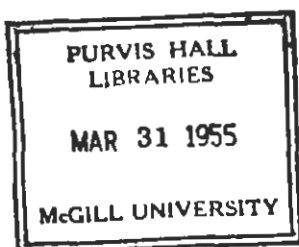


**ALUMINUM COMPANY OF CANADA, LIMITED
AND SUBSIDIARY COMPANIES**

**1954
FINANCIAL STATEMENTS**



ALUMINUM COMPANY OF CANADA, LIMITED
and Subsidiary Companies

Consolidated Balance Sheet

31st December 1954

(based on straight-line depreciation — with 1953 figures on the same basis for purpose of comparison)

A S S E T S

	31st December 1954	31st December 1953
Current Assets:		
Cash	\$ 19,742,392	\$ 16,474,985
Government of Canada bonds (quoted value \$18,458,681)	18,379,401	12,089,347
Receivables, less provision for doubtful accounts	14,286,511	8,505,792
Receivable from affiliated companies	27,033,730	28,833,069
Inventories of aluminum, materials and supplies (note 2) (lower of cost or market)	59,028,415	54,368,101
	138,470,449	120,271,294
Prepaid expense and deferred charges	10,628,504	9,018,330
Lands, plants, riparian rights, and facilities, at cost (note 3)	768,379,934	733,851,685
Less: Accumulated amortization, depreciation and depletion (note 4) .	276,560,203	264,872,337
	491,819,731	468,979,348
	\$640,918,684	\$598,268,972

ALUMINUM COMPANY OF CANADA, LIMITED
and Subsidiary Companies

Consolidated Balance Sheet

31st December 1954

(based on straight-line depreciation — with 1953 figures on the same basis for purpose of comparison)

LIABILITIES

	31st December 1954	31st December 1953
Current Liabilities:		
Payables, including accrued liabilities	\$ 21,547,289	\$ 25,339,008
Bank loans	—	25,692,800
Payable to affiliated companies	1,817,902	678,270
Preferred dividends payable 1st March 1955	518,177	520,619
Income and other taxes	8,293,779	14,490,496
Other debt payable within one year (note 5)	4,026,000	4,360,078
	36,203,147	71,081,271
Debt not maturing within one year (note 5)	229,590,347	184,941,400
Debt contingent on volume of operations (note 5)	103,612,000	109,696,250
Operating reserves and deferred credits	1,299,436	1,676,872
Reserve for future income taxes (note 4)	49,021,867	33,569,034
Capital Stock and Surplus:		
4% Cumulative redeemable sinking fund first preferred shares — par \$25 — 500,587 shares outstanding (506,522 shares at 31st December 1953)	12,514,675	12,663,050
5¼% Cumulative redeemable sinking fund second preferred shares — par \$100 — 300,000 shares outstanding	30,000,000	30,000,000
Common shares — without nominal or par value:		
6,800,000 shares outstanding (including 800,000 shares issued for cash in 1954)	68,000,000	60,000,000
Capital surplus	2,485,325	2,336,950
Earned surplus (note 4)	108,191,887	92,304,145
	221,191,887	197,304,145
	\$640,918,684	\$598,268,972

Signed on behalf of the Board,
R. E. POWELL, *Director*
DANA T. BARTHOLOMEW, *Director*

ALUMINUM COMPANY OF CANADA, LIMITED
and Subsidiary Companies

Consolidated Statement of Income
For the Year Ending 31st December 1954

(based on straight-line depreciation — with 1953 figures on the same basis for purpose of comparison)

