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Aluminum Company of Canada, Ltd

ALCAN

1978

Financial Statements

Aluminum Company of Canada, Ltd

CONSOLIDATED STATEMENT OF INCOME

year ending 31 December

	in thousands of U.S. dollars	
	1978	1977
REVENUES		
Sales	$2,145,078	$1,726,327
Operating revenues	135,251	130,119
Other income (note 8)	10,641	5,704
	2,290,970	**1,862,150**
COSTS AND EXPENSES		
Cost of sales and operating expenses	1,722,801	1,464,298
Depreciation and depletion	82,074	75,440
Selling, research and administrative expenses	128,530	107,775
Interest on debt not maturing within one year	41,719	46,979
Other interest	8,727	5,852
Other expenses	6,660	7,714
	1,990,511	**1,708,058**
INCOME BEFORE INCOME TAXES AND EQUITY INCOME	**300,459**	**154,092**
Income taxes (note 9)		
Current	48,922	4,139
Deferred	67,638	47,562
	116,560	**51,701**
INCOME BEFORE EQUITY INCOME	**183,899**	**102,391**
Equity in net income (loss) of companies 20-50% owned (note 1)	(61)	68
NET INCOME	**$ 183,838**	**$ 102,459**

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

year ending 31 December

	in thousands of U.S. dollars	
	1978	1977
SOURCE OF FUNDS		
Net income	$183,838	$102,459
Depreciation and depletion	82,074	75,440
Deferred income taxes	67,638	47,562
Other	602	154
From operations	**334,152**	**225,615**
New debt	4,300	27,607
Preferred shares		100,000
Common shares	751	843
Disposals of plant and equipment	7,093	10,761
Other — net		17,773
	346,296	**382,599**
APPLICATION OF FUNDS		
Plant and equipment	155,904	131,435
Investments	975	1,188
Debt repayments	75,240	108,647
Redemption of preferred shares (par value)	1,071	1,908
Dividends	67,949	35,063
Other — net	7,921	—
	309,060	**278,241**
INCREASE IN WORKING CAPITAL (note 11)	**37,236**	**104,358**
Working capital — beginning of year	456,181	351,823
WORKING CAPITAL — END OF YEAR	**$493,417**	**$456,181**

Aluminum Company of Canada, Ltd

CONSOLIDATED BALANCE SHEET — ASSETS

31 December

	in thousands of U.S. dollars	
	1978	1977
Current assets		
Cash and time deposits	$ 94,568	$ 18,318
Receivables	274,908	201,885
Receivable from affiliated companies	105,097	88,869
Aluminum	193,411	235,713
Raw materials and other supplies	280,380	270,002
	948,364	**814,787**
Deferred charges	**13,922**	**15,701**
Deferred receivables (note 2)	**62,374**	**49,280**
Investments in companies owned 50% or less (note 1)	**28,075**	**30,200**
Property, plant and equipment (note 3)	**2,283,969**	**2,171,232**
Less: Accumulated depreciation and depletion	1,298,371	1,258,226
	985,598	**913,006**
TOTAL ASSETS	**$2,038,333**	**$1,822,974**

CONSOLIDATED BALANCE SHEET — LIABILITIES AND SHAREHOLDERS' EQUITY

31 December

	in thousands of U.S. dollars	
	1978	1977
Current liabilities		
Payables	$ 275,502	$ 208,302
Short-term borrowings (principally from banks)	1,610	33,198
Payable to affiliated companies	14,471	8,908
Demand loan from parent company	86,875	81,823
Income and other taxes	55,956	2,373
Debt maturing within one year (note 4)	20,533	24,002
	454,947	**358,606**
Debt not maturing within one year (note 4)	**414,709**	**483,542**
Deferred credits (note 5)	**60,874**	**56,877**
Deferred income taxes	**202,868**	**134,583**
Shareholders' equity		
Cumulative redeemable preferred shares (note 7)		
4% First preferred sinking fund — par Can. $25		
Authorized — 145,684 shares		
Outstanding — 121,910 shares (1977 — 137,882)	2,774	3,133
4½% Second preferred sinking fund — par Can. $50		
Authorized — 401,506 shares		
Outstanding — 366,271 shares (1977 — 381,076)	18,629	19,341
$2.00 Third preferred — par Can. $25		
Authorized — 4,000,000 shares		
Outstanding — 2,000,000 shares	49,235	49,235
Floating rate fourth preferred — par U.S. $25		
Authorized — 10,000,000 shares		
Outstanding — 4,000,000 shares	100,000	100,000
Common shares — without nominal or par value (note 7)		
Authorized — 20,000,000 shares		
Outstanding — 11,448,423 shares (1977 — 11,438,719)	332,405	331,654
Retained earnings (note 6)	401,892	286,003
	904,935	**789,366**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$2,038,333**	**$1,822,974**

