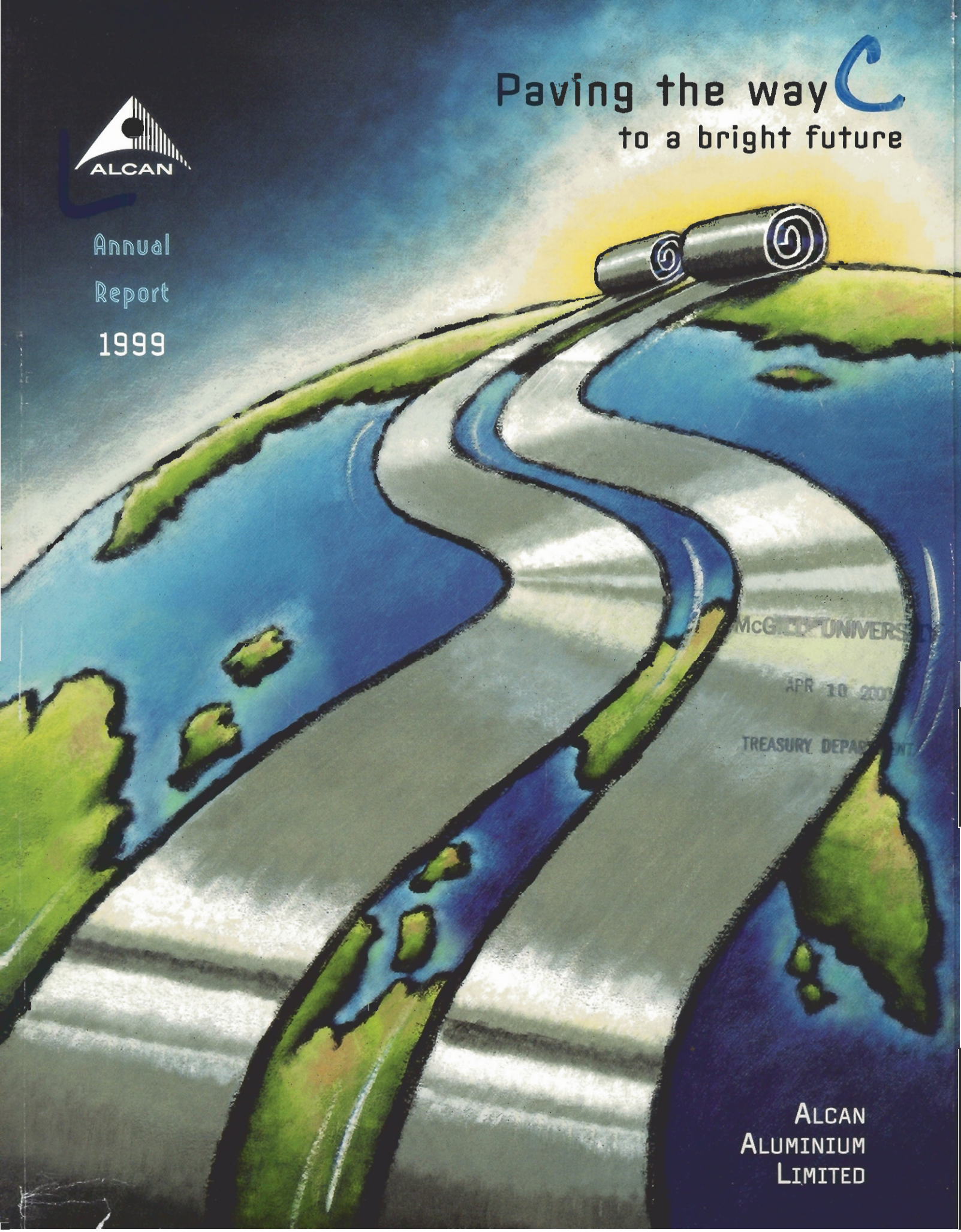




Annual
Report
1999

Paving the way 
to a bright future



McGILL UNIVERSITY

APR 10 2001

TREASURY DEPARTMENT

ALCAN
ALUMINIUM
LIMITED

Profile

Alcan Aluminium Limited, a Canadian corporation, is the parent company of an international group involved in most aspects of the aluminum industry. Through subsidiaries, joint ventures and related companies around the world, the activities of the Alcan Group include bauxite mining, alumina refining, power generation, aluminum smelting, manufacturing and recycling as well as research and technology. Approximately 36,000 people are directly employed by the Company.

Established in 1902, Alcan has developed a unique combination of competitive strengths. The Alcan Group is a multicultural and multilingual enterprise reflecting the differing corporate and social characteristics of the many countries in which it operates. Within a universal framework of policies and objectives, individual subsidiaries conduct their operations with a large measure of autonomy. With operations and sales offices in over 30 countries, the Alcan Group is one of the most international aluminum companies in the world. It is a leading producer of primary metal and a global producer and marketer of rolled aluminum products.

Alcan Aluminium Limited has approximately 19,640 registered holders of its common shares and 780 registered holders of its preference shares. While traded internationally, the Company's shares are held mostly in North America. The word **ALCAN** and the Alcan symbol are registered trademarks in more than 100 countries and are synonymous with aluminum the world over.



Annual Meeting

The Annual Meeting of the holders of common shares of Alcan Aluminium Limited will be held on Thursday, April 27, 2000. The meeting will take place at 10:00 a.m. (Montreal time) in the Assembly Hall, International Civil Aviation Organization, Atrium Entrance, 999 University Street, Montreal, Quebec, Canada.

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Glossary

Alumina: Most alumina is a white, powdery substance produced from bauxite by a chemical process during which aluminum oxide is extracted from the ore. Between four and five tonnes of bauxite are required to produce about two tonnes of alumina, which yield one tonne of aluminum.

Aluminum: Although aluminum is the most common metal on earth, constituting 8% of the planet's crust, it is never found in its pure form. Aluminum metal is produced by separating aluminum from oxygen in alumina.

Bauxite: The most economic source of aluminum is bauxite, an ore or rock composed of hydrous aluminum oxides and aluminum hydroxides. It is predominantly found in tropical and sub-tropical regions.

Chemicals: Chemical-grade alumina (alumina hydrate) is the starting material for a wide variety of specialty chemical products.

Fabricated Products: Generally, fabricated products are rolled products (sheet and foil) as well as rod, wire and cable, extruded and drawn products and castings.

Litha Sheet: Aluminum sheet is widely used as the metal plate on which an image is produced for lithographic printing.

London Metal Exchange (LME): The LME is a metals trading centre for the Western World. The LME also determines the metal price (per tonne) for aluminum trading for current and future delivery.

Rolled Products: At rolling mills, sheet ingots are reduced in thickness by passing them between rollers in a series of reversing hot mills and, finally, in a cold mill. For example, a 30-tonne sheet ingot can be rolled into a coil of sheet up to 2.7 metres in diameter.

Secondary (Recycled) Metal: Aluminum ingot can be made by remelting Used Beverage Cans (UBCs) or any other post-consumer scrap, as well as customer process scrap. Recycling aluminum only requires about 5% of the energy required to produce primary metal.

Sheet and Foil: Sheet is flat-rolled metal primarily used for the container, lithography, transportation and building end-use markets. Foil is a thinner sheet of metal, usually less than 0.006 inch (0.15 millimeter) thick, and it is widely used in household and commercial packaging and industrial product applications.

Smelting: Primary aluminum is produced through the electrolytic reduction of alumina. The molten aluminum is cast into ingots and then fabricated into a variety of products.

Tolling: The activity of rolling or converting customer-owned metal or alumina is called tolling.

Definitions

The word "Alcan" or "Company" means Alcan Aluminium Limited and, where applicable, one or more consolidated subsidiaries. A "subsidiary" is a company controlled by Alcan. A "joint venture" is an association (incorporated or unincorporated) of companies jointly undertaking some commercial enterprise and proportionately consolidated to the extent of Alcan's participation. A "related company" is one in which Alcan has significant influence over management but owns 50% or less of the voting stock. The "Alcan Group" refers to Alcan Aluminium Limited, its subsidiaries, joint ventures and related companies.







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.

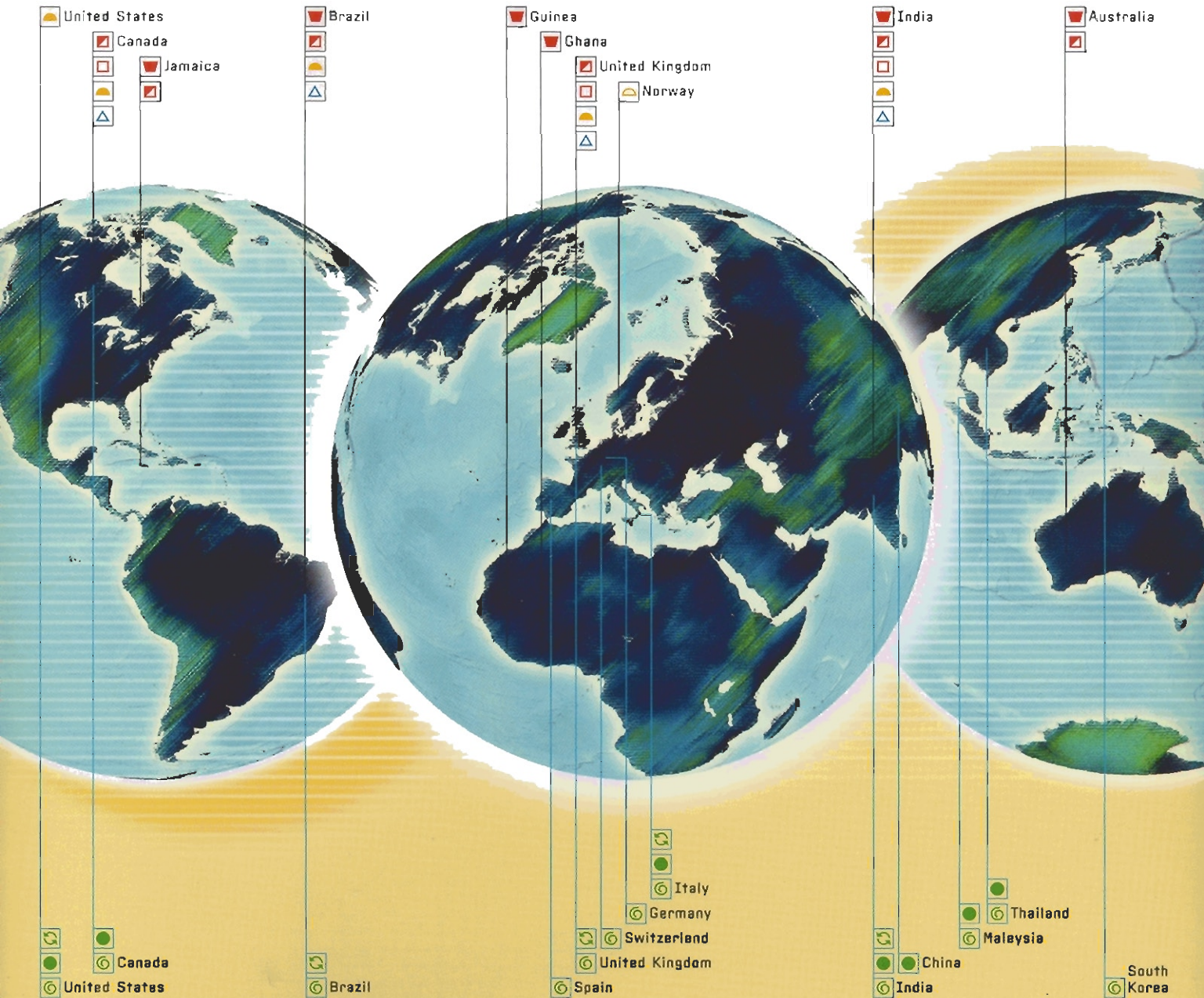
The following abbreviations are used:

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

The Alcan Group's Global Presence




Alcan Primary Metal Group

-  Bauxite Mines/Deposits
-  Alumina Refining
-  Specialty Chemicals
-  Primary Aluminum Production
-  Super Pure Aluminum Refining
-  Power Generation



Alcan also has sales/marketing offices, research and technology facilities or other activities in Austria, Belgium, Bermuda, Denmark, Finland, Hungary, Japan, the Netherlands, Poland, Portugal, Russia and Sweden.

Alcan Global Fabrication Group

-  Sheet and/or Foil Rolling/Flexible Packaging
-  Other Fabricating
-  Recycling Activities/UBC Recovery

Highlights of the Year

		1999	1998	1997
Financial Data (in millions of US\$ except where indicated)	Sales and operating revenues	7,324	7,789	7,777
	Net income before extraordinary item	460	399	468
	Net income	460	399	485
	Economic Value Added (EVA) ¹	(111) ²	(285)	(285)
	Return (%) on average common shareholders' equity	9	7	10
	Total assets (at year-end)	9,849	9,901	9,374
	Capital expenditures	1,298	877	641
	Ratio of borrowings to equity (at year-end)	21:79	24:76	23:77
	Per common share (in US\$)			
	Net income before extraordinary item	2.06	1.71	2.02
Net income	2.06	1.71	2.09	
Dividends	0.60	0.60	0.60	
Price on NYSE (at year-end)	41.38	27.06	27.63	
Operating Data (in thousands of tonnes)	Fabricated products shipments ³	2,226	2,112	1,970
	Ingot products shipments ⁴	859	829	858
	Primary aluminum production	1,518	1,481	1,429
	Secondary/recycled aluminum production	681	684	670
Average Three-Month LME Price (in US\$/tonne)		1,388	1,379	1,620

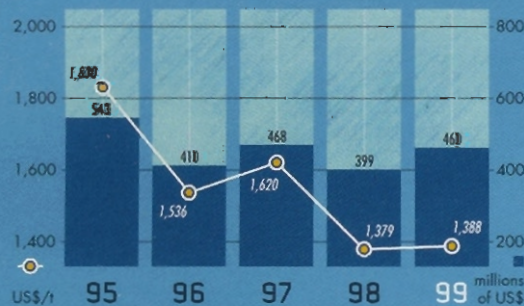
EVA is a registered trademark of Stern Stewart & Co.

The EVA improvement reflects principally a change in cost of capital and economic tax assumptions.

³ Includes products fabricated from customer-purchased metal.

⁴ Includes primary and secondary ingot and scrap.

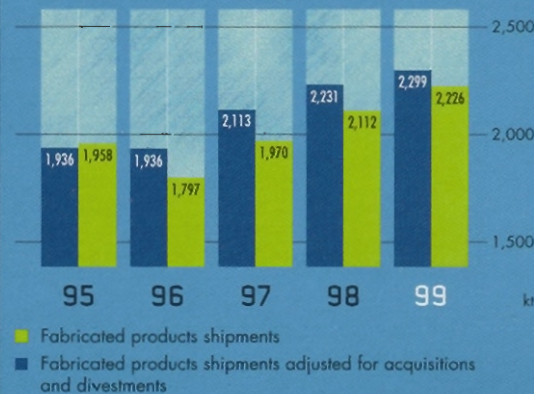
Net Income¹ and Average Three-Month LME Price



¹ Before extraordinary item

Profitability continues to improve despite low metal prices. Alcan's objective is to earn its cost of capital at progressively lower metal prices.

Fabricated Products Shipments



Alcan continues to grow fabricated products shipments in its chosen markets, achieving increased market share through superior service to customers.

Message to Shareholders



2

Our Strategic Priorities

- Finalize the proposed merger of Alcan, Pechiney of France and algroup of Switzerland (provisionally referred to as A.P.A.) to form a new global leader, and work to ensure that we quickly deliver the upside potential — substantially increased revenues, earnings and Economic Value Added (EVA).
- Position A.P.A. as the global partner of choice for customers in the aluminum and high value-added, flexible and specialty packaging sectors, while exercising industry leadership to enhance the position of our materials in the marketplace.
- Aggressively seek out additional opportunities to maximize shareholder value.

*John R. Evans (left),
Chairman of the Board,
and Jacques Bougie,
President and Chief
Executive Officer.*

Nineteen ninety-nine was truly a milestone year for Alcan. We experienced an improved trend in earnings, carried out a corporate reorganization that helped unlock further operational gains and culminated the year with shareholder approval of a dynamic, three-way merger that will ensure our role as a growth-oriented, global industry leader in the 21st century.

1999 achievements were recognized by investors with a 55% increase in Alcan's share price over the course of the year.

The year began on a difficult note, as commodity prices continued to fall and the London Metal Exchange (LME) aluminum price slumped to a five-year low of less than \$1,200 per tonne in late February. However, business conditions began to improve during the second quarter. We ended 1999 on a more positive note with the metal price back at about \$1,650 per tonne and Western World aluminum shipments 3.9% ahead of the previous year. Alcan's net income for 1999 was \$460 million, including \$193 million generated in the fourth quarter — more than double the profit for the comparable 1998 period.

Responding to the challenge of change

Given the magnitude of events of 1999, we feel it appropriate to put things in perspective by taking a brief look back at some of the developments that have impacted the aluminum business over the past decade and set the stage for the current round of industry consolidation. Key influences included:

- A declining trend in real aluminum prices and eroding margins;
- The necessity to improve return on investment;
- The need to meet the demands of global customers;
- The maturing of terminal markets such as the LME; and
- Intense competition from other materials such as steel and plastics.

Never an organization to shy away from challenge, Alcan has been among the leaders in responding to the changing realities of our industry, particularly the long-term price/margin squeeze. First came a major cost-cutting program introduced back in 1991, which yielded cuts of \$600 million. In 1993, following a comprehensive review, we tightened our strategic focus — a decision that led to the phased divestiture of over 60 non-core businesses. Then, in 1997, we launched our ongoing Full Business Potential (FBP) program, aimed at reducing costs and enhancing productivity and revenue. Together, these measures have enabled us to dramatically reduce Alcan's cost base and increase our competitiveness, while becoming much more customer-oriented.

That latter point is crucial. In today's intensely competitive global business environment, our relationships with customers are key to generating increased volumes and creating enhanced value. Our demonstrated ability to function as a true strategic partner, delivering innovative solutions that help customers become more competitive in their own right, has led to major breakthroughs in important market segments like beverage can and automotive. For example, in January 2000, a multi-year supply agreement with Ford Motor Company was announced. Along with an earlier strategic alliance with General Motors, this brings us a giant step closer to our vision of being the leading aluminum supplier, and strategic partner, to the global automotive industry.

Further progress on the productivity and cost front

During 1999, we established aggressive new targets for the second phase of our Full Business Potential program and realigned the Company's operations into two core groups — the Alcan Primary Metal Group and the Alcan Global Fabrication Group — enabling us to further enhance service to customers while realizing additional gains in productivity and costs.

FBP improvements amounting to \$162 million (pre-tax) were achieved during 1999. With three years of FBP under our belt, we are now \$462 million closer to our five-year target of \$1 billion. When capacity additions scheduled for 2001/2002 are excluded, that cumulative three-year achievement represents 64% of our total target, so FBP is right on track. We should also note that — in keeping with the undertaking outlined in last year's Message to Shareholders — we structured the second phase of FBP so that the goals are based on Economic Value Added, or EVA.

1999 operating highlights

The cumulative effect of these initiatives is evident in improvements throughout Alcan's 1999 operations. Major highlights were:

- Substantial improvements in safety;
- Reduced alumina and primary metal costs at the Alcan Primary Metal Group;
- Record output at six refineries and smelters, as well as record third-party sales of value-added ingot products;
- Record shipments of 2.2 million tonnes posted by the Alcan Global Fabrication Group;
- Significant improvement at European rolling operations, as well as record operating rates and shipments at North American sheet and light-gauge plants;
- New labour agreements concluded at four major Alcan plants;
- Successful completion of the \$370-million expansion at our Pindamonhangaba (Pinda), Brazil rolling complex — on budget and ahead of schedule; and
- The creation of Alcan Taihan Aluminum Limited (ATAL) in South Korea.

With the inauguration of Pinda and the formation in September 1999 of ATAL, Alcan is in the enviable position of being the only aluminum producer with world-class rolling assets on four continents.

Continued progress on workplace safety and the environment

Workplace health and safety, as well as the environment, remain top priorities for Alcan. The year 1999 saw new performance benchmarks set in these vital areas. Safety programs in support of Behaviour Based Safety were initiated at Alcan facilities around the globe. This reflects our increased emphasis on employee involvement in the safety process, to help us achieve Alcan's ultimate goal of zero work-related injury and illness.

In the environment area, we made considerable progress during 1999 in our goal to certify all Alcan facilities worldwide according to ISO-14001 standards. Other achievements ranged from further increases in beverage can recycling to advances in the use of aluminum for automotive applications that reduce CO₂ emissions.

A.P.A. : key to future growth and increased shareholder value

Thanks in large part to the positive results attained through the aforementioned initiatives, Alcan is strong and well-positioned for the new century. Nevertheless, we felt we had to ask ourselves how the Company could continue to grow while still increasing shareholder value.

Our alternatives included settling for incremental growth that could essentially be achieved internally, or pursuing a bolder course of action by seeking out a suitable partner — or partners — for a significant merger or acquisition. Ultimately, we decided to take the future into our own hands by initiating the talks that led to the proposed combination of Alcan, Pechiney and algroup. The formation of A.P.A. is a unique opportunity to attain the scope required to achieve significant growth in sales and earnings. It will also enable us to provide superior service to both our global and our regional customers.

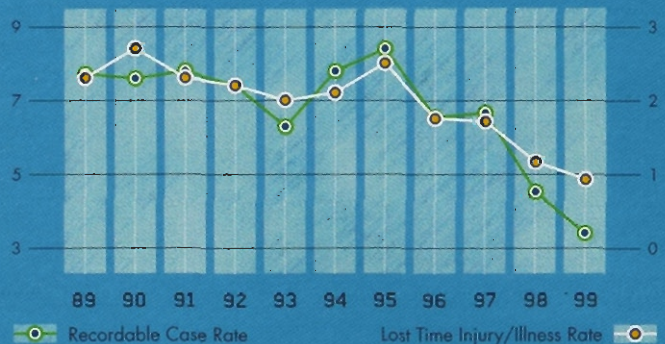
With market capitalization of more than \$20 billion and 1998 (pro forma) revenues of \$21.6 billion, A.P.A. will be a global leader in aluminum with low-cost smelting capacity, the world's largest rolling system, and leadership positions in key fabricated products sectors such as aerospace, automotive and beverage can sheet. The new company will also enjoy global leadership in the high value-added, flexible and specialty segments of the packaging industry, which generated well over \$4 billion in revenues last year. This sector represents an important new growth platform for Alcan shareholders — a significant stream of revenues and profits that are not tied to commodity prices.

The benefits our Company — and hence our shareholders — can expect to derive from the merger include: significant upside potential in revenue and earnings per share growth; at least \$600 million in annual cost synergies, over and above existing LBP-type programs; and a strong balance sheet and cash flow.

