Aluminum Company of Canada, Limited

ANNUAL REPORT 1981

ALCAN

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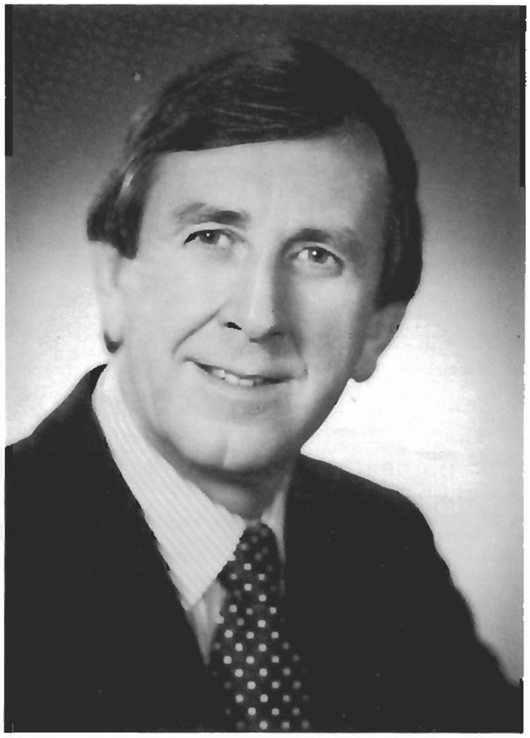
Grande Baie Works in Quebec, Alcan's latest smelter, is a model of 'state of the art' technology.

PRESIDENT'S MESSAGE



The recession which commenced in late 1980, and is continuing at the present time, has adversely affected the demand for aluminum. Consequently, with reduced shipments and lower profit margins there has been a fall of 32% in the Company's net income to $288 million in 1981 from $421 million in 1980.

Shipments of ingot and ingot products totalled 365,000 tonnes for the year compared to 456,000 tonnes in 1980. This 20% drop in tonnage was due mainly to the weakness in European and Asian markets which generally provide a major outlet for the Company's ingot sales.

The Company's fabricated products are sold almost exclusively in North American markets which, until recently, have held up remarkably well despite the recession. As a result, 1981 shipments at 506,000 tonnes were only 2% below the 1980 level. The impact of softer markets was more pronounced in the fourth quarter, with shipments of 104,000 tonnes, representing a 15% decrease from the corresponding period in 1980.

Lower selling prices for ingot and ingot products, combined with increases in production costs for all products and high interest rates, have resulted in a narrowing of profit margins.

Capital expenditures increased from $450 million in 1980 to $710 million in 1981, including a $253 million investment in an 800,000-tonne-per-annum alumina plant under construction at Aughinish, Ireland. The investment consists of a 40% interest in the project and was acquired from Alcan Aluminium Limited, at book value. Additional fixed assets were also acquired from a related company. The other participants in the project are Billiton B.V. and Anaconda Aluminum Company with interest of 35% and 25% respectively. This project, for one of the most modern alumina plants in the world, will provide an outlet for some of the bauxite supplies available to the

PRESIDENT'S MESSAGE

Company from Guinea and will also increase alumina availability within the Company for anticipated future requirements. It is estimated that the Company's share of the total capital cost of the completed project will be $400 million.

The present fall in world demand for aluminum and the resulting rise in inventories have led the Company to reduce smelter operations to 92% of capacity, and alumina operations in Jamaica to 95% of capacity. Start-up of the second potline at the new Grande Baie smelter in Quebec has been deferred. Although construction of the third potline is proceeding on schedule, the continuing recession makes it difficult to estimate the timing of the start-up.

The Company is continuing its efforts towards identifying suitable smelter expansion projects in Quebec, Manitoba and British Columbia for implementation, as appropriate, in the future.

Labour relations continued to be satisfactory throughout the year. Labour contracts at four Quebec smelters have been extended until December 1983. New labour contracts for a three-year period were finalized at two major fabricating facilities in the United States. In Jamaica, the labour contract expired in January 1981. Prolonged industry-wide negotiations have been held under the auspices of the Government of Jamaica, but unfortunately there has been no settlement as of the date of this report, and work stoppages have occurred recently.

Effective 1 January 1982, Mr. Patrick Jean Jacques Rich resigned as President and Chief Executive Officer of the Company and will be taking up new responsibilities with Alcan Aluminium Limited in Europe.

D. Morton.

Montreal, Canada
5 February 1982

David Morton
President and
Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

The lower sales revenue in 1981 reflects to a large extent reduced shipments of ingot and ingot products. Ingot sales revenue totalled $557 million in 1981 compared to $719 million in 1980 and $583 million in 1979. The average realization per tonne of ingot, at $1.526 per tonne in 1981, was also lower than the average of $1.578 per tonne in 1980. Fabricated product sales totalled $1.335 million in 1981 compared to $1,281 million in 1980 and $1,129 million in 1979. Despite recessionary conditions, demand for certain items like beverage can-stock and wire and cable products continued to be strong and the average realization for fabricated products was $2.638 per tonne in 1981 compared to $2,478 per tonne in 1980 and $2.258 per tonne in 1979, an increase substantially lower than the rate of inflation.

Non-aluminum product sales, at $690 million in 1981, were below the 1980 level of $761 million, mainly due to lower realizations for alumina.

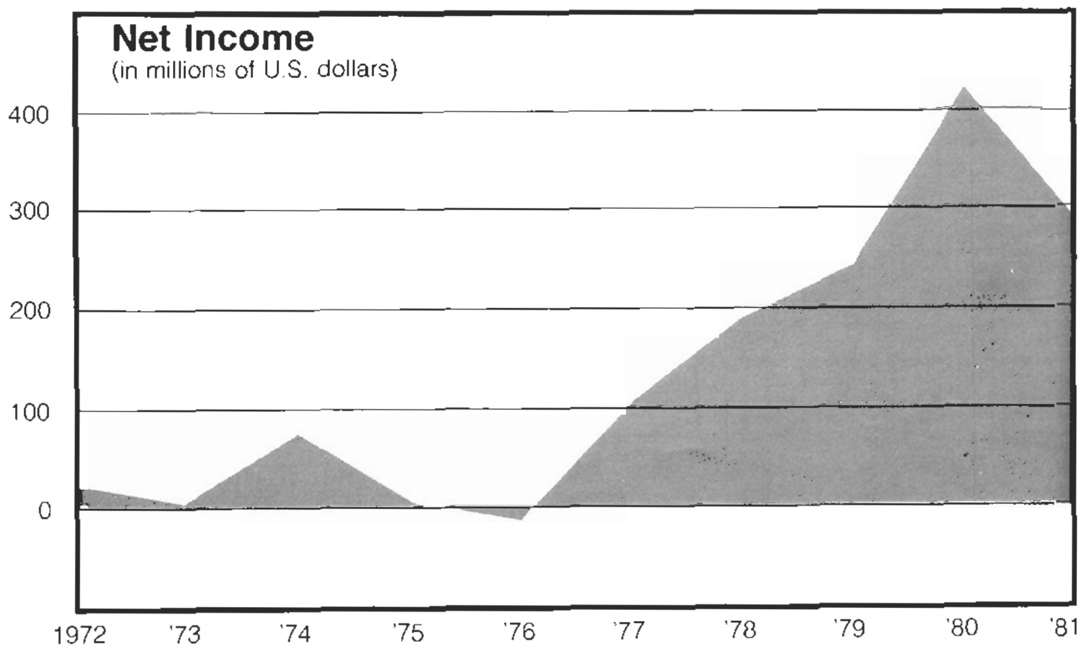
Operating revenues fell in comparison with 1980 due to the sale during the year, to the parent company, of certain raw material and transportation subsidiaries which service the Alcan Group of companies.

The impact of inflation on production costs, together with lower selling prices for ingot and certain other products, resulted in a squeeze on profit margins. Gross margin, representing sales and operating revenues less cost of sales, operating expenses and depreciation, dropped from 30.3% in 1980 to 24.8% in 1981. The 1979 gross margin of 21.4% reflected the impact of a three-month strike at three of the Company's smelters, representing 60% of the Company's total smelter capacity at that time.

Primary aluminum output totalled 962,000 tonnes in 1981 compared to 918,000 tonnes in 1980 and 709,000 tonnes in 1979. With rising aluminum inventories, the Company reduced smelter output in late 1981. At the end of 1981, aluminum inventories totalled 369,000 tonnes compared to 244,000 tonnes at the end of 1980.

Increased debt financing and higher interest rates resulted in interest costs totalling $103 million compared to $56 million in 1980. Of the total interest costs incurred in 1981, $41 million was capitalized, an increase of $17 million over 1980.

The Company's overall rate of income tax was 34.8% compared to 40.5% in 1980. The lower rate is due mainly to higher 1981 fixed capital expenditures qualifying for investment and depletion allowances on a lower pre-tax income.



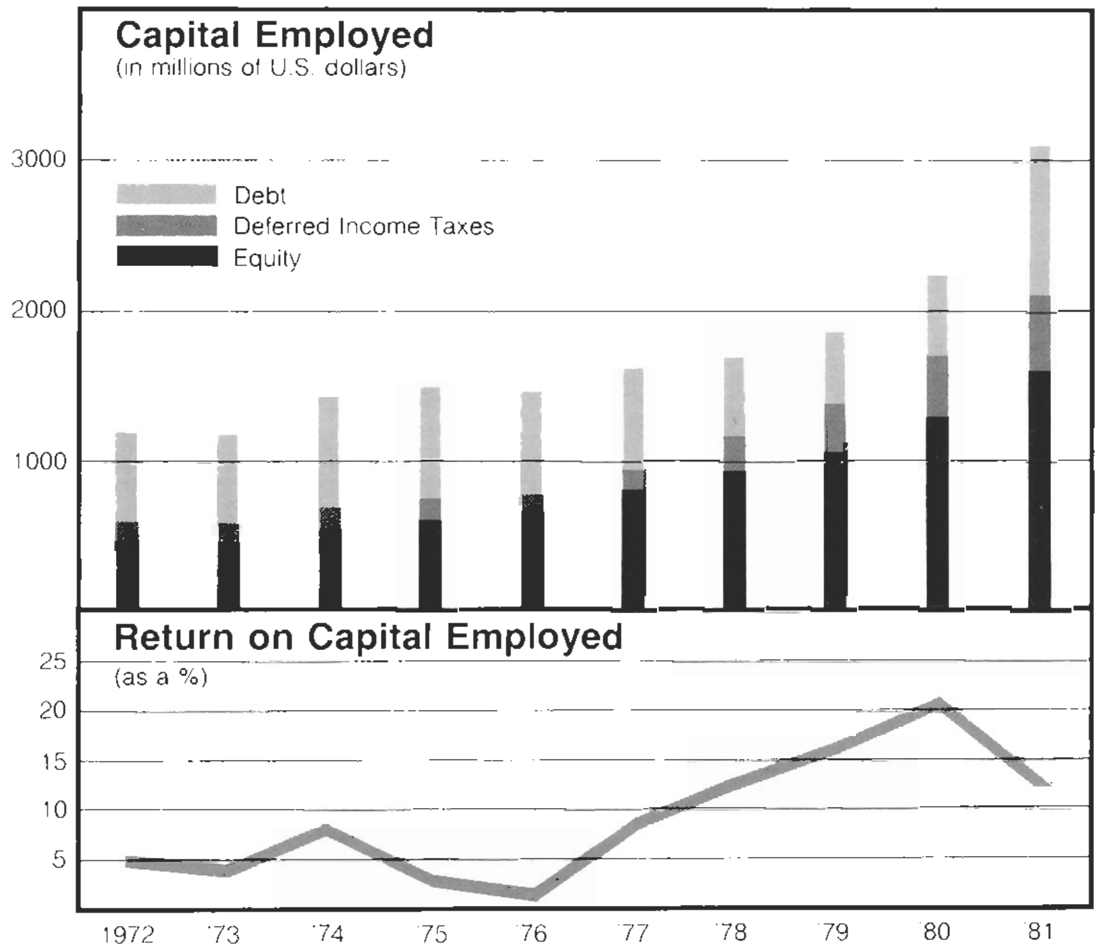
MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

Cash generation from operations totalled $503 million in 1981 compared to $599 million in 1980. After payment of dividends of $142 million, the Company had $361 million available towards financing its capital expenditures, working capital and other requirements.

Capital expenditures in 1981 totalled $710 million, largely due to the acquisition of 40% of the alumina plant at Aughinish, Ireland ($253 million), and to further progress in implementation of the smelter project at Grande Baie, Quebec ($158 million in 1981). Working capital requirements totalled $259 million, reflecting to a large extent the increase in aluminum inventories. To support the Company's capital expenditure program, particularly the acquisition of the Aughinish alumina assets, Alcan Aluminium Limited subscribed to a $150 million issue of the Company's 12% retractable redeemable preferred shares. The balance of the Company's requirements was met through additional borrowings.

During the year, the Company increased its long-term bank credit facilities from $200 million to $600 million and those of its U.S. subsidiary, Alcan Aluminum Corporation, from $36 million to $135 million. On 31 December 1981, the unutilized balance of these facilities was $275 million. The Company has also obtained certain low cost credit facilities totalling $68 million which are provided by the Export Development Corporation, Canada, and the Export



'Return on capital employed' is net income plus interest after taxes, as a percentage of total capital employed, annualized. Capital employed consists of the Company's total debt including short-term borrowings and demand loans from parent company, deferred income taxes, redeemable preferred shares and common shareholder's equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and Capital Resources (Continued)

Credit Guarantee Department, UK, with the acquisition of the Aughinish alumina assets. At 31 December 1981, the unutilized balance of these facilities was $19 million. In addition, the Company has unutilized credit lines with banks of Can. $100 million and its U.S. subsidiary has other credit facilities totalling $146 million, of which $82 million was unutilized at year end.

The ratio of total borrowings to equity and deferred taxes was 33:67 at year end 1981 compared to 24:76 at year end 1980. For this purpose, debt includes short-term borrowings and equity includes redeemable preferred shares.

The Company has agreed with the Government of Guyana that $9 million due to the Company on 31 December 1981 will be offset against bauxite to be supplied in the future by Guyana under existing contracts.

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 effected in 1980 and explained in note 1 to the financial statements 'Capitalization of Interest'.

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, whose report appears on page 18.

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 are 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, Limited 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, Limited owns from 20% to 50% of the voting stock.

QUARTERLY FINANCIAL DATA

(unaudited)
(in millions of U.S. dollars)

	1981			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales and operating revenues	$735	$766	$663	$576
Gross profit	210	196	166	107
Net income	95	87	73	33

	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

CONSOLIDATED STATEMENT OF INCOME

Year ending 31 December (in millions of U.S. dollars)	**1981**	1980	1979
Revenues			
Sales (note 3)	**$2,582**	$2,761	$2,311
Operating revenues	**158**	171	170
Other income (principally interest)	**13**	17	31
	2,753	2,949	2,512
Costs and Expenses			
Cost of sales and operating expenses (note 3)	**1,946**	1,960	1,865
Depreciation	**115**	85	84
Selling, research and administrative expenses	**186**	161	134
Interest on debt not maturing within one year (note 1)	**30**	13	35
Other interest (principally to parent company)	**32**	19	13
Other expenses	**2**	3	7
	2,311	2,241	2,138
Income Before Income Taxes	**442**	708	374
Income Taxes (note 4)			
Current	**53**	193	68
Deferred	**101**	94	64
	154	287	132
Net Income (note 2)	**$ 288**	$ 421	$ 242

CONSOLIDATED BALANCE SHEET

ASSETS

31 December (in millions of U.S. dollars)	**1981**	1980	1979
Current Assets			
Cash and time deposits	**$ 45**	$ 19	$ 48
Receivables			
Trade	**238**	316	272
Related companies	**76**	61	95
Other	**56**	18	14
Inventories			
Aluminum	**477**	308	283
Raw materials	**316**	281	228
Other supplies	**164**	145	132
	1,372	1,148	1,072
Deferred Charges	**25**	18	20
Deferred Receivables (note 5)	**54**	71	77
Investments in Related Companies	**55**	25	26
Property, Plant and Equipment (note 6)	**3,578**	2,911	2,498
Less: Accumulated depreciation	**1,491**	1,408	1,352
	2,087	1,503	1,146
Total Assets	**$3,593**	$2,765	$2,341

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDER'S EQUITY

31 December (in millions of U.S. dollars)	**1981**	1980	1979
Current Liabilities			
Accounts payable			
Trade	**$ 256**	$ 259	$ 293
Parent company	**17**	10	—
Related companies	**29**	13	14
Accrued liabilities			
Payrolls	**60**	48	34
Income and other taxes	**—**	102	40
Interest	**14**	11	9
Demand loan from parent company	**100**	98	100
Short-term borrowings (principally from banks)	**66**	36	1
Debt maturing within one year (note 7)	**10**	10	16
	552	587	507
Debt Not Maturing Within One Year (note 7)	**858**	396	374
Deferred Credits (note 3)	**70**	67	65
Deferred Income Taxes	**506**	405	311
Redeemable Preferred Shares (note 8)	**294**	145	162
Common Shareholder's Equity (note 9)			
Common shares	**336**	334	333
Retained earnings	**977**	831	589
	1,313	1,165	922
Commitments and guarantees (note 10)			
Total Liabilities and Shareholder's Equity	**$3,593**	$2,765	$2,341

Approved by the Board: David Morton, Director
R. F. Sharratt, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ending 31 December (in millions of U.S. dollars)	**1981**	1980	1979
Source of Funds			
Net income	**$ 288**	$ 421	$ 242
Depreciation	**115**	85	84
Deferred income taxes	**101**	94	64
Other	**(1)**	(1)	(2)
From operations	**503**	599	388
New debt	**474**	46	6
Preferred shares	**150**	—	—
Common shares	**2**	1	1
Disposals of plant and equipment	**3**	8	16
	1,132	654	411
Application of Funds			
Plant and equipment	**710**	450	257
Investments	**27**	3	1
Debt repayments	**17**	22	44
Redemption of preferred shares	**1**	16	7
Dividends	**142**	179	91
Other — net	**(24)**	(12)	21
	873	658	421
Increase (Decrease) in Working Capital (note 11)	**259**	(4)	(10)
Working capital — beginning of year	**561**	565	575
Working Capital — end of year	**$ 820**	$ 561	$ 565

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ending 31 December (in millions of U.S. dollars)	**1981**	1980	1979
Retained Earnings — beginning of year	**$ 831**	$ 589	$ 438
Net income	**288**	421	242
	1,119	1,010	680
Dividends			
Preferred	**14**	12	11
Common	**128**	167	80
	142	179	91
Retained Earnings — end of year (note 9)	**$ 977**	$ 831	$ 589

NOTES TO FINANCIAL STATEMENTS

(in millions of U.S. dollars)

1. Summary of accounting policies

Principles of consolidation

The consolidated financial statements, which are prepared in accordance with generally accepted accounting principles in Canada, include the accounts of all companies more than 50% owned and the Company's pro rata share equal to its interest in joint venture operations. In addition, under the equity accounting principle, consolidated net income includes the Company's equity in net income or loss 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 loss 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, 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 the 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.

Capitalization of interest

Commencing 1980 the Company adopted the practice of capitalizing interest on major projects under construction. Interest capitalized for the year 1981 was $41 (1980: $24) increasing net income for the year by $20 (1980: $12).

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.

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

2. Currency translation

Currency translation losses included in net income were $12 in 1981, $2 in 1980 and $1 in 1979, including losses of $12 in 1981, $7 in 1980 and $8 in 1979 arising from the translation of cost of inventories.

The Financial Accounting Standards Board in the United States in Statement No. 8 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 FAS 8 method together with the cumulative effect on retained earnings.

	1981		1980		1979	
	Company Method	FAS 8 Method	Company Method	FAS 8 Method	Company Method	FAS 8 Method
Consolidated net income						
First quarter (unaudited)	$ 95	$ 95	$108	$110	$ 69	$ 64
Second quarter (unaudited)	87	90	104	97	53	53
Third quarter (unaudited)	73	73	106	108	45	52
Fourth quarter (unaudited)	33	33	103	103	75	74
	288	291	421	418	242	243
Consolidated retained earnings						
Beginning of year	831	851	589	612	438	460
End of year	977	1,000	831	851	589	612

3. Related party transactions

Sales and cost of sales include transactions with related companies. Sales to related companies are disclosed under Information by Geographic Areas (note 14). Cost of sales includes purchases from related companies as follows:

	1981	1980	1979
Alumina	$ 48	$ 62	$ 62
Bauxite	97	115	52

Deferred credits include a $57 prepayment ($51 in 1980 and $45 in 1979) by a related company under an alumina tolling arrangement.

On 24 December 1981 the Company purchased, at original cost, from its parent company, Alcan Aluminium Limited, the latter's 40% interest in an 800,000-tonne-per-annum alumina plant under construction at Aughinish, Ireland. Payment was effected through the issue of Cumulative Redeemable Retractable Third Preferred Shares (note 8), and the balance in cash and assumption of debt.

4. Income taxes

	1981	1980	1979
Income before income taxes			
Canada	$358	$553	$250
Other countries	84	155	124
	442	708	374
Current income taxes			
Canada	31	147	36
Other countries	22	46	32
	53	193	68
Deferred income taxes			
Canada	94	75	45
Other countries	7	19	19
	101	94	64
Total income tax provision	$154	$287	$132

The composite of the applicable statutory corporate income tax rates in Canada is presently 51.2% (51.0% in 1980 and 48.6% in 1979). 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 rates with the total income tax provision:

	1981	1980	1979
Income taxes at the above composite rates	$226	$361	$182
Reduction attributable to:			
Investment and depletion allowances	65	63	39
Other — net	7	11	11
	72	74	50
Income tax provision	$154	$287	$132

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

	1981	1980	1979
Depreciation claimed for tax purposes in excess of depreciation recorded for book purposes	$119	$ 69	$ 45
Cost of sales claimed for U.S. tax purposes in excess of those recorded for book purposes	1	15	18
Investment and depletion allowance tax benefits carried forward	(22)	—	—
Other	3	10	1
	$101	$ 94	$ 64

5. Deferred receivables

Deferred receivables include $33 ($35 in 1980 and $41 in 1979) due with interest over the period 1983 to 1991 from the Government of Guyana in respect of the nationalization in 1971 of the Company's bauxite and alumina assets and $9 ($24 in 1980 and $26 in 1979) due with interest over the period 1983 to 1988 from the Government of Jamaica in respect of funds deposited and for the sale of assets.

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

6. Property, plant and equipment, at cost

	1981	1980	1979
Land, and property rights	$ 52	$ 51	$ 53
Buildings, machinery and equipment	2,861	2,306	2,166
Construction work in progress	665	554	279
	$3,578	$2,911	$2,498

Capital expenditures in 1982 are expected to be about $400.

7. Debt not maturing within one year

	1981	1980	1979
Aluminum Company of Canada, Limited			
Bank loans under $600 revolving credit agreement, due 1985/1989 (a)	$460	$ 40	$ —
9½% Sinking fund debentures, due 1995	80	82	87
*10¾% Sinking fund debentures, due 1994 (Can. $63)	53	55	57
9⅜% Sinking fund debentures, due 1991 (Can. $45)	38	38	39
9½% Sinking fund debentures, due 1988	35	37	41
5.10% Notes, due 1982/1992	50	54	59
8½% Loan, due 1983/1992 (£18)	35	—	—
Other debt, due 1982/2001	32	9	15
Alcan Aluminum Corporation (USA) (b)			
9½% Notes, due 1982/1994	42	44	45
4¾% Notes, due 1982/1984	10	14	17
Other debt, due 1982/2005	19	16	12
Other subsidiaries	—	1	1
	854	390	373
Less: Debt maturing within one year included in current liabilities	10	10	16
	844	380	357
Add: Unamortized amount of unrealized exchange gains	14	16	17
	$858	$396	$374

* $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 to provide for loans up to $600 with such loans to bear interest at a rate equal to the base rate of Citibank, N.A. or rates related to LIBOR. Loans under this agreement as of 31 December 1981 totalled $460 (1980: $40) to be repaid in five annual instalments of 10%, 15%, 25%, 25% and 25%, beginning one year after 1 May 1984, the termination date of the credit agreement.

b) Revolving credit agreements aggregating $135 between Alcan Aluminum Corporation and several U.S. banks with such loans to bear interest at the banks' prime rate or a rate related to LIBOR or a 'monthly market rate'. As at 31 December 1981 the U.S. subsidiary had no drawings under these agreements. The first commitment reduction date on these agreements is 1 July 1984 and the termination date is 1 July 1988.

Based on rates of exchange at year end and after allowing for prepayments, as at 31 December 1981 sinking fund and other requirements over the next five years amount to $10 in 1982, $18 in 1983, $30 in 1984, $75 in 1985 and $97 in 1986.

8. Redeemable preferred shares

Authorized Preference Capital

3,874,803 Cumulative Redeemable First Preferred Shares without nominal or par value, issuable in series, of which the first series consists of 1,874,803 Can. $2.00 Tax Deferred Cumulative Redeemable Retractable First Preferred Shares;

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 together of 4,000,000 floating rate shares; and

Unlimited number of Cumulative Redeemable Retractable Third Preferred Shares without nominal or par value.

Outstanding Preference Capital	31 December		
	1981	1980	1979
First preferred — 1,863,503 shares (1980 — 1,923,503; 1979 — 1,983,560)	$ 39	$ 40	$ 43
Second preferred — 4,000,000 shares	100	100	100
Third preferred — 150,000 shares (note 3)	150	—	—
Other, redeemed during 1980	—	—	12
	289	140	155
Add: Unamortized amount of unrealized exchange gains	5	5	7
	$294	$145	$162

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. $25.00 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 $25.00 per share in series at the option of the holder on 5 July 1984, 1985, and 1986, respectively.

The dividend rate on the outstanding third preferred shares is 12% per annum. The shares, which were issued on 24 December 1981 to the parent company, are retractable at $1,000.00 per share at the option of the holder on or after 1 January 1987.

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. $26.80 during the twelve-month period beginning 1 December 1981 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 second preferred shares — on any dividend payment date on 90 days' notice at $25.00 per share.

12% third preferred shares — at any time on at least 30 days' notice at $1,000.00 per share.

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

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

9. Common shareholder's equity

Capital stock

Authorized capital consists of an unlimited number of common shares without nominal or par value.

As at 31 December 1981, there were 11,480,712 common shares outstanding (1980: 11,467,372; 1979: 11,459,642).

In 1981, the Company issued 13,340 common shares to the parent company for an investment in a related company valued at $2.

Retained earnings

Consolidated retained earnings at 31 December 1981 include $142 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 the common shareholder, Alcan Aluminium Limited.

10. Commitments and guarantees

Minimum rental commitments amount to $20 in 1982, $12 in 1983, $9 in 1984, $8 in 1985, $6 in 1986 and lesser annual amounts thereafter. Total rental expense amounted to $53 in 1981 ($71 in 1980 and $59 in 1979).

See also reference to capital expenditures in note 6, debt repayments in note 7 and redeemable preferred shares in note 8.

11. Changes in working capital

	31 December		
	1981	1980	1979
Current assets			
Cash and time deposits	$ 26	$(29)	$(47)
Receivables	(25)	14	1
Inventories	223	91	88
	224	76	42
Current liabilities			
Accounts payable and accrued liabilities	(67)	53	44
Demand loan from parent company	2	(2)	13
Short-term borrowings	30	35	(1)
Debt maturing within one year	—	(6)	(4)
	(35)	80	52
Increase (decrease) in working capital	$259	$ (4)	$(10)

12. Supplementary income statement information