	1954	1953
Sales and Revenues:		
Sales	\$235,916,232	\$237,696,566
Operating revenues (transportation services, etc.)	20,681,321	20,681,928
Interest on marketable securities	393,758	279,383
Profit on sale of marketable securities	326,226	70,302
Gain on disposal of surplus fixed assets	1,075,567	404,525
	<u>258,393,104</u>	<u>259,132,704</u>
Costs and Expenses:		
Cost of sales	134,260,308	130,284,711
Operating expenses (transportation services, etc.)	16,468,659	18,501,057
Provision for depreciation and depletion (note 4)	16,155,010	11,610,373
Selling, general and administrative expenses	13,868,265	10,364,388
Interest on contingent and other debt not maturing within one year . .	11,862,238	10,325,623
Other interest	351,895	276,271
Financing expenses	1,199,235	966,271
	<u>194,165,610</u>	<u>182,328,694</u>
Income before income taxes	64,227,494	76,804,010
Provision for current income taxes <small>(including \$13,504,615 Canadian taxes; \$20,750,377 in 1953)</small>	15,659,447	23,073,496
Reserve for future income taxes (note 4)	15,452,833	14,233,824
	<u>31,112,280</u>	<u>37,307,320</u>
Net income	<u>\$ 33,115,214</u>	<u>\$ 39,496,690</u>

ALUMINUM COMPANY OF CANADA, LIMITED
and Subsidiary Companies

Consolidated Statement of Surplus
For the Year Ending 31st December 1954

EARNED SURPLUS

Earned surplus — 31st December 1953.....	\$ 50,578,793	
Add: Adjustment as of 1st January 1954 resulting from change in depreciation policy (note 4).....	<u>41,725,352</u>	\$ 92,304,145
Net income for the year.....		<u>33,115,214</u>
		125,419,359
 Dividends:		
Preferred (including dividends payable 1st March 1955):		
4% first preferred shares.....	\$ 500,901	
5¼% second preferred shares.....	1,575,000	
Common.....	<u>15,000,000</u>	17,075,901
Appropriations for the purchase for cancellation of 4% first preferred shares.....		<u>151,571</u>
		17,227,472
Earned surplus — 31st December 1954.....		<u>\$108,191,887</u>

CAPITAL SURPLUS

Capital surplus — 31st December 1953.....	\$ 2,336,950	
Par value of 5,935 4% first preferred shares purchased for cancellation.....		<u>148,375</u>
Capital surplus — 31st December 1954.....		<u>\$ 2,485,325</u>

AUDITORS' REPORT

TO THE SHAREHOLDERS OF ALUMINUM COMPANY OF CANADA, LIMITED:

We have examined the consolidated balance sheet of Aluminum Company of Canada, Limited and subsidiary companies as at 31st December 1954 and the related consolidated statements of income and surplus for the year then ended and have obtained all the information and explanations which we have required. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 4 to the financial statements, the companies, in accordance with our recommendation, have discontinued the practice of providing in their accounts for capital cost allowances in excess of normal depreciation; with our approval, the companies reverted in 1954 to the straight-line method of providing depreciation and, as of 1st January 1954, reduced accumulated depreciation to the amount which would then have been carried in their accounts if the straight-line method of depreciation had been in effect throughout the years 1950 to 1953.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and related consolidated statements of income and surplus, supplemented by the notes thereto, are properly drawn up so as to exhibit a true and correct view of the combined state of affairs of Aluminum Company of Canada, Limited and subsidiary companies as at 31st December 1954 and the results of their combined operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, save for the change in depreciation policy (which we approve) referred to in the preceding paragraph.

Pricewaterhouse & Co.

Chartered Accountants.

Montreal, 15th March 1955.

ALUMINUM COMPANY OF CANADA, LIMITED
and Subsidiary Companies

Notes to Financial Statements

1. Foreign Exchange:

Accounts, other than Canadian currency accounts, included in the consolidated balance sheet are translated into Canadian dollars at rates of exchange current at 31st December 1954, except that (a) fixed assets and related reserves are at rates determined at dates of acquisition, and (b) debts not maturing within one year are at rates current at dates of issue except that the first mortgage $3\frac{1}{2}\%$ sinking fund bonds, due 1974, payable in United States currency, are stated on a dollar for dollar basis.