As we stated at the historic special meeting of Alcan shareholders last November, which overwhelmingly approved the merger plan, A.P.A. represents our ticket to the future growth of this business — and to increased shareholder value.

Thanks to employee involvement at locations worldwide, Alcan recorded its best results over ten years of tracking safety statistics.

Recordable Case Rate and Lost-Time Injury/Illness – LTII Rate*



* Based on 100 employees working one year (200,000 hours)

Acknowledgments

Special thanks are due to Alcan employees for their hard work and support during a very eventful, emotional year. The fact that we were able to maintain a "business-as-usual" focus to ensure success in 1999, while simultaneously preparing for a smooth merger, speaks to the remarkable capabilities and dedication of the entire Alcan family.

We would also like to take this opportunity to formally welcome Ms. Eleanor Clitheroe, president and chief executive officer of Ontario Hydro Services, to the Alcan Board of Directors, and to express our appreciation to all members of the Board for their unstinting support during an exceptional year.

Finally, we wish to pay tribute to the many outstanding men and women who have helped make Alcan the great company it is today — particularly the Davis family and former CEOs David Culver and David Morton. It was their vision and leadership that inspired us to take the bold step to ensure that this enterprise, its employees and its shareholders will continue in the forefront of the industry as the next century unfolds.

Outlook

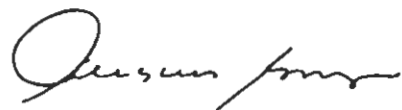
The year 2000 looks to be another promising one for us. The outlook is for continued improvement in business conditions and in aluminum industry fundamentals, with Western World aluminum demand forecast to increase by 3.3% and only limited additional supply in sight. This is a favourable context for the debut of our \$1.8-billion Alma, Quebec, smelter, which is scheduled to come on stream during the fourth quarter of 2000.

Needless to say, one of our top priorities for 2000 will be the formation of A.P.A., which will accelerate our growth potential and open a multitude of new opportunities as we remain focused on our Full Business Potential program. Overall — for Alcan's shareholders, customers and employees — the outlook is a promising one indeed.

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John R. Evans
Chairman of the Board



Jacques Bougie
President and Chief Executive Officer

February 10, 2000

The Proposed A.P.A. Merger and a Changing Global Industry

Paving the way to a bright future

The sequence of events and strategic initiatives that is leading, ultimately, to the formation of Alcan-Pechiney-algroup — provisionally called A.P.A. — stretches back to the early 1990s. Like many other companies, Alcan has been implementing and refining its strategy over the past decade to reflect the changing economic environment and to address emerging global competitive realities.



By reducing costs, sharpening its market focus and becoming decidedly more customer-oriented, Alcan has enhanced its competitiveness and substantially improved returns — even when faced with the low metal price environment that prevailed during 1998 and much of 1999. By decade's end, Alcan had achieved significant results from its Full Business Potential (FBP) program, aimed at reducing cost and enhancing productivity and revenues. The Company could confidently assert that it was, in fact, moving to optimize the potential of its existing businesses, becoming an Economic Value Added (EVA[®]) driven company. The second phase of that program (FBP-II), which began in the spring of 1999 and is based on EVA, is designed to achieve additional earnings improvement of some \$500 million after-tax, or \$2.25 per share, by the end of 2001 — equivalent to a 23% compound annual earnings growth rate.

That the Company is on track to reach these aggressive new FBP targets attests to the fact that Alcan remains a fundamentally strong entity on its own. Nevertheless, as senior management looked 10 years down the road — and took into account various forces impacting on the aluminum business — it was evident that to remain in the forefront of the industry would entail attaining a certain scope and scale that could not likely be achieved through incremental change alone.

Having identified this vision, Alcan sought out potential partners who shared it and proposed the formation of a global leader in aluminum and specialty packaging. With an intensely customer-focused approach at its core, A.P.A. promises to be an even stronger entity that will help pave the way to a bright future.

A detailed view of a silver aluminum car body, showing the front end, the driver's side door, and the rear section. The car is set against a dark blue background. In the foreground, there are three aluminum components: two circular brake discs and a rectangular radiator or heat exchanger.

Alcan
Pechiney
algroup



*A.P.A.'s Global
Transportation Group
will be a leading
supplier to the key
automotive and
transport sectors.*

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A.P.A. — a customer-focused global leader geared for growth

With some 91,000 employees in nearly 60 countries, A.P.A. is set to become a global leader, well-positioned to deliver solutions to key customers in the aluminum and specialty packaging sectors alike — anywhere in the world. Along with like-minded partners Pechiney and algroup, Alcan is determined to ensure that not only A.P.A.'s products but also its customer service and support are creating value for all stakeholders. The objective is simple: to be regarded by our customers as the partner of choice, thereby developing our markets and achieving superior revenue growth.



Creating a global leader

The formation of A.P.A. promises to be one of those rare instances where the whole will actually be greater than the sum of its parts. The complementary assets of the merged organization provide A.P.A. with world-class know-how and facilities across the entire spectrum of operations. In particular, the merged organization will benefit from Alcan's world-class smelting and rolling assets; Pechiney's reduction cell technology and international trading expertise; and algroup's low-cost bauxite and alumina. Moreover, A.P.A. will be the unquestioned leader in the aluminum



Aluminum beverage cans provide unique advantages such as recyclability and a high-value incentive for collection.

A.P.A. will also be a major player in the worldwide market for food flexible and specialty packaging.



lightweighting of the automotive industry with Alcan's leading position in North America and algroup's leadership in Europe.

A.P.A. will be a global leader in aluminum, with:

- low-cost smelting capacity — the majority of it in the lowest third of the industry cost curve;
- the world's leading rolling system — with technologically advanced assets positioned on four continents to meet the needs of both global and regional customers; and,
- global leadership positions in key fabricated products sectors such as aerospace, automotive and beverage can sheet.

A.P.A. also will enjoy global leadership in the high value-added, flexible and specialty packaging segments. It will become the leading supplier to customers in packaging for food (flexible), pharmaceuticals, personal care, and cosmetics.

The merged company will enjoy very healthy positions in other key packaging categories as well — standing out as a strong player in an otherwise-fragmented market.

A strong organization that's truly global in nature

As proposed, A.P.A. will be truly global in nature, with its legal headquarters located in Montreal, and the office of the CEO — Alcan's Jacques Bougie — in New York. The merger represents a unique opportunity to build a strong organization led by a dynamic management team with top talent drawn from all three A.P.A. partners. The merged organization will encompass six business sectors. The *Bauxite & Alumina* as well as the *Primary Metal, Global Trading & Electro-Metallurgy* sectors will operate from A.P.A.'s Montreal head office. *Aluminum Fabrication — Americas & Asia & Global Can Sheet* will be based in Cleveland, Ohio; *Aluminum Fabrication — Europe & Global Transportation*, along with *Health and Beauty Packaging*, in Paris; and the *Food Flexible and Specialty Packaging* sector, in Zurich.



Alcan
Primary
Metal Group



10

Reduced costs and increased output — including record production at six facilities — contributed to a much-improved performance during 1999 by the Alcan Primary Metal Group (APMG). APMG is one of two business groups formed in March 1999, as part of an organizational streamlining designed to support the second phase of Alcan's Full Business Potential (FBP) program while better meeting the changing needs of customers.

Record billet sales in North America and record output at the Queensland Alumina Limited, Australia, refinery typified improvements at APMG.



Alma complex to start up in 2000

At the end of 1999, the new \$1.8-billion smelter project at Alma, Quebec, was on track with field construction progress at the 40% mark. The start-up of this state-of-the-art smelter, scheduled for the fall of 2000, will enable Alcan to meet increased customer demand for aluminum rod in the energy transmission market and for foundry ingot in the global automotive market. The early phase-out of the nearby 75,000-tonne capacity smelter in Isle-À-Maligne, Quebec, facilitated the implementation of a comprehensive training program for workers transferring to the Alma facility. This world-class aluminum complex promises to further enhance the Company's competitiveness by delivering quality primary metal at operating costs that will be among the lowest in the world. Moreover, this facility will meet the highest standards in environmental protection for both its employees and the surrounding community.

U.K. smelter upgrade under way

A \$25-million modernization and upgrade of the power station at Alcan's Lynemouth, U.K. smelter got under way during 1999. The project, which involves upgrading the turbines in all three of the plant's generating units, will reduce emissions by 13% for every megawatt of electricity produced while boosting generating capacity by 8% to 420 megawatts. Work was successfully completed in September 1999 on the commissioning of the first upgraded generator.

Meanwhile, amperage increases implemented at the Company's smelters in Grande-Baie and L'Angele, Quebec, as well as in Lynemouth in the U.K., have yielded improved output and increased labour and capital productivity. In addition, a major \$105-million modernization program designed to ensure the long-term global competitiveness of Alcan's alumina plant in Jonquière, Quebec, is proceeding on schedule for completion in 2002-2003.

All these projects will help APMG deliver on its LBP commitments.

The world-class Alma smelter complex promises to further enhance the Company's competitiveness.

Implementation of Ely bauxite agreement significantly reduces QAL's costs

Implementation of a bauxite mining and exchange agreement with Comalco Limited, under which shipments of lower cost bauxite to the Queensland Alumina Limited refinery (21.4% owned by Alcan) began in January 2000, will result in significantly reduced production costs. Under the terms of the Agreement, Comalco will develop Alcan's Ely reserves in Australia within a time frame of its choosing. In the interim, Alcan will receive an equivalent amount of bauxite from Comalco's adjacent Weipa mines. The Agreement may also allow Alcan to eventually supply its other refineries with Ely bauxite so that they, too, may benefit from reduced bauxite costs.

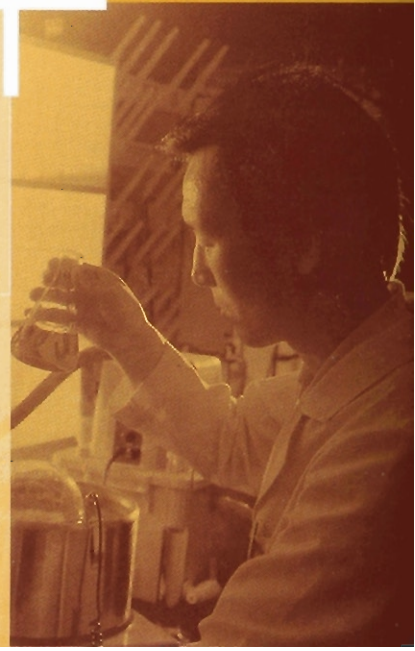
Alcan Global Fabrication Group



12

In its first year as a distinct business entity, the Alcan Global Fabrication Group (AGFG) generated record profitability, shipments and EVA, while establishing new milestones on each of the four continents where it operates. Among AGFG's most notable achievements was the dynamic turnaround in the financial and operational performance of its European businesses — attaining improved lead times and delivery performances while substantially reducing the amount of working capital employed.

*Quality rolled products
manufactured at Kingston
Works, Ontario (top),
and at ATAL, South Korea,
help make AGFG
a supplier of choice.*



ATAL and Pinda give Alcan world-class rolling capacity on four continents

Within a two-week time frame during the autumn of 1999, events half a world apart confirmed Alcan's role as the only aluminum producer with high-quality rolled products capability — including can sheet — on four continents.

On September 30, 1999, Alcan and South Korea-based Taishan Electric Wire Co., Ltd. (TEC) announced the formation of Alcan-Taishan Aluminum Limited (ATAL), a jointly owned company to serve the growing market for aluminum rolled products in the Asia/Pacific region. Precisely two weeks later, on October 14, 1999, official inauguration ceremonies marked the successful completion of a \$370-million expansion at subsidiary Alcanbrasil's Pindamonhangaba (Pinda), Brazil, rolling complex — the single biggest investment Alcan has ever made in Latin America. Pinda is the only high-volume can sheet production facility operating anywhere south of the equator.



Alcan aluminum sheet covers 40% of the sleek body surface of the new Lincoln LS, Motor Trend's Car of the Year.

Alcan has a 56% equity interest in, and has assumed management responsibility for, the South Korean subsidiary, which includes modern, low-cost rolling assets previously operated by TEC. Annual output of the plant, which is situated in Youngju and currently employs about 500 people, is expected to triple over the next five years from about 100,000 tonnes to a target level of 300,000 tonnes, without significant additional capital investment.

Pinda and ATAL stand to be key assets

The expanded Pinda complex, which includes a large, modern aluminum beverage can recycling plant, came on stream several months ahead of schedule and right on budget. Furthermore, it achieved a remarkable health and safety performance, setting a record of 7.5 million construction hours without a lost-time accident.

By providing world-class supply to global end-users, both Pinda and ATAL stand to be key assets of A.P.A., the new global industry leader being formed through the merger of Alcan, Pechiney and Algroup.

Alcan's "alumineering" solutions embraced by global automakers

Alcan's advanced aluminum vehicle technology and high-quality components are a driving force behind the development of strong, more fuel-efficient and environmentally friendly, aluminum-intensive vehicles. Indeed, Alcan's proprietary 6111 alloy has become the standard for Detroit-based automakers, which have been steadily expanding the use of aluminum sheet for body panels from hoods and deck lids to highly engineered lift gates and fenders. Alcan Global Automotive Products doubled its North American sales of closure sheet during 1999, and just signed a milestone, long-term metal-supply agreement with Ford Motor Company. A similar strategic alliance was already in place with General Motors.

Corporate Social Responsibility



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From commitment to action

Responding to the needs of employees, being proactive in environmental initiatives and listening to our communities are all examples of how Alcan puts its commitments into action. Maximizing value in our operations goes hand in hand with excellence in corporate social responsibility.

In 1999, the employees of the Pindamonhangaba rolling mill expansion in Brazil achieved 7.5 million construction hours without a lost-time, work-related injury or illness — an industry first and a national record for Brazilian civil engineering.



Occupational Health and Safety

In 1999, Alcan recorded its best results over ten years of tracking work-related injury and illness statistics. Throughout the year, the Company continued the development of programs aimed at improving occupational health, industrial hygiene and safety.

Employee health studies were undertaken to gather comparative data in areas such as lung function, asthma and smoking, while leading-edge technologies were installed in Alcan plants to improve working conditions. For example, at the Ouro Preto smelter in Brazil, \$15 million will be invested in new generation equipment, resulting in safer and more comfortable working

conditions. On an industry scale, a cooperative effort with the 3M Company resulted in a new NIOSH (National Institute of Occupational Safety and Health in the U.S.)-approved safety mask that facilitates communication while maintaining safe procedures.

Of special note in 1999 were employee vaccination programs for yellow fever and meningitis, as well as a community-wide black-fly control program at the Awaso bauxite mine in Ghana to counter the spread of river blindness.

Following the introduction of the principles of Behaviour Based Safety (BBS) in late 1998, the Company took steps in 1999 to incorporate this employee-driven safety process in all operations. The principles of BBS are quite simple — by enhancing employee involvement in the awareness of potentially “at-risk” behaviours, overall safety conditions can be improved.

Alcan recorded its best results over ten years of tracking work-related injury and illness statistics.

In 1999, six Alcan facilities achieved one million hours without a lost-time accident, an impressive number in a heavy industry like aluminum production. But, rather than solely relying on statistics as the measure of success, BBS will focus on observable and controllable factors that lead to unsafe situations. In 1999, programs in support of BBS were initiated at Alcan facilities in Europe, North America, Brazil and Jamaica and are also now underway in Asian operations.



Developed with Alcan's cooperation, the new version of the 3M 6000DD respirator will have industry-wide applications.



Various initiatives resulted in many Alcan plants achieving record safety performance levels in 1999. At the Terre Haute plant in Indiana, Alcan's fire brigade regularly organizes controlled "live burn" training sessions that have also been conducted for the benefit of some 200 local firefighters.

With this type of effort, coupled with BBS and follow-ups to a 1999 worldwide mobile equipment safety audit, the Company strives to continually improve the safety records within each facility.

Environment and Community Initiatives

Whether it's research into land rehabilitation or the promotion of can recycling, Alcan's environmental initiatives touch all stakeholders.

Starting in 1996, when the Lochaber smelter in Scotland became our first facility to earn the ISO-14001 designation from the International Organization for Standardization, Alcan undertook a worldwide effort to achieve environmental certification in all operations. To date, we are approximately one-third of the way towards our goal. Milestones for 1999 include Shawinigan Works in Quebec as Alcan's first North American smelter to gain certification; the Williamsport, Pennsylvania, cable plant as the Company's first in the United States; Alcan as the first company in Italy to have all its plants certified; and, throughout Europe, where Alcan conducted a series of environmental public forums, almost 100% of our facilities there now meet these rigorous standards. Most recently, Alcan's Aratu plant in Brazil is the first certified smelter in South America.

In 1999, Alcan took a proactive approach to supporting climate change initiatives, through the actions of individual facilities and participation in national efforts. In addition, the unique properties of aluminum are a positive contribution to conserving energy and reducing greenhouse gas emissions.

Sponsored by Alcan, the Micro-Business Network, a school entrepreneurship program begun ten years ago in Quebec, has expanded to now include three schools in Malaysia.



Aluminum was identified by the Partnership for a New Generation of Vehicles (PNGV) as the leading material for achieving the U.S. government's challenge to produce an 80-miles-per-gallon (2.9 litres/100 km) vehicle without compromising safety, performance, affordability or utility. Every tonne of aluminum used in place of steel in today's automobiles results in CO₂ emissions being slashed by 20 tonnes over the life of the vehicles. Two of the world's largest automotive producers, GM and Ford, credited Alcan's support and technology as key factors in their development of concept cars that now meet the PNGV objectives.

Environmental responsibility is equally prominent in used beverage cans (UBCs). The infinite recycling capability of aluminum UBCs requires only 5% of the energy used to make a can in the traditional primary metal process. With global recycling efforts on the rise, Alcan is an important force through its extensive UBC recycling operations in North America, Brazil and the U.K.

Alcan's support of charitable organizations and community initiatives is especially visible through the tremendous volunteer efforts of all employees. Recycling cans in the U.K. to rebuild schools in war-torn Mozambique and participating in the Habitat for Humanity Homes program in the U.S. to build homes for working families in need of proper shelter are examples of how Alcan personnel were involved.

Responding to community concerns has always been an Alcan trait, and 1999 was no exception. Examples include installing stack silencers at the Laterrière smelter in Quebec to reduce community noise levels and completion of a CANS7-million power line bypass project for the Haisla First Nations' Kitamaat Village in British Columbia.



Alcan has recognized that some activities can, despite our best efforts, pose a risk to plants and animals. In Jamaica, we have two orchid sanctuaries where indigenous species found in our mining areas are transplanted and preserved. These sanctuaries have also opened up important opportunities for researchers.

Great Blue Heron

Alcan's assistance to the educational sector included sponsoring an undergraduate program to study environmental issues related to the Great Lakes (on the Canada/U.S. border) as well as continued support of select university research initiatives.

Of special significance in 1999 — and consistent with our concern for endangered species — was the Company's announcement of a three-year commitment to the World Wildlife Fund (WWF). Alcan's support of the WWF's Endangered Species Recovery Fund will aid researchers and conservationists in Canada working with species at risk. Alcan also works with the WWF on its activities in Brazil by assisting with the publishing and disseminating of environmental information to primary school educators.



Alcan Primary Metal Group



... focuses Alcan's global bauxite, alumina, power generation and smelting assets on the efficient and effective production of value-added aluminum in the form of sheet ingot, billet, wire bar and foundry products.

The Alcan Group's Businesses at a Glance

OPERATIONS

- 15 smelters in 5 countries with 1.6 Mt of annual capacity.
- 9 alumina plants in 6 countries with 3.8 Mt of annual capacity, including specialty chemicals.
- 10 bauxite mines/deposits in 6 countries with 25.4 Mt of proved ore reserves.

Includes over 100,000 employees, 100,000 tonnes of primary metal and primary aluminum products, 100,000 tonnes of secondary metal and secondary aluminum products.

Includes 100,000 tonnes of primary metal and primary aluminum products, 100,000 tonnes of secondary metal and secondary aluminum products, 100,000 tonnes of primary metal and primary aluminum products, 100,000 tonnes of secondary metal and secondary aluminum products.

1999 HIGHLIGHTS

- 1.5 Mt of ingot produced.
- 714 kt of ingot purchased.
- \$1.1 billion (667 kt) in ingot sales.
- 4.0 Mt produced.
- \$394 million in third-party sales.
- 9.7 Mt used.
- \$91 million in bauxite third-party sales.

STRATEGY

- Optimize Alcan's alumina and bauxite asset base, while providing low-cost alumina to the primary metal business.
- Be the best producer of low-cost primary aluminum in the world, while:
 - meeting customer needs and aggressively pursuing market value opportunities;
 - achieving industry leadership in occupational health and safety, environmental performance, community relations and corporate ethics.

Alcan Global Fabrication Group



... focuses on fully meeting the changing needs of its global and regional fabrication customers through rapid transfer and adoption of best technology and management practices worldwide.

OPERATIONS

- Rolled Products
- Other Fabricated Products
- Total Fabricated Products
Over 45 manufacturing plants in 18 countries and 2.7 Mt of annual capacity.
- Secondary/Recycled Aluminum
8 recycling plants in 5 countries with 775 kt of annual capacity.

1999 HIGHLIGHTS

- \$4.2 billion (2,028 kt) in sales, including fabrication of customer-owned metal.
- 50.7 billion (693 kt) in sales.
- 2.2 Mt of aluminum fabricated in Alcan facilities, including 315 kt of customer-owned metal.
- \$4.9 billion in sales, including fabrication of customer-owned metal.
- 681 kt produced.
- 538 kt of scrap purchased.
- \$79 million (66 kt) in ingot sales.
- \$150 million (126 kt) in scrap sales.

STRATEGY

- Grow Alcan's leading position in differentiated, semi-fabricated products in our chosen markets through long-term customer partnerships and low-cost manufacturing excellence.

Alcan Aluminium Limited

In April 1999, Alcan set a new, additional Full Business Potential objective of \$700 million, pre-tax, over a three-year period to the end of 2001.

Together with the initial 1997 target, the FBP program is set for a \$1-billion improvement over five years.

1999 ACHIEVEMENTS

- Record year in safety performance, with regard to lost-time injury and illness as well as Recordable Case rates.
- Improvements achieved in 1999 totaled \$162 million, bringing the FBP three-year total to \$462 million, on track to achieve its \$1-billion, five-year target.
- Lowered alumina and primary metal costs.
- Achieved production records in three alumina plants and three smelters; attained record third-party sales for foundry alloys and billet products.
- The \$1.8-billion Alma, Quebec, smelter construction is scheduled for start-up by year-end 2000.
- Building on the principles of operational stability, labour agreements were concluded at four major plants.
- Fabricated products sales volumes continued to grow to a record level of 2.2 million tonnes, including significant improvements in Europe.
- Successfully started up a \$370-million can sheer expansion in Brazil, three months ahead of schedule.
- Acquired majority interest in Alcan Taigun Aluminium Limited in South Korea — part of our global strategy for first-tier supply of rolled products on four continents.
- Continued to strengthen relationships with customers, as evidenced by the January 2000 announcement of a multi-year aluminum supply agreement with Ford and the 1998 signing of a ten-year aluminum supply agreement with GM.
- Announced proposed merger with Pechiney and Alcoa.