Approved by the Board: PATRICK J. J. RICH, Director R. F. SHARRATT, Director

Aluminum Company of Canada, Ltd

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

year ending 31 December

	in thousands of U.S. dollars	
	1978	1977
RETAINED EARNINGS — beginning of year	$286,003	$219,019
Net income	183,838	102,459
	469,841	**321,478**
Underwriting commission and expenses of share capital issue	-	412
Dividends		
First preferred	107	132
Second preferred	730	815
Third preferred	3,487	3,739
Fourth preferred	5,625	2,377
Common	58,000	28,000
	67,949	**35,063**
RETAINED EARNINGS — end of year (note 6)	**$401,892**	**$286,003**

NOTES TO FINANCIAL STATEMENTS

in thousands of U.S. dollars

1. SUMMARY OF ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all companies more than 50% owned. In addition, under the equity accounting principle, consolidated net income includes the Company's equity in the net income or losses of all companies 20-50% owned and the investments in these companies have been increased or decreased by the Company's share of their undistributed net income or losses since acquisition. When the cost of an investment differs from the book value of the Company's equity therein at date of acquisition, the difference is amortized over the estimated useful life of the related fixed assets. Intercompany items and transactions between consolidated companies, including profits in inventories, are eliminated.

TRANSLATION OF ACCOUNTS INTO UNITED STATES DOLLARS

The consolidated financial statements are expressed in U.S. dollars, the principal currency of international trade and of the Company's business.

Accounts included in the consolidated statement of income, except depreciation and depletion, are translated at average rates of exchange prevailing during the year. Accounts included in the consolidated balance sheet are translated at rates of exchange at year end except that (a) inventories, investments, fixed assets and accumulated depreciation and depletion are at rates at dates of acquisition, (b) deferred income taxes are at rates at dates of origin, and (c) debts not maturing within one year, and preferred and common shares are at rates at dates of issue. Translation adjustments are included in income.

The Financial Accounting Standards Board in the United States requires that companies reporting to investors in the United States adopt the practice of translating long-term debt at current rates of exchange. However, as the Company's borrowings in currencies other than U.S. dollars have for the most part been invested in the country of the borrowing and will be repaid out of funds generated in the same currency, the Company believes that it could be misleading and cause violent fluctuations in reported earnings to recognize immediately translation gains or losses which arise from changes in exchange rates. Accordingly, the Company has not adopted the current rate method but has continued to follow its policy of translating such debt at historic rates, an accounting practice which is generally accepted in Canada. The table on page 7 compares reported net income with the net income that would have been reported using the FASB current rate method, and also shows the cumulative effect on retained earnings.

Aluminum Company of Canada, Ltd

NOTES TO FINANCIAL STATEMENTS — in thousands of U.S. dollars

	1978		1977	
	As Reported	Current Rate Method	As Reported	Current Rate Method
Consolidated net income				
First quarter (unaudited)	$ 32,442	$ 37,469	$ 9,862	$ 13,631
Second quarter (unaudited)	49,231	49,403	21,660	24,482
Third quarter (unaudited)	44,683	48,877	28,031	29,004
Fourth quarter (unaudited)	57,482	56,302	42,906	44,476
	$183,838	$192,051	$102,459	$111,593
Consolidated retained earnings				
Beginning of year	$286,003	$299,457	$219,019	$223,339
End of year	401,892	423,559	286,003	299,457

DEFERRED INCOME TAXES

Income tax regulations in Canada and certain other countries permit the deduction from taxable income of certain items (principally depreciation) in amounts which do not coincide with those charged for financial reporting purposes. The effect of such timing differences on income taxes otherwise payable is recognized as deferred income taxes.

INVENTORIES

Aluminum, raw materials and other supplies are stated at cost or net realizable value, whichever is the lower. The cost of inventories other than those in the United States is determined for the most part on the monthly average method. The cost of inventories in the United States, amounting to $145 million, is determined by the last-in first-out method which is permitted for income tax purposes. Had such inventories been valued on the monthly average method, the value would have been $81 million higher.