2. Inventories of Aluminum, Materials and Supplies:

	1954	1953
Aluminum.....	\$ 8,856,890	\$ 6,177,974
Raw materials.....	39,431,739	37,305,858
Supplies.....	10,739,786	10,884,269
	\$ 59,028,415	\$ 54,368,101

3. Lands, Plants, Riparian Rights, and Facilities:

	1954	1953
Land and water rights.....	\$ 24,344,999	\$ 20,804,378
Mineral properties, rights and development.....	2,887,365	2,868,878
Buildings, machinery and equipment.....	726,650,657	453,146,828
	753,883,021	476,820,084
Construction work in progress.....	14,496,913	257,031,601
	\$768,379,934	\$733,851,685

4. Change in Depreciation Policy:

Canadian Income Tax Regulations

Until amended in 1954, Canadian Income Tax Regulations specified that the amount of depreciation deducted for tax purposes could not exceed the amount recorded in the books of account and reflected in the financial statements of the corporate taxpayer. Whereas prior to 1949 the method for determining maximum permissible deductions was the straight-line method whereunder assets are written off by equal annual amounts over their estimated useful life, an amendment in that year substituted the diminishing balance method at rates whereby the amount of permissible deductions would, during the early years of an asset's life, exceed those under the previous straight-line method. A further amendment in 1951 provided for additional capital cost allowances on property in respect of which certificates have been obtained from the Minister of Defence Production. These additional allowances (for which Aluminum Company of Canada, Limited qualified to the extent of some \$123,000,000 deductible in the years 1951 to 1957), as well as the diminishing balance allowances apply to facilities prior to completion as well as to facilities in use.

Accounting Policy

Pursuant to the above-mentioned regulations, the Company and its Canadian subsidiaries commencing with 1950 have taken the maximum capital cost allowances under the diminishing balance method together with certain additional allowances under the above certificates. The non-Canadian subsidiary, Demerara Bauxite Company, Limited, has for the most part provided for depreciation in its accounts under the straight-line method but certain additional allowances were also taken by this subsidiary as permitted by the tax regulations of the country in which it operates. Consolidated profits previously reported for 1950 and subsequent periods accordingly reflected aggregate capital cost allowances which substantially exceeded straight-line depreciation on facilities in operation.

In view of the 1954 amendment to Canadian regulations repealing the former requirement whereby capital cost allowances deductible for tax purposes were restricted to amounts recorded in the accounts, the Company and its subsidiaries reverted in 1954 to the depreciation policy in effect prior to 1950 of recording in the accounts only straight-line depreciation on facilities in operation and reduced, as of 1st January 1954, the amount of accumulated depreciation carried as of that date on their books to the figure at which it would have stood if the straight-line method of calculating depreciation had been in effect throughout the years 1950 to 1953. Inasmuch as depreciation allowable for tax purposes in later years on existing assets will consequently fall correspondingly short of the amount which will be recorded in the accounts for such years, reserves have been set aside for application against taxes payable in those later years. These reserves are equivalent in amount to the reduction in each year's taxes resulting from taking capital cost allowances in excess of straight-line depreciation on facilities in operation. The 1st January 1954 reduction in accumulated depreciation amounted to \$75,294,386, resulting in an increase of \$41,725,352 in earned surplus after reserving \$33,569,034 for future income taxes.

4. Change in Depreciation Policy — Continued

The table below shows the effect straight-line depreciation would have had on the profits previously reported for the years 1950 to 1953.

	Year			
	1950	1951	1952	1953
	(in thousands of dollars)			
Aggregate capital cost allowances as recorded	\$ 11,415	\$ 23,267	\$ 33,098	\$ 44,432
Straight-line depreciation	8,289	8,022	8,986	11,610
Excess	3,126	15,245	24,112	32,822
Reserve for future income taxes	1,087	6,950	11,301	14,234
Increase in profits	<u>\$ 2,039</u>	<u>\$ 8,295</u>	<u>\$ 12,811</u>	<u>\$ 18,588</u>

For purpose of comparison with the 1954 statements, the cumulative effect that straight-line depreciation for the period 1950-1953 would have had for those years has been reflected in the accompanying 1953 balance sheet figures and the effect that straight-line depreciation would have had on 1953 profits has been reflected in the accompanying income statement figures for that year.

Capital cost allowances taken in calculating the 1954 provision for current income taxes exceeded straight-line depreciation on facilities in operation by \$35,625,086 and accordingly \$15,452,833 has been reserved for future income taxes.