PRIMARY PRODUCTION

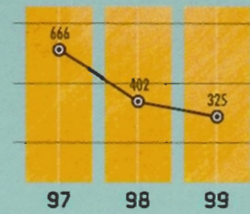
(in thousands of tonnes)



Primary production continued to increase largely through improved output from existing smelters.

OPERATING SEGMENT INCOME¹

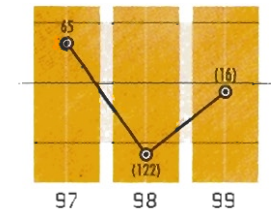
(in millions of US\$)



1999 operating income was affected by lower realized prices, restructuring costs, and other non-recurring expenses.

GROUP'S ECONOMIC VALUE ADDED²

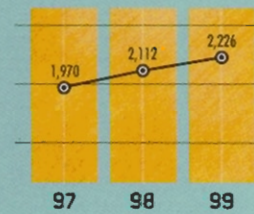
(in millions of US\$)



EVA improved throughout 1999 and was positive in the second half of the year.

FABRICATED PRODUCTS SHIPMENTS

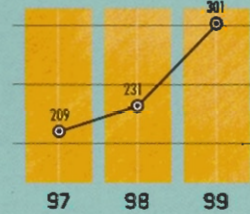
(in thousands of tonnes)



Alcan continued to grow its chosen fabricated products businesses.

OPERATING SEGMENT INCOME¹

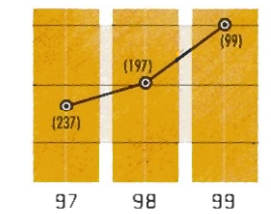
(in millions of US\$)



In 1999, further improvements were achieved in North America and there was the beginning of a turnaround in Europe.

GROUP'S ECONOMIC VALUE ADDED²

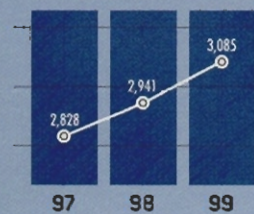
(in millions of US\$)



All North American businesses were EVA-positive and improvements were recorded elsewhere.

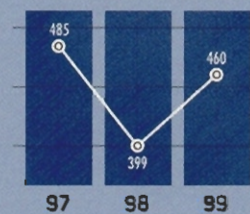
TOTAL ALUMINUM SHIPMENTS

(in thousands of tonnes)



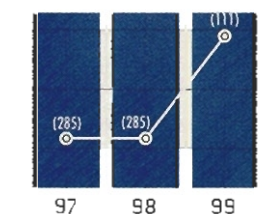
NET INCOME

(in millions of US\$)



ALCAN'S ECONOMIC VALUE ADDED²

(in millions of US\$)



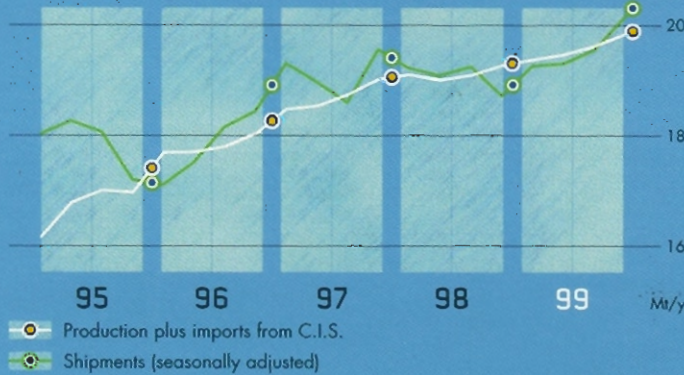
¹ Some corporate office and certain other costs have been allocated to the respective operating segments. Comparative information has been restated to conform to the 1999 corporate structure.

² The EVA improvements reflect principally a change in cost of capital and economic tax assumptions as well as strong operating results.

Management's Discussion and Analysis

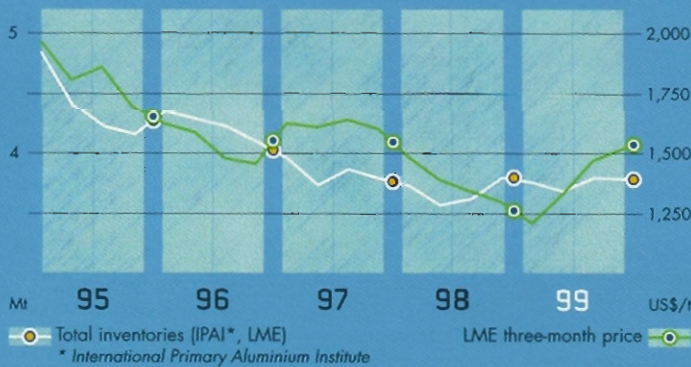
Western World Primary Aluminum Supply and Demand

Supply continued to grow at a moderate pace, up almost 2.5% over 1998, through both restarts and expansions. Demand growth accelerated through 1999, up over 3% from the previous year.



Total Aluminum Inventories and Ingot Prices

Total inventories were little changed from the end of 1998. Prices bottomed in March, then rose strongly through the remainder of the year. The average price of \$1,388 was up only marginally from \$1,379 in 1998.



Industry fundamentals improved progressively from the weak first quarter and the outlook for 2000 is positive.



World Market Review

Primary Aluminum

Western World* total consumption of aluminum grew by a respectable 3.9% in 1999, a rate substantially higher than early forecasts suggested. North America led the rest of the world in demand, with a growth rate of 6.8%. Despite a weak economy and fears of a recession in the first half of the year, Europe recovered in later months, closing the year with 2.2% growth. France, in particular, distinguished itself from the rest of the continent, offsetting the lacklustre performance of the U.K., Germany and Italy. Latin America was the only region with a negative growth rate, namely -2%, but it performed considerably better than was expected at the end of the disappointing first quarter. Asia, with an increase in demand of 2.8%, has clearly begun its recovery. Japan lagged behind the rest of the region, though it fared much better than expected, ending the year with positive growth. Western World consumption for 1999 totalled 27.1 Mt, of which 19.6 Mt comprised demand for primary metal, with the balance for recycled metal. Aluminum consumption has grown continuously since 1982, apart from a brief lull in 1998.

Primary aluminum production in the Western World increased 3.2% in 1999 to 16.95 Mt, with some previously idled capacity being restarted and some brownfield and greenfield capacity being brought on stream. During the year, much of the

capacity idled by labour, technical and weather-related problems was restarted. Approximately 650 kt remained voluntarily idled. Most of this likely will be restarted in 2000 and 2001.

C.I.S. primary aluminum exports increased substantially in 1999, but this was offset by a large increase in Chinese imports. As a result, there was a small decline in net exports to the Western World.

In 1999, the growth of consumption translated into a 3.7% increase in the demand for primary aluminum and supply increased by 2.4%. This brought the market more or less into equilibrium after being in surplus in 1998.

Inventories with aluminum producers and on the London Metal Exchange (LME) decreased slightly to approximately 3,775 kt, equivalent to 10 weeks of consumption. These are expected to decline further by the end of 2000.

Ingot prices (LME three-month) were at \$1,245/t at the beginning of 1999, then declined dramatically to a low of \$1,159/t in March. However, prices improved substantially in the second half of 1999, climbing to a high of \$1,655/t in December. The average LME price for the year was \$1,388/t, almost unchanged from 1998.

Western World Consumption vs. Alcan Sales

Alcan's total shipments increased 4.9% to 3.1 Mt. Ingot shipments rose 3.6% and fabricated products shipments increased 5.4%, reflecting the achievement of increased market share in a number of key segments. Higher volumes were offset by weak metal prices for the better part of the year, resulting in a slight decline in revenues. Revenues for 1999 were \$7.3 billion, a decrease of 6% from the previous year.

* Defined as the world excluding the Commonwealth of Independent States (C.I.S.), Eastern Europe and China

Transportation, the largest and fastest growing market for aluminum, increased by 9% to 7.9 Mt. This substantial increase is due in large part to the growing automotive sector, particularly in the United States, Canada and Mexico, where each country posted record highs for car production, as well as to aluminum's growing penetration into that sector. Alcan's revenues from the transportation market decreased by 0.5%, reflecting higher volumes but lower prices. This market accounted for 8% of its total revenues.

Consumption levels in the containers and packaging market grew slightly by 1.5% to 4.9 Mt. Demand for beverage can stock in North America and Europe was flat, but was compensated by stronger demand in Latin America, up 10.7% from the previous year. Alcan's revenues from the containers and packaging market increased by 2%, accounting for 47% of total revenues.

Demand from the building and construction sector grew by 2.4%, to 5.0 Mt. The sector started out the year on a strong note in the U.S., but abated somewhat later in the year as a result of higher mortgage rates. Demand rebounded from low levels

in Asia, driven by strong economic growth in South Korea and tax incentives in Japan. Alcan's revenues from building and construction decreased by 2%, accounting for 15% of Company revenues.

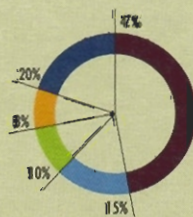
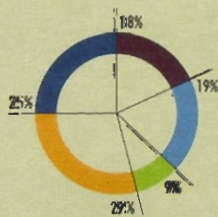
The electrical market grew a healthy 4.2% to 2.4 Mt. Growth was almost entirely due to strong demand in the United States and Canada. Alcan's revenues from the electrical market increased by 1%, accounting for 10% of total revenues.

The transportation sector grew 9%, driven by strong automotive demand.

Demand from other markets, including machinery and equipment, and durable goods, grew by 1.2% to 6.8 Mt. Alcan's revenues from alumina and chemicals, which are also included in this category, declined in 1999, reflecting the sale of the Aughinish alumina refinery early in the year. Alcan's revenues from these other markets comprised 20%, the same proportion as in 1998.

1999 Western World Aluminum Consumption by End-Use Market
(27.1 million tonnes)

Alcan's 1999 Fabricated and Non-Aluminum Sales by Market
(US\$5.5 billion)



- Containers and packaging
- Building and construction
- Electrical
- Transportation
- Other

The lightweight design and fuel efficiency of the GM Precept technology demonstration vehicle showcase the growing importance of aluminum in the automotive sector.



Results of Operations

Alcan reported consolidated net income for 1999 of \$460 million compared to \$399 million in 1998 and \$485 million in 1997.

While average metal prices were little changed, at an average LME three-month price of \$1,388/t compared to \$1,379/t in 1998, the trend was rising for most of 1999 from a low point of \$1,159/t to end the year at \$1,655/t. Both years were sharply lower than the \$1,620/t that prevailed in 1997. This rising price trend in 1999 resulted in a temporary squeeze on product margins as there is a time lag in passing on price changes to customers. This lag varies from about one month for ingot products to over six months for certain can sheet contracts that are priced by reference to a retrospective ingot price. This lag had a favourable impact on product margins in 1998. Further increases in fabricated products sales volume as well as cost reductions had a favourable impact on earnings in 1999.

Also included in the results for 1999 are non-operating items totalling a net gain of \$88 million after tax. These include gains on business disposals of \$90 million, principally the sales of further shares in Nippon Light Metal Company Ltd. (NLM) in Japan, the Company's pistons business in Germany, the building products business in France and property in the U.K. In addition, there was a favourable tax adjustment of \$31 million in Canada, relating to

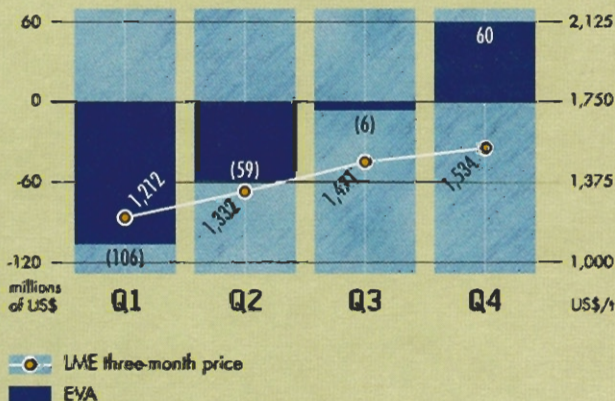
prior years, which was offset by rationalization costs of \$33 million in a number of businesses. Moreover, the currency revaluation of deferred taxes resulted in a non-cash charge of \$26 million.

In terms of Economic Value Added (EVA), the Company set for itself a target to be EVA positive (i.e. to earn an after-tax return in excess of its weighted average cost of capital) by the end of the year 2001 for its two business segments as follows:

- Alcan Primary Metal Group: at a LME three-month price of \$1,380/tonne;
- Alcan Global Fabrication Group: at all times, irrespective of metal prices.

To achieve this EVA target, the Company needed to improve its 1998 profitability by \$700 million pre-tax over a three-year period, in addition to the \$300-million improvement achieved in 1997 and 1998. The Company is on schedule in its progress towards achieving that objective. Of the total of \$1 billion, \$275 million will arise from capacity-related projects, such as the Alma, Quebec, smelter and Pindamonhangaba (Pinda), Brazil, rolled products expansion. These projects are on schedule and their profit contributions are virtually assured by the end of the year 2001. Of the remaining \$725 million, the Company has already taken actions which, on a cumulative basis, are contributing \$462 million at an annual run rate.

1999 Economic Value Added (EVA) (on a quarterly basis)



As well as benefiting from higher metal prices, much of the improvement in EVA arises from productivity gains.

The remaining \$263 million will be achieved by the end of 2001. The improvement in EVA is demonstrated in the chart on the preceding page, which shows EVA for each quarter of 1999. Although part of the improvement is attributable to rising metal prices, the Company would have had a positive EVA in the fourth quarter of 1999, even at its benchmark price of \$1,380/tonne.

For the full year, EVA was \$(111) million compared to \$(285) million in 1998 and 1997. Although most of the improvement in 1999 over 1998 was due to changes in cost of capital and economic tax rates, the improvement in the trend during 1999 is expected to be sustained and to further improve in 2000 and 2001.

For 1998, there were a number of offsetting items totalling a net after-tax loss of \$9 million. Losses at NLM of \$53 million and restructuring costs elsewhere in Asia and Europe of \$15 million were incurred. As a result of the sale, completed in early 1999, of the Company's alumina refinery in Ireland, the book value of that asset was written down to the level of the expected sale proceeds, resulting in an after-tax charge of \$120 million. These charges were offset by gains on the sale of assets of \$148 million after taxes, and a gain on currency revaluation of deferred income taxes of \$31 million that resulted from the adoption of a new accounting standard.

The 1997 results included an extraordinary gain of \$17 million arising from the sale of a portion of a contract to supply power to B.C. Hydro, net of additional write-downs of remaining Kemano Completion Project assets as well as other non-operating net gains of \$6 million.

Revenues

	1999	1998	1997
Sales and operating revenues (millions of US\$)	7,324	7,789	7,777
Total aluminum shipments (kt)	3,085	2,941	2,828
Average sales price realizations (US\$/t)			
Ingot products	1,511	1,558	1,739
Fabricated products	2,593	2,923	2,999

Sales and operating revenues, at \$7,324 million, were some 6% lower than the level of 1998 and 1997, despite higher volumes for both ingot and fabricated products, reflecting lower average price realizations. For ingot products, this reflects the time lag of approximately one month for changes in LME prices to be reflected in selling prices. For fabricated products, a similar, though generally longer, time lag applies and, in addition, realizations were affected by weaker European currencies against the dollar and changes in product mix that resulted from business divestments. The latter two factors, though reducing reported dollar realizations, had little impact on profit margins.

Other income, which comprises interest income and other non-operating gains, was \$179 million in 1999 compared to \$231 million in 1998 and \$88 million in 1997. Other than interest received on cash and time deposits, the main items included here were gains on disposal of assets, which amounted to \$110 million before taxes in 1999 and \$156 million in 1998.

Costs and Expenses

Despite higher sales volumes, cost of sales and operating expenses fell by 6.3% in 1999 after an increase of only 1.2% in 1998. This improvement in unit costs reflects higher capacity utilization, cost reductions and a shift in product mix, offset in part by the increased volume of ingot purchases.

<i>(kt)</i>	1999	1998	1997
Purchases of aluminum			
Ingot products	714	648	732
Scrap	538	535	482
Fabricated products	45	44	40
	1,297	1,227	1,254

Purchases of primary ingot increased in 1999 to support the higher level of fabricated products sales volumes, resulting in an increase in the cost of purchased metal.

Oil and caustic soda prices started the year at historically low levels but increased during the course of the year in line with the general tightening of commodity markets. The impact of oil price increases was not significant due to forward purchases.

Depreciation expense was \$477 million compared to \$462 million in the previous year and \$436 million in 1997. The increase primarily reflects the start-up, in the second half of 1999, of the expansion of rolling capacity at Pinda in Brazil.

Total employment cost for 1999 was \$1,514 million, a reduction of 5% from 1998. After adjustments for acquisitions, disposals and exchange rate variations, there was a 1% increase in employment costs, below the rate of inflation. This, combined with higher shipments, demonstrates the improvement in productivity.

Selling, administrative and general expenses, at \$375 million, declined 16.3% from the 1998 level of \$448 million and a similar level in 1997. This resulted from the savings arising from the reorganization implemented in the first half of the year as well as the divestment of businesses in France and Germany with relatively high levels of selling expense. As a percentage of sales, these expenses fell to 5.1%, an 11% improvement over 1998.

Research and development expenses were \$67 million for 1999 compared to \$70 million and \$72 million in 1998 and 1997 respectively. Alcan's R & D activities are closely aligned with the needs of its core businesses, principally, raw materials, smelting and rolling. The Company is continuing to maintain a strong effort in developing sheet applications and technology for the automotive industry and is working closely with a number of automotive companies in this regard. In addition, opportunities for process optimization to improve EVA are continuing to be explored and implemented in all technology streams.

Other expenses were \$127 million compared to \$219 million in 1998 and \$54 million in 1997. In 1999, this includes rationalization costs of \$55 million. The 1998 figure includes the write-down of the Aughinish alumina refinery in anticipation of its sale, of \$143 million before taxes.

Interest Costs

<i>(millions of US\$)</i>	1999	1998	1997
Interest expense	76	92	101
Interest capitalized	41	15	2
Total interest costs	117	107	103
Effective average interest rate	6.9%	6.7%	6.7%

Alcan's interest expense declined 17% in 1999 following a 9% decline the year earlier. Total interest rose \$10 million as a result of higher average debt during the year. In 1999, \$41 million of interest was capitalized, compared to \$15 million in 1998, relating to the Pinda, Brazil,

and Alma, Quebec, projects. Interest is no longer being capitalized on the Pinda project, which was commissioned during the year. The Alma project will commence production late in 2000, at which time interest will cease to be capitalized and interest expense will increase. The pre-tax interest expense coverage ratio was 5.5 times in 1999 compared to 6.3 times in 1998 and 7.4 times in 1997.

Income Taxes

Income taxes of \$211 million for 1999 represent an effective rate of 31%, compared to 32% in 1998 and 1997. This compares to a composite statutory rate of 40.4%. In 1999, the difference in the rates is due primarily to prior years' tax adjustments, reduced rate or exempt items and investment and other allowances. Similar factors accounted for the difference in rates in 1998 and 1997. In addition, a non-cash loss of \$26 million was recorded on the currency revaluation of deferred tax balances, due to the stronger Canadian dollar. In 1998, a gain of \$31 million for currency revaluation was recorded.

Equity Companies

Alcan no longer has equity-accounted affiliates which have a material impact on its financial performance. In 1998, Indian Aluminium Company, Limited (Indal) became a consolidated subsidiary and the residual holding in NLM, Japan, a portfolio investment. For 1998, Alcan's share of losses of equity-accounted companies was \$48 million compared to \$33 million in 1997.

Operating Segment Review

The following information is reported by major operating segment, viewing each segment on a stand-alone basis. Transactions between segments are conducted on an arm's-length basis and reflect market prices. Thus, income from primary metal operations includes profit on metal produced by the Company, whether sold to third parties or used in the Company's fabricating operations. Income from the fabricated products sector represents only the fabricating profit from rolled products and downstream businesses. Additional operating segment information is presented in note 24 to the financial statements.

Primary Metal Group

<i>(millions of US\$)</i>	1999	1998	1997
Sales and operating revenues			
Third parties	1,689	1,813	2,023
Intersector	1,317	1,405	1,486
Operating income	325	402	666
Shipments - third-parties (kt)			
Smelter-grade alumina	1,153	1,641	1,679
Alumina chemicals	467	433	399
Primary aluminum	667	648	661
Shipments - intersector (kt)			
Primary aluminum	892	904	867
Production (kt)			
Alumina hydrate	3,991	5,013	4,727
Primary aluminum	1,518	1,481	1,429

Profits from this sector declined 19% from the 1998 level reflecting lower realized prices, rationalization, pre-operating and closure costs and the sale of the Aughinish alumina refinery in Ireland. Although the average LME aluminum price was little changed in 1999 compared to 1998, the time lag in passing on price changes to customers, of approximately one month for metal and three months for alumina, resulted in realized prices being lower. Rationalization costs of \$38 million before tax, relating to a number of operations as well as pre-operating costs for Alma and closure costs at the Isle-Maligne, Quebec, smelter, also contributed to the reduction in 1999 operating income.

Bauxite

In 1999, Alcan adopted the Australasian Code for Reporting of Mineral Resources and Ore Reserves, an internationally accepted reporting standard. On this basis, Alcan's current proven ore reserves are estimated to be 254 Mt and measured mineral resources are estimated to be 208 Mt. The Company has more than sufficient bauxite to meet its needs for the next 23 years.

In February 1998, Alcan entered into a bauxite mining and exchange agreement with Comalco Limited, an Australian company, for the development of its Ely bauxite reserves in Australia. In 1999, the fieldwork defining the Ely reserves was completed. Commencing in 2000, shipments of bauxite will be made to the Queensland Alumina Limited (QAL) refinery, providing Alcan with a lower cost source of bauxite.

Alumina

At the end of February 1999, the sale of the Aughinish alumina refinery in Ireland to Glencore AG of Switzerland was completed.

Alumina hydrate production reached 4.0 Mt in 1999, an 8% increase over 1998, excluding the impact of the Aughinish sale. For the third consecutive year, a new record for hydrate production was established. Third-party sales of 1.2 Mt declined from the 1998 level primarily

due to the disposal of the Aughinish refinery. Production costs (net of bauxite profits) continue to be lowered as part of the Full Business Potential program and, for 1999, were 22% lower than the 1996 base year for that program.

