Aluminum Company of Canada, Ltd

ALCAN

1980

Annual Report

Aluminum Company of Canada, Ltd

Aluminum Company of Canada, Ltd is a Canadian corporation with headquarters in Montreal. It is the principal subsidiary of Alcan Aluminium Limited, a Canadian company, which owns all of its common shares. The principal functions of the Company are the integrated production of primary aluminum for domestic and international markets and the fabrication and marketing of aluminum products in Canada, the United States and the Caribbean area. These operations embrace the mining and processing of bauxite, the basic aluminum ore; the conversion of bauxite into alumina (aluminum oxide); the generation of electric power for use in smelting aluminum; the smelting of aluminum from alumina; the fabrication in Canada and the U.S. of aluminum and aluminum alloys into semi-finished and finished products; and transportation services for haulage of raw materials and metal.

The Company's earnings in 1980 rose to a record high of $421 million, compared to $242 million for 1979. Sales revenues were $2,761 million, compared to $2,311 for the previous year. The significant increase in net income is attributed to improved profit margins on most products and especially to the fact that the Canadian smelter operations, which had been affected by a strike in 1979, operated at full capacity for the whole year. It should furthermore be stated that this achievement is in large part the reflection of the resourcefulness, concerted effort and performance of our employees. Management expects that for 1981 production will be increased as the new Grande Baie smelter in Quebec comes on-stream but anticipates that in the first half of 1981 business conditions are likely to be somewhat more difficult than in 1980.

In November 1980 the employees' union and the management at Kitimat, British Columbia, signed a new collective agreement providing for a 34.5% wage increase and improved benefits over a 30-month period. The new contract will expire in April 1983. In February 1981 an agreement in principle was reached with the union at three of the four Quebec smelters, providing for wage increases and an extension from September 1982 until December 1983 of the collective agreement which had been signed in 1979. A similar offer was made at the fourth smelter. During 1981 a number of the collective agreements in the Canadian fabricating area will be due for re-negotiation. Negotiations with the bauxite and alumina production employees in Jamaica are currently under way to replace contracts which expired at the end of January 1981.

The availability, in Canada, of many undeveloped sources of hydroelectric power and the existence of our skilled labour and management force are basic strengths on which the Company will build in pursuing a vigorous smelter modernization and expansion program throughout the current decade. With its extensive alumina and smelting infrastructure in place and a sizable flow of taxable income against which it can realize tax incentive benefits from expansion, the Company is in an advantageous position to carry out this program in Canada to supply both the domestic and export markets. Internally generated funds and existing financing arrangements are considered adequate to support the early phases of these plans and the Company is in a sound position to arrange longer term financing as the need and opportunities arise.

Aluminum Company of Canada, Ltd

SELECTED FINANCIAL DATA

The following table sets forth certain selected data which reflects the consolidated operating results and financial position of the Company for the years indicated.

	1980	1979	1978	1977	1976
		(in millions of U.S. dollars)			
Sales and operatings revenues	$2,932	$2,481	$2,280	$1,856	$1,536
Gross profit	887	532	489	324	121
Net income (loss)	421	242	191	105	(10)
Total assets	2,765	2,341	2,120	1,893	1,762
Debt not maturing within one year	396	374	415	484	565
Redeemable preferred shares	145	162	171	172	74
Net realization on sales of ingot and ingot products (in U.S.$ per tonne)	1,578	1,295	1,062	1,023	837
Aluminum shipments (in thousands of tonnes)					
Ingot and ingot products	456	450	665	526	484
Fabricated products	517	500	484	397	383
Total	973	950	1,149	923	867
Production of primary aluminum (in thousands of tonnes)	918	709	898	826	493

Net income and cash dividends per common share are not reported as all of the common shares outstanding are owned by Alcan Aluminium Limited, the parent company.

Under a joint bauxite mining and alumina refining agreement with the Jamaican government, the Company has special mining leases covering proved and probable bauxite reserves of about 100 million crude tonnes as of the beginning of the year 1980, with a total weighted average aluminum content of 26%. The Company estimates that these reserves are sufficient to meet 37 years requirements at current production levels. The amount of aluminum extractable is always less than the total aluminum content, varying according to the nature of the bauxite, the process technology employed to extract the intermediate product, alumina, and to the alumina plant efficiency. Bauxite mined during the year totalled 2.7 million crude tonnes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

As illustrated in the schedule of Selected Financial Data, over the last five years the Company experienced substantial increases in gross profit and net income and to a lesser extent, increases in sales and operating revenues. The upward trend in operating results, adversely affected by major strikes in 1979 and 1976 at the Canadian smelter locations, is mainly attributed to increases in prices of aluminum ingot and fabricated products with smaller increases in operating costs, particularly energy costs, because the Company has its own hydroelectric power facilities.