5. Debt not maturing within one year:

	1954	1953
Aluminum Company of Canada, Limited:		
First mortgage 3½% sinking fund bonds, due 1974:		
Series "A"	\$ 10,149,000	\$ 10,488,000
Series "B" (U.S. \$19,589,000)	19,589,000	20,523,000
Commutation value of contractual obligation for annual payments secured by second hypothec (payable in Canadian currency and in United States currency in equal parts)	9,125,191	9,501,103
3½% Sinking fund debentures, due 1971	45,055,000	47,795,000
3½% Sinking fund debentures, due 1970 (U.S. \$82,500,000)	81,185,156	88,565,625
4½% Sinking fund debentures, due 1973	50,000,000	—
Redeemable notes — payable to the U.K. Government:		
(interest payable only if and to the extent aluminum (magnesium) production is maintained at rates specified in the respective notes during the term thereof)		
3% Notes, due 1971 (a)	10,990,000	8,242,500
3½% Notes, due 1971 (b)	4,995,000	3,746,250
3½% Notes, due 1974 (c)	2,000,000	—
3½% Note, due 1974 (magnesium) (d)	88,000	—
3½% Redeemable note, due 1974 — payable to the U.K. Government	440,000	440,000
	233,616,347	189,301,478
Less: Debt payable within one year in accordance with terms of the above obligations, included in current liabilities	4,026,000	4,360,078
	<u>\$229,590,347</u>	<u>\$184,941,400</u>
Debt contingent on volume of operations:		
Aluminum Company of Canada, Limited:		
Redeemable notes — payable to the U.K. Government:		
(principal and interest payable only if and to the extent aluminum (magnesium) production is maintained at rates specified in the respective notes during the term thereof)		
3% Notes, due 1971 (a)	\$ 43,960,000	\$ 46,707,500
3½% Notes, due 1971 (b)	19,980,000	21,228,750
3½% Notes, due 1974 (c)	38,000,000	40,000,000
3½% Note, due 1974 (magnesium) (d)	1,672,000	1,760,000
	<u>\$103,612,000</u>	<u>\$109,696,250</u>

The formulae for abatement of the several notes in any year are summarized below:

Principal amount of note	Rate of interest	Principal and interest are abatable if production* is less than	Amount of principal abatable per ton	Maximum amount of principal abatable in any year	Entire interest is abatable if production* is less than
		(metric tons)			(metric tons)
(a) \$39,600,000	3%	172,500	\$24.00	\$1,980,000	90,000
(a) 15,350,000	3%	197,500	30.70	767,500	172,500
(b) 24,975,000	3½%	400,000	13.50	1,248,750	307,500
(c) 40,000,000	3½%	450,000	40.00	2,000,000	400,000
(d) 1,760,000	3½%	4,000	33.33	88,000	1,360

*1954 aluminum production — 509,000 metric tons.

6. Executive Salaries, etc. (parent and subsidiaries):

The following amounts have been charged to income in 1954: executive salaries \$357,058; legal fees \$116,300.

ALUMINUM COMPANY OF CANADA, LIMITED
MONTREAL, QUE., CANADA

DIRECTORS

R. E. POWELL

President of the Company
Montreal

DANA T. BARTHOLOMEW
President, Aluminium Securities Limited
Montreal

NATHANAEL V. DAVIS
President, Aluminium Limited
Montreal

JAMES A. DULLEA
President, Aluminium Secretariat Limited
Montreal

PAUL LaROQUE
Vice-President, Aluminium Secretariat Limited
Montreal

E. G. MacDOWELL
President, Aluminium Union Limited
Montreal

EDWIN J. MEJIA
President, Aluminium Fiduciaries Limited
Montreal

J. ALEX. PRUD'HOMME, Q.C.
Geoffrion & Prud'homme
Montreal

H. H. RICHARDSON
President, Aluminium Laboratories Limited
Montreal

OFFICERS

R. E. POWELL, *President*

J. ALEX. PRUD'HOMME, Q.C., *Vice-President*

A. W. WHITAKER, JR., *Vice-President and General Manager*

PAUL S. WHITE, *Vice-President and General Sales Manager*

J. B. WHITE, *Vice-President and Director of Personnel*

PAUL LEMAN, *Vice-President and Treasurer*

McNEELY DuBOSE, *Vice-President*

L. P. LEDUC, *Secretary*