In May 1998, Alcan acquired a 20% interest in the proposed Utkal alumina project in Orissa, India. During 1999, an additional 15% interest in this joint venture was acquired, bringing Alcan's direct interest to 35% and, in addition, 54.6%-owned Indal has a 20% interest in the enterprise. This project consists of a one-million tonne integrated alumina plant with a potential for further capacity expansion. This plant has the potential to be the world's lowest cost producer. The detailed feasibility study and most of the environmental clearances, licenses, land acquisitions and shareholders' agreements have been completed. A decision regarding the commencement of construction is expected by mid-2001. The anticipated start of operations would be early 2005.

Cutting-edge technology will be employed at the US\$1.8-billion, 375,000-tonne capacity smelter in Alma, Quebec, which is right on schedule for start-up in late 2000.



A \$105-million modernization program announced in December 1998 for the alumina plant in Jonquière, Quebec, is progressing on schedule and within cost budgets. This modernization is expected to be completed in 2002-2003 and will result in a leaner, more productive workforce, improved operating efficiencies and better environmental, health and safety working conditions.

Chemicals

Operating income in 1999 was lower than in prior years. Considerable improvement was reported in the North American operations as continued progress was made on shifting Alcan's position to specialty alumina chemicals. However, losses from European operations, caused by depressed prices, more than offset the gains made by the North American division. A restructuring initiative was announced in the last quarter of 1999 and resulted in a 20% reduction of the European workforce by year-end. In June 1999, Alcan concluded the sale of its Canadian alum business in accordance with its strategy to focus on specialty alumina chemicals.

Primary Aluminum

Primary aluminum production increased 2.5% in 1999 to 1,518 kt. The accelerated closure of the Isle-Maligne smelter in Quebec, which reduced production by 27 kt in the year, was offset by the consolidation of Indal for the full year (29 kt), as well as increased efficiencies. Profits from this segment arise not only from third-party sales but also from the sale of metal at market prices to the Company's own fabricating operations. Inter-segment shipments increased further in 1999 reflecting higher demand from Alcan's North American fabricating operations.

Alcan continues to have 134 kt/y of production capacity temporarily idled, representing 8% of its capacity. This capacity will be restarted only when warranted by industry conditions. The remaining 25 kt of annual capacity at Isle-Maligne will be closed during 2000 as will a small 8-kt smelter at Kinlochleven in the U.K. In India, a decision was made to permanently close the 66-kt smelter at Belgaum, which had been idle for over two years due to lack of affordable power.

Almost all smelter production is in value-added form, such as sheet ingot, extrusion billet and foundry alloy ingot. Despite improving business conditions in Asia, it remained necessary to divert ingot production to feed the strong growth in demand in the North American market, where sales records were set in 1999 for extrusion billet and foundry alloy. Alcan's automotive strategy was supported by production from a number of North American smelters and a strong automotive market has been developed for the new Alma smelter. Increased sales have been facilitated by a new foundry ingot casting facility at the Sebree, Kentucky, smelter and an extrusion scrap recycling facility will be operational in 2000. The average realized price on third-party sales of primary ingot was \$1,569/t compared to \$1,618/t in 1998 and \$1,803/t in 1997.

Alcan's average cost of production of primary aluminum (mainly in the form of sheet ingot and extrusion billet), including alumina at market prices, was \$1,275/t compared to \$1,327/t in 1998 and \$1,352/t in 1997. Hot metal costs continue to benefit from the initiatives undertaken as part of the Full Business Potential program and are now some 8% below the level of the 1996 base year.

Construction of the new \$1.8-billion, 375-kt/y smelter and casting centre in Alma, Quebec, is proceeding on schedule and in line with budget. The total investment includes an additional \$136 million for a casting centre to produce value-added ingot products for the automotive and electrical markets. The first metal will be produced in late 2000 and full capacity will be reached by the middle of 2001. The Alma smelter will employ state-of-the-art technology and is one of the lowest-cost greenfield smelter projects in the world.

Fabricated Products Operations

(millions of US\$)	1999	1998	1997
Sales and operating revenues			
Third parties	5,607	5,963	5,737
Intersector	34	—	—
Operating income	301	231	209
Shipments (kt)	1,911	1,823	1,694
Fabrication of			
customer-owned metal	315	289	276
Total volume	2,226	2,112	1,970

Alcan's fabricated products volume, including fabrication of customer-owned metal, grew 5% in 1999 to a record level of 2.2 Mt, consolidating growth of 7% and 10% in 1998 and 1997 respectively. This represents a substantial increase in market share in the Company's chosen segments, while divesting non-core businesses. Improved profitability, despite the impact of a time lag in passing on metal price increases, is the result of increased volumes and cost reductions.

Rolled Products

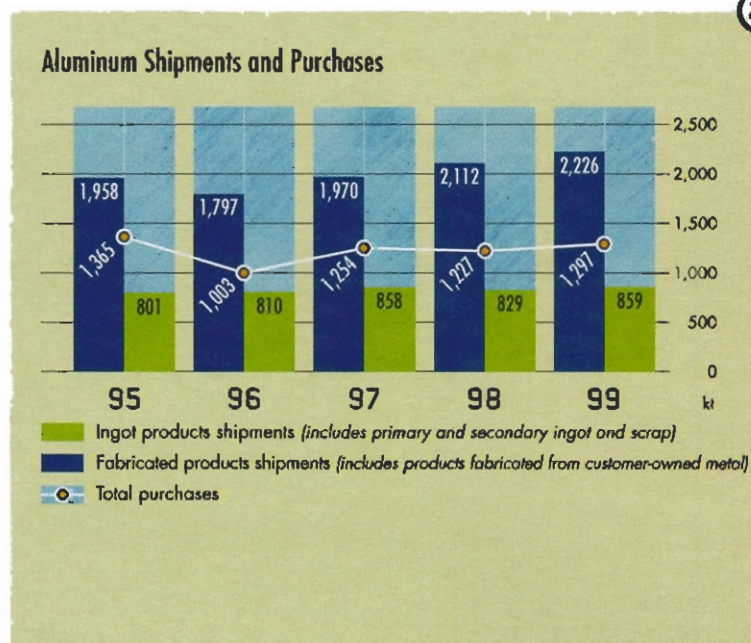
	1999	1998	1997
Shipments (kt)	1,713	1,604	1,476
Fabrication of			
customer-owned metal	315	289	276
Total volume	2,028	1,893	1,752
Average price realizations (US\$/t)	2,387	2,599	2,637

Alcan continues to consolidate its position of leadership in rolled products markets in North and South America and Europe following capacity expansions and modernization in recent years and, through its acquisition in South Korea, has established a platform for growth in Asian markets.

The decline in the average price realized on shipments of rolled products reflects the time lag in passing on changes in metal prices in a rising market in 1999 compared to a declining market in 1998. In addition, realizations on sales denominated in European currencies declined in dollar terms in 1999 as the Euro weakened against the U.S. dollar. In 1998, European currencies generally strengthened against the dollar.

Alcan's North American rolled products operations achieved another record shipment year with a 3% increase over 1998. Reduced exports following the Brazilian economic crisis were offset by strong North American industry demand, which resulted in growth of some 5% in Alcan's shipments in North America. Alcan's can sheet shipments exceeded the record level reached in 1998, despite a small decline in industry can shipments. Gains in industrial sheet products (14% year-over-year) earned additional market participation. Shipments to distributors were up sharply, totalling a 20% increase over 1998 levels, following a 22% increase in 1998. During the year, Alcan initiated a \$46-million upgrade project at Kingston Works in Ontario, which will enable increased participation in the distribution and automotive sheet markets beginning in the second half of 2000. In light gauge products, shipments increased 7% against an estimated industry growth rate of 5%.

Increased shipments of primary and fabricated products outstripped primary production leading to higher metal purchases.



In Europe, demand was flat overall in 1999, although the second half of the year showed a recovery from the declining demand experienced in the first half. This pattern was mirrored in Alcan's shipments, which showed good year-over-year increases in the second half. During the year, supply chain planning and bottleneck management across the system led to improved customer service. Lean manufacturing concepts have been introduced to the supply chain, including the deployment of kaizen and other methodologies to reduce lead times from order to delivery. These initiatives have led to substantial operating improvements throughout European operations and a resultant improvement in profitability and EVA.

In South America, the economic crisis in Brazil at the beginning of the year had a severe impact on the first quarter but conditions steadily improved as the year progressed. Shipments were up 18% over the previous year as new capacity from the Pinda rolling mill expansion began to come on stream towards the end of the year. Customer qualification trials are substantially complete and commercial shipments have begun. Utilization is expected to approach 80% of capacity by the end of 2000.


In Asia, operations in Malaysia and Thailand continue to improve as their markets recover from the economic downturn. In India, faced with competitive market conditions, Indal focussed its activities on high value-added products. During 1999, Alcan acquired an interest in Alcan Taibhan Aluminum Limited in South Korea for \$129 million and the assumption of \$58 million in debt. This 56%-owned subsidiary, operated by Alcan, has a modern, high-quality rolling mill capable of producing first tier products. It currently produces approximately 100 kt/y of rolled products for the domestic market but it is intended to grow output towards its capacity of 300 kt/y and to export throughout the region.

Fabricating operations in Europe achieved substantial progress in applying lean manufacturing concepts.

Automotive

The year 1999 saw further advances for Alcan's automotive sheet business, with sales of closure sheet more than double the 1998 level. Alcan's proprietary alloy 6111 has rapidly become the North American standard and has been placed in applications on 8 million vehicles over the past five years. Demand for aluminum closures and structures is driven by the material's proven ability to reduce weight without compromise to safety and performance. Reduced vehicle weight translates into improved fuel economy and a significant reduction in harmful CO₂ emissions.

Not only were volume and penetration records set in 1999, but major milestones in strategic alliances, program commitments and industry leadership were also attained. Alcan Global Automotive Products secured, in January 2000, a long-term metal supply agreement with Ford Motor Company providing a stable source of supply for Ford and a volume commitment to Alcan for both foundry ingot and sheet products. This, together with the 1998 strategic alliance with General Motors, will underpin Alcan's leadership position in North America.



Continuing high levels of housing starts coupled with increased commercial construction paved the way for increased sales of insulated cable.

Other Fabricated Products

	1999	1998	1997
Shipments (kt)	198	219	218
Average price realizations (US\$/t)	4,282	5,292	5,445

The reduction in shipments and average price realizations in 1999 reflects the divestment in the first half of the year of the Company's pistons business in Germany and building systems business in France.

In North America, shipments of Alcan Cable products increased nearly 5% in 1999, continuing the positive trend of the past four years. Continuing high levels of housing starts coupled with increased commercial construction paved the way for increased sales of insulated cable. Sales of bare transmission and distribution cables for high voltage power supply were also strong throughout 1999. Benefiting from the 1998 addition of capacity, Alcan Cable established a new record for aluminum strip sales.

Increased sales, together with the implementation of cost reduction programs, helped to offset the impact on profitability from a highly competitive market environment during 1999, due to depressed copper prices.

In Brazil, long-term agreements with key flexible packaging customers and substantial reductions in working capital contributed to improved earnings.

Recycling Activities

Alcan's aluminum can recycling operations in the United States increased throughput to establish a new record of 21.6 billion Used Beverage Cans (UBCs). This represents an estimated one-third the number of aluminum beverage cans recycled by Americans in the year. Early in 1999, Alcan Sheet Products completed the divestment of a non-core secondary recycling facility in Tennessee primarily devoted to the die cast foundry market.

In 1998, Alcan commissioned a UBC recycling plant at Pinda in Brazil, the first of its kind in South America. Today, Alcan remelts and processes 27% of the aluminum cans recycled in Brazil, and along with metal received from a third-party recycler, casts 50% of the UBCs recycled in Brazil.

An estimated one-third of aluminum used beverage cans recycled by Americans were processed at Alcan plants, such as this one in Oswego, New York.



Geographic Review

Economic conditions gradually improved during 1999 as the recovery in Southeast Asia gathered pace. South America improved from the first quarter downturn and most European economies improved in the second half. North American demand remained strong and Japan's decline was arrested.

Net income data included in this Geographic Review relate to Alcan's operations in each region, whereas the shipment data are classified according to third-party customer location.

Canada

(millions of US\$)	1999	1998	1997
Net income*	111	133	245
Net income excluding special items*	105	103	219
Shipments (kt)			
Ingot products	134	110	101
Fabricated products	122	115	110

* Net income in 1997 is before extraordinary gain. Special items include: 1999 gain on business sale, rationalization costs and prior period tax adjustment; 1998 currency revaluation of deferred income taxes and gain on sale of a business; 1997 prior period tax adjustments.

Operating earnings from Canadian operations, principally primary metal and alumina, declined in 1999 due to lower aluminum ingot realizations more than offsetting cost reductions achieved.

The Canadian economy continued to grow and aluminum demand increased an estimated 6%, led by strong automotive demand for castings.

The 375-kt/y Alma smelter project in Quebec, commenced in 1998, is on schedule for start-up in late 2000.

United States

(millions of US\$)	1999	1998	1997
Net income	178	144	136
Net income excluding special items	178	144	136
Shipments (kt)**			
Ingot products	413	388	379
Fabricated products	1,081	1,016	905

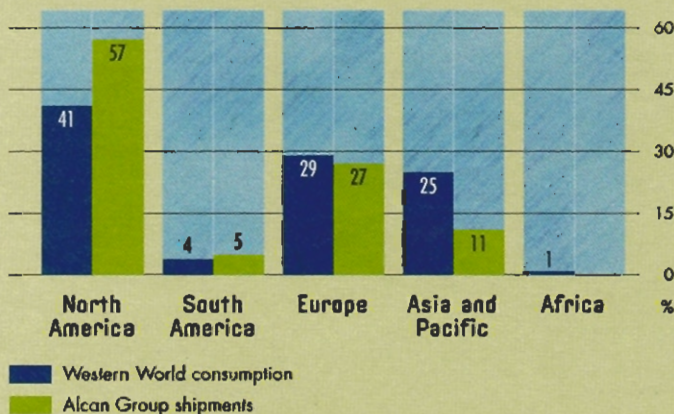
** includes fabrication of customer-owned metal

The increasing trend in U.S. net income reflects continued improvements in profitability of the fabricated products business due to increased volumes and lower unit costs. These businesses all generated positive EVA in 1999.

The U.S. economy remained strong but some slowing of the growth rate is anticipated for 2000 as interest rates are expected to increase in an effort to cool the economy. Aluminum consumption rose 6.8% led by the transportation and electrical sectors.

Despite anticipated slowing in the U.S. economy, Alcan's fabricated products operations are expecting strong shipments in 2000.

1999 Aluminum Shipments by Region



With new investments in South America and Asia, Alcan will continue to participate in high-growth markets with first-tier rolling capability on four continents.

South America

(millions of US\$)	1999	1998	1997
Net income	5	13	27
Net income excluding special items*	5	13	17
Shipments (kt)			
Ingot products	17	26	27
Fabricated products	150	162	146

* Special items include 1997 gain on sale of business

Operating results in 1999 were affected by the impact of the economic crisis early in the year as well as depreciation and start-up costs for the Pinda expansion.

In Brazil, the substantial devaluation of the domestic currency in January triggered a sharp downturn in demand and a temporary cessation of can sheet shipments. Aluminum demand, for the year as a whole, declined by just 5% as the subsequent recovery was much stronger than previously expected. Further improvements are anticipated in 2000.

The Pinda rolling mill expansion was completed some three months ahead of schedule and achieved a remarkable 7.5 million construction hours without a lost-time accident. Customer qualification trials are substantially complete and commercial shipments have begun.

Europe

GDP growth in the European Union 15 countries was a little over 2% in 1999, slightly lower than the previous year. Economic activity picked up in the second half of the year following the slowdown at the end of 1998 and early 1999.

Operating profits and net income from the European fabricating businesses showed an increase in 1999 mostly due to the benefits of Alean's Full Business Potential program underway across Europe, but this was offset by lower earnings from primary operations. The fabricating business has been restructured on a product line basis, following which the focus is on improving operating performance.

Germany

(millions of US\$)	1999	1998	1997
Net income	30	7	—
Net income excluding special items*	5	10	—
Shipments (kt)**			
Ingot products	21	19	10
Fabricated products	187	180	183

* Special items include 1999 gain on sale of business + 1998 rationalization costs.

** Includes fabrication of customer-owned metal

Alean's fabricating operations in Germany remain EVA-negative, but are expected to improve as the benefits of operational improvement are realized. Sales into the German market increased some 4% in 1999.

The Full Business Potential program led to increased operating profits and net income from European fabricating businesses. Shown here is Rorschach Works, Switzerland.



United Kingdom

(millions of US\$)	1999	1998	1997
Net income	18	2	22
Net income excluding special items*	6	8	22
Shipments (kt)**			
Ingot products	19	25	25
Fabricated products	135	151	152

* Special items include 1999 gain on sale of property, and rationalization costs and 1998 rationalization costs
 ** Includes fabrication of customer-owned metal

Operating earnings in the U.K. continue to be depressed. The loss-making alumina chemicals business was affected by depressed prices and the strength of sterling against the Euro. Rationalization costs were also incurred to reduce total employment. Metal shipments into the U.K. market declined and were close to the 1997 level.

Other Europe

(millions of US\$)	1999	1998	1997
Net income	16	(98)	33
Net income excluding special items*	8	25	33
Shipments (kt)**			
Ingot products	69	64	71
Fabricated products	386	366	391

* Special items include 1999 gains on business disposals and 1998 write down of assets and rationalization costs
 ** Includes fabrication of customer-owned metal

The decline in earnings resulted primarily from the sale of the alumina refinery in Ireland in January 1999. Shipments into the rest of Europe increased 20 kt but remained below the 1997 level.

Asia and Pacific

(millions of US\$)	1999	1998	1997
Net income	82	117	(1)
Net income excluding special items*	43	8	29
Shipments (kt)			
Ingot products	186	196	245
Fabricated products	161	119	76

* Special items include 1999 and 1998 gain on sale of Nuvis shares, 1998 and 1997 construction contract losses and rationalization expenses

Shipments of ingot products declined in 1999, due to the slow pace of recovery in key markets and to the constrained supply resulting from a strong demand in North America. Fabricated products increases reflect the consolidation of Indal for the full year 1999 and an acquisition in South Korea. Net income for the region includes the consolidation of Indal from the middle of 1998.

In order to promote future growth and to streamline fabrication operations, a 56%-owned subsidiary — Alcan Taihan Aluminum Limited — has been formed in South Korea. The new company, with modern rolling assets, will serve the growing market for aluminum rolled products throughout the Asia Pacific region.

With financial and corporate restructuring efforts taking place, 1999 saw Asian economies come back to life. However, economic recovery in Japan has lagged behind other Asian countries. The Southeast Asian countries registered in 1999 gradual and visible economic recovery. As a result, demand increased by 2.8% in the region, following the previous year's decline of more than 13%.



The growing market for aluminum rolled products will be served by Alcan Taihan Aluminum Limited in South Korea, using modern facilities such as this four-high, non-reversing cold rolling mill.

In India, domestic demand increased an estimated 6% to 7% but competition was severe due to overcapacity. Indal's strategy was increasing volumes in alumina, a focus on high value-added products in the fabricated segments and an emphasis on cost reductions, recoveries and efficiencies for better margins. Alcan's Southeast Asian operations continue to face a difficult competitive environment and to focus on restructuring and cost reduction. In Australia, earnings from raw materials operations declined due to lower alumina prices.

Other Areas

(millions of US\$)	1999	1998	1997
Net income	33	39	35
Net income excluding special items*	35	41	35
Shipments (in millions of metric tons)			
Fabricated products	4	3	7

* Special items include: 1999 rationalization expenses; 1998 loss on sale of business.

Activities in other areas include bauxite and alumina operations in Jamaica, Guinea and Ghana, and trading, shipping and insurance activities in Bermuda. Alcan also sells products in other parts of the world such as the Middle East and Africa.

Liquidity and Capital Resources

Operating Activities

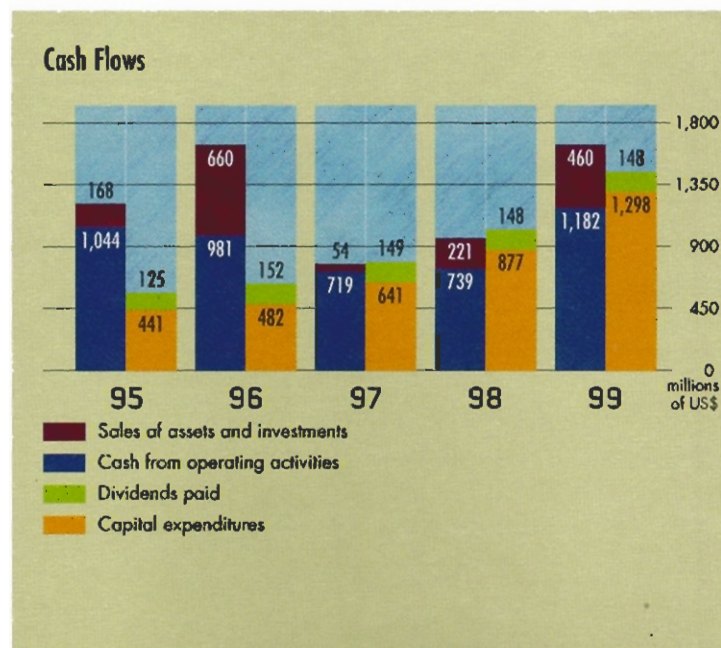
Cash generation in 1999 was \$157 million better than 1998 reflecting higher earnings and higher tax deferrals in the year. Calculated by taking the net income for the year and adding back depreciation and deferred income taxes, cash generation was \$1,047 million compared to \$890 million in 1998 and \$913 million in 1997.

Net operating working capital was reduced by \$239 million in 1999 compared to increases of \$106 million in 1998 and \$125 million in 1997. Despite higher metal prices at year-end, substantial improvements in inventory turnover and receivables days outstanding contributed to the improvement in addition to higher payables resulting from the Alma project.

Investment Activities

Capital investment in the year was \$1.3 billion, an increase from the previous two years, which were \$877 million and \$641 million, respectively. On an ongoing basis approximately \$450 to \$500 million is required annually to maintain the integrity and competitiveness of the Company's assets. Additional investment during 1999 principally comprised the Alma smelter project in Quebec, the remaining expenditure on the rolling expansion in Brazil and the acquisition of a controlling interest in a rolling mill in South Korea.

Strong cash flow from operating activities and proceeds from asset disposals funded the capital investment program in 1999.



In 2000, total investment is anticipated to be approximately \$1.25 billion including, in addition to projects to maintain existing assets, the completion of the Alma smelter construction.

Disposal of assets in 1999 mainly comprised the sale of further shares in N.M. Japan, the Aughinish alumina refinery in Ireland, fabricating operations in Germany and France, and a recycling facility in Tennessee.

