, are estimated at $150 in 1990, $153 in 1991, $186 in 1992, $152 in 1993, $152 in 1994 and $324 thereafter. Total charges from these related companies were $308 in 1989, $267 in 1988 and $231 in 1987. In addition, there are guarantees for the repayment of approximately $25 of indebtedness by related companies. Commitments with third parties for supplies of other inputs are estimated at $48 in 1990, $47 in 1991, $46 in 1992, $42 in 1993, $41 in 1994 and $391 thereafter. Total fixed charges from these third parties were $51 in 1989, $33 in 1988 and $41 in 1987.

Minimum rental obligations are estimated at $63 in 1990, $53 in 1991, $44 in 1992, $35 in 1993, $22 in 1994 and lesser annual amounts thereafter. Total rental expenses amounted to $102 in 1989, $102 in 1988 and $87 in 1987.

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

In addition, see reference to forward exchange contracts in note 2, capital expenditures in note 6, debt repayments in note 7, preference share retractions in note 8, and abatable preferred shares in note 10.

14. SUPPLEMENTARY INFORMATION

	1989	1988	1987
Income statement			
Repairs and maintenance	**$626**	$539	$476
Taxes, other than payroll and income taxes	**119**	138	127
Interest on long-term debt	**124**	119	147
Capitalized interest	**(50)**	(13)	(6)
Statement of cash flows			
Interest paid	**$180**	$152	$185
Income taxes paid	**432**	37	27

All time deposits qualify as cash equivalents.

15. 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 36-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	**1989**	1988	1987
Service cost for the year	**$ 83**	$ 76	$ 63
Interest cost on projected benefit obligations	**169**	153	130
Actual return on assets	**(474)**	(222)	(84)
Variance of actual return from expected long-tenn rate of 8.3% (8.1% in 1988 and 8.0% in 1987) being deferred, and amortization of other gains and losses	**251**	22	(111)
Net cost for the year	**$ 29**	$ 29	$ (2)

The plans' funded status at December 31 was:

	1989	1988	1987
Actuarial accumulated benefit obligation, which is substantially vested	**$2,119**	$1,771	$1,571
Plan assets at market value	**2,880**	2,468	2,204
Actuarial projected benefit obligation based on average compensation growth of 6.2% (6.2% in 1988 and 6.1% in 1987) and discount rate of 8.0% (8.2% in 1988 and 8.1% in 1987)	**2,506**	2,080	1,879
Plan assets in excess of projected benefit obligation	**374**	388	325
Unamortized actuarial gains – net*	**(466)**	(218)	(139)
Unamortized prior service cost*	**360**	134	150
Unamortized portion of actuarial surplus at January 1, 1986*	**(249)**	(301)	(329)
Pension asset in balance sheet	**$ 19**	$ 3	$ 7

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

16. INFORMATION BY GEOGRAPHIC AREAS

	Location	1989	1988	1987
Sales and operating revenues to subsidiaries	Canada	**$2,553**	$2,104	$1,380
	United States	**408**	197	143
	Latin America	**35**	61	17
	Europe	**210**	205	49
	Pacific	**96**	87	4
	All other	**355**	314	113
	Sub-total	**3,657**	2,968	1,706
	Consolidation eliminations	**(3,657)**	(2,968)	(1,706)
	Total	**$ —**	$ —	$ —
Sales and operating revenues to third parties	Canada	**$1,265**	$1,226	$ 909
	United States	**3,073**	2,967	2,181
	Latin America	**523**	416	407
	Europe	**2,878**	2,756	2,285
	Pacific	**989**	1,074	920
	All other	**111**	90	95
	Total	**$8,839**	$8,529	$6,797

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

	Location	1989	1988	1987
Net income	Canada	**$ 368**	$ 453	$ 227
	United States	**15**	101	27
	Latin America	**63**	72	58
	Europe	**73**	120	61
	Pacific *(note 12)*	**243**	176	32
	All other	**79**	64	56
	Consolidation eliminations	**(6)**	(55)	(28)
	Total	**$ 835**	$ 931	$ 433
Total assets at December 31	Canada	**$3,509**	$3,160	$2,936
	United States	**1,545**	1,448	1,145
	Latin America	**814**	724	728
	Europe	**2,819**	2,726	2,366
	Pacific	**1,000**	1,009	831
	All other	**637**	673	383
	Consolidation eliminations	**(816)**	(1,125)	(729)
	Total	**$9,508**	$8,615	$7,660
Capital expenditures	Canada	**$ 782**	$ 297	$ 144
	United States	**259**	106	48
	Latin America	**89**	32	26
	Europe	**216**	201	149
	Pacific	**36**	31	42
	All other	**84**	9	6
	Total	**$1,466**	$ 676	$ 415
Average number of employees *(in thousands)*	Canada	**16**	15	15
	United States	**7**	7	7
	Latin America	**9**	9	9
	Europe	**18**	18	18
	Pacific	**5**	5	12
	All other	**2**	2	2
	Total	**57**	56	63

1987 includes the employees of Indian Aluminium Company, Limited.