OTHER

Property, plant and equipment includes the cost of renewals and betterments. Repairs and maintenance are charged against income as incurred.

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

2. DEFERRED RECEIVABLES

Deferred receivables include $42 million (1977 — $42 million) due from the Government of Guyana over the period 1980 to 1991 in respect of the nationalization in 1971 of the Company's bauxite and alumina assets. This amount bears interest at 6% per annum.

NOTES TO FINANCIAL STATEMENTS — in thousands of U.S. dollars

3. PROPERTY, PLANT AND EQUIPMENT

	1978			1977
	Cost	Accumulated Depreciation	Net	Net
Land, and water rights	$ 49,456	$ 286	$ 49,170	$ 48,670
Mineral properties, rights and development	9,209	1,369	7,840	7,769
Raw material, power and other facilities	960,296	626,307	333,989	326,678
Smelting facilities	828,528	464,278	364,250	315,842
Fabricating facilities	436,480	206,131	230,349	214,047
	$2,283,969	$1,298,371	$985,598	$913,006

Expenditures in 1979 are expected to be approximately $280 million.

4. DEBT NOT MATURING WITHIN ONE YEAR

	1978	1977
Aluminum Company of Canada, Ltd		
9 1/2% Sinking fund debentures, due 1995	$ 96,816	$100,000
*10 3/4% Sinking fund debentures, due 1994 (Can. $75 million)	76,500	76,500
9 3/8% Sinking fund debentures, due 1991 (Can. $49 million)	48,795	54,512
4 1/2% Sinking fund debentures, due 1980	6,445	7,424
7 1/8% Serial debentures, due 1979 (Can. $10 million)	9,950	19,900
9 1/2% Sinking fund debentures, due 1988	47,483	50,000
5.10% Notes, due 1979/1992	63,000	67,500
Other debt, due 1979/2001	11,401	12,117
Alcan Aluminum Corporation (USA)		
9 1/2% Notes, due 1980/1994	45,000	45,000
4 3/4% Notes, due 1979/1984	20,400	23,799
Other debt, due 1979/1998	6,912	3,316
Alcan (Bermuda) Limited		
7 5/8% Notes	—	5,574
Alcan Jamaica Limited (in liquidation)		
**Bank loans, due 1979 (J$4 million)	4,136	44,136
Debt of other subsidiaries	1,774	389
	438,612	510,167
Less: Debt maturing within one year included in current liabilities (equivalent to $20.5 million and $24.0 million respectively, at year-end rates of exchange)	23,903	26,625
	$414,709	$483,542

*$10.2 million held by parent company
**Interest is related to the London Interbank offered rate

After allowing for prepayments, sinking fund and other requirements over the next five years amount to $23.9 million in 1979, $21.6 in 1980, $19.7 in 1981, $24.1 in 1982 and $24.6 in 1983.

If translated into United States dollars at year-end rates of exchange, debt not maturing within one year at 31 December 1978 would decrease by $21.7 million and, if there were no further changes in exchange rates, this amount would be amortized to income over the remaining life of each debt.

NOTES TO FINANCIAL STATEMENTS — in thousands of U.S. dollars

5. DEFERRED CREDITS

Deferred credits include $44 million prepayment by an associated company under an alumina tolling arrangement.

6. RETAINED EARNINGS

Consolidated retained earnings at 31 December 1978 include $148 million which, pursuant to the provisions of certain debt and share issues of the Company, is not distributable as dividends either in cash or in kind to Alcan Aluminium Limited, the holder of its common shares.

7. PREFERRED AND COMMON SHARES

Maximum annual sinking fund requirements for the retirement of the first and second preferred shares amount to Can. $2.7 million per annum. The 1979 sinking fund requirements have been met by purchases in the open market.

The Company shall, during each calendar quarter, purchase for cancellation 15,000 third preferred shares in the open market if available at a price not exceeding Can. $25 per share. If after all reasonable efforts the Company is unable to purchase an aggregate of 60,000 shares in any calendar year the obligation for that calendar year shall be extinguished.

The dividend rate on the fourth preferred shares is variable and related to the prime commercial rate of certain Canadian banks for U.S. dollar demand loans in Canada. The shares, which were issued in three equal series on 5 July 1977, are retractable at par in series at the option of the holder on 5 July 1984, 1985 and 1986 respectively.

The preferred shares also may be called for redemption at the option of the Board of directors at the following prices:

4% First preferred shares — on 20 days' notice at Can. $26.375 per share.

4½% Second preferred shares — on 30 days' notice for other than sinking fund purposes at Can. $51.75 per share and, for sinking fund purposes at Can. $51.50 per share.

$2.00 Tax deferred retractable preferred shares — on 30 days' notice at Can. $27.00 per share during the 12 months beginning 1 December 1980, Can. $26.80 during the succeeding 12 months and reducing by Can. $0.30 per share in each of the succeeding twelve-month periods until 30 November 1987, after which the shares will be redeemable at Can. $25.00 per share.

Floating rate preferred shares — redeemable on any dividend payment date on 90 days' notice at U.S. $25 per share.

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

In 1978 the Company issued 9,704 common shares to Alcan Aluminium Limited, the parent company, for an investment valued at $0.8 million.

8. OTHER INCOME	1978	1977
Interest	$ 8,276	$4,033
Gain on redemption of debt	1,725	807
Other	640	864
	$10,641	$5,704

9. INCOME TAXES

Income taxes provided in 1978 represent approximately 39% of consolidated pre-tax income, an effective rate lower than statutory rates in Canada. The reduction is attributable to investment and other allowances offset in part by the non-taxable effect of translation of financial statements into United States dollars.

10. COMMITMENTS

Minimum rental commitments under long-term leases, including charter hire of ships, amount to $26.2 million in 1979, $20.4 in 1980, $11.0 in 1981, $7.0 in 1982, $5.9 in 1983 and lesser annual amounts thereafter. Total rental expense amounted to $48.2 million in 1978 (1977 — $53.2).

See also reference to capital expenditures in note 3 and debt repayments in note 4.

NOTES TO FINANCIAL STATEMENTS — in thousands of U.S. dollars

11. CHANGES IN WORKING CAPITAL

	1978	1977
Current assets		
Cash and time deposits	$ 76,250	$ 3,521
Receivables	73,023	25,196
Receivable from affiliated companies	16,228	28,068
Aluminum, raw materials and other supplies	(31,924)	32,393
	133,577	89,178
Current liabilities		
Payables and short-term borrowings	35,612	14,190
Payable to affiliated companies	5,563	(1,653)
Demand loan from parent company	5,052	(21,020)
Income and other taxes	53,583	(7,178)
Debt maturing within one year	(3,469)	481
	96,341	(15,180)
Net increase	$ 37,236	$104,358

12. PENSION PLANS

The Company and its subsidiaries (with some exceptions) have established pension plans in the principal countries where they operate, for the greater part contributory and generally open to all employees.

The total pension expense in 1978 was $64.1 million (1977 — $27.1) which includes amortization of unfunded actuarial liabilities which the Company and its subsidiaries are funding for the most part over a period of 15 years or less. The 1978 increase is principally attributable to funding an experience deficiency for the period 1975 to 1977 which was revealed by an actuarial valuation made in 1978, and which was caused mainly by salary escalation and early retirements exceeding the previous actuarial assumptions.

Based on the most recent actuarial reports, the unfunded actuarial liabilities amounted to $7.2 million for currently vested benefits, and $86.4 million for total benefits.

13. REMUNERATION OF DIRECTORS AND OFFICERS

The Company has 12 directors who receive no remuneration as such. There are 15 officers, nine of whom are directors of the Company. The aggregate remuneration received from the Company by these officers and by past officers amounted to $1,523 in 1978 (1977 — $1,219).

Aluminum Company of Canada, Ltd

NOTES TO FINANCIAL STATEMENTS — in thousands of U.S. dollars

14. QUARTERLY FINANCIAL DATA (unaudited)

	1978 1st Quarter	1978 2nd Quarter	1978 3rd Quarter	1978 4th Quarter
Revenues	$505,921	$606,205	$567,718	$611,126
Costs and expenses	450,595	521,110	494,649	524,157
Income taxes	22,299	35,777	28,357	30,127
Equity income (loss)	(585)	(87)	(29)	640
Net income	$ 32,442	$ 49,231	$ 44,683	$ 57,482

	1977 1st Quarter	1977 2nd Quarter	1977 3rd Quarter	1977 4th Quarter
Revenues	$443,340	$480,157	$459,363	$479,290
Costs and expenses	427,591	445,759	412,523	422,185
Income taxes	6,181	12,186	18,896	14,438
Equity income (loss)	294	(552)	87	239
Net income	$ 9,862	$ 21,660	$ 28,031	$ 42,906

15. REPLACEMENT COST DATA in millions of U.S. dollars (unaudited)

The table below provides disclosure of replacement cost data as required by the Securities and Exchange Commission Accounting Series Release No. 190.