Financing Activities

Alcan reduced borrowings in 1999 by \$289 million. At the end of 1999, total borrowings fell to \$1.5 billion compared to \$1.8 billion in 1998. The debt-to-equity level improved to 21.79 compared to 24.76 at the end of 1998.

In July of 1999, the Company called \$132 million of the 9.625% sinking fund debentures due in 2019. In December, the \$100 million 7.25% Alcan Aluminum Corporation debentures matured and were repaid. Other debt repayments during the year totalled \$57 million, net. In January 2000, \$100 million 9.5% debentures were redeemed at a price of 103.5%.

Alcan purchased 8.8 million common shares for \$219 million in 1999 under its normal course issuer bid program that terminated on September 28, 1999. During the twelve-month period that the program was in place, Alcan purchased a total of 10.6 million shares at a cost of \$265 million.

The quarterly common share dividend remained at 15 cents per common share in 1999. Total dividends paid to common shareholders were \$131 million in 1999 compared to \$136 million in 1998. Dividends paid to preference shareholders were \$9 million in 1999 and \$10 million in 1998.

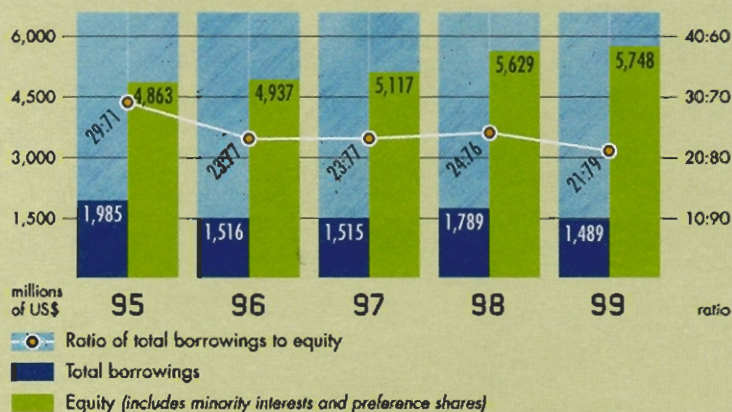
Cash and time deposits totalled \$315 million at the end of 1999 compared to \$615 million at the end of 1998. The Company continues to have a \$1-billion global, multi-year and multi-currency credit facility with a syndicate of major international banks. At December 31, 1999, no funds had been borrowed under this facility and the full amount continues to be available, aside from \$30 million allocated to back up outstanding commercial paper. The Company's investment grade rating also provides Alcan with access to global capital markets through the issuance of debt and equity instruments.

The Company expects that cash generated from operations, combined with the above resources, will be more than sufficient to meet the cash requirements of operations, planned capital expenditures and dividends. In addition, ready access to capital markets should provide adequate liquidity to meet unforeseen events.

Merger with Pechiney and algroup

In August 1999, Alcan announced its intention to merge with Pechiney of France and algroup of Switzerland. The transaction is to be executed by means of exchange offers of Alcan shares for those of Pechiney and algroup. Assuming full acceptance, the merged company, provisionally referred to as A.P.A., will be owned 44% by Alcan shareholders, 29% by Pechiney shareholders and 27% by algroup shareholders. Following the exchange offers, approximately 500 million A.P.A. shares will be outstanding. The proposed merger is currently undergoing reviews by competition authorities in Europe and the United States.

Total Borrowings and Equity (at year-end)



Alcan's borrowings-to-equity ratio continued its improving trend to reach the lowest level in decades.

Environmental Matters

Alcan is committed to the continued environmental improvement of its operations and products. The Company has devoted, and will continue to devote, significant resources to control air and water pollutants, to dispose of wastes and to remediate sites of past waste disposal. Alcan estimates that annual environment-related spending, both capital and expense, will average about \$165 million per year over the next several years and is not expected to have a material effect on its competitive position. While the Company does not anticipate a material increase in the projected level of such expenditures, there is always a possibility that such increases may occur in the future in view of the uncertainties associated with environmental exposures, including new information concerning sites with identified environmental liabilities and changes in laws and regulations and their application.

Included in total operating costs and expenses for the year are amounts for safeguarding the environment and improving working conditions in plants. In 1999, such expenses totalled \$84 million. This amount was largely for costs associated with reducing air emissions and mitigating the impact of waste and by-products. In 1997 and 1998, these expenses totalled \$88 million and \$91 million, respectively.

Included in capital spending in 1999 was \$85 million for environment-related projects. Such spending was largely on equipment designed to reduce or contain air emissions generated by Alcan plants. Spending in 1997 and 1998 was \$84 million and \$71 million, respectively. These actions have led to reductions in PAHs (Polycyclic Aromatic Hydrocarbons) of up to 80% since the mid-1980s at installations that employ Söderberg technology, such as Arvida Works in Jonquière, Quebec. They have also contributed to reductions of up to 60% in the emission of global warming gases, including PFCs (Polyfluorocarbons), at smelters such as Grande-Baie, Quebec.

Risks and Uncertainties

Risk Management

As a multinational company engaged in a commodity-related business, Alcan's financial performance is heavily influenced by fluctuations in metal prices and exchange rates. In order to reduce the associated risks, the Company uses a variety of financial instruments and commodity contracts. All risk management activities are governed by clearly defined policies and management controls. Transactions in financial instruments for which there is no underlying exposure are prohibited.

The decision whether and when to commence a hedge, along with the duration of the hedge, can vary from period to period depending on market conditions and the relative costs of various hedging instruments. The duration of a hedge is always linked to the timing of the underlying transaction, with the connection between the two being constantly monitored to ensure effectiveness.

Foreign Currency Exchange

Exchange rate movements, particularly between the Canadian dollar and U.S. dollar, have an impact on Alcan's results. For example, on an annual basis, each US\$0.01 permanent change in the value of the Canadian dollar has an after-tax impact of approximately \$11 million on the Company's long-term profitability. Alcan benefits from a weakening in the Canadian dollar, but, conversely, is disadvantaged if it strengthens.

In 1999, the Company revised its currency risk management strategy for its ongoing Canadian dollar operating cost exposure. The Company used to hedge a portion of such ongoing Canadian dollar requirements for future periods up to a maximum of three years. This deferred the impact of changes in exchange rate, without adding value over the longer term. The Company no longer hedges these exposures, thus eliminating the cost

of hedging instruments and program administration. This change in approach does not affect the Company's hedging of its Canadian dollar capital commitments for the construction of the new smelter at Alma, Quebec.

For further details, refer to note 18 of the financial statements.

From the beginning of 1998, following a change to the accounting standards of the Canadian Institute of Chartered Accountants on accounting for income taxes, the Company's deferred income tax liability is translated into U.S. dollars at current rates. The resultant exchange gains or losses are included in income. The impact of a US\$0.01 movement in the value of the Canadian dollar on deferred income taxes is approximately \$6 million. During 1999, a loss of \$26 million was recorded in this regard, compared to a gain of \$31 million in 1998.

Aluminum Prices

Depending on market conditions and logistical considerations, Alcan may sell primary aluminum to third parties and may purchase primary aluminum and secondary aluminum, including scrap, on the open market to meet the requirements of its fabricating businesses. In addition, depending on pricing arrangements with fabricated products customers, Alcan may hedge some of its purchased metal supply in support of those sales.

Through the use of forward purchase and sale contracts and options, Alcan seeks to limit the impact of lower metal prices, while retaining the ability to benefit from higher prices. The Company may also, through a combination of hedging instruments, establish a range of sales prices for a certain portion of its future revenues.

Alcan estimates that on an annual basis, each \$100 per tonne change in the price of aluminum has an after-tax impact of approximately \$100 million on the Company's profitability.

For further details, refer to note 18 of the financial statements.

The Year 2000 Issue

No Alcan operating location has experienced a material disruption to planned production levels caused by a Year 2000-related problem associated with its systems hardware and related software used in business applications or manufacturing processes. Information received subsequent to December 31, 1999, from suppliers and customers indicates that no major supplier or customer has experienced a Year 2000-related disruption that could have a significant impact on Alcan.

In view of the complexities and unknown factors associated with the Year 2000 problem it is possible that problems may still arise subsequent to December 31, 1999. However, Alcan believes that based on the performance of its operating locations to date and information from customers and suppliers, the possibility that Alcan will experience material interruptions in normal operations is minimal.

Costs of Alcan's Year 2000 program are expensed as incurred and are estimated at less than \$50 million. Costs from the beginning of the project to December 31, 1999, were \$45 million.

The information contained in this Year 2000 update is a "Year 2000 Readiness Disclosure" under the Year 2000 Information and Readiness Disclosure Act of 1998.

Cautionary Statement

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. The Company cautions that such statements involve risk and uncertainty and that actual results could differ materially from those expressed or implied. Important factors that could cause differences include global aluminum supply and demand conditions, aluminum ingot prices and other raw materials' costs or availability, cyclical demand and pricing in the Company's principal markets, changes in government regulations, economic developments within the countries in which the Company conducts business, and other factors relating to the Company's operations, such as litigation, labour negotiations and fiscal regimes.


Responsibility for the Annual Report

Alcan's management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada and include, where appropriate, estimates based on the best judgement of management. A reconciliation with generally accepted accounting principles in the United States is also presented. Financial and operating data elsewhere in the Annual Report are consistent with that 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 Board of Directors oversees the Company's systems of internal accounting and administrative controls through its Audit Committee, which is comprised of directors who are not employees. The Audit Committee meets regularly with representatives of the shareholders' independent auditors and management, including internal audit staff, to satisfy themselves that Alcan's policy is being followed.

The Audit Committee has recommended the appointment of PricewaterhouseCoopers LLP as the independent auditors, subject to approval by the shareholders.

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



Jacques Bougie, Chief Executive Officer
February 10, 2000



Suresh Thadhani, Chief Financial Officer

OECD Guidelines

The Organization for Economic Cooperation and Development (OECD), which consists of 29 industrialized countries including Canada, has established guidelines setting out an acceptable framework of reciprocal rights and responsibilities between multinational enterprises and host governments. Alcan supports and complies with the OECD guidelines, and the Company's own statement, *Alcan, Its Purpose, Objectives and Policies*, is consistent with them. To that original document, a *Code of Conduct* was added in 1996 to reinforce it with more detailed guidelines.

Auditors' Report

To the Shareholders of Alcan Aluminium Limited

We have audited the consolidated balance sheets of Alcan Aluminium Limited as at December 31, 1999, 1998 and 1997 and the consolidated statements of income, retained earnings and cash flows for each of the years in the three-year period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999, 1998 and 1997 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1999 in accordance with Canadian generally accepted accounting principles.



PricewaterhouseCoopers LLP
Chartered Accountants

Montreal, Canada
February 10, 2000

Consolidated Financial Statements

Consolidated Statement of Income (in millions of US\$, except per share amounts)

Year ended December 31		1999	1998	1997
Revenues	Sales and operating revenues	\$ 7,324	\$ 7,789	\$ 7,777
	Other income <small>(notes 10 and 11)</small>	179	231	88
		7,503	8,020	7,865
Costs and expenses	Cost of sales and operating expenses	5,695	6,076	6,005
	Depreciation <small>(note 2)</small>	477	462	436
	Selling, administrative and general expenses	375	448	444
	Research and development expenses	67	70	72
	Interest	76	92	101
	Other expenses <small>(notes 6, 10 and 11)</small>	127	219	54
		6,817	7,367	7,112
	Income before income taxes and other items	686	653	753
	Income taxes <small>(notes 3 and 7)</small>	211	210	248
	Income before other items	475	443	505
	Equity loss <small>(note 9)</small>	(1)	(48)	(33)
	Minority interests	(14)	4	(4)
	Net income before extraordinary item	\$ 460	\$ 399	\$ 468
	Extraordinary gain <small>(note 4)</small>	—	—	17
	Net income	\$ 460	\$ 399	\$ 485
	Dividends on preference shares	9	10	10
	Net income attributable to common shareholders	\$ 451	\$ 389	\$ 475
	Net income per common share before extraordinary item <small>(note 2)</small>	\$ 2.06	\$ 1.71	\$ 2.02
	Extraordinary gain per common share <small>(note 4)</small>	—	—	0.07
	Net income per common share <small>(note 2)</small>	\$ 2.06	\$ 1.71	\$ 2.09
	Dividends per common share	\$ 0.60	\$ 0.60	\$ 0.60

Consolidated Statement of Retained Earnings (in millions of US\$)

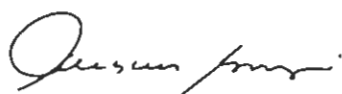
Year ended December 31		1999	1998	1997
	Retained earnings – beginning of year			
	<small>(Restated in 1998 – see note 3)</small>	\$ 4,078	\$ 3,862	\$ 3,217
	Net income	460	399	485
		4,538	4,261	3,702
	Amount related to common shares purchased for cancellation	171	37	—
	Dividends – Common	131	136	136
	– Preference	9	10	10
	Retained earnings – end of year <small>(note 16)</small>	\$ 4,227	\$ 4,078	\$ 3,556

Consolidated Financial Statements (cont'd)

Consolidated Balance Sheet *(in millions of US\$)*

December 31		1999	1998	1997	
Assets	Current assets				
	Cash and time deposits	\$ 315	\$ 615	\$ 608	
	Receivables (net of allowances of \$31 in 1999, \$43 in 1998 and \$35 in 1997)	1,299	1,401	1,292	
	Inventories				
	Aluminum	778	826	800	
	Raw materials	298	345	307	
	Other supplies	200	242	234	
		1,276	1,413	1,341	
		2,890	3,429	3,241	
	Deferred charges and other assets <i>(note 9)</i>	525	575	675	
	Property, plant and equipment <i>(note 10)</i>				
	Cost (excluding Construction work in progress)	11,771	11,758	11,133	
	Construction work in progress	1,220	911	582	
	Accumulated depreciation	6,557	6,772	6,257	
		6,434	5,897	5,458	
	Total assets	\$ 9,849	\$ 9,901	\$ 9,374	
	Liabilities and Shareholders' Equity	Current liabilities			
		Payables	\$ 1,237	\$ 1,104	\$ 1,052
		Short-term borrowings	167	86	238
		Income and other taxes	31	28	98
Debt maturing within one year <i>(note 13)</i>		311	166	36	
		1,746	1,384	1,424	
Debt not maturing within one year <i>(notes 13 and 18)</i>		1,011	1,537	1,241	
Deferred credits and other liabilities <i>(note 12)</i>		563	604	623	
Deferred income taxes <i>(notes 3 and 7)</i>		781	747	969	
Minority interests		207	110	43	
Shareholders' equity					
Redeemable non-retractable preference shares <i>(note 14)</i>		160	160	203	
Common shareholders' equity					
Common shares <i>(note 15)</i>		1,230	1,251	1,251	
Retained earnings <i>(note 16)</i>		4,227	4,078	3,556	
Deferred translation adjustments <i>(note 17)</i>		(76)	30	64	
		5,381	5,359	4,871	
		5,541	5,519	5,074	
Commitments and contingencies <i>(notes 19 and 20)</i>					
Total liabilities and shareholders' equity		\$ 9,849	\$ 9,901	\$ 9,374	

Approved by the Board:



Jacques Bougie, Director



Guy Saint-Pierre, Director

Consolidated Financial Statements (cont'd)

Consolidated Statement of Cash Flows *(in millions of US\$)*

<i>Year ended December 31</i>		1999	1998	1997
Operating activities	Net income	\$ 460	\$ 399	\$ 485
	Adjustments to determine cash from operating activities:			
	Depreciation	477	462	436
	Deferred income taxes	110	29	(8)
	Equity loss – net of dividends	2	53	39
	Change in operating working capital			
	Change in receivables	101	(109)	(30)
	Change in inventories	137	(72)	(37)
	Change in payables	133	52	44
	Change in income and other taxes payable	4	(70)	—
	Changes in operating working capital due to:			
	Deferred translation adjustments	(82)	46	(93)
	Acquisitions, disposals and consolidations/deconsolidations	(54)	47	(9)
		239	(106)	(125)
	Change in deferred charges, other assets, deferred credits and other liabilities – net	(26)	(113)	(139)
	Gain on sales of businesses – net	(110)	(156)	(12)
	Impairment in value of property, plant and equipment	—	143	—
	Other – net	30	28	43
	Cash from operating activities	1,182	739	719
Financing activities	New debt	13	359	22
	Debt repayments	(347)	(57)	(25)
		(334)	302	(3)
	Short-term borrowings – net	45	(169)	90
	Common shares purchased for cancellation	(219)	(46)	—
	Common shares issued	27	9	16
	Redemption of preference shares	—	(43)	—
	Dividends – Alcan shareholders (including preference)	(140)	(146)	(146)
	– Minority interests	(8)	(2)	(3)
	Cash used for financing activities	(629)	(95)	(46)
Investment activities	Property, plant and equipment	(1,169)	(805)	(641)
	Business acquisitions	(129)	(72)	—
		(1,298)	(877)	(641)
	Net proceeds from disposal of businesses, investments and other assets	460	221	54
	Cash used for investment activities	(838)	(656)	(587)
	Effect of exchange rate changes on cash and time deposits	(11)	2	(12)
	Increase (decrease) in cash and time deposits	(296)	(10)	74
	Cash of companies consolidated (deconsolidated) – net	(4)	17	(12)
	Cash and time deposits – beginning of year	615	608	546
	Cash and time deposits – end of year	\$ 315	\$ 615	\$ 608

Notes to Consolidated Financial Statements

(in millions of US\$, except where indicated)

1 Nature of Operations

Alcan is engaged, together with subsidiaries, joint ventures and related companies, in most aspects of the aluminum business on an international scale. Its operations include the mining and processing of bauxite, the basic aluminum ore; the refining of bauxite into alumina; the generation of electric power for use in smelting aluminum; the smelting of aluminum from alumina; the recycling of used and scrap aluminum; the fabrication of aluminum, aluminum alloys and non-aluminum materials into semi-fabricated and finished products; the distribution and marketing of aluminum and non-aluminum products; and, in connection with its aluminum operations, the production and sale of industrial chemicals. Alcan, together with its subsidiaries, joint ventures and related companies, has bauxite holdings in six countries, produces alumina in six, smelts primary aluminum in five, operates aluminum fabricating plants in 13 and has sales outlets and maintains warehouse inventories in the larger markets of the world. Alcan also operates a global transportation network that includes bulk cargo vessels, port facilities and freight trains.

2 Summary of Significant Accounting Policies

Generally Accepted Accounting Principles

Unless otherwise stated, these financial statements conform with generally accepted accounting principles (GAAP) in Canada. Note 5 provides an explanation and reconciliation of differences in Canadian and U.S. GAAP.

Use of Estimates

The preparation of financial statements in conformity with GAAP in Canada and the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

These consolidated financial statements include the accounts of subsidiaries that are controlled by Alcan, all of which are majority owned. Joint ventures, irrespective of percentage of ownership, are proportionately consolidated to the extent of Alcan's participation. Companies subject to significant influence are accounted for using the equity method. Under the equity method, Alcan's investment is increased or decreased by Alcan's share of the undistributed net income or loss and deferred translation adjustments since acquisition. Investments in companies in which Alcan does not have significant influence are accounted for using the cost method. Under the cost method, dividends received are recorded as income.

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

Foreign Currency

The financial statements of self-sustaining foreign operations (located principally in Europe and Asia) are translated into U.S. dollars at prevailing exchange rates. Revenues and expenses are translated at average exchange rates for the year while assets and liabilities are translated at exchange rates in effect at year-end. 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 a foreign operation, the relevant portion of DTA is recognized in Other income or Other expenses at that time. All other operations, including those in Canada, are considered to be integrated foreign operations.

Gains or losses on forward exchange contracts or currency options, all of which serve to hedge certain future identifiable foreign currency exposures, are included, together with related hedging costs, in Sales and operating revenues. Cost of sales and operating expenses or Property, plant and equipment, as applicable, concurrently with recognition of the underlying items being hedged.

Unrealized gains or losses on currency swaps, all of which are used to hedge certain identifiable foreign currency debt obligations, are recorded concurrently with the unrealized gains or losses on the debt obligations being hedged.

Other gains and losses from foreign currency denominated items are included in Other income or Other expenses.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

2 Summary of Significant Accounting Policies (cont'd)

Revenue Recognition

The Company recognizes revenue when goods are shipped or services performed and when significant risks and benefits of ownership are transferred.

Commodity Contracts and Options

Gains or losses on forward metal contracts and options, all of which serve to hedge certain future identifiable aluminum price exposures, are included, together with related hedging costs, in Sales and operating revenues or Cost of sales and operating expenses, as applicable, concurrently with recognition of the underlying items being hedged.

Interest Rate Swaps

Amounts receivable or payable under interest rate swaps are recorded in Interest concurrently with the interest expense on the underlying debt.

Inventories

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 lower.

Capitalization of Interest Costs

The Company capitalizes interest costs associated with the financing of major capital expenditures.

Depreciation

Depreciation is calculated on the straight-line method using rates based on the estimated useful lives of the respective assets. The principal rates are 2¹/₂% for buildings and range from 1% to 4% for power assets and 3% to 12¹/₂% for chemical, smelter and fabricating assets.

Environmental Costs and Liabilities

Environmental expenses are accrued when it is probable that a liability for past events exists. For future removal and site restoration costs, provision is made in a systematic manner by periodic charges to income, except for assets that are no longer in use, in which case full provision is charged immediately to income. Environmental expenses are normally included in Cost of sales and operating expenses except for large, unusual amounts which are included in Other expenses. Accruals related to environmental costs are included in Payables and Deferred credits and other liabilities.

Environmental expenditures of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate or prevent environmental contamination that has yet to occur are included in Property, plant and equipment and are depreciated generally over the remaining useful life of the underlying asset.

Postretirement Benefits Other than Pensions

The costs of postretirement benefits other than pensions are recognized on an accrual basis over the working lives of employees.

Income Taxes

Since 1998, the Company uses the liability method for income taxes, under which deferred income tax liabilities are revalued for all changes in tax rates and exchange rates (see note 3). Prior to 1998, the Company used the deferral method.

Cash and Time Deposits

All time deposits have maturities of 90 days or less and qualify as cash equivalents.

Net Income per Common Share

Net income per common share is calculated by dividing Net income attributable to common shareholders by the average number of common shares outstanding (1999: 219.1 million; 1998: 227.4 million; 1997: 227.0 million).

Net income attributable to common shareholders is computed by subtracting Preference dividends from Net income.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

3 Accounting Changes

In 1998, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) dealing with accounting for income taxes. The principal change under the new recommendations is the requirement to revalue deferred income taxes for changes in tax rates and exchange rates.

The Company adopted the new recommendations retroactively without restating prior years. The cumulative effect of adopting the new recommendations at January 1, 1998, was to decrease Deferred income taxes by \$285, to increase retained earnings by \$306 and to decrease Deferred translation adjustments by \$21.

