Aluminum Company of Canada, Ltd

ALCAN

# 1979

# Financial Statements

# Aluminum Company of Canada, Ltd

## CONSOLIDATED STATEMENT OF INCOME

year ending 31 December

| | in thousands of U.S. dollars | |
|---|---|---|
| | 1979 | 1978 (note 2) |
| REVENUES | | |
| Sales | $2,310,962 | $2,145,078 |
| Operating revenues | 169,612 | 135,251 |
| Other income (note 10) | 29,661 | 10,641 |
| | **2,510,235** | **2,290,970** |
| COSTS AND EXPENSES | | |
| Cost of sales and operating expenses | 1,865,665 | 1,709,035 |
| Depreciation | 83,758 | 82,074 |
| Selling, research and administrative expenses | 134,616 | 128,530 |
| Interest on debt not maturing within one year | 35,147 | 41,719 |
| Other interest | 12,627 | 8,727 |
| Other expenses | 6,694 | 6,660 |
| | **2,138,507** | **1,976,745** |
| INCOME BEFORE INCOME TAXES AND EQUITY INCOME | **371,728** | **314,225** |
| Income taxes (note 11) | | |
| Current | 67,922 | 51,089 |
| Deferred | 63,607 | 71,644 |
| | **131,529** | **122,733** |
| INCOME BEFORE EQUITY INCOME | **240,199** | **191,492** |
| Equity in net income (loss) of companies 20-50% owned (note 1) | 1,462 | (61) |
| NET INCOME | **$ 241,661** | **$ 191,431** |

# Aluminum Company of Canada, Ltd

## CONSOLIDATED BALANCE SHEET — ASSETS

31 December

| | in thousands of U.S. dollars | |
|---|---|---|
| | 1979 | 1978 (note 2) |
| Current assets | | |
| Cash and time deposits | $ 48,597 | $ 94,568 |
| Receivables | 303,615 | 274,908 |
| Receivable from affiliated companies | 77,166 | 105,097 |
| Aluminum | 283,131 | 256,772 |
| Raw materials and other supplies | 359,776 | 298,217 |
| | **1,072,285** | **1,029,562** |
| Deferred charges | **19,616** | **13,922** |
| Deferred receivables (note 3) | **76,727** | **62,374** |
| Investments in companies owned 50% or less (note 1) | **26,371** | **28,075** |
| Property, plant and equipment (note 4) | **2,497,664** | **2,283,969** |
| Less: Accumulated depreciation | 1,351,793 | 1,298,371 |
| | **1,145,871** | **985,598** |
| TOTAL ASSETS | **$2,340,870** | **$2,119,531** |

## CONSOLIDATED BALANCE SHEET — LIABILITIES AND SHAREHOLDERS' EQUITY

31 December

| | in thousands of U.S. dollars | |
|---|---|---|
| | 1979 | 1978 (note 2) |
| Current liabilities | | |
| Payables | $ 336,806 | $ 277,112 |
| Payable to affiliated companies | 13,504 | 14,471 |
| Demand loan from parent company | 100,128 | 86,875 |
| Income and other taxes | 40,182 | 55,956 |
| Debt maturing within one year (note 5) | 16,105 | 20,533 |
| | **506,725** | **454,947** |
| Debt not maturing within one year (note 5) | **373,499** | **414,709** |
| Deferred credits (note 6) | **65,116** | **60,874** |
| Deferred income taxes | **311,320** | **247,713** |
| Redeemable preferred shares (note 7) | **162,166** | **170,638** |
| Common shareholders' equity | | |
| Common shares — without nominal or par value (note 8) | | |
| Authorized — 20,000,000 shares | | |
| Outstanding — 11,459,642 shares (1978 — 11,448,423) | 333,433 | 332,405 |
| Retained earnings (note 9) | 588,611 | 438,245 |
| | **922,044** | **770,650** |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | **$2,340,870** | **$2,119,531** |

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

## Aluminum Company of Canada, Ltd

### CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

year ending 31 December

| | in thousands of U.S. dollars | |
|---|---|---|
| | 1979 | 1978 (note 2) |
| SOURCE OF FUNDS | | |
| Net income | $241,661 | $191,431 |
| Depreciation | 83,758 | 82,074 |
| Deferred income taxes | 63,607 | 71,644 |
| Other | (1,101) | 602 |
| From operations | **387,925** | **345,751** |
| New debt | 6,106 | 4,300 |
| Common shares | 1,028 | 751 |
| Disposals of plant and equipment | 15,861 | 7,093 |
| | **410,920** | **357,895** |
| APPLICATION OF FUNDS | | |
| Plant and equipment | 257,284 | 155,904 |
| Investments | 1,261 | 975 |
| Debt repayments | 43,775 | 75,240 |
| Redemption of preferred shares (par value) | 7,129 | 1,071 |
| Dividends | 91,295 | 67,949 |
| Other (net) | 19,231 | 7,921 |
| | **419,975** | **309,060** |
| INCREASE (DECREASE) IN WORKING CAPITAL (note 13) | **(9,055)** | **48,835** |
| Working capital — beginning of year | 574,615 | 525,780 |
| WORKING CAPITAL — END OF YEAR | **$565,560** | **$574,615** |

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

year ending 31 December

| | in thousands of U.S. dollars | |
|---|---|---|
| | 1979 | 1978 (note 2) |
| RETAINED EARNINGS — beginning of year as previously reported | $401,892 | $286,003 |
| Adjustment for change in accounting for inventories (note 2) | 36,353 | 28,760 |
| RETAINED EARNINGS — as restated | 438,245 | 314,763 |
| Net income | 241,661 | 191,431 |
| | **679,906** | **506,194** |
| Dividends | | |
| First preferred | 99 | 107 |
| Second preferred | 577 | 730 |
| Third preferred | 3,389 | 3,487 |
| Fourth preferred | 7,230 | 5,625 |
| Common | 80,000 | 58,000 |
| | **91,295** | **67,949** |
| RETAINED EARNINGS — end of year (note 9) | **$588,611** | **$438,245** |

# Aluminum Company of Canada, Ltd

## 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.

Current assets excluding inventories, current liabilities and long-term monetary assets and liabilities included in the consolidated balance sheet are translated at the rates of exchange at year end. Other balance sheet items are translated at rates prevailing at the respective transaction dates. Accounts included in the consolidated statement of income are translated at the average rates prevailing during the year except for the cost of inventories and depreciation which are translated at rates prevailing when the related assets were acquired. Translation gains and losses are included in net income except for gains and losses relating to the translation of long-term monetary assets and liabilities which are deferred and amortized over the remaining lives of the related items.

The Financial Accounting Standards Board (FASB) in the United States requires that companies reporting to investors in the United States follow the practice of absorbing immediately in income unrealized exchange gains and losses on the translation of non-U.S. dollar long-term monetary assets and liabilities. However, the Company follows the practice recommended by The Canadian Institute of Chartered Accountants of deferring such unrealized exchange gains and losses and amortizing them over the remaining lives of the related items.

The following table compares reported net income under the Company's method with the net income that would have been reported under the FASB method, and also shows the cumulative effect on retained earnings.

| | 1979 | | 1978 (note 2) | |
|---|---|---|---|---|
| | Company Method | FASB Method | Company Method | FASB Method |
| Consolidated net income | | | | |
| First quarter (unaudited) | $ 68,494 | $ 64,463 | $ 34,091 | $ 39,118 |
| Second quarter (unaudited) | 53,076 | 52,895 | 50,685 | 50,857 |
| Third quarter (unaudited) | 45,128 | 51,589 | 44,775 | 48,969 |
| Fourth quarter (unaudited) | 74,963 | 74,409 | 61,880 | 60,700 |
| | $241,661 | $243,356 | $191,431 | $199,644 |
| Consolidated retained earnings | | | | |
| Beginning of year | $438,245 | $459,912 | $314,763 | $328,217 |
| End of year | 588,611 | 611,973 | 438,245 | 459,912 |

## 1. SUMMARY OF ACCOUNTING POLICIES (continued)

### OTHER

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

Property, plant and equipment include 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.

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.

Research and development expenditures, charged to income as incurred, amounted to $27.3 million in 1979 and $27.4 in 1978.

## 2. ACCOUNTING CHANGES

### INVENTORIES IN THE UNITED STATES

The basis of determining the cost of inventories of aluminum and other supplies in the United States was changed in the fourth quarter of 1979 from the last-in-first-out method to the monthly average method to conform with the Company's inventory accounting policy. This change in accounting method was adopted with retroactive effect. The change increased net income by $7.6 million in each of the years 1979 and 1978. The change also increased retained earnings at 31 December 1977 by $28.8 million relating to the years 1974-1977.

### CURRENCY TRANSLATION

Beginning 1 January 1979 the Company changed its method of accounting for the translation of foreign currency transactions and accounts to conform to the recommendations of The Canadian Institute of Chartered Accountants. Non-U.S. dollar long-term monetary assets and liabilities are now translated using the rates of exchange prevailing at the balance sheet date rather than at the date of origin. The resulting unrealized exchange is deferred and amortized over the remaining life of the related item. This change had no significant impact on net income. Certain balance sheet amounts for 1978 have been restated for comparative purposes.

## 3. DEFERRED RECEIVABLES

Deferred receivables include $41 million due with interest over the period 1981 to 1991 from the Government of Guyana in respect of the nationalization in 1971 of the Company's bauxite and alumina assets and $26 million due with interest over the period 1981 to 1988 from the Government of Jamaica in respect of funds on deposit and for the sale of assets.

## 4. PROPERTY, PLANT AND EQUIPMENT

| | 1979 | | | 1978 |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net | Net |
| Land, and property rights | $ 53,040 | $ 666 | $ 52,374 | $ 57,010 |
| Buildings, machinery and equipment | 2,165,910 | 1,351,127 | 814,783 | 796,205 |
| Construction work in progress | 278,714 | | 278,714 | 132,383 |
| | $2,497,664 | $1,351,793 | $1,145,871 | $985,598 |

Expenditures in 1980 are expected to be about $340 million.

# Aluminum Company of Canada, Ltd

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

## 5. DEBT NOT MATURING WITHIN ONE YEAR

| | 1979 | 1978 (note 2) |
|---|---|---|
| Aluminum Company of Canada, Ltd | | |
| $9^1/_2$% Sinking fund debentures, due 1995 | $ 86,653 | $ 96,816 |
| *$10^3/_4$% Sinking fund debentures, due 1994 (Can. $67 million) | 57,243 | 63,278 |
| $9^3/_8$% Sinking fund debentures, due 1991 (Can. $46 million) | 39,324 | 41,580 |
| $9^1/_2$% Sinking fund debentures, due 1988 | 40,881 | 47,483 |
| 5.10% Notes, due 1980/1992 | 58,500 | 63,000 |
| Other debt, due 1980/2001 | 15,482 | 27,793 |
| Alcan Aluminum Corporation (USA) | | |
| $9^1/_2$% Notes, due 1980/1994 | 45,000 | 45,000 |
| $4^3/_4$% Notes, due 1980/1984 | 17,001 | 20,400 |
| Other debt, due 1980/1998 | 11,843 | 6,912 |
| Debt of other subsidiaries | 1,344 | 1,313 |
| | 373,271 | 413,575 |
| Less: Debt maturing within one year included in current liabilities | 16,105 | 20,533 |
| | 357,166 | 393,042 |
| Add: Unamortized amount of unrealized exchange gains (note 1) | 16,333 | 21,667 |
| | $373,499 | $414,709 |

*$8.6 million held by parent company

Based on rates of exchange at year end and after allowing for prepayments, sinking fund and other requirements over the next five years amount to $16.1 million in 1980, $12.6 in 1981, $17.1 in 1982, $24.8 in 1983 and $26.8 in 1984.

## 6. DEFERRED CREDITS

Deferred credits include $45 million prepayment by an associated company under an alumina tolling arrangement.

## 7. REDEEMABLE PREFERRED SHARES

Preference capital is presented outside shareholders' equity to comply with requirements of the U.S. Securities and Exchange Commission.

| | 1979 | 1978 (note 2) |
|---|---|---|
| Cumulative redeemable shares | | |
| 4% First preferred sinking fund — par Can. $25 | | |
| Authorized — 145,684 shares | | |
| Outstanding — 109,403 shares (1978 — 121,910) | $ 2,343 | $ 2,571 |
| $4^1/_2$% Second preferred sinking fund — par Can. $50 | | |
| Authorized — 401,506 shares | | |
| Outstanding — 240,294 shares (1978 — 366,271) | 10,296 | 15,451 |
| $2.00 Third preferred — par Can. $25 | | |
| Authorized — 4,000,000 shares | | |
| Outstanding — 1,983,560 shares (1978 — 2,000,000) | 42,498 | 42,185 |
| Floating rate fourth preferred — par U.S. $25 | | |
| Authorized — 10,000,000 shares | | |
| Outstanding — 4,000,000 shares | 100,000 | 100,000 |
| | 155,137 | 160,207 |
| Add: Unamortized amount of unrealized exchange gains (note 1) | 7,029 | 10,431 |
| | $162,166 | $170,638 |

## 7. REDEEMABLE PREFERRED SHARES (continued)

Maximum annual sinking fund requirements for the retirement of the first and second preferred shares amount to Can. $2.7 million per annum. The 1980 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.

Can. $2.00 Tax deferred retractable third 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 fourth 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. All outstanding 4% first preferred shares and 4½% second preferred shares have been called for redemption on 1 June 1980 and 31 May 1980, respectively.

## 8. COMMON SHARES

In 1979 the Company issued 11,219 common shares to Alcan Aluminium Limited, the parent company, for an investment valued at Can. $1.2 million (U.S. $1.0 million).

## 9. RETAINED EARNINGS

Consolidated retained earnings at 31 December 1979 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.

## 10. OTHER INCOME

| | 1979 | 1978 |
|---|---|---|
| Interest | $21,884 | $ 8,276 |
| Gain on redemption of debt | 5,444 | 1,725 |
| Other | 2,333 | 640 |
| | $29,661 | $10,641 |

## 11. INCOME TAXES

Income taxes provided in 1979 represent approximately 35% 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.

## 12. COMMITMENTS

Minimum rental commitments, principally charter hire of ships, amount to $22.2 million in 1980, $15.4 in 1981, $11.3 in 1982, $5.9 in 1983, $4.9 in 1984 and lesser annual amounts thereafter. Total rental expense amounted to $59.0 million in 1979 (1978 — $48.2).

See also reference to capital expenditures in note 4 and debt repayments in note 5.

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

### 13. CHANGES IN WORKING CAPITAL

| | 1979 | 1978 (note 2) |
|---|---|---|
| Current assets | | |
| Cash and time deposits | $(45,971) | $ 76,250 |
| Receivables | 28,707 | 73,023 |
| Receivable from affiliated companies | (27,931) | 16,228 |
| Aluminum, raw materials and other supplies | 87,918 | (20,325) |
| | 42,723 | 145,176 |
| Current liabilities | | |
| Payables | 59,694 | 35,612 |
| Payable to affiliated companies | (967) | 5,563 |
| Demand loan from parent company | 13,253 | 5,052 |
| Income and other taxes | (15,774) | 53,583 |
| Debt maturing within one year | (4,428) | (3,469) |
| | 51,778 | 96,341 |
| Net increase (decrease) | $ (9,055) | $ 48,835 |

### 14. PENSION PLANS

The Company 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. The total pension expense in 1979 was $30.8 million ($64.1 in 1978 including the funding of an experience deficiency for the period 1975 to 1977) which includes amortization of unfunded actuarial liabilities which the Company and its subsidiaries are funding for the most part over periods of 15 years or less. Based on the most recent actuarial reports, the unfunded actuarial liabilities amounted to $14.6 million for currently vested benefits and to $82.1 million for total benefits.

### 15. REMUNERATION OF DIRECTORS AND OFFICERS

The remuneration paid in 1979 by the Company to 12 directors and to past directors amounted to $3.8 (nil in 1978). There are 14 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 $1,361 ($1,523 in 1978).

### 16. QUARTERLY FINANCIAL DATA (unaudited)

| 1979 | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|
| Revenues | $632,981 | $657,010 | $585,294 | $634,950 |
| Costs and expenses | 517,018 | 580,087 | 522,253 | 519,149 |
| Income taxes | 47,808 | 24,133 | 17,900 | 41,688 |
| Equity income (loss) | 339 | 286 | (13) | 850 |
| Net income | $ 68,494 | $ 53,076 | $ 45,128 | $ 74,963 |

| 1978 | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|
| Revenues | $505,921 | $606,205 | $567,718 | $611,126 |
| Costs and expenses | 447,501 | 518,442 | 494,260 | 516,542 |
| Income taxes | 23,744 | 36,991 | 28,654 | 33,344 |
| Equity income (loss) | (585) | (87) | (29) | 640 |
| Net income | $ 34,091 | $ 50,685 | $ 44,775 | $ 61,880 |

The above quarterly results have been restated to give retroactive effect to the change in accounting for inventories referred to in note 2.

## 17. SUPPLEMENTARY INFLATION ACCOUNTING DATA (unaudited)

The controversy over the best method of accounting under inflationary conditions continues. Indeed, it is intensifying as the rate of inflation is again increasing in many countries. There is general agreement that the historical cost basis should be retained for the basic financial statements because it affords a firm starting point and that information about the effects of inflation should be presented in supplementary form. However, much uncertainty centers around which of the principal alternative methods for inflation accounting should be used — Current Purchasing Power (CPP), Replacement Cost (RC) and Current Cost (CC).

The first, CPP, focuses on adjusting for the decline in the value of money. The second, RC, focuses on the changing prices of specific goods and services used by the enterprise. It is intended to give the present cost of replacing the existing fixed assets with new assets of equivalent capacity but with new technology. The third, CC, also focuses on specific price changes but is supposed to represent the current cost of replacing existing assets 'as is' and 'where is' with the same technology.

Thus it is apparent that the methods differ completely in concept and application. CPP is considered to be most appropriate for comparison and measurement of performance, and does not involve individual judgment. RC is considered to be appropriate for assessing future cash needs. CC is somewhat akin to RC but is less subjective because it deals with existing plant, not theoretical new plant; both of these methods require subjective judgment.

A major development occurred in October 1979 when the Financial Accounting Standards Board (FASB) in the United States issued its standard on this subject (FAS 33). It requires data stated in accordance with two methods: (1) CPP, which FAS 33 calls "constant dollar accounting" and (2) CC. The constant dollar and current cost data are supplementary to the basic financial statements, which continue on the historical cost basis.

Using the U.S. Consumer Price Index to relate the value of the dollars of earlier years to current year-end 1979 dollars, the following statements of income and selected financial data demonstrate the effects of general inflation on the Company's financial results.

| CONSOLIDATED NET INCOME INFORMATION (in millions of U.S. dollars) | CPP in terms of year-end 1979 dollars | |
|---|---|---|
| | 1979 | 1978* |
| Net income for the year, as reported | 242 | 191 |
| Adjustment for: | | |
| Inventories | (53) | (63) |
| Depreciation expense | (83) | (81) |
| Monetary items | 97 | 82 |
| Other items | (8) | 27 |
| Net income for the year, as adjusted for the effects of inflation | 195 | 156 |

| CONSOLIDATED BALANCE SHEET (in millions of U.S. dollars) | Historical as reported | | CPP in terms of year-end 1979 dollars | |
|---|---|---|---|---|
| | 1979 | 1978* | 1979 | 1978* |
| Current assets | 1,072 | 1,030 | 1,123 | 1,191 |
| Deferred receivables and charges | 96 | 76 | 96 | 86 |
| Investments in companies owned 50% or less | 26 | 28 | 42 | 43 |
| Property, plant and equipment (net) | 1,146 | 986 | 1,598 | 1,533 |
| | 2,340 | 2,120 | 2,859 | 2,853 |
| Current liabilities | 507 | 455 | 507 | 510 |
| Long-term debt | 373 | 415 | 373 | 465 |
| Deferred income taxes and credits | 376 | 309 | 376 | 347 |
| Shareholders' equity | 1,084 | 941 | 1,603 | 1,531 |
| | 2,340 | 2,120 | 2,859 | 2,853 |

*Certain items restated: see note 2 to the financial statements.

17. SUPPLEMENTARY INFLATION ACCOUNTING DATA (unaudited) *Continued*

| STATEMENTS OF INCOME FOR THE YEAR ENDING 31 DECEMBER 1979 | As reported in the financial statements | | As adjusted for general inflation (CPP) | |
|---|---|---|---|---|
| | (in millions of historical dollars) | | (in millions of year-end 1979 dollars) | |
| Sales and operating revenues | | $2,481 | | $2,596 |
| Cost of sales and operating expenses | 1,866 | | 2,009 | |
| Depreciation expense | 84 | | 167 | |
| Selling, research and administrative expenses | 135 | | 141 | |
| Other | 154 | | 181 | |
| | | 2,239 | | 2,498 |
| Income from continuing operations | | 242 | | 98 |
| Gain on net monetary liabilities | | — | | 97 |
| Net income for the year | | $ 242 | | $ 195 |

| FIVE-YEAR COMPARISON OF FINANCIAL DATA | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|
| Historical cost data | | | | | |
| In millions of U.S. dollars | | | | | |
| Sales and operating revenues | 1,480 | 1,536 | 1,856 | 2,280 | 2,481 |
| Income from continuing operations | | | | | 242 |
| Shareholders' equity at year end | | | | | 1,084 |
| Constant dollar data in year-end 1979 dollars | | | | | |
| In millions of U.S. dollars | | | | | |
| Sales and operating revenues | 2,086 | 2,046 | 2,315 | 2,656 | 2,596 |
| Income from continuing operations | | | | | 98 |
| Gain on net monetary liabilities | | | | | 97 |
| Net income | | | | | 195 |
| Shareholders' equity at year end | | | | | 1,603 |
| Year-end consumer price index (1967 base year = 100) | 166.3 | 174.3 | 186.1 | 202.9 | 227.6 |