The Company and its major operating subsidiaries made detailed reviews of their fixed assets and inventories, and calculated the replacement cost mainly by valuing specific assets or operating capacities. Valuations for fixed assets and inventories of the remaining smaller subsidiaries were based on appropriate indices. Depreciation and depletion expense was calculated on the straight-line method applying existing rates to the estimated replacement cost. Replacement cost of sales was determined by adjusting historical costs for the estimated inflation occurring during the period between production and sale.

Because of the lack of established standards, the considerable degree of continuing experimentation, and the many subjective judgements required in the compilation of the data, the figures provided cannot give more than a general impression of the values involved, and specific comparisons with other reported data are unlikely to be valid. Any attempt to present a valuation of assets which might replace the existing assets is not sufficiently factual for a satisfactory accounting presentation.

	1978		1977	
	Estimated Replacement Cost Basis	Historical Cost Basis	Estimated Replacement Cost Basis	Historical Cost Basis
Productive capacity				
Property, plant and equipment (a)	$6,714.7	$2,284.0	$6,261.0	$2,171.2
Accumulated depreciation and depletion	4,174.4	1,298.4	3,845.5	1,258.2
	2,540.3	985.6	2,415.5	913.0
Depreciation and depletion expense	243.8	82.1	192.9	75.4
Inventories	576.5	473.8	611.2	505.7
Cost of sales and operating expenses	1,727.5	1,722.8	1,489.3	1,464.3

(a) Land, water rights and mineral properties have not been revalued and are included in the estimated replacement cost at their historical cost of $58.7 million (1977 — $64.3). Accumulated amortization and depletion relating to these assets of $1.6 million (1977 — $7.9) also have not been revalued.

AUDITORS' REPORT

To the Shareholders of
Aluminum Company of Canada, Ltd

We have examined the consolidated balance sheets of Aluminum Company of Canada, Ltd as at 31 December 1978 and 1977 and the related consolidated statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the Company as at 31 December 1978 and 1977 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles in Canada, applied on a consistent basis.

Montréal, Canada
1 February 1979

PRICE WATERHOUSE & CO.
Chartered Accountants

Aluminum Company of Canada, Ltd

DIRECTORS

HAROLD CORRIGAN — President, Alcan Canada Products Limited

DAVID M. CULVER — President, Alcan Aluminium Limited

NATHANAEL V. DAVIS — Chairman of the Board and Chief Executive Officer, Alcan Aluminium Limited

J. J. GAGNON — Executive Vice President

R. A. GENTLES — President and Chief Executive Officer, Alcan Aluminum Corporation

JOHN H. HALE — Executive Vice President, Finance, Alcan Aluminium Limited

PAUL H. LEMAN, O.C. — Vice Chairman of the Board, Alcan Aluminium Limited

ROGER PHILLIPS — President, Alcan Smelters and Chemicals Ltd

PATRICK J. J. RICH — Regional Executive Vice President, Alcan Aluminium Limited

DOUGLAS M. RITCHIE — Corporate Vice President

R. F. SHARRATT — Corporate Vice President

JOHN WILSON — Corporate Vice President

OFFICERS

DAVID M. CULVER — Chairman of the Board

PATRICK J. J. RICH — President and Chief Executive Officer

HAROLD CORRIGAN — Executive Vice President

J. J. GAGNON — Executive Vice President

R. A. GENTLES — Executive Vice President

ROGER PHILLIPS — Executive Vice President

DOUGLAS M. RITCHIE — Corporate Vice President

R. F. SHARRATT — Corporate Vice President

JOHN WILSON — Corporate Vice President

JOHN D. RUNKLE — Vice President

CLAUDE M. TÉTRAULT — Vice President

JACQUES VAILLANCOURT — Vice President

F. C. WINSER — Vice President

CLAUDE AUBIN — Secretary

ALLAN A. HODGSON — Treasurer

ALCAN

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