In 1998, the Company adopted, retroactively, the new recommendations of the CICA dealing with segment disclosures (see note 24).

4 Extraordinary Items — Kemano Completion Project

An extraordinary gain of \$26 (\$17 after tax or \$0.07 per common share) in the fourth quarter of 1997 arose from the sale of a portion of a contract to supply power to B.C. Hydro, net of additional write-downs of remaining Kemano Completion Project ("KCP") assets. In addition to the commitment by the government of British Columbia to supply replacement power at attractive rates for a possible smelter expansion, the settlement of the dispute regarding the cancellation of KCP allowed the Company to sell to a third party the right to supply a specified amount of power to B.C. Hydro under an ongoing contract. An extraordinary loss of \$420 (\$280 after tax or \$1.24 per common share) was recorded in 1995 following the cancellation of the project.

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

Currency Translation

Under Canadian GAAP, unrealized exchange gains and losses on translation of long-term monetary items are deferred and amortized over the life of those items, whereas, under U.S. GAAP, such gains and losses are absorbed in income immediately.

Deferred Income Taxes

Beginning in 1998, the Company adopted the new accounting standards approved by the CICA dealing with accounting for income taxes. These new standards are substantially identical to U.S. GAAP as contained in the Financial Accounting Standards Board (FASB) Statement No. 109.

Prior to 1998, under Canadian GAAP, deferred income taxes were measured at tax rates prevailing at the time the provisions for deferred income taxes were made. Deferred income taxes for U.S. GAAP were revalued each period using currently enacted tax rates.

Also, prior to 1998, under Canadian GAAP, deferred income taxes of operations using the temporal method were translated at historical exchange rates, while under U.S. GAAP, deferred income taxes of all operations were translated at current exchange rates.

Investments

Under U.S. GAAP, certain portfolio investments which are considered to be "available-for-sale" securities are measured at market value, with the unrealized gains or losses included in Comprehensive income. Under Canadian GAAP, these investments are measured at cost.

Comprehensive Income

Beginning in 1998, U.S. GAAP requires the disclosure of Comprehensive income which, for the Company, is Net income under U.S. GAAP plus the movement in Deferred translation adjustments under U.S. GAAP plus the unrealized gains or losses for the period less gains or losses realized during the period on "available-for-sale" securities. The concept of Comprehensive income does not exist under Canadian GAAP.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

5 Differences Between Canadian and United States Generally Accepted Accounting Principles (GAAP) (cont'd)

Joint Ventures

Under Canadian GAAP, joint ventures are accounted for using the proportionate consolidation method, while under U.S. GAAP, joint ventures are accounted for under the equity method. Under an accommodation of the U.S. Securities and Exchange Commission, accounting for joint ventures need not be reconciled from Canadian to U.S. GAAP. The different accounting treatment affects only the display and classification of financial statement items and not net income or shareholders' equity. See note 8 for summarized financial information about joint ventures.

Statement of Cash Flows

Under U.S. GAAP, separate subtotals within operating, financing and investment activities would not be presented.

Reconciliation of Canadian and U.S. GAAP

	1999		1998		1997	
	\$	\$ per Common Share	\$	\$ per Common Share	\$	\$ per Common Share
Net income from continuing operations before extraordinary item – as reported	460		399		468	
Differences due to:						
Foreign currency translation	(9)		14*		(5)	
Income taxes	—		—		37**	
Other	4		4		4	
Net income from continuing operations before extraordinary item – U.S. GAAP	455	2.04	417	1.79	504	2.18
Net income – as reported	460		399		485	
Net income – U.S. GAAP	455		417		521	
Net income attributable to common shareholders as reported	451	2.06	389	1.71	475	2.09
Net income attributable to common shareholders – U.S. GAAP	446	2.04	407	1.79	511	2.25

* \$13 relates to a difference in the realized exchange gain on the sale of shares in an equity investment.

** \$23 relates to changes in tax rates and regulations enacted during the year.

	1999		1998		1997	
	As Reported	U.S. GAAP	As Reported	U.S. GAAP	As Reported	U.S. GAAP
Deferred charges and other assets – December 31	\$ 525	\$ 534	\$ 575	\$ 622	\$ 675	\$ 677
Deferred income taxes – December 31	\$ 781	\$ 781	\$ 747	\$ 747	\$ 969	\$ 684
Retained earnings – December 31	\$ 4,227	\$ 4,273	\$ 4,078	\$ 4,129	\$ 3,556	\$ 3,895
Deferred translation adjustments (DTA) – December 31	\$ (76)	\$ (132)	\$ 30	\$ (24)	\$ 64	\$ 3

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

5 Differences Between Canadian and United States Generally Accepted Accounting Principles (GAAP) (cont'd)

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

	1999	1998	1997
Comprehensive income (U.S. GAAP only)			
Net income	\$ 455	\$ 417	\$ 521
Net change in deferred translation adjustments*	(108)	(27)	(138)
Net change in market value of available-for-sale securities*	(26)	45	n/a
Comprehensive income	\$ 321	\$ 435	\$ 383

* In 1999, \$8 of deferred translation adjustments and \$24 of the excess of market value over book value of available-for-sale securities were transferred to net income (\$41) and nil, respectively in 1998.

	1999	1998	1997
Accumulated other comprehensive income (U.S. GAAP only)			
Accumulated other comprehensive income – beginning of year	\$ 21	\$ 3	\$ 141
Change in deferred translation adjustments	(108)	(27)	(138)
Change in excess of market value over book value of available-for-sale securities	(26)	45	n/a
Accumulated other comprehensive income – end of year	\$ (113)	\$ 21	\$ 3

For 1997, the principal items included in Deferred income taxes under U.S. GAAP were:

	December 31 1997
Liabilities:	
Property, plant and equipment	\$ 767
Undistributed earnings	29
Inventory valuation	52
Other	64
	912
Assets:	
Tax benefit carryovers	114
Accounting provisions not currently deductible for tax	164
Other	26
	304
Valuation allowance (amount not likely to be recovered)	76
	228
Net deferred income tax liability	\$ 684

The difference between DTA under Canadian GAAP and U.S. GAAP arises from the different treatment of exchange on long-term debt at January 1, 1983, resulting from the adoption of accounting standards on foreign currency translation.

Beginning in 2001, the Company will be implementing, for U.S. GAAP only, FASB Statement No. 133, Accounting for Derivatives and Hedging Activities. The Company is currently assessing the impact of the new standard, which will affect how the Company measures and reports the various financial instruments that it uses in its risk management activities.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

6 Reorganization Costs

In 1999, the Company announced a new organization to better enable it to meet the financial objectives contained in its "Full Business Potential" program. This reorganization included the implementation of a number of early retirement and severance programs resulting in a reduction of approximately 570 employees in the Company's workforce. As a result of this reorganization and other restructuring programs, the Company has incurred costs of \$49 which are included in Other expenses. At December 31, 1999, there remains approximately \$38 of accrued liabilities, most of which will be spent in 2000.

7 Income Taxes

	1999	1998	1997
Income before income taxes and other items			
Canada	\$ 174	\$ 175	\$ 360
Other countries	512	478	393
	686	653	753
Current income taxes			
Canada	(78)	65	251
Other countries	179	116	5
	101	181	256
Deferred income taxes			
Canada	48	(22)	(28)
Other countries	62	51	20
	110	29	(8)
Income tax provision	\$ 211	\$ 210	\$ 248

The composite of the applicable statutory corporate income tax rates in Canada is 40.4% (1998: 40.4%; 1997: 40.3%). The following is a reconciliation of income taxes calculated at the above composite statutory rates with the income tax provision:

	1999	1998	1997
Income taxes at the composite statutory rate	\$ 277	\$ 264	\$ 303
Differences attributable to:			
Exchange translation items	(12)	46	13
Exchange revaluation of deferred income taxes	26	(31)	n/a
Effect of tax rate changes on deferred income taxes	—	(4)	n/a
Unrecorded tax benefits on losses – net	(1)	(3)	(12)
Investment and other allowances	(29)	(21)	(32)
Large corporations tax	5	4	3
Withholding taxes	7	5	5
Reduced rate or tax exempt items	(31)	(47)	(3)
Foreign tax rate differences	(4)	(16)	(5)
Prior years' tax adjustments	(40)	3	(31)
Other – net	13	10	7
Income tax provision	\$ 211	\$ 210	\$ 248

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

7 Income Taxes (cont'd)

At December 31, the principal items included in Deferred income taxes are:

	1999	1998
Liabilities:		
Property, plant and equipment	\$ 796	\$ 773
Undistributed earnings	19	20
Inventory valuation	47	49
Other	97	77
	959	919
Assets:		
Tax benefit carryovers	105	103
Accounting provisions not currently deductible for tax	173	167
Other	4	13
	282	283
Valuation allowance (amount not likely to be recovered)	104	111
	178	172
Net deferred income tax liability	\$ 781	\$ 747

The valuation allowance relates principally to loss carryforward benefits and tax credits where realization is not likely due to uncertain economic conditions in certain countries, principally Brazil, as well as time and other limitations in the tax legislation giving rise to the potential benefits. In 1999, \$13 of the valuation allowance was reversed when it became more likely than not that benefits would be realized due to higher than expected taxable income in the United States.

In 1997, \$19 of benefits related to income tax loss carryforwards were recorded in deferred income tax expense.

Based on rates of exchange at December 31, 1999, tax benefits of approximately \$57 relating to prior and current years' operating losses and \$33 of benefits related to capital losses and tax credits carried forward will be recognized in income when it is more likely than not that such benefits will be realized.

In 1997, income taxes on Canadian operations for the years 1988 to 1991 were reassessed by the Canadian tax authorities. Most of the additional taxes and interest related to transfer pricing issues and are recoverable in other countries (see note 23). The process to obtain recoveries from other countries is under way. During 1999, the Canadian tax authorities indicated their intention not to proceed with the reassessments made in 1997 in respect of the years 1988 and 1989. As a result of these favourable prior year tax adjustments, in 1999 the Company received a total of \$108 from the Canadian tax authorities and the Company's 1999 income tax provision has been reduced by \$31, of which \$18 relates to interest.

8 Joint Ventures

The activities of the Company's major joint ventures are the procurement and processing of bauxite in Australia, Brazil, Guinea and Jamaica, as well as aluminum rolling operations in Germany and the United States.

Alcan's proportionate interest in all joint ventures is included in the consolidated financial statements. Summarized financial information relating to Alcan's share of these joint ventures is provided below.

Because most of the activities of the Company's joint ventures relate to supplying the Company's other operations, the portion of the Company's third-party revenues, and related costs and expenses, conducted through joint ventures is insignificant. Accordingly, summarized income statement information as well as cash flow from operating activities would not provide meaningful information.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

8 Joint Ventures (cont'd)

	1999	1998	1997
Financial position at December 31			
Inventories	\$ 103	\$ 174	\$ 189
Property, plant and equipment – net	688	959	943
Other assets	90	101	60
Total assets	\$ 881	\$ 1,234	\$ 1,192
Short-term debt	\$ 27	\$ 19	\$ 38
Debt not maturing within one year	117	123	100
Other liabilities	150	167	156
Total liabilities	\$ 294	\$ 309	\$ 294
Cash flow information for the year ended December 31			
Cash from (used for) financing activities	\$ 2	\$ (1)	\$ 10
Cash used for investment activities	\$ (61)	\$ (85)	\$ (78)

9 Deferred Charges and Other Assets

Deferred charges and other assets comprise the following elements:

	1999	1998	1997
Prepaid pension costs	\$ 189	\$ 171	\$ 170
Income taxes recoverable	59	116	116
Marketable securities	53	38	36
Prepaid mining expenses	62	44	—
Investments	32	58	251
Costs related to proposed combination (note 26)	20	—	—
Premiums on currency and metal options	10	39	16
Amount receivable on currency swap of debt	6	25	18
Other	94	84	68
	\$ 525	\$ 575	\$ 675

Investments

	1999	1998	1997
Companies accounted for under the equity method	\$ 11	\$ 13	\$ 245
Portfolio investments – at cost, less amounts written off	21	45	6
	\$ 32	\$ 58	\$ 251

As described in note 11, in 1998 the Company reduced its 45.6% interest in Nippon Light Metal Company, Ltd. (NLM) in Japan to 11.2% and further reduced its interest to 5.1% in 1999. With the reduction in Alcan's interest to below 20%, the Company no longer has significant influence over the investment. Accordingly, NLM is no longer accounted for on an equity basis but is treated as a portfolio investment.

As described in note 11, in 1998 the Company acquired a controlling interest in Indian Aluminium Company, Limited (Indal), the accounts of which are consolidated with those of the Company. Indal was previously treated as an equity investment.

For 1997, the combined results of operations and financial position for NLM and Indal are included in the following summary. For 1998, the combined results of operations include information for NLM and Indal to the dates these entities ceased to be equity accounted investments.

In 1998, the Company recorded a special after-tax charge of \$27 (\$30 in 1997) included in Equity loss, reflecting the Company's share of construction contract losses and restructuring provisions in NLM.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

9 Deferred Charges and Other Assets (cont'd)

Investments (cont'd)

	1998	1997
Results of operations for the year ended December 31		
Revenues	\$ 3,626	\$ 5,572
Costs and expenses	3,719	5,622
Income (Loss) before income taxes	(93)	(50)
Income taxes	12	35
Net loss	\$ (105)	\$ (85)
Alcan's share of Net loss	\$ (48)	\$ (33)
Dividends received by Alcan	\$ 5	\$ 6
Financial position at December 31		
Current assets	n/a	\$ 2,600
Current liabilities	n/a	2,519
Working capital	n/a	81
Property, plant and equipment – net	n/a	1,737
Other assets – net	n/a	335
	n/a	2,153
Debt not maturing within one year	n/a	1,376
Net assets	n/a	\$ 777
Alcan's equity in net assets	n/a	\$ 245

10 Property, Plant and Equipment

	1999	1998	1997
Cost (excluding Construction work in progress)			
Land and property rights	\$ 220	\$ 236	\$ 219
Buildings, machinery and equipment	11,551	11,522	10,914
	\$ 11,771	\$ 11,758	\$ 11,133

Accumulated depreciation relates primarily to Buildings, machinery and equipment.

In 1999, the Company completed the sale of a property in the United Kingdom for a gain of \$19 included in Other income. In early 1999, the Company sold the Loughinish alumina refinery. Negotiations of the sale began in late 1998 and, as a result of that process, the Company determined that the value of these assets was impaired as at December 31, 1998. In 1998, a charge of \$143 reflecting the impairment was included in Other expenses. Excluding the impairment charge, these assets contributed approximately \$27 of income before taxes in 1998.

On an ongoing basis, capital expenditures of the Company are estimated at \$450 to \$500 per year. In addition, the Company expects to spend approximately \$700 in 2000 on the construction of a new smelter at Alma, Quebec.

11 Sales and Acquisitions of Businesses and Investments

Japan

In 1999, the Company sold a portion of its investment in Nippon Light Metal Company, Ltd. (NLM), reducing its holdings to 5.1%, for net cash proceeds of \$38. Included in Other income is a gain of \$37 (\$37 after tax). The after-tax gain includes a previously deferred gain of \$17 related to the sale in 1996 of Toyo Aluminium K.K. (Toyal) to NLM.

In 1998, the Company reduced its 45.6% investment in NLM to 11.2%. The net cash proceeds from the sale of shares were approximately \$193 with a corresponding gain, included in Other income, of approximately \$146 (\$140 after tax), including a previously deferred gain of \$87 after tax related to the sale in 1996 of Toyal to NLM.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

11 Sales and Acquisitions of Businesses and Investments (cont'd)

India

In 1998, the Company acquired an additional 20% of Indian Aluminium Company, Limited (Indal) for \$70 in cash. As a result, Alcan obtained a controlling interest of 54.6% in Indal. The accounts of Indal have been consolidated with effect from July 1998. Prior to that date, Alcan accounted for its investment in Indal under the equity method.

Included in the Company's balance sheet at the date of acquisition were the following assets and liabilities of Indal:

Working capital	\$	40
Property, plant and equipment		212
Other assets – net		(5)
		247
Long-term debt		75
Minority interest		58
Net assets	\$	114

Europe

In 1999, the Company completed the sale of the Aughinish alumina refinery in Ireland. The net book value of the assets sold had been written down to net realizable value in 1998 in anticipation of completion of the sale in 1999. The write-down in 1998 of \$143 was included in Other expenses. In 1999, the Company completed the sale of businesses in Germany and France for gains of \$44 and \$8, respectively, included in Other income.

South Korea

In 1999, the Company purchased a 56% interest in a newly created company based in South Korea, Alcan Taihan Aluminum Limited. Total cash consideration paid by the Company for its equity interest was \$129. In addition, the Company assumed total debt of \$58.

Included in the Company's balance sheet at the date of acquisition were the following assets and liabilities:

Working capital	\$	(19)
Property, plant and equipment		237
Other assets – net		1
		219
Long-term debt		2
Minority interest		88
Net assets	\$	129

12 Deferred Credits and Other Liabilities

Deferred credits and other liabilities comprise the following elements:

	1999	1998	1997
Deferred revenues	\$ 43	\$ 56	\$ 56
Postretirement and post-employment benefits	378	395	390
Environmental liabilities	44	40	37
Rationalization costs	36	23	32
Claims	39	43	40
Other	23	47	68
	\$ 563	\$ 604	\$ 623

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

13 Debt Not Maturing Within One Year

	1999	1998	1997
Alcan Aluminium Limited			
Deutschmark bank loans, due 2000/2005 (DM340 million) (a)	\$ 175	\$ 218	\$ 213
5.875% Debentures, due 2000	150	150	150
5.375% Swiss franc bonds, due 2003 (b)	111	130	123
CARIFA loan, due 2006 (c)	60	60	60
6.25% Debentures, due 2008	200	200	—
9.5% Debentures (d)	100	100	100
9.625% Sinking fund debentures, due 2019 (d)	18	150	150
8.875% Debentures, due 2022 (c)	150	150	150
7.25% Debentures, due 2028	100	100	—
Other debt, due 2001	7	7	7
Alcan Aluminum Corporation			
7.25% Debentures (f)	—	100	100
Other debt, due 2000/2004	2	2	3
Alcan Deutschland GmbH and subsidiary companies			
5.65% Bank loans, due 2001 (DM15 million)	8	9	8
Bank loans, due 2008/2009 (DM16 million) (a)	8	64	56
Indian Aluminium Company, Limited			
6.71% Bank loan, due 2004/2006	40	51	—
6.51% Bank loan, due 2000/2002	18	18	—
Other debt, due 2000/2006	21	28	—
Queensland Alumina Limited			
Bank loans, due 2001/2003 (a)	70	78	79
Other debt, due 2000	9	—	—
Other companies			
Bank loans, due 2000/2011 (a)	59	71	51
4% Eurodollar exchangeable debentures, due 2003 (g)	14	14	24
Other debt, due 2000/2011	2	3	3
	1,322	1,703	1,277
Debt maturing within one year included in current liabilities	(311)	(166)	(36)
	\$ 1,011	\$ 1,537	\$ 1,241

(a) Interest rates fluctuate principally with the lender's prime commercial rate, the commercial bank bill rate, or are tied to LIBOR rates.

(b) The Swiss franc bonds were issued as SFr178 million and were swapped for \$105 at an effective interest rate of 8.98%.

(c) The Caribbean Basin Projects Financing Authority (CARIFA) loan bears interest at a rate related to U.S. LIBOR.

(d) In 1999, \$132 of the 9.625% debentures were redeemed at a price of 104.64%. The loss on redemption of \$6 is included in Other expenses. The 9.5% debentures were redeemed in January 2000 at a price of 103.494%. The loss on redemption of \$3 will be included in Other expenses in 2000.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

13 Debt Not Maturing Within One Year (cont'd)

(e) The Company has the right to redeem the debentures during the years 2002 to 2012 at amounts declining from 104% to 100% of the principal amount.

(f) The following is summarized consolidated financial information for Alcan Aluminum Corporation, a wholly owned subsidiary which consolidates virtually all of the Company's operations in the United States:

	1999	1998	1997
Results of operations for the year ended December 31			
Revenues	\$ 3,713	\$ 3,766	\$ 3,624
Costs and expenses	3,446	3,482	3,438
Income before income taxes	267	284	186
Income taxes	81	110	81
Net income	\$ 186	\$ 174	\$ 105
Financial position at December 31			
Current assets	\$ 863	\$ 883	\$ 801
Current liabilities	516	483	376
Working capital	347	400	425
Property, plant and equipment – net	681	714	736
Other assets (liabilities) – net	205	(67)	(199)
	1,233	1,047	962
Debt not maturing within one year	1	2	102
Net assets	\$ 1,232	\$ 1,045	\$ 860

The above figures are prepared using the accounting principles followed by the Company (see note 2), except that inventories have been valued principally by the last-in, first-out (LIFO) method.

(g) Debenture holders are entitled to receive at their option 1,772 common shares held by the Company in NLM, a portfolio investment, in exchange for each ten thousand dollar principal amount of debentures. The Company can redeem the debentures at 100% of the principal.

The Company had swapped, to 1998, the interest payments on \$100 of its floating rate debt in exchange for fixed interest payments.

Based on rates of exchange at year-end, debt repayment requirements over the next five years amount to \$311 in 2000, \$108 in 2001, \$78 in 2002, \$181 in 2003 and \$63 in 2004.

The Company has a \$1,000 global, multi-year and multi-currency facility, which expires in tranches at various dates in 2005 and 2006, with a syndicate of major international banks. At December 31, 1999, no funds had been borrowed under this facility and the full amount was available.

14 Preference Shares

Authorized

An unlimited number of preference shares issuable in series. All shares are without nominal or par value.

Authorized and Outstanding

In each of the years 1999, 1998 and 1997, there were authorized and outstanding 5,700,000 series C and 3,000,000 series E, redeemable non-retractable preference shares with stated values of \$106 and \$54, respectively.

The 1,700,000 series D redeemable non-retractable preference shares with stated value of \$43, authorized and outstanding throughout 1997, were redeemed in June 1998.

Preference shares, series C and E are eligible for quarterly dividends based on an amount related to the average of the Canadian prime interest rates quoted by two major Canadian banks for stated periods.

Preference shares, series C and E may be called for redemption at the option of the Company on 30 days' notice at CAN\$25.00 per share.

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

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

15 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		
	1999	1998	1997	1999	1998	1997
Outstanding – beginning of year	226,003	227,344	226,620	\$ 1,251	\$ 1,251	\$ 1,235
Issued for cash:						
Executive share option plan	886	135	550	19	2	11
Dividend reinvestment and share purchase plans	271	254	174	8	7	5
Purchased for cancellation	(8,845)	(1,730)*	—	(48)	(9)	—
Outstanding – end of year	218,315	226,003	227,344	\$ 1,230	\$ 1,251	\$ 1,251

* 1,645 were cancelled in 1998 and 85 in 1999.