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

Next year the Company will report the data required by FAS 33 for Current Cost. In lieu thereof for this annual report the Company presents below the replacement cost data for 1979 and 1978 as required by the Securities and Exchange Commission (SEC) in the United States:

| | 1979 | | 1978 | |
|---|---|---|---|---|
| | Historical cost basis | Estimated replacement cost basis | Historical cost basis* | Estimated replacement cost basis |
| Productive capacity | | | | |
| Property, plant and equipment | $2,498 | $7,608 | $2,284 | $6,715 |
| Less: Accumulated depreciation | 1,352 | 4,442 | 1,298 | 4,174 |
| | 1,146 | 3,166 | 986 | 2,541 |
| Depreciation expense | 84 | 254 | 82 | 244 |
| Inventories | 643 | 688 | 555 | 577 |
| Cost of sales and operating expenses | 1,866 | 1,886 | 1,709 | 1,728 |

*Certain items restated; see note 2 to the financial statements.

## 17. SUPPLEMENTARY INFLATION ACCOUNTING DATA (unaudited) *Continued*

In accordance with the SEC guidelines the 1979 replacement cost amounts are stated in terms of 1979 dollars while the 1978 amounts are stated in terms of 1978 dollars.

The larger subsidiaries have reviewed their assets in detail and attempted to estimate the replacement cost in most cases by valuing specific assets or operating capacities. Indexes were used to value the other assets and those of the remaining smaller subsidiaries. Land, and property rights have not been revalued and are included in the estimated replacement cost at their historical cost. The accumulated depreciation and the charge for the year were calculated using the straight-line method and existing rates applied to the estimated replacement costs. Replacement cost of sales was determined by adjusting historical costs for the estimated inflation which occurred during the period between the time of production and the time of sale.

There has been no attempt to re-engineer the entire productive capacity nor to consider the many and varied problems of relocation and consolidation of existing facilities, such as sources of raw materials, energy, labour supply and proximity to markets. The cost and manner of actual replacement might be significantly changed by such considerations.

Furthermore, the present level of operating costs would be changed through greater efficiencies in the use of energy, labour and materials afforded by productive capacity of more modern design. These changes cannot be determined with any precision, but it is believed that they would significantly offset the additional depreciation on the replacement cost basis.

Because of the many subjective judgments and the lack of established standards, it is felt that the replacement cost amounts provide only a very general indication of the values involved and that comparisons with other reported data are unlikely to be valid.

## 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 1979 and 1978 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 1979 and 1978 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 which (after giving retroactive effect to the change in accounting for certain inventories as explained in Note 2, with which we concur) have been applied on a consistent basis.

Montréal, Canada
8 February 1980

PRICE WATERHOUSE & CO.
Chartered Accountants

# Aluminum Company of Canada, Ltd

## DIRECTORS

HAROLD CORRIGAN — Vice President, Corporate Relations, Alcan Aluminium Limited

DAVID M. CULVER — President and Chief Executive Officer, Alcan Aluminium Limited

J. J. GAGNON — Executive Vice President

Dr. ROGER GAUDRY, C.C. — President of International Association of Universities

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

JOHN H. HALE — Executive Vice President and Chief Financial Officer, Alcan Aluminium Limited

ROGER PHILLIPS — Vice President, Research, Technology and Engineering, Alcan Aluminium Limited

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

DOUGLAS M. RITCHIE — Corporate Vice President

R. F. SHARRATT — Corporate Vice President

HON. JAMES SINCLAIR, P.C. — Director of Canada Cement Lafarge Ltd

JOHN WILSON — Corporate Vice President

## OFFICERS

JOHN H. HALE — 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 and Treasurer

JOHN WILSON — Corporate Vice President

JOHN D. RUNKLE — Vice President

CLAUDE M. TÉTRAULT — Vice President and Secretary

JACQUES VAILLANCOURT — Vice President

F. C. WINSER — Vice President

# 1979 Financial Statements

# Aluminum Company of Canada, Ltd

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