QUARTERLY FINANCIAL DATA
(in millions of US$)

(unaudited)	First	Second	Third	Fourth	Year
1989					
Revenues	**$2,306**	**$2,396**	**$2,207**	**$2,138**	**$9,047**
Cost of sales and operating expenses	**1,628**	**1,729**	**1,676**	**1,649**	**6,682**
Depreciation	**81**	**80**	**85**	**87**	**333**
Income taxes	**128**	**123**	**73**	**26**	**350**
Other items	**200**	**220**	**193**	**234**	**847**
Net income	**$ 269**	**$ 244**	**$ 180**	**$ 142**	**$ 835**
Dividends on preference shares	**(5)**	**(5)**	**(5)**	**(6)**	**(21)**
Net income attributable to common shareholders	**264**	**239**	**175**	**136**	**814**
Net income per common share *(in US$)*	**$ 1.16**	**$ 1.05**	**$ 0.77**	**$ 0.60**	**$ 3.58**
1988					
Revenues	$1,969	$2,218	$2,185	$2,254	$8,626
Cost of sales and operating expenses	1,440	1,572	1,495	1,565	6,072
Depreciation	76	74	81	85	316
Income taxes	84	130	153	130	497
Other items	194	199	198	219	810
Net income	$ 175	$ 243	$ 258	$ 255	$ 931
Dividends on preference shares	(9)	(9)	(8)	(4)	(30)
Net income attributable to common shareholders	166	234	250	251	901
Net income per common share *(in US$)*	$ 0.70	$ 0.99	$ 1.07	$ 1.09	$ 3.85
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
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 US$)*	$ 0.26	$ 0.40	$ 0.48	$ 0.54	$ 1.68

Net income per common share calculations are based on the average number of common shares outstanding in each period.

		1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979
CONSOLIDATED INCOME STATEMENT ITEMS *(in millions of US$)*	**Revenues**											
	Sales and operating revenues	8,839	8,529	6,797	5,956	5,718	5,467	5,208	4,644	4,978	5,215	4,390
	Other income	208	97	81	100	113	109	97	65	75	49	60
	Total revenues	9,047	8,626	6,878	6,056	5,831	5,576	5,305	4,709	5,053	5,264	4,450
	Costs and expenses											
	Cost of sales and operating expenses	6,682	6,072	5,117	4,635	4,692	4,228	4,185	3,818	3,801	3,669	3,236
	Depreciation	333	316	296	276	258	250	238	221	202	162	149
	Selling, administrative and general expenses	600	525	447	406	385	393	392	362	365	319	284
	Research and development expenses	136	132	95	77	77	66	60	55	48	47	34
	Interest	130	137	177	202	232	244	255	234	186	107	114
	Special charges and rationalization expenses	—	—	—	—	416	—	—	—	—	—	—
	Other expenses	62	91	113	52	53	38	32	30	22	23	14
	Income taxes	350	497	230	160	(87)	151	73	(9)	142	393	211
	Minority interests	(16)	(22)	(5)	(2)	(3)	(5)	9	3	(5)	(16)	(18)
	Equity income	97	97	35	5	15	46	10	(46)	(4)	26	27
	***Net income (Loss) from continuing operations**	835	931	433	251	(183)	247	89	(45)	278	554	417
	Extraordinary gain	—	—	—	26	36	37	15	—	—	—	21
	***Net income (Loss)**	835	931	433	277	(147)	284	104	(45)	278	554	438
	Preference dividends	21	30	36	33	33	31	31	13	14	12	11
	***Net income (Loss) attributable to common shareholders**	814	901	397	244	(180)	253	73	(58)	264	542	427
CONSOLIDATED BALANCE SHEET ITEMS *(in millions of US$)*	**Working capital**	1,376	2,115	2,039	1,660	1,452	1,488	1,452	1,361	1,486	1,373	1,275
	Property, plant and equipment - net	5,260	4,280	3,965	3,949	3,875	3,600	3,550	3,701	3,267	2,441	1,915
	Total assets	9,508	8,615	7,660	7,118	6,861	6,690	6,600	6,632	6,339	5,470	4,490
	Long-term debt	1,079	1,199	1,336	1,366	1,600	1,350	1,499	1,749	1,589	930	796
	Deferred income taxes	1,044	1,006	754	554	409	562	537	535	564	514	397
	Preference shares	212	211	405	421	398	405	337	340	139	140	155
	Common shareholders' equity	4,610	4,109	3,565	3,116	2,746	2,916	2,799	2,511	2,631	2,463	2,030
PER COMMON SHARE *(in US$)*	***Net income (Loss) from continuing operations**	3.58	3.85	1.68	0.97	(0.97)	0.98	0.29	(0.31)	1.44	2.98	2.23
	***Net income (Loss)**	3.58	3.85	1.68	1.09	(0.81)	1.15	0.36	(0.31)	1.44	2.98	2.35
	Dividends paid	1.12	0.59	0.39	0.35	0.49	0.53	0.40	0.60	0.80	0.60	0.47
	Common shareholders' equity	20.30	18.06	15.05	13.18	12.23	13.07	12.83	13.10	14.15	13.53	11.15
	Market price - NYSE close	22.88	21.75	17.92	12.55	12.89	12.78	17.67	12.39	10.22	14.78	10.42
OPERATING DATA *(in thousands of tonnes)*	**Consolidated aluminum shipments**											
	Ingot and ingot products	743	832	787	731	878	577	728	758	510	533	496
	Fabricated products	1,518	1,446	1,410	1,388	1,340	1,213	1,174	949	1,037	1,055	1,036
	Total aluminum shipments	2,261	2,278	2,197	2,119	2,218	1,790	1,902	1,707	1,547	1,588	1,532
	Consolidated primary aluminum production	1,643	1,619	1,587	1,641	1,644	1,560	1,383	1,297	1,395	1,302	1,063
	Consolidated aluminum purchases	718	716	593	489	465	496	520	417	425	450	444
	Consolidated aluminum inventories *(end of year)*	539	480	496	579	625	708	534	620	666	485	410
	Primary aluminum capacity											
	Consolidated subsidiaries	1,685	1,680	1,680	1,841	1,841	1,646	1,619	1,593	1,483	1,426	1,347
	Total consolidated subsidiaries and related companies	1,836	1,831	1,861	1,905	1,905	2,097	2,070	2,035	1,987	1,930	1,959
OTHER STATISTICS	**Cash from operating activities** *(in millions of US$)*	970	1,370	879	725	586	489	324	255	240	675	563
	Capital expenditures *(in millions of US$)*	1,466	676	415	342	597	427	382	643	974	752	495
	Ratio of total borrowings to equity *(%)*	26:74	26:74	27:73	31:69	37:63	34:66	36:64	43:57	41:59	30:70	28:72
	Average number of employees *(in thousands)*	57	56	63	67	70	70	71	67	67	66	64
	Common shareholders *(in thousands at end of year)*	40	41	46	49	59	67	59	51	47	37	35
	Common shares outstanding *(in millions at end of year)*	227	228	237	237	225	224	218	192	188	182	182
	Registered in Canada (%)	44	54	44	43	46	56	48	51	48	39	39
	Registered in the United States (%)	54	43	53	52	49	39	48	42	45	53	53
	Registered in other countries (%)	2	3	3	5	5	5	4	7	7	8	8
	Return on average common shareholders' equity *(%)*	19	24	12	8	(6)	9	3	(2)	10	24	23

**All net income figures include the after-tax impact of unusual charges, such as special charges and rationalization expenses of $252 million ($1.13 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 9, 1989.

See note 3 to the financial statements for U.S. GAAP information.

DIRECTORS

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W. R. C. Blundell[1]
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The Hon. Jean-Marie Poitras, O.C.[1]
Director of various companies, *Quebec City*

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Vice President, Personnel

P. K. Pal
Vice President, Chief Legal Officer and Secretary

Maurice D. Taylor
Treasurer

Suresh Thadhani
Controller

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President and Chief Executive Officer, Alcan Deutschland GmbH, *Eschborn, West Germany*

[1] Member of Audit Committee
[2] Chairman of Audit Committee
[3] Member of Personnel Committee
[4] Chairman of Personnel Committee

SHAREHOLDER INFORMATION

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, Zurich and Tokyo 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*					
1989		NYSE – US$**			TSE – CAN$**		
Quarter	US$	High	Low	Close	High	Low	Close
First	0.280	24	20⅛	21⅛	28½	24	25
Second	0.280	22⅞	20¾	21¾	27⅜	24⅝	26
Third	0.280	25⅛	21⅜	23	29½	25⅜	26⅞
Fourth	0.280	24⅛	21	22⅞	28⅜	24½	26½
Year	1.120						
1988							
Quarter		High	Low	Close	High	Low	Close
First	0.120	20¼	15⅞	18¼	26	20⅛	22⅜
Second	0.120	22¼	17½	21⅜	27	21⅜	26⅛
Third	0.147	22⅛	18¾	19⅝	26¾	23	23¾
Fourth	0.200	21⅞	19⅜	21¾	26⅛	23⅜	26
Year	0.587						

**Amounts reflect the three-for-two common share split of May 9, 1989.*

***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 at the address below.

10-K REPORT

A copy of the Company's annual 10-K report for 1989, to be filed with the Securities and Exchange Commission in the United States, will be available to shareholders after April 1 and may be obtained from Alcan Shareholder Services at the address below.

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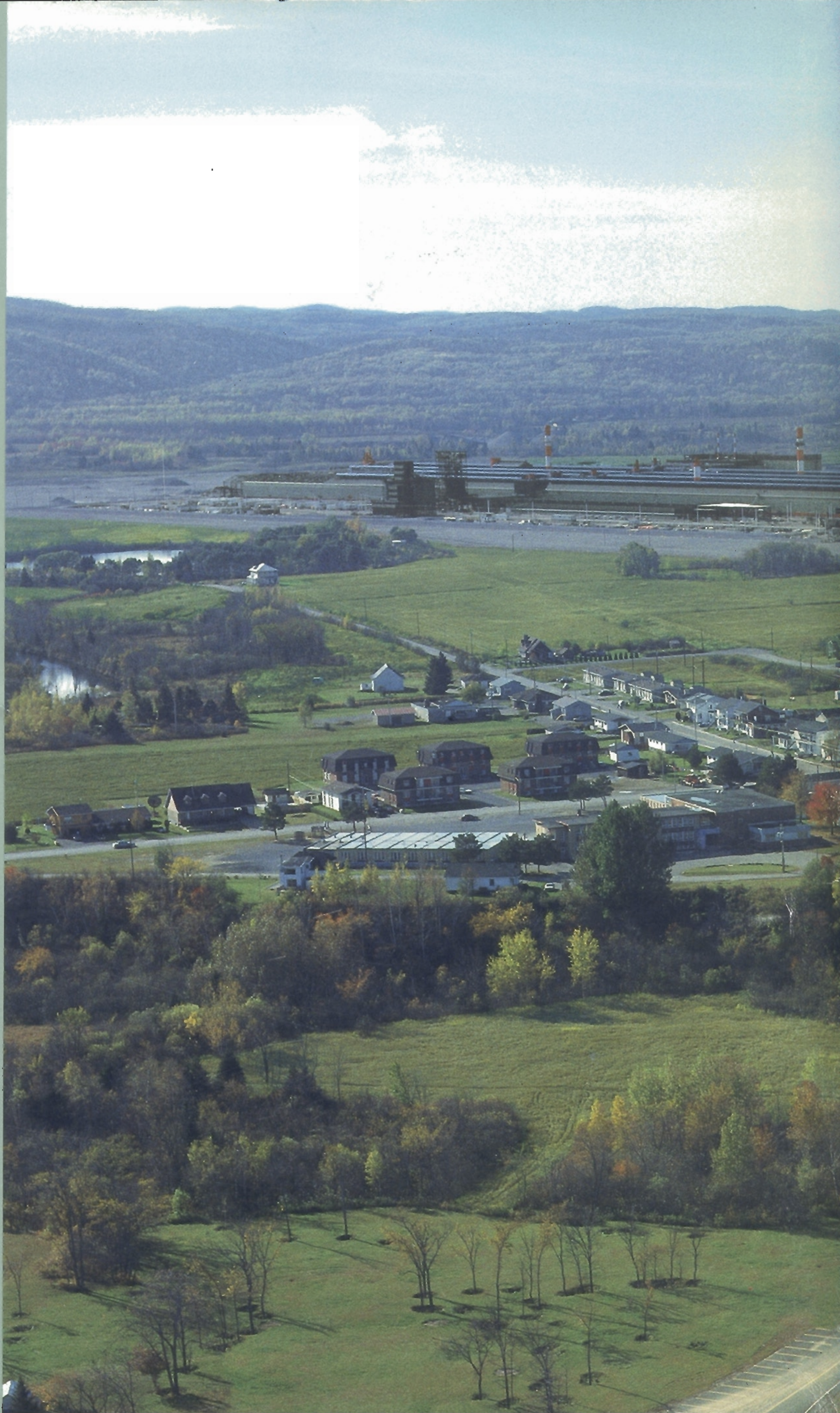
Concept and Design Saint Laurent et Associés Inc Typesetting Centre Typographique Printing Bowne



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