Under the executive share option plan, certain employees may purchase common shares at market value on the effective date of the grant of each option. The vesting period for options granted beginning in 1998 is linked to Alcan's share price performance, but does not exceed nine years. Options granted before 1998 vest generally over a fixed period of four years from the grant date and expire at various dates during the next 10 years. Changes in the number of shares under option as well as average exercise price are summarized below:

	Average exercise price (CAN\$)			Number (in thousands)		
	1999	1998	1997	1999	1998	1997
Outstanding – beginning of year	\$38.16	\$38.64	\$33.87	5,156	4,193	3,715
Granted	\$45.41	\$34.91	\$48.52	1,315	1,122	1,100
Exercised	\$32.76	\$26.96	\$27.49	(886)	(135)	(550)
Cancelled	\$31.80	\$33.23	\$28.51	(113)	(24)	(72)
Outstanding – end of year	\$40.91	\$38.16	\$38.64	5,472	5,156	4,193

Range of Exercise Prices for Options Outstanding at December 31, 1999

Range of Exercise Prices (CAN\$)	Number of Options (in thousands)
\$21.94 – \$34.00	455
\$34.01 – \$40.00	1,399
\$40.01 – \$46.00	2,509
\$46.01 – \$48.98	1,109
	5,472

At December 31, 1999, approximately 3,099,000 of outstanding options with an average exercise price of CAN\$38.12 were vested.

During 1998, the Company also granted 774,700 options, which grants become effective, subject to certain restrictions, upon the exercise of options previously granted.

Upon consummation of the combination with Pechiney and Alusuisse Lonza Group Ltd., described in note 26, all options granted under the Company's executive share option plan would vest.

At December 31, 1999, the Company had reserved for issue under the executive share option plan 18,380,024 shares.

The Company does not recognize compensation expense for options granted under the executive share option plan. If the Company had elected to recognize compensation expense for these options in accordance with the methodology prescribed by Statement No. 123 of the U.S. Financial Accounting Standards Board (FASB), net income would have been lower by \$13, or \$0.06 per share, (\$9, or \$0.04 per share, in 1998 and \$10, or \$0.04 per share, in 1997). The FASB provides the choice of either recognizing the compensation expense in the financial statements or disclosing it in the notes to the financial statements. To compute the notional compensation expense, the Black-Scholes valuation model was used to determine the fair value of the options granted. Using the model, the fair value of options averages approximately 31% to 34% of the exercise price.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

15 Common Shares (cont'd)

Under a normal course issuer bid, which terminated on September 28, 1999, the Company was authorized to repurchase up to 22,700,000 common shares, representing approximately 10% of the outstanding shares. In 1999, 8,845,000 common shares for an amount of \$219 were purchased and cancelled under this authorization (1998: 1,730,000 common shares for an amount of \$46).

Shareholder Rights Plan

In 1990, shareholders approved a plan whereby each common share of the Company carries one right to purchase additional common shares. The plan, with certain amendments, was reconfirmed at the 1995 Annual Meeting and further amendments were approved at the 1999 Annual Meeting. The rights under the plan are not currently exercisable but may become so upon the acquisition by a person or group of affiliated or associated persons ("Acquiring Person") of beneficial ownership of 20% or more of the Company's outstanding voting shares or upon the commencement of a takeover bid. Holders of rights, with the exception of an Acquiring Person, in such circumstances will be 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 market value of the Company's common shares at the time the rights become exercisable.

The plan has a permitted bid feature which allows a takeover bid to proceed without the rights under the plan becoming exercisable, provided that it meets certain minimum specified standards of fairness and disclosure, even if the Board does not support the bid.

The plan expires in 2008, subject to reconfirmation at the Annual Meeting of Shareholders in 2002 and 2005 but may be redeemed earlier by the Board, with the prior consent of the holders of rights or common shares, for \$0.01 per right. In addition, should a person or group of persons acquire outstanding voting shares pursuant to a permitted bid or a share acquisition in respect of which the Board has waived the application of the plan, the Board shall be deemed to have elected to redeem the rights at \$0.01 per right.

16 Retained Earnings

Consolidated retained earnings at December 31, 1999, include \$2,563 of undistributed earnings of subsidiaries and joint ventures, 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 businesses.

17 Currency Gains and Losses

The following are the amounts recognized in the financial statements:

	1999	1998	1997
Currency gains (losses) excluding realized deferred translation adjustments:			
Forward exchange contracts and currency options	\$ (23)	\$ (58)	\$ 22
Other	(15)	4	1
	\$ (38)	\$ (54)	\$ 23
Deferred translation adjustments – beginning of year	\$ 30	\$ 43	\$ 209
Effect of exchange rate changes	(100)	28	(143)
Gains realized*	(6)	(41)	(2)
Balance – end of year	\$ (76)	\$ 30	\$ 64

* The gains realized in 1999 and 1998 relate principally to the sale of a portion of the Company's investment in Nippon Light Metal Company, Ltd.

In 1999, \$25 (\$5 in 1998) of exchange losses related to hedging of Canadian dollar construction costs of the new smelter at Alma, Quebec, are included in Construction work in progress.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

18 Financial Instruments and Commodity Contracts

In conducting its business, the Company uses various instruments, including forward contracts and options, to manage the risks arising from fluctuations in exchange rates, interest rates and aluminum prices. All such instruments are used for risk management purposes only.

Financial Instruments – Currency

In 1999, the Company revised its currency risk management strategy for its ongoing Canadian dollar operating cost exposure. The Company used to hedge a portion of such ongoing Canadian dollar requirements for future periods up to a maximum of three years. This deferred the impact of changes in exchange rates, without adding value over the longer term. The Company no longer hedges these exposures, thus eliminating the cost of hedging instruments and program administration. This change in approach does not affect the Company's hedging of its Canadian dollar capital commitments for the construction of the new smelter at Alma, Quebec, as disclosed below.

At December 31, 1999, the contract amount of forward exchange contracts outstanding used to hedge future firm operating cost commitments was \$463 (\$426 in 1998 and \$1,296 in 1997) while the contract amount of purchased options outstanding used to hedge future firm operating cost commitments was \$199 (\$1,499 in 1998 and \$1,512 in 1997). At December 31, 1999, the contract amount of outstanding forward exchange contracts used to hedge future revenues was \$44 (\$47 in 1998 and \$268 in 1997). At December 31, 1999, the contract amount of forward exchange contracts outstanding used to hedge future commitments (principally Canadian dollar) for the construction of a new smelter at Alma, Quebec, was \$490 (\$281 in 1998 and nil in 1997) while the contract amount of purchased options outstanding used to hedge the Canadian dollar commitments for the new smelter was \$55 (\$315 in 1998 and nil in 1997).

The market value of outstanding forward exchange contracts related to hedges of operating costs or revenues at December 31, 1999 was such that if these contracts had been closed out, the Company would have received \$29 (paid \$18 in 1998 and paid \$24 in 1997). Based on prevailing market prices, if the currency option contracts related to operating cost commitments had been closed out on December 31, 1999, the Company would have received \$4 (paid \$33 in 1998 and paid \$36 in 1997). The market value at December 31, 1999 of outstanding forward exchange contracts related to hedges of cost commitments for the new smelter at Alma, Quebec, was such that if these contracts had been closed out, the Company would have received \$8 (paid \$8 in 1998). Based on prevailing market prices, if the currency option contracts relating to smelter construction cost commitments had been closed out at December 31, 1999, the Company would have received \$1 (paid \$2 in 1998). Unrealized gains and losses on outstanding forward contracts and options are not recorded in the financial statements until maturity of the underlying transactions.

In addition, certain intercompany foreign currency denominated loans are hedged through the use of forward exchange contracts. At December 31, 1999, the contract amount of such forward contracts was \$204 (\$212 in 1998 and \$220 in 1997) and the market value was such that if these contracts had been closed out, the Company would have received nil (\$4 in 1998 and \$16 in 1997).

Included in Deferred charges and other assets and Receivables is an amount of \$42 (\$71 in 1998) consisting of net losses on terminated forward exchange contracts and options, as well as the net cost of outstanding options, used to hedge future costs, including costs related to the construction of the new smelter at Alma. These deferred charges are included in the cost of the items being hedged at the same time as the underlying transactions being hedged are recognized.

Financial Instruments – Debt Not Maturing Within One Year

As explained in note 13, the 5.375% Swiss franc bonds of principal amount SFr178 million have been swapped for \$105 at an effective interest rate of 8.98%. If the swap had been closed out at December 31, 1999, the Company would have received a net amount of \$6 (\$24 in 1998 and \$15 in 1997), of which an amount of \$6 related to the swap of the principal (\$25 in 1998 and \$18 in 1997) has been recorded in Deferred charges and other assets.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

18 Financial Instruments and Commodity Contracts (cont'd)

Financial Instruments – Interest Rates

The Company sometimes enters into interest rate swaps to manage funding costs as well as the volatility of interest rates. Amounts receivable or payable related to swaps are recorded in Interest concurrently with the interest expense on the underlying debt.

Changes in the fair value of the interest rate swaps are not recognized on a mark to market basis since these relate specifically to interest costs on identifiable debt.

There were no significant interest rate swap agreements outstanding at December 31, 1999 and 1998. If all interest rate swap agreements had been closed out on December 31, 1997, the Company would have paid \$2 based on prevailing interest rates.

Commodity Contracts – Metal

Depending on supply and market conditions, as well as for logistical reasons, the Company may sell primary metal to third parties and may purchase primary and secondary aluminum on the open market to meet its fabricated products requirements. In addition, the Company may hedge certain commitments arising from pricing arrangements with some of its customers.

Through the use of forward purchase and sales contracts and options, the Company seeks to limit the negative impact of low metal prices whilst retaining most of the benefit from higher metal prices.

At December 31, 1999, the Company had outstanding forward contracts (principally forward purchase contracts) covering 326,800 tonnes (465,600 tonnes at December 31, 1998 and 418,800 tonnes at December 31, 1997), maturing at various dates principally in 2000, 2001 and 2002 (1999, 2000 and 2001 at December 31, 1998 and 1998, 1999 and 2000 at December 31, 1997). In addition, the Company held call options outstanding for 135,500 tonnes (346,000 tonnes at December 31, 1998 and 657,800 tonnes at December 31, 1997) maturing at various dates in 2000 and 2001 (1999 and 2000 at December 31, 1998 and 1998 and 1999 at December 31, 1997).

At December 31, 1999, the Company held put options outstanding for 27,300 tonnes, maturing in 2000 and 2001 (20,000 tonnes maturing in 1999 at December 31, 1998 and 60,000 tonnes maturing in 1998 and 1999 at December 31, 1997).

Included in Receivables or Deferred charges and other assets is \$7 (\$22 in 1998 and \$33 in 1997) representing the net cost of outstanding options.

The option premiums paid and received, together with the realized gains or losses on the contracts, are included in Sales and operating revenues or Cost of sales and operating expenses, as applicable, concurrently with recognition of the underlying items being hedged.

Based on metal prices prevailing on December 31, 1999, if all commodity forward purchase and sale contracts and options had been closed out, the Company would have received \$64 (paid \$39 in 1998 and paid \$9 in 1997).

Counterparty Risk

As exchange rates, interest rates and metal prices fluctuate, the above contracts will generate gains and losses that will be offset by changes in the value of the underlying items being hedged. The Company may be exposed to losses in the future if the counterparties to the above contracts fail to perform. However, the Company is satisfied that the risk of such non-performance is remote, due to its controls on credit exposures.

Financial Instruments – Market Value

On December 31, 1999, the fair value of the Company's long-term debt totalling \$1,322 (\$1,703 in 1998 and \$1,277 in 1997) was \$1,323 (\$1,762 in 1998 and \$1,321 in 1997), based on market prices for the Company's fixed rate securities and the book value of variable rate debt.

At December 31, 1999, the quoted market value of the Company's portfolio investments having a book value of \$21 (\$45 in 1998) was \$39 (\$90 in 1998). Prior to 1998, portfolio investments held by the Company were not significant.

At December 31, 1999, the market value of the Company's preference shares having a book value of \$160 (\$160 in 1998) was \$139 (\$140 in 1998). (In 1997, the market value was approximately equal to book value.)

The market values of all other financial assets and liabilities are approximately equal to their carrying values.

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

19 Commitments and Contingencies

The Company has guaranteed the repayment of approximately \$14 of indebtedness by third parties. Alcan believes that none of these guarantees is likely to be invoked. Commitments with third parties and certain related companies for supplies of goods and services are estimated at \$734 in 2000, \$151 in 2001, \$109 in 2002, \$97 in 2003, \$92 in 2004, and \$520 thereafter. Most of the commitments in 2000 and 2001 relate to the construction of the new smelter at Alma, Quebec. Total fixed charges from these entities, excluding \$605 in relation to the smelter at Alma, were \$18 in 1999, \$23 in 1998 and \$9 in 1997.

Minimum rental obligations are estimated at \$26 in 2000, \$19 in 2001, \$15 in 2002, \$13 in 2003, \$11 in 2004 and \$55 thereafter. Total rental expenses amounted to \$57 in 1999, \$83 in 1998 and \$70 in 1997.

Alcan, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. The Company has environmental contingencies relating to approximately 30 existing and former Alcan sites and third-party sites. Accruals have been made in specific instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may arise in other instances for which no accruals have been made, the Company does not believe that such an outcome will significantly impair its operations or have a material adverse effect on its financial position.

In addition, see reference to income taxes in note 7, capital expenditures in note 10, debt repayments in note 13, financial instruments and commodity contracts in note 18, year 2000 compliance in note 20, and combination agreement in note 26.

20 Year 2000 Compliance

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in possible errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Generally, costs associated with the Year 2000 Issue are being expensed as incurred.

21 Supplementary Information

	1999	1998	1997
Income statement			
Interest on long-term debt	\$ 104	\$ 93	\$ 91
Capitalized interest	\$ (41)	\$ (15)	\$ (2)
Balance sheet			
Payables			
Accrued employment costs	\$ 205	\$ 196	\$ 170
Short-term borrowings	\$ 167	\$ 86	\$ 238
At December 31, 1999, the weighted average interest rate on short-term borrowings was 6.7% (4.7% in 1998 and 5.3% in 1997).			
Statement of cash flows			
Interest paid	\$ 128	\$ 96	\$ 101
Income taxes paid	\$ 96	\$ 298	\$ 261

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

22 Postretirement Benefits

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, generally corresponding to the expected average remaining service life of the employees.

The Company provides life insurance benefits under some of its retirement plans. Certain early retirement arrangements also provide for medical benefits, generally only until the age of 65. These plans are not funded.

	Pension Benefits			Other Benefits		
	1999	1998	1997	1999	1998	1997
Change in benefit obligation						
Benefit obligation at January 1	\$ 3,827	\$ 3,550	\$ 3,506	\$ 176	\$ 172	\$ 178
Service cost	99	84	73	4	4	4
Interest cost	241	236	231	11	11	12
Members' contributions	21	20	20	—	—	—
Benefits paid	(209)	(200)	(189)	(10)	(9)	(9)
Amendments	66	80	47	3	—	—
Acquisitions/divestitures	(5)	(1)	(176)	—	—	—
Actuarial (gain) loss	59	45	63	2	(2)	(13)
Currency (gains) losses	(52)	13	(25)	—	—	—
Benefit obligation at December 31	\$ 4,047	\$ 3,827	\$ 3,550	\$ 186	\$ 176	\$ 172
Change in market value of plan assets (Assets)						
Assets at January 1	\$ 4,298	\$ 4,231	\$ 3,986	\$ —	\$ —	\$ —
Actual return on assets	800	204	566	—	—	—
Members' contributions	21	20	20	—	—	—
Benefits paid	(209)	(200)	(189)	—	—	—
Company contributions	44	36	38	—	—	—
Acquisitions/divestitures	—	—	(176)	—	—	—
Currency gains (losses)	(37)	7	(14)	—	—	—
Assets at December 31	\$ 4,917	\$ 4,298	\$ 4,231	\$ —	\$ —	\$ —
Assets in excess of benefit obligation	\$ 870	\$ 471	\$ 681	\$ (186)	\$ (176)	\$ (172)
Unamortized						
– actuarial (gains) losses	(1,110)	(736)	(943)	(18)	(24)	(24)
– prior service cost	246	263	276	2	(5)	(9)
– net initial (surplus) liability	(5)	(27)	(48)	1	2	2
Net asset (liability) in balance sheet	\$ 1	\$ (29)	\$ (34)	\$ (201)	\$ (203)	\$ (203)

The accumulated benefit obligation (ABO) of pension plans is \$3,661 (\$3,414 in 1998 and \$3,156 in 1997). For certain plans, the ABO exceeds the market value of the assets. For these plans, the ABO is \$158 (\$1,239 in 1998 and \$1,086 in 1997) while the market value of the assets is \$28 (\$1,041 in 1998 and \$951 in 1997).

	Pension Benefits			Other Benefits		
	1999	1998	1997	1999	1998	1997
Components of net periodic benefit cost						
Service cost	\$ 99	\$ 84	\$ 73	\$ 4	\$ 4	\$ 4
Interest cost	241	236	231	11	11	12
Expected return on assets	(301)	(293)	(274)	—	—	—
Amortization						
– actuarial (gains) losses	(65)	(74)	(67)	(3)	(2)	(2)
– prior service cost	76	94	83	(4)	(4)	(4)
– net initial (surplus) liability	(21)	(21)	(22)	—	—	—
Net periodic benefit cost	\$ 29	\$ 26	\$ 24	\$ 8	\$ 9	\$ 10

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

22 Postretirement Benefits (cont'd)

	Pension Benefits			Other Benefits		
	1999	1998	1997	1999	1998	1997
Weighted average assumptions at December 31						
Discount rate	6.5%	6.3%	6.8%	6.9%	6.4%	6.7%
Average compensation growth	4.3%	4.3%	4.9%	5.0%	4.5%	4.9%
Expected return on assets	7.3%	7.2%	7.3%	n/a	n/a	n/a

The assumed health care cost trend rate used for measurement purposes was 8.5% for 2000, decreasing gradually to 5.25% in 2006 and remaining at that level thereafter. A one percentage point change in assumed health care cost trend rates would have the following effects:

Sensitivity Analysis	Other Benefits	
	1% Increase	1% Decrease
Effect on service and interest costs	1	(1)
Effect on benefit obligation	9	(8)

23 Information by Geographic Areas

	Location	1999	1998	1997
Sales and operating revenues – third parties (by destination)	Canada	\$ 620	\$ 580	\$ 658
	United States	3,067	3,073	2,946
	South America	371	473	464
	United Kingdom	450	548	596
	Germany	641	769	693
	Other Europe	1,249	1,556	1,522
	Asia and Pacific	877	748	848
	All other	49	42	50
	Total	\$ 7,324	\$ 7,789	\$ 7,777
Sales and operating revenues – intercompany (by origin)	Canada	\$ 1,852	\$ 1,980	\$ 1,926
	United States	528	504	541
	South America	56	37	41
	United Kingdom	327	294	369
	Germany	147	143	203
	Other Europe	109	301	318
	Asia and Pacific	72	70	68
	All other	260	358	350
	Sub-total	3,351	3,687	3,816
	Consolidation eliminations	(3,351)	(3,687)	(3,816)
Total	\$ —	\$ —	\$ —	
Sales to subsidiary companies are made at fair market prices recognizing volume, continuity of supply and other factors.				
Sales and operating revenues – third parties (by origin)	Canada	\$ 941	\$ 1,004	\$ 1,169
	United States	3,119	3,229	3,063
	South America	334	369	395
	United Kingdom	445	515	538
	Germany	1,196	1,379	1,291
	Other Europe	520	777	780
	Asia and Pacific	671	491	515
	All other	98	25	26
	Total	\$ 7,324	\$ 7,789	\$ 7,777

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

23 Information by Geographic Areas (cont'd)

	Location	1999	1998	1997
Net income*	Canada	\$ 111	\$ 133	\$ 245
	United States	178	144	136
	South America	5	13	27
	United Kingdom	18	2	22
	Germany	30	7	—
	Other Europe	16	(98)**	33
	Asia and Pacific	82	117***	(1)
	All other	33	39	35
	Consolidation eliminations	(13)	42	(29)
	Net income before extraordinary item	460	399	468
	Extraordinary gain – Canada	—	—	17
Total	\$ 460	\$ 399	\$ 485	
Property, plant and equipment – net at December 31	Canada	\$ 3,050	\$ 2,376	\$ 2,095
	United States	681	714	736
	South America	743	710	567
	United Kingdom	444	462	406
	Germany	499	650	631
	Other Europe	147	349	609
	Asia and Pacific	575	339	134
	All other	295	297	280
	Total	\$ 6,434	\$ 5,897	\$ 5,458
	Capital expenditures and investments	Canada	\$ 845	\$ 326
United States		63	62	71
South America		86	188	118
United Kingdom		41	85	97
Germany		49	44	55
Other Europe		21	35	54
Asia and Pacific		158	84	21
All other		35	53	39
Total		\$ 1,298	\$ 877	\$ 641
Average number of employees (in thousands)		Canada	11	11
	United States	4	4	4
	South America	3	3	3
	United Kingdom	3	3	3
	Germany	4	5	5
	Other Europe	2	3	3
	Asia and Pacific	8	5	2
	All other	3	2	2
	Total	38	36	33

* If presented to reflect the effect of prior years' income tax reassessments described in note 7, in addition to the net benefit of \$31 recorded in Canada in 1999, net income in Canada in 1999 would be increased by a further \$68 and decreased by \$52 in the United States, \$8 in the United Kingdom and \$8 in Germany. In 1997, net income in Canada would have been reduced by \$109 and increased by \$93 in the United States, \$8 in the United Kingdom and \$8 in Germany.

** Includes write-down of \$120 after tax related to the Aughinish alumina refinery.

*** Includes gain of \$140 after tax related to the sale of a portion of the Company's investment in Nippon Light Metal Company, Ltd

24 Information by Operating Segment

The following presents selected information by operating segment, viewed on a stand-alone basis and as viewed by the Chief Executive Officer who is the Company's chief operating decision maker. In March 1999, the Company announced the creation of two global operating segments, the Primary Metal Group and the Global Fabrication Group. Transactions between operating segments are conducted on an arm's-length basis and reflect market prices. Thus, income from the Primary Metal Group is mainly profit on metal produced by the Company, whether sold to third parties or used in the Company's Global Fabrication Group. Income from the Global Fabrication Group represents only the fabricating profit on rolled products and downstream businesses. The accounting principles used to prepare the information by operating segment are the same as those used to prepare the consolidated financial statements of the

Notes to Consolidated Financial Statements (cont'd)

(in millions of US\$, except where indicated)

24 Information by Operating Segment (cont'd)

Company except that the pension costs for the operating segments are based on the normal current service cost with all actuarial gains, losses and other adjustments being included in Intersector and other items. Some Corporate office and certain other costs have been allocated to the respective operating segments. Comparative information has been restated to conform to the 1999 corporate structure.