In terms of current costs, increases in operating results are less substantial. The Company's capital expenditures, particularly the Quebec smelter assets and power facilities, were incurred at a time when construction costs were substantially below today's costs and, had depreciation been taken on current costs, net income would have been reduced as shown under the section on Inflation Accounting.

1980 COMPARED WITH 1979

Increases in selling prices and full utilization of smelter capacity in 1980 resulted in an improvement of approximately 150% in gross profit for ingot and ingot products. Results for 1979 were affected by a three-month strike at three Quebec smelters, representing 60% of the total smelting capacity of the Company. Total strike costs amounted to approximately $53 million.

The large improvement in operating results was accomplished without any increase in the Company's smelting capacity of approximately 900,000 tonnes. In December 1980, a new 57,000-tonne potline at Grande Baie, Quebec began production of aluminum and full operation of this potline is expected by mid-1981. Two more 57,000-tonne potlines are presently under construction and are scheduled to begin production in 1981 and 1982.

Sales revenue from fabricated products increased on average by approximately 10%; there was almost no change in the volume of fabricated products sold.

The Company's Jamaican alumina plants returned to full production in the second half of 1980, when one of the four digestors was reactivated after being closed for several years. Shipments of alumina were increased by 163,000 tonnes and since most of this is sold to outside parties, the additional volume, combined with a 30% increase in market prices of alumina and lower levy rates, made a significant contribution to the Company's overall profit. Lower levy rates are the result of a 1978 agreement with the Government of Jamaica, which provided for decreases in rates as production increased.

Selling, research and administrative expenses were higher because of increased research activities and inflationary factors.

Interest expense decreased due to an accounting change in accordance with the recommendations of the Financial Accounting Standards Board in the United States which requires the capitalization of interest on capital projects under construction. The effect of this change was to decrease the interest expense charged against income for the year 1980 by $24 million and to increase net income by $12 million.

The effective rate of income tax increased from 35.3% to 40.5%, of which more than half is due to the growth of pre-tax earnings in Canada at a rate faster than the growth of tax incentive allowances generated by new capital expenditures in Canada. The balance of the increase is explained by a federal surtax, applicable until the end of 1981, and increases in provincial rates.

QUARTERLY FINANCIAL DATA (in millions of U.S. dollars)

	1980			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales and operating revenues	$722	$730	$759	$721
Gross profit	219	235	220	213
Net income	108	104	106	103
	1979			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales and operating revenues	$630	$652	$576	$623
Gross profit	157	117	97	161
Net income	69	53	45	75

Aluminum Company of Canada, Ltd

MANAGEMENT'S DISCUSSION AND ANALYSIS

1979 COMPARED WITH 1978

The Quebec smelter strike in 1979 contributed to a decrease in ingot sold of 197,000 tonnes or almost 40%. Gross profit from the sale of ingot, however, decreased by only 20% because the effects of lower volume and higher costs due to idle capacity and start-up of the potlines were partially offset by improved prices.

Tonnage of fabricated products sold increased marginally, from 484,000 to 500,000 tonnes. Shortages in metal supply caused by the Quebec smelter strike meant that metal had to be purchased from outside sources at higher costs. However, a strong aluminum market throughout North America resulted in increased profit contributions from fabricated products.

LIQUIDITY OF THE COMPANY

During the past three years, the liquidity of the Company has improved quite significantly and this trend is expected to continue. Substantially increased levels of capital expenditure and dividend payouts have largely been funded from internal cash generation. At the end of 1980 sinking fund obligations had been satisfied on average more than two years in advance. During 1980, increases in long-term debt were restricted to two drawings under a $200 million Revolving Credit Agreement, for a net outstanding of $40 million at year end, and an additional $6 million in the name of the United States operating subsidiary, Alcan Aluminum Corporation. As a result, the short-term liquidity position declined slightly, but the Company's debt/equity ratio improved from 31:69 at the beginning of 1980 to 30:70 at the end of the year. (For this purpose, debt includes short-term borrowings.)

For the coming year the Company expects the level of capital expenditures to be about the same as in 1980, at approximately $470 million, operating working capital to increase by approximately $150 million, and dividend payouts to be maintained at the same rate as in 1980. Present indications are that these requirements will again largely be funded from internal cash generation and that any shortfall would be covered by drawings against available credit lines with banks.

CAPITAL RESOURCES

At the end of 1980, the Company was involved in a number of major capital projects which will require further expenditures in 1981, and in some cases subsequent years, to bring new facilities into full operation. The most significant of these projects is the Grande Baie smelter which commenced operation in December 1980 but which will require further expenditures of approximately $160 million before it is completed early in 1982. The Company is conducting a pre-feasibility study for a smelter in Manitoba and is continuing to work for a solution to the difficulties surrounding its planned expansion in British Columbia so that the Kemano Completion project may proceed. In addition, the Company will continue to review possibilities for further expansion of smelting facilities in Quebec.

Management is confident that the Company has the financial strength to provide for its commitments to capital projects currently in progress as well as the longer term expansion possibilities which are now being considered. Credit lines with a number of major banks have been maintained and in some cases extended during the past year. At the end of 1980 the Company, therefore, had available to it unused credit lines of U.S. $188 million and Can. $100 million, with an option to increase the U.S. dollar lines by a further $100 million. Current indications are that these lines will be the major source of outside financing during the next year.

RESPONSIBILITY FOR FINANCIAL REPORTING

The Company's management is responsible for the integrity and fair presentation of the accompanying financial statements. These have been prepared in accordance with generally accepted accounting principles in Canada, conforming in all material respects with international standards, and have been applied on a consistent basis except for the change explained in note 2 of the financial statements.

The Company'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.

The annual financial statements are approved by the Board of directors. In addition, the financial statements are examined by the shareholders' independent auditors, Price Waterhouse & Co., whose report appears on page 18.

CONSOLIDATED STATEMENT OF INCOME

Year ending 31 December (in millions of U.S. dollars)	1980	1979	1978
REVENUES			
Sales (note 3)	$2,761	$2,311	$2,145
Operating revenues	171	170	135
Other income (principally interest)	17	31	11
	2,949	**2,512**	**2,291**
COSTS AND EXPENSES			
Cost of sales and operating expenses (note 3)	1,960	1,865	1,709
Depreciation	85	84	82
Selling, research and administrative expenses	161	134	128
Interest on debt not maturing within one year (note 2)	13	35	42
Other interest (principally to parent company)	19	13	9
Other expenses	3	7	7
	2,241	**2,138**	**1,977**
INCOME BEFORE INCOME TAXES	**708**	**374**	**314**
INCOME TAXES (note 4)			
Current	193	68	51
Deferred	94	64	72
	287	**132**	**123**
NET INCOME	**$ 421**	**$ 242**	**$ 191**

Aluminum Company of Canada, Ltd

CONSOLIDATED BALANCE SHEET — ASSETS

31 December (in millions of U.S. dollars)	1980	1979	1978
CURRENT ASSETS			
Cash and time deposits	$ 19	$ 48	$ 95
Receivables			
Trade	316	272	253
Related companies	61	95	120
Other	18	14	7
Inventories			
Aluminum	308	283	257
Raw materials	281	228	182
Other supplies	145	132	116
	1,148	**1,072**	**1,030**
DEFERRED CHARGES	**18**	**20**	**14**
DEFERRED RECEIVABLES (note 5)	**71**	**77**	**62**
INVESTMENTS IN COMPANIES OWNED 50% OR LESS	**25**	**26**	**28**
PROPERTY, PLANT AND EQUIPMENT (note 6)	**2,911**	**2,498**	**2,284**
Less: Accumulated depreciation	1,408	1,352	1,298
	1,503	**1,146**	**986**
TOTAL ASSETS	**$2,765**	**$2,341**	**$2,120**

CONSOLIDATED BALANCE SHEET — LIABILITIES AND SHAREHOLDERS' EQUITY

31 December (in millions of U.S. dollars)	1980	1979	1978
CURRENT LIABILITIES			
Accounts payable			
Trade	$ 259	$ 293	$ 184
Parent company	10	—	—
Related companies	13	14	46
Accrued liabilities			
Payrolls	48	34	49
Income and other taxes	102	40	56
Interest	11	9	11
Demand loan from parent company	98	100	87
Short-term borrowings (principally from banks)	36	1	2
Debt maturing within one year (note 7)	10	16	20
	587	**507**	**455**
DEBT NOT MATURING WITHIN ONE YEAR (note 7)	**396**	**374**	**415**
DEFERRED CREDITS (note 8)	**67**	**65**	**61**
DEFERRED INCOME TAXES	**405**	**311**	**248**
REDEEMABLE PREFERRED SHARES (note 9)	**145**	**162**	**171**
COMMON SHAREHOLDERS' EQUITY (note 10)			
Common shares	334	333	332
Retained earnings	831	589	438
	1,165	**922**	**770**
Commitments (note 11)			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$2,765**	**$2,341**	**$2,120**

Approved by the Board: Patrick Jean Jacques Rich, Director R. F. Sharratt, Director

Aluminum Company of Canada, Ltd

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ending 31 December (in millions of U.S. dollars)	1980	1979	1978
SOURCE OF FUNDS			
Net income	$421	$242	$191
Depreciation	85	84	82
Deferred income taxes	94	64	72
Other	(1)	(2)	1
From operations	**599**	**388**	**346**
New debt	46	6	4
Common shares	1	1	1
Disposals of plant and equipment	8	16	7
	654	**411**	**358**
APPLICATION OF FUNDS			
Plant and equipment	450	257	156
Investments	3	1	1
Debt repayments	22	44	75
Redemption of preferred shares	16	7	1
Dividends	179	91	68
Other — net	(12)	21	8
	658	**421**	**309**
INCREASE (DECREASE) IN WORKING CAPITAL (note 12)	**(4)**	**(10)**	**49**
Working capital — beginning of year	565	575	526
WORKING CAPITAL — END OF YEAR	**$561**	**$565**	**$575**

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ending 31 December (in millions of U.S. dollars)	1980	1979	1978
RETAINED EARNINGS — beginning of year	$ 589	$ 438	$ 315
Net income	421	242	191
	1,010	**680**	**506**
Dividends			
Preferred	12	11	10
Common	167	80	58
	179	**91**	**68**
RETAINED EARNINGS — end of year (note 10)	**$ 831**	**$ 589**	**$ 438**

NOTES TO FINANCIAL STATEMENTS — in millions 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 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 the date of acquisition, the difference is amortized over the estimated useful lives 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 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 together with the cumulative effect on retained earnings.

	1980		1979		1978	
	Company Method	FASB Method	Company Method	FASB Method	Company Method	FASB Method
Consolidated net income						
First quarter (unaudited)	$108	$110	$ 69	$ 64	$ 34	$ 39
Second quarter (unaudited)	104	97	53	53	50	51
Third quarter (unaudited)	106	108	45	52	45	49
Fourth quarter (unaudited)	103	103	75	74	62	61
	421	418	242	243	191	200
Consolidated retained earnings						
Beginning of year	589	612	438	460	315	328
End of year	831	851	589	612	438	460

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.

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

2. ACCOUNTING CHANGE

CAPITALIZATION OF INTEREST COSTS

Beginning 1 January 1980 the Company commenced capitalizing instead of expensing the interest costs associated with the financing of projects under construction, in accordance with the recommendations of the Financial Accounting Standards Board in the United States. The effect of this accounting change was to decrease the interest expense charged against income for the year 1980 by $24 and to increase net income by $12.

3. SALES AND COST OF SALES

Sales and cost of sales include transactions with related companies. Sales to related companies are disclosed under Information by Geographic Areas (refer to note 15) and cost of sales include purchases from related companies. In 1980, alumina and bauxite purchases from related companies represented 60% and 90% respectively of total alumina and bauxite purchases. The corresponding dollar amounts of purchases from related companies for the last three years were as follows:

	1980	1979	1978
Alumina	$ 62	$62	$47
Bauxite	115	52	41

4. INCOME TAXES

	1980	1979	1978
Income before income taxes			
Canada	$553	$250	$218
Other countries	155	124	96
	$708	$374	$314
Current income taxes			
Canada	$147	$ 36	$ 17
Other countries	46	32	34
	193	68	51
Deferred income taxes			
Canada	75	45	67
Other countries	19	19	5
	94	64	72
Total income tax provision	$287	$132	$123

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

4. INCOME TAXES (continued)

The composite of the applicable statutory corporate income tax rates in Canada is presently 51.0% (48.6% in 1979, 48.0% in 1978). Profits earned by subsidiary companies located outside Canada are generally subject to income taxes at rates comparable to this composite rate. Dividends paid by these subsidiary companies are generally tax-exempt upon receipt in Canada. Taxes withheld at source are included in current income taxes — other countries.

The following is a reconciliation of income taxes calculated at the above composite rate with the total income tax provision:

	1980	1979	1978
Income taxes at the above composite rate	$361	$182	$151
Reduction (increase) attributable to:			
Investment and depletion allowances	63	39	44
Effect of foreign currency translations	(1)	(1)	(22)
Other — net	12	12	6
	74	50	28
Income tax provision	$287	$132	$123

The deferred income tax provision resulted from the following timing differences:

	1980	1979	1978
Depreciation taken for tax purposes in excess of depreciation recorded for book purposes	$ 69	$ 45	$ 33
Application of a prior year's loss carry forward	—	—	27
Inventories valued on LIFO basis for U.S. tax purposes in excess of those recorded on average cost method for book purposes	15	18	4
Other	10	1	8
	$ 94	$ 64	$ 72

5. DEFERRED RECEIVABLES

Deferred receivables include $35 due with interest over the period 1982 to 1991 from the Government of Guyana in respect of the nationalization in 1971 of the Company's bauxite and alumina assets and $24 due with interest over the period 1982 to 1988 from the Government of Jamaica in respect of funds deposited and for the sale of assets.

6. PROPERTY, PLANT AND EQUIPMENT, AT COST

	1980	1979	1978
Land, and property rights	$ 51	$ 53	$ 59
Buildings, machinery and equipment	2,306	2,166	2,093
Construction work in progress	554	279	132
	$2,911	$2,498	$2,284

Capital expenditures in 1981 are expected to be about $470.

7. DEBT NOT MATURING WITHIN ONE YEAR

	1980	1979	1978
Aluminum Company of Canada, Ltd			
$9\frac{1}{2}$% Sinking fund debentures, due 1995	$ 82	$ 87	$ 97
*$10\frac{3}{4}$% Sinking fund debentures, due 1994 (Can. $65)	55	57	63
$9\frac{3}{8}$% Sinking fund debentures, due 1991 (Can. $46)	38	39	41
$9\frac{1}{2}$% Sinking fund debentures, due 1988	37	41	48
5.10% Notes, due 1981/1992	54	59	63
Bank loans under $200 revolving credit agreement, due 1984/1988	40	—	—
Other debt, due 1981/2001	9	15	28
Alcan Aluminum Corporation (USA)			
$9\frac{1}{2}$% Notes, due 1981/1994	44	45	45
$4\frac{3}{4}$% Notes, due 1981/1984	14	17	20
Other debt, due 1981/2005	16	12	7
Other subsidiaries	1	1	1
	390	373	413
Less: Debt maturing within one year included in current liabilities	10	16	20
	380	357	393
Add: Unamortized amount of unrealized exchange gains	16	17	22
	$396	$374	$415

*$8 held by parent company

The Company and its subsidiaries have a number of agreements for the purpose of assuring future credit availability, the most significant of which are:

a) A revolving credit agreement with a group of banks which provides for loans up to $200 with such loans to bear interest at a rate equal to the base rate of Citibank, N.A. The agreement provides for an availability fee of 3% of the base rate of Citibank, N.A. to be paid on the average daily amount of the commitment of each bank, whether or not loaned, for a commitment fee of $\frac{1}{2}$ of 1% per annum on the average daily unused portion of the commitment of each bank and for a fee of $\frac{1}{4}$ of 1% per annum on $100 for the option to increase the amount of the total commitment by an additional $100 to a maximum of $300. Loans under this agreement as of 31 December 1980 totalled $40 to be repaid in five annual instalments of 10, 15, 25, 25 and 25%, beginning one year after 1 May 1983, the termination date of the credit agreement.

b) Lines of credit aggregating Can. $100 with Canadian chartered banks. The agreement provides for a commitment fee of $\frac{1}{4}$ of 1% per annum on the unused portion of the commitment of each bank and any borrowings from these banks would be at each bank's best or prime rate. There were no loans under this agreement at 31 December 1980. The termination date of this agreement is 31 December 1984.

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 $10 in 1981, $10 in 1982, $20 in 1983, $28 in 1984 and $29 in 1985.

8. DEFERRED CREDITS

Deferred credits include $51 prepayment by a related company under an alumina tolling arrangement.

NOTES TO FINANCIAL STATEMENTS in millions of U.S. dollars

9. REDEEMABLE PREFERRED SHARES

On 31 May 1980 all outstanding 4½% second preferred sinking fund shares with par value of Can. $50 were redeemed at Can. $51.75 per share and on 1 June 1980 all outstanding 4% first preferred sinking fund shares with par value of Can. $25 were redeemed at Can. $26.375 per share.

On 30 June 1980 the Company was continued under Section 181 of the Canada Business Corporations Act and, under the articles of continuance, changed its authorized preference capital from: 145,684 4% first preferred sinking fund shares of par value Can. $25, 401,506 4½% second preferred sinking fund shares of par value Can. $50, 4,000,000 cumulative redeemable third preferred shares of par value Can. $25, issuable in series, and 10,000,000 fourth preferred shares of par value U.S. or Can. $25, issuable in series, to:

(a) 3,965,603 Cumulative Redeemable First Preferred Shares without nominal or par value, issuable in series, of which the first series consists of 1,965,603 $2.00 Tax Deferred Cumulative Redeemable Retractable First Preferred Shares; and

(b) 10,000,000 Second Preferred Shares without nominal or par value, issuable in Canadian or U.S. currency and in series. The first three series, issuable in U.S. currency, consist of 4,000,000 floating rate shares in total.

	31 December		
	1980	1979	1978
Outstanding preference capital:			
First preferred —			
1,923,503 shares (1979 — 1,983,560; 1978 — 2,000,000)	$ 40	$ 43	$ 42
Second preferred —			
4,000,000 shares	100	100	100
Other, redeemed during 1980	—	12	18
	140	155	160
Add: Unamortized amount of unrealized exchange gains	5	7	11
	$145	$162	$171

The Company shall, during each calendar quarter, purchase for cancellation 15,000 first 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 outstanding second preferred shares is 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 $25 per share in series at the option of the holder on 5 July 1984, 1985, and 1986, respectively.

9. REDEEMABLE PREFERRED SHARES (continued)

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

Can. $2.00 tax deferred cumulative redeemable retractable first 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 twelve-month period 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 redeemahle at Can. $25.00 per share.

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

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

10. COMMON SHAREHOLDERS' EQUITY

CAPITAL STOCK

Under the articles of continuance referred to in note 9, the Company changed its authorized common shares from 20,000,000 common shares without nominal or par value to an unlimited number of common shares without nominal or par value. As at 31 December 1980 there were 11,467,372 common shares outstanding (1979 — 11,459,642 and 1978 — 11,448,423).

In 1980 the Company issued 7,730 common shares to Alcan Aluminium Limited, the parent company, for an investment valued at $1.

RETAINED EARNINGS

Consolidated retained earnings at 31 December 1980 include $145 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.

11. COMMITMENTS

Minimum rental commitments amount to $19 in 1981, $16 in 1982, $8 in $1983, $7 in 1984, $5 in 1985 and lesser annual amounts thereafter. Total rental expense amounted to $71 in 1980 ($59 in 1979 and $48 in 1978).

See also reference to capital expenditures in note 6 and debt repayments in note 7.

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

12. CHANGES IN WORKING CAPITAL

	1980	1979	1978
Current assets			
Cash and time deposits	$(29)	$(47)	$ 76
Receivables	14	1	90
Inventories	91	88	(21)
	76	42	145
Current liabilities			
Accounts payable and accrued liabilities	53	44	126
Demand loan from parent company	(2)	13	5
Short-term borrowings	35	(1)	(32)
Debt maturing within one year	(6)	(4)	(3)
	80	52	96
Increase (decrease) in working capital	$ (4)	$(10)	$ 49

13. SUPPLEMENTARY INCOME STATEMENT INFORMATION

	1980	1979	1978
Repairs and maintenance	$202	$161	$172
Taxes, other than payroll and income taxes	46	62	70
Research and development	31	27	27

14. PENSION PLANS

The Company and its subsidiaries have established pension plans in the countries where they operate, for the greater part contributory and generally open to all employees. The total pension expense in 1980 was $41 ($31 in 1979 and $64 in 1978 including the funding of an actuarial experience deficiency for the period 1975 to 1977). Pension expense 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 $15 for currently vested benefits and to $92 for total benefits. During 1980 increases in unfunded actuarial liability of $38 arose from amendments made to certain pension plans.

Actuarial present values and assets used in determining information on the basis required by FASB are different from those used in determining the above unfunded actuarial liabilities. For the FASB results (i) salaries are not projected into the future (as they are for total unfunded actuarial liabilities), and (ii) assets are valued at market for purposes of valuation. Based on the most recent actuarial reports for the same pension plans, the present value of vested accumulated plan benefits was $412 ($366 in 1979) and non-vested benefits $9 ($8 in 1979). The net assets available for benefits amounted to $521 ($397 in 1979). The present values of accumulated plan benefits were determined using a weighted average assumed rate of return of 6.9%. The effective date of the actuarial reports for the Canadian and United States plans was 1 January 1980.

15. INFORMATION BY GEOGRAPHIC AREAS

Year 1980	Canada and Caribbean	United States	Elimi-nations	Consoli-dated
Sales and operating revenues				
Third parties	$1,151	$1,273	$ —	$2,424
Related companies	492	16	—	508
Subsidiaries	511	71	(582)	—
Total	2,154	1,360	(582)	2,932
Net income	390	33	(2)	421
Identifiable assets	2,192	697	(124)	2,765
Year 1979				
Sales and operating revenues				
Third parties	1,017	1,073	—	2,090
Related companies	384	7	—	391
Subsidiaries	354	55	(409)	—
Total	1,755	1,135	(409)	2,481
Net income	210	48	(16)	242
Identifiable assets	1,817	643	(119)	2,341
Year 1978				
Sales and operating revenues				
Third parties	894	980	—	1,874
Related companies	400	6	—	406
Subsidiaries	405	46	(451)	—
Total	1,699	1,032	(451)	2,280
Net income	153	38	—	191
Identifiable assets	1,642	551	(73)	2,120

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

Net income is total revenues less expenses directly related to the geographic area in accordance with generally accepted accounting principles.

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 1980, 1979 and 1978 and the consolidated statements of income, retained earnings, and changes in financial position for each of the three years then ended. Our examinations were 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.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at 31 December 1980, 1979 and 1978 and the results of its operations and the changes in its financial position for each of the three years then ended, in accordance with generally accepted accounting principles in Canada which (except for the change in accounting for interest expense as explained in note 2, with which we concur) have been applied on a consistent basis.

Montreal, Canada
6 February 1981

PRICE WATERHOUSE & CO.
Chartered Accountants

INTRODUCTION

The need for inflation accounting is becoming more obvious, but confusion as to method persists. However, most people in North America seem to agree that the historical cost basis should be retained for the basic financial statements and that the effects of inflation should be presented as supplementary data.

The Financial Accounting Standards Board (FASB) in the United States in their FAS 33 has now called for a five-year period of experimentation, with the two methods — Current Purchasing Power (CPP) and Current Cost (CC) — being reported in parallel. Accordingly, the Company presents several statements which compare the financial results for 1979 and 1980 under these different methods of accounting, as well as certain data required by FAS 33 for the past five years.

Historical cost (HC) is the actual cost which was incurred to acquire an asset or service, and is that reported in the basic financial statements.

CPP starts with HC and, using the U.S. Consumer Price Index (CPI), restates HC amounts into dollars having equal purchasing power. Thus, for example, a dollar spent in 1976 would be equal to $1.48 in terms of 1980 current purchasing power. It is important to note that these results do not reflect the current cost of particular assets, goods or services in the 1980 market; rather they reflect a general rate of inflation. Also, CPP does not change the generally accepted accounting principles used in recording transactions at historical costs; only the unit of measurement is changed.

CC focuses upon the changing prices of specific assets, goods and services and measures the current value in terms of what those items would have cost when they were used or sold.

CC METHODOLOGY

The Company has reviewed its assets in detail and has developed the current cost by using reliable market prices or by applying appropriate specific price indexes to the historical costs of specific assets or groups of assets. For small subsidiaries where the amounts are not significant and for the equity-accounted companies, the CPI was applied to historical costs as in the CPP method. Straight-line depreciation was calculated using the same method and asset life as in the basic HC financial statements. CC cost of sales was determined by adjusting historical costs by the estimated inflation which occurred during the period between the time of production and the time of sale. The amounts so derived were then computed in terms of year-end 1980 dollars for the accompanying statements.

For property, plant and equipment, this method measures the current cost of replacement of assets using existing technology in current dollars.

Although FAS 33 only calls for a restatement of certain HC items on the CC basis, we have developed a comprehensive set of statements in which inventories and property, plant and equipment were determined by application of the CC method described above and all other accounts, except shareholders' equity, were derived by application of the CPP concept.

Aluminum Company of Canada, Ltd

INFLATION ACCOUNTING

CONSOLIDATED BALANCE SHEET — 31 December (in millions of U.S. dollars)

	Historical as reported		CPP in terms of year-end 1980 dollars		CC in terms of year-end 1980 dollars	
	1980	1979	1980	1979	1980	1979
Current assets excluding inventories	414	429	414	483	414	483
Inventories	734	643	800	787	772	752
Deferred receivables and charges	89	97	89	108	89	108
Investments in companies owned 50% or less	25	26	47	48	47	48
Property, plant and equipment — net	1,503	1,146	2,085	1,815	2,415	2,137
	2,765	2,341	3,435	3,241	3,737	3,528
Current liabilities	587	507	587	569	587	569
Long-term debt	396	374	396	420	396	420
Deferred income taxes and credits	472	376	472	423	472	423
Preferred shares	145	162	145	183	145	183
Common shareholders' equity	1,165	922	1,835	1,646	2,137	1,933
	2,765	2,341	3,435	3,241	3,737	3,528

CONSOLIDATED NET INCOME INFORMATION (in millions of U.S. dollars)

	As reported in the financial statements (HC)		As adjusted for general inflation (CPP)		As adjusted for changes in specific prices (CC)	
	in historical dollars		in year-end 1980 dollars		in year-end 1980 dollars	
	1980	1979	1980	1979	1980	1979
Sales and operating revenues	2,932	2,481	3,070	2,949	3,070	2,949
Cost of sales and operating expenses	1,960	1,865	2,134	2,283	2,109	2,221
Depreciation expense	85	84	175	189	191	196
Selling, research and administrative expenses	161	134	168	160	168	160
Interest	32	48	34	57	34	57
Income taxes	287	132	301	156	301	156
Other	(14)	(24)	(15)	(29)	(15)	(29)
Indexing adjustments	—	—	9	20	12	10
	2,511	2,239	2,806	2,836	2,800	2,771
Income from continuing operations	421	242	264	113	270	178
Holding gain on monetary items	—	—	111	119	111	119
Net income for the year	421	242	375	232	381	297
Inventories and property, plant and equipment						
Increase in general price level (CPP)					363	343
Increase in specific prices (CC)					335	224
Excess of increase in general price level over increase in specific prices					28	119

FIVE-YEAR COMPARISON OF FINANCIAL DATA (in millions of U.S. dollars)

	1980	1979	1978	1977	1976
HC Data					
Sales and operating revenues	2,932	2,481	2,280	1,856	1,536
Income (loss) from continuing operations	421	242	191	105	(10)
Common shareholders' equity at year end	1,165	922	770	646	576
CPP Data in Year-End 1980 Dollars					
Sales and operating revenues	3,070	2,949	3,016	2,642	2,328
Income (loss) from continuing operations	264	113	76	(1)	(127)
Holding gain on monetary items	111	119	101	81	61
Common shareholders' equity at year end	1,835	1,646	1,522	1,455	1,440
CC Data in Year-End 1980 Dollars					
Sales and operating revenues	3,070	2,949			
Income from continuing operations	270	178			
Holding gain on monetary items	111	119			
Common shareholders' equity at year end	2,137	1,933			
Excess of increase in the general price level over increase in specific prices of inventories and property, plant and equipment	28	119			
Year-end consumer price index (CPI-U; 1967 base year = 100)	258.4	229.9	202.9	186.1	174.3

CONCLUSIONS

Both the CPP and CC methods undoubtedly give more realistic results than HC by eliminating the effects of inflation, but the audience is less familiar with these. The CPP method is precise but the results are only approximate for given assets. The CC method permits application of judgment in determining many amounts and is therefore open to some degree of scepticism by the reader. The Company's use of specific price indexes has for the most part removed the judgment factor.

Both methods confirm that the Company's HC earnings are dramatically reduced when the effects of inflation are taken into account.

It is interesting to note that over the years, since Alcan's property, plant and equipment were acquired, the effects of inflation in the construction industry have been much greater than the general rate of inflation as indicated by the CPI. However, during the last two years the reverse situation has prevailed.

There are criticisms of the general index used in CPP as a measurement of the general rate of inflation, and there are also many pitfalls in the CC method, particularly the subjective judgment aspect, which are troublesome. We welcome the FASB's policy of introducing a five-year period of experimentation with both methods and we believe this will allow time for development of the concepts and for resolution of at least some of the problems of implementation which are bound to arise. Hopefully this will enable everybody to agree on a method of inflation accounting which is conceptually sound and precise, and is intelligible to the users of the statements.

Aluminum Company of Canada, Ltd

DIRECTORS

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

J. JACQUES GAGNON, Montreal — Senior Executive Vice President

Dr. ROGER GAUDRY, C.C., Montreal — Director of various companies

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

ROBERT E. GROTE, Jr., St. Louis — Retired Chairman of Alcan Aluminum Corporation

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

H. STEWART LADD, Montreal — Vice President, Organization and Management, Alcan Aluminium Limited

PIERRE LAURIN, Montreal — Director, École des Hautes Études Commerciales

PATRICK JEAN JACQUES RICH, Montreal — Executive Vice President, Alcan Aluminium Limited

JOHN D. RUNKLE, Victoria — Retired Vice President of Aluminum Company of Canada, Ltd

R. F. SHARRATT, Montreal — Executive Vice President and Treasurer

HON. JAMES SINCLAIR, P.C., Vancouver — Retired

OFFICERS

JOHN H. HALE — Chairman of the Board

PATRICK JEAN JACQUES RICH — President and Chief Executive Officer

J. JACQUES GAGNON — Senior Executive Vice President

ROY A. GENTLES — Executive Vice President, North America, Fabricating and Sales

R. F. SHARRATT — Executive Vice President and Treasurer

CLAUDE M. TÉTRAULT — Corporate Vice President and Secretary

W. J. RICH — Vice President, British Columbia

DOUGLAS M. RITCHIE — Vice President, Canadian Smelting

SANFORD M. TREAT, Jr. — Vice President, Canadian Fabricating and Sales

JACQUES VAILLANCOURT — Vice President

F. C. WINSER — Vice President

Aluminum Company of Canada, Ltd

GENERAL INFORMATION

10-K REPORT

A copy of the Company's current annual 10-K Report filed with the United States Securities and Exchange Commission will be available after 1 April upon written request to the Secretary of the Company.

TERMS

All amounts are reported in United States dollars and all quantities in metric tons, or 'tonnes'. A tonne is 1,000 kilograms, or 2,204.6 pounds.

'Parent Company' means Alcan Aluminium Limited.

'Subsidiary' means a company in which Aluminum Company of Canada, Ltd. owns more than 50% of the voting stock.

'Related Company' means a subsidiary of the parent company, or a company in which the parent company owns from 20% to 50% of the voting stock, or a company in which Aluminum Company of Canada, Ltd owns from 20% to 50% of the voting stock.

Montreal, Canada
6 February 1981

Aluminum Company of Canada, Ltd

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1980 Annual Report

Aluminum Company of Canada, Ltd

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