	Sales and operating revenues						Operating income		
	Intersector			Third parties			1999	1998	1997
	1999	1998	1997	1999	1998	1997			
Primary Metal Group	\$ 1,317	\$ 1,405	\$ 1,486	\$ 1,689	\$ 1,813	\$ 2,023	\$ 325	\$ 402	\$ 666
Global Fabrication Group	34	—	—	5,607	5,963	5,737	301	231	209
Intersector and other items	(1,351)	(1,405)	(1,486)	28	13	17	159	153	7
	\$ —	\$ —	\$ —	\$ 7,324	\$ 7,789	\$ 7,777	785	786	882
Reconciliation to net income before extraordinary item									
Equity loss							(1)	(48)	(33)
Corporate offices							(37)	(37)	(32)
Interest							(76)	(92)	(101)
Income taxes							(211)	(210)	(248)
Net income before extraordinary item							\$ 460	\$ 399	\$ 468

Included in 1999 Intersector and other items are a gain of \$44 from the sale of the Company's piston operations in Germany, a gain of \$37 from the sale of a portion of the Company's portfolio investment in NLM, a gain of \$19 from the sale of property in the U.K. and a gain of \$8 from the sale of a subsidiary in France.

Included in 1998 Intersector and other items are a gain of \$146 from the sale of a portion of the Company's interest in NLM and a loss of \$143 related to the impairment of the Aughinish alumina refinery assets sold in 1999.

Included in 1999 Operating income for the Primary Metal Group is \$38 related to rationalization costs.

Included in 1998 Operating income for the Global Fabrication Group is \$16 related to rationalization costs in Europe and Asia.

Total assets of December 31	1999	1998	1997
Primary Metal Group	\$ 4,793	\$ 4,351	\$ 4,239
Global Fabrication Group	4,507	4,706	4,318
Cash and other corporate items	549	844	817
	\$ 9,849	\$ 9,901	\$ 9,374

	Depreciation			Capital expenditures		
	1999	1998	1997	1999	1998	1997
Primary Metal Group	\$ 232	\$ 227	\$ 216	\$ 907	\$ 475	\$ 346
Global Fabrication Group	235	225	210	383	395	282
Intersector and other items	10	10	10	8	7	13
	\$ 477	\$ 462	\$ 436	\$ 1,298	\$ 877	\$ 641

25 Prior Year Amounts

Certain prior year amounts have been reclassified to conform with the 1999 presentation.

26 Combination Agreement with Pechiney and Alusuisse Lonza Group Ltd.

On September 15, 1999, the Company entered into a combination agreement with Pechiney and Alusuisse Lonza Group Ltd. (algroup). The proposed combination will be accomplished through two independent exchange offers of the Company's shares, one for all of the outstanding shares of Pechiney and the other for all of the outstanding shares of algroup. Upon completion of the combination, which is subject to regulatory approvals, assuming that all of the Pechiney and algroup shares are exchanged for the Company's shares, the Company's shareholders would hold 44% of the shares of the Combined Company on a fully diluted basis. On November 22, 1999, the Company's shareholders approved the issuance of the Company's shares under the two independent exchange offers.

Eleven-Year Summary

		1999	1998	1997
Consolidated Income Statement Items <i>(in millions of US\$)</i>	Revenues			
	Sales and operating revenues	7,324	7,789	7,777
	Other income	179	231	88
	Total revenues	7,503	8,020	7,865
	Costs and expenses			
	Cost of sales and operating expenses	5,695	6,076	6,005
	Depreciation	477	462	436
	Selling, administrative and general expenses	375	448	444
	Research and development expenses	67	70	72
	Interest	76	92	101
	Other expenses	127	219	54
	Income taxes	211	210	248
	Equity income (loss)	(1)	(48)	(33)
	Minority interests	(14)	4	(4)
	Net income (Loss) before extraordinary item	460	399	468
	Extraordinary gain (loss)	—	—	17
	Net income (Loss)	460	399	485
	Preference dividends	9	10	10
	Net income (Loss) attributable to common shareholders	451	389	475
	Consolidated Balance Sheet Items <i>(in millions of US\$)</i>	Operating working capital	1,307	1,682
Property, plant and equipment – net		6,434	5,897	5,458
Total assets		9,849	9,901	9,374
Total debt		1,489	1,789	1,515
Deferred income taxes		781	747	969
Preference shares		160	160	203
Common shareholders' equity		5,381	5,359	4,871
Per Common Share <i>(in US\$)</i>	Net income (Loss) before extraordinary item	2.06	1.71	2.02
	Net income (Loss)	2.06	1.71	2.09
	Dividends paid	0.60	0.60	0.60
	Common shareholders' equity	24.65	23.71	21.43
	Market price – NYSE close	41.38	27.06	27.63
Operating Data <i>(in thousands of tonnes except for LME price)</i>	Consolidated aluminum shipments			
	Ingot products*	859	829	858
	Fabricated products	1,911	1,823	1,694
	Fabrication of customer-owned metal	315	289	276
	Total aluminum shipments	3,085	2,941	2,828
	Consolidated primary aluminum production	1,518	1,481	1,429
	Consolidated aluminum purchases	1,297	1,227	1,254
	Consolidated aluminum inventories (end of year)	477	469	451
	Primary aluminum capacity**			
	Consolidated subsidiaries	1,583	1,706	1,558
Total consolidated subsidiaries and related companies	1,583	1,706	1,695	
Average three-month LME price (US\$ per tonne)	1,388	1,379	1,620	
Other Statistics	Cash from operating activities (in millions of US\$)	1,182	739	719
	Cash from (used for) financing activities (in millions of US\$)	(629)	(95)	(46)
	Cash from (used for) investment activities (in millions of US\$)	(838)	(656)	(587)
	Capital expenditures (in millions of US\$)	1,298	877	641
	Ratio of total borrowings to equity (%)	21:79	24:76	23:77
	Average number of employees (in thousands)	38	36	33
	Common shareholders – registered (in thousands at end of year)	20	20	21
	Common shares outstanding (in millions at end of year)	218	226	227
	Registered in Canada (%)	61	60	61
	Registered in the United States (%)	39	39	39
	Registered in other countries (%)	—	1	—
	Return on average common shareholders' equity (%)	9	7	10
	Before extraordinary item (%)			10

* Includes primary and secondary ingot and scrap.

** Primary aluminum capacity has been restated to reflect better the actual production levels achieved over a period of time.

	1996	1995	1994	1993	1992	1991	1990	1989
	7,614	9,287	8,216	7,232	7,596	7,748	8,757	8,839
	75	100	109	75	69	82	162	208
	7,689	9,387	8,325	7,307	7,665	7,830	8,919	9,047
	5,919	7,247	6,740	6,002	6,300	6,455	6,996	6,682
	431	447	431	443	449	429	393	333
	422	484	528	551	596	635	659	600
	71	76	72	99	125	131	150	136
	125	204	219	212	254	246	197	130
	88	61	95	106	118	163	65	62
	212	326	112	(13)	(17)	(104)	126	350
	(10)	(3)	(29)	(12)	53	89	211	97
	(1)	4	(3)	1	(5)	—	(1)	(16)
	410	543	96	(104)	(112)	(36)	543	835
	—	(280)	—	—	—	—	—	—
	410	263	96	(104)	(112)	(36)	543	835
	16	24	21	18	23	20	22	21
	394	239	75	(122)	(135)	(56)	521	814
	1,461	1,731	1,675	1,314	1,460	1,717	1,842	1,774
	5,470	5,672	5,534	6,005	6,256	6,525	6,167	5,260
	9,228	9,736	10,003	9,812	10,154	10,843	10,681	9,518
	1,516	1,985	2,485	2,652	2,794	3,024	2,648	1,734
	996	979	914	888	955	1,126	1,092	1,044
	203	353	353	353	353	212	212	212
	4,661	4,482	4,308	4,096	4,266	4,730	4,942	4,610
	1.74	2.30	0.34	(0.54)	(0.60)	(0.25)	2.33	3.58
	1.74	1.06	0.34	(0.54)	(0.60)	(0.25)	2.33	3.58
	0.60	0.45	0.30	0.30	0.45	0.86	1.12	1.12
	20.57	19.84	19.17	18.28	19.06	21.17	22.19	20.30
	33.63	31.13	25.38	20.75	17.63	20.00	19.50	22.88
	810	801	897	887	870	866	857	743
	1,539	1,733	1,763	1,560	1,389	1,333	1,488	1,518
	258	225	189	91	206	145	81	75
	2,607	2,759	2,849	2,538	2,465	2,344	2,426	2,336
	1,407	1,278	1,435	1,631	1,612	1,695	1,651	1,643
	1,003	1,365	1,350	865	675	591	646	718
	408	449	435	403	418	463	447	539
	1,561	1,561	1,561	1,711	1,711	1,676	1,685	1,685
	1,698	1,712	1,712	1,862	1,862	1,827	1,836	1,836
	1,536	1,830	1,500	1,161	1,278	1,333	1,636	1,916
	981	1,044	65	444	465	659	760	970
	(700)	(744)	(191)	(172)	(44)	197	433	(67)
	178	(273)	71	(339)	(450)	(857)	(1,245)	(1,329)
	482	441	356	370	474	880	1,367	1,466
	23:77	29:71	35:65	37:63	37:63	37:63	33:67	26:74
	34	39	42	46	49	54	57	57
	22	23	26	28	32	34	38	40
	227	226	225	224	224	223	223	227
	61	61	55	59	69	68	54	44
	39	38	44	40	30	31	44	54
	—	1	1	1	1	1	2	2
	9	5	2	(3)	(3)	(1)	11	19
		11						

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

Quarterly Financial Data

(in millions of US\$, except where indicated)

(unaudited)	First	Second	Third	Fourth	Year
1999					
Revenues	\$ 1,841	\$ 1,835	\$ 1,884	\$ 1,943	\$ 7,503
Cost of sales and operating expenses	1,468	1,396	1,390	1,441	5,695
Depreciation	118	117	116	126	477
Income taxes	34	69	71	37	211
Other items	183	182	149	146	660
Net income ¹	\$ 38	\$ 71	\$ 158	\$ 193	\$ 460
Dividends on preference shares	3	1	3	2	9
Net income attributable to common shareholders	\$ 35	\$ 70	\$ 155	\$ 191	\$ 451
Net income per common share (in US\$) ²	\$ 0.16	\$ 0.32	\$ 0.71	\$ 0.87	\$ 2.06
Net income under U.S. GAAP ³	\$ 38	\$ 67	\$ 160	\$ 190	\$ 455
1998					
Revenues	\$ 1,971	\$ 2,005	\$ 1,960	\$ 2,084	\$ 8,020
Cost of sales and operating expenses	1,497	1,549	1,514	1,516	6,076
Depreciation	110	113	116	123	462
Income taxes	78	76	44	12	210
Other items	169	181	179	344	873
Net income ¹	\$ 117	\$ 86	\$ 107	\$ 89	\$ 399
Dividends on preference shares	3	2	3	2	10
Net income attributable to common shareholders	\$ 114	\$ 84	\$ 104	\$ 87	\$ 389
Net income per common share (in US\$) ²	\$ 0.50	\$ 0.37	\$ 0.46	\$ 0.38	\$ 1.71
Net income under U.S. GAAP ³	\$ 117	\$ 94	\$ 103	\$ 103	\$ 417
1997					
Revenues	\$ 1,898	\$ 2,030	\$ 1,965	\$ 1,972	\$ 7,865
Cost of sales and operating expenses	1,453	1,555	1,506	1,491	6,005
Depreciation	107	110	106	113	436
Income taxes	42	69	76	61	248
Other items	153	180	197	178	708
Net income before extraordinary item	143	116	80	129	468
Extraordinary gain	—	—	—	17	17
Net income ¹	\$ 143	\$ 116	\$ 80	\$ 146	\$ 485
Dividends on preference shares	3	2	2	3	10
Net income attributable to common shareholders	\$ 140	\$ 114	\$ 78	\$ 143	\$ 475
Net income before extraordinary item per common share (in US\$) ²	\$ 0.62	\$ 0.50	\$ 0.34	\$ 0.56	\$ 2.02
Extraordinary gain per common share (in US\$)	—	—	—	0.07	0.07
Net income per common share (in US\$) ²	\$ 0.62	\$ 0.50	\$ 0.34	\$ 0.63	\$ 2.09
Net income before extraordinary item under U.S. GAAP ³	\$ 142	\$ 141	\$ 90	\$ 131	\$ 504
Net income under U.S. GAAP ³	\$ 142	\$ 141	\$ 90	\$ 148	\$ 521

The second quarter of 1999 includes an after-tax gain of \$20 on the sale of the Company's pension operations in Germany and a restructuring charge of \$20 relating to the Company's Full Business Potential program. The third quarter of 1999 includes after-tax gains on the sale of businesses, principally a further sale of shares in NLM in Japan and the Company's building products business in France, totalling \$47, as well as rationalization of \$5 in the Primary Metal Group. The fourth quarter of 1999 includes a favourable tax adjustment in Canada relating to prior periods of \$31, a gain on disposal of property, principally in the U.K. of \$17, offset in part by \$8 from rationalization costs in the U.K. and Jamaica.

The first quarter of 1998 included an after-tax charge of \$11 related to Alcan's share of construction contract losses and restructuring costs at NLM in Japan. The second quarter of 1998 included an after-tax charge of \$16 related to Alcan's share of restructuring costs at NLM. The third quarter of 1998 included an after-tax gain of \$20 for exchange revaluation of the Company's accumulated deferred tax liability and after-tax charges of \$7 for rationalization costs in Europe. The fourth quarter of 1998 included an after-tax gain of \$140 from the sale of a portion of the Company's investment in NLM, an after-tax loss of \$120 from the write-down for impairment of the Aughinish alumina refinery assets sold in 1999, an after-tax gain of \$8 principally from the sale of Hardy Chemicals Ltd., and \$9 from rationalization costs in Europe and Asia.

The first quarter of 1997 included an after-tax gain of \$10 from the sale of a business and \$26 from a favourable tax adjustment related to prior years. The third quarter of 1997 included a special charge of \$30 after tax related to Alcan's share of contract losses and restructuring provisions at \$56 earned NLM.

¹ Net income per common share calculations are based on the average number of common shares outstanding in each period.

² See note 5 to the consolidated financial statements for explanation of differences between Canadian and U.S. GAAP.

Corporate Governance

The business and affairs of Alcan are managed by its Board of Directors acting through the Management of the Company. The Directors and Officers of Alcan are named on the following page. In discharging its duties and obligations, the Alcan Board acts in accordance with the provisions of the Canada Business Corporations Act, the Company's constituting documents and by-laws and other applicable legislation and Alcan policies.

Alcan does not have a controlling shareholder nor do any of the Directors represent the investment of any minority shareholder.

Corporate governance has traditionally received the active attention of Alcan's Board. For instance, an intensive review of the guiding principles of Alcan conducted by the Board in the 1970s led to the publication in 1978 of a policy statement entitled *Alcan, Its Purpose, Objectives and Policies*, which has remained fundamentally unchanged. This statement represents the basic business principles that guide Alcan employees in conducting a widespread international enterprise and has helped Alcan achieve public understanding and trust. To that original document, a *Code of Conduct* was added in 1996 to reinforce it with more detailed guidelines for Alcan employees as well as consultants and contractors engaged by Alcan.

The Toronto Stock Exchange now requires a formal description of corporate governance practices by all listed companies. Alcan's disclosure in this regard is published in the Management Proxy Circular issued in connection with the forthcoming Annual Meeting; a copy is available from Shareholder Services at the address on the back cover.

Committees of the Board (described briefly at right) assist the Board in carrying out its functions and make recommendations to it on various matters. Membership of these Committees is indicated on the following page.

The **Corporate Governance Committee** has the responsibility for reviewing Board practices and performance, candidates for directorship and Board Committee membership. It also considers recommendations from the Personnel Committee regarding Board compensation and the appointments of the Chairman of the Board and the Chief Executive Officer.

The **Audit Committee** assists the Board in fulfilling its functions relating to corporate accounting and reporting practices as well as financial and accounting controls, in order to provide effective oversight of the financial reporting process; it also reviews financial statements as well as proposals for issues of securities.

The **Environment Committee** has the responsibility for reviewing policy, management practices and performance of Alcan in environmental matters.

The **Personnel Committee** has the responsibility for reviewing all personnel policy and employee relations matters (including compensation), and for making recommendations to the Corporate Governance Committee on Board compensation and on the appointments of the Chairman of the Board and the Chief Executive Officer.

A special committee composed of members of the Personnel Committee administers the Alcan Executive Share Option Plan.

Directors and Officers

(As at February 10, 2000)

Directors

John R. Evans, C.C.^{1, 3, 8}

Chairman of the Board of Alcan Aluminium Limited,
Montreal

Age 70, director since 1986

Jacques Bougie, O.C.

President and Chief Executive Officer
of Alcan Aluminium Limited, Montreal

Age 52, director since 1989

Warren Chippindale, F.C.A., C.M.^{1, 4, 7}

Director of various companies, Montreal

Age 71, director since 1986

Eleanor R. Clitheroe^{1, 7}

President and Chief Executive Officer
of Ontario Hydro Services Company, Toronto

Age 46, director since 1999

Travis Engen^{3, 5, 7}

Chairman, President and Chief Executive Officer
of ITT Industries, Inc., New York

Age 55, director since 1996

Allan E. Gatlief, C.C.^{3, 5, 7}

Director of various companies, Toronto

Age 71, director since 1989

J. E. Newall, O.C.^{3, 6, 7}

Chairman and Director
of NOVA Chemicals Corporation, Calgary

Age 64, director since 1985

Dr. Peter H. Pearse, C.M.^{5, 7}

Natural resources consultant, Vancouver

Age 67, director since 1989

Sir George Russell, C.B.E.^{1, 3, 7}

Chairman of 3i Group plc, London

Age 64, director since 1987

Guy Saint-Pierre, O.C.^{2, 7}

Chairman of SNC-Lavalin Group Inc., Montreal

Age 65, director since 1994

Gerhard Schulmeyer^{1, 7}

President and Chief Executive Officer
of Siemens Corp., New York

Age 61, director since 1996

Paul M. Tellier, C.C.^{1, 5, 7}

President and Chief Executive Officer
of Canadian National Railway Company, Montreal

Age 60, director since 1998

Officers

Jacques Bougie

President and Chief Executive Officer

Robert L. Boll

Executive Vice President

Richard B. Evans

Executive Vice President,
President, Alcan Global Fabrication Group

Emery P. LeBlanc

Executive Vice President,
President, Alcan Primary Metal Group

Brian W. Sturgell

Executive Vice President, Corporate Development

Suresh Thadhani

Executive Vice President and Chief Financial Officer

Cynthia Carroll

Vice President,
President, Alumina and Chemicals

Daniel Gagnier

Vice President, Corporate Affairs, Environment,
Occupational Health & Safety

David McAusland

Vice President, Chief Legal Officer and Secretary

Gaston Ouellet

Vice President, Human Resources

Glenn R. Lucas

Treasurer

¹ Member of Audit
Committee

² Chairman of Audit
Committee

³ Member of Personnel
Committee

⁴ Chairman of Personnel
Committee

⁵ Member of Environment
Committee

⁶ Chairman of
Environment Committee

⁷ Member of Corporate
Governance Committee

⁸ Chairman of Corporate
Governance Committee

Shareholder Information

Common Shares

The principal markets for trading in Alcan's common shares are the New York and Toronto stock exchanges. The common shares are also traded on the Chicago, Pacific, London, Paris, Brussels, Amsterdam, Frankfurt and Swiss stock exchanges.

The transfer agents for the common shares are CIBC Mellon Trust Company in Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, Chase Mellon Shareholder Services, L.L.C. in New York, and CIBC Mellon Trust Company in England.

Common share dividends are paid quarterly on or about the 20th of March, June, September and December to shareholders of record on or about the 20th of February, May, August and November, respectively.

Preference Shares

The preference shares are listed on the Toronto Stock Exchange. The transfer agent for the preference shares is CIBC Mellon Trust Company.

Investment Plans

The Company offers holders of common shares two convenient ways of buying additional Alcan common shares without payment of brokerage commissions. These are known as the Dividend Reinvestment Plan and the Share Purchase Plan. Copies of the prospectus describing these Plans may be obtained from Shareholder Services at the address on the back cover.

Securities Reports for 1999

The Company's Annual Information Form, to be filed with the Canadian securities commissions, and the annual 10-K report, to be filed with the Securities and Exchange Commission in the United States, will be available to shareholders after April 1, 2000. Copies of both may be obtained from Shareholder Services at the address on the back cover.

	Dividend	Prices* and Average Daily Trading Volumes							
		New York Stock Exchange (US\$)				Toronto Stock Exchange (CAN\$)			
1999	US\$	High	Low	Close	Avg. Daily Volume	High	Low	Close	Avg. Daily Volume
Quarter									
First	0.150	30 ¹⁴ / ₁₆	22 ¹⁵ / ₁₆	25 ¹³ / ₁₆	548,364	46.45	34.15	38.85	657,380
Second	0.150	33 ¹² / ₁₆	25 ¹⁵ / ₁₆	31 ¹⁵ / ₁₆	806,756	49.50	38.80	46.75	819,628
Third	0.150	36 ¹⁵ / ₁₆	29 ³ / ₁₆	31 ⁴ / ₁₆	806,492	54.90	43.05	46.10	632,561
Fourth	0.150	42	30 ¹² / ₁₆	41 ⁶ / ₁₆	913,348	61.00	45.25	59.40	614,803
Year	0.600								
1998									
Quarter									
First	0.150	34 1/2	24 1/2	31 1/4	371,616	48.50	35.10	44.25	563,447
Second	0.150	33 7/16	25 15/16	27 10/16	400,443	47.95	38.25	40.50	482,864
Third	0.150	28 3/16	18 11/16	23 7/16	322,500	41.60	28.30	36.15	486,748
Fourth	0.150	28 15/16	21 3/4	27 1/16	456,005	44.85	33.60	41.50	585,815
Year	0.600								

* The share prices are those reported as New York Stock Exchange - Consolidated Trading and reported by The Toronto Stock Exchange.

Further Information

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and Communications
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Version française

Pour obtenir la version française de ce rapport, veuillez écrire aux Services aux actionnaires dont l'adresse figure à l'endos du présent rapport annuel.

Visit Alcan's Web Site:

www.alcan.com

Further information on Alcan and its activities is available on Alcan's World Wide Web site and contained in various Company publications. These publications, such as *A Commitment to Continual Environmental Improvement* as well as Alcan's Environmental and Health and Safety policies, are available by writing to the address on the back cover.



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Paving the way to a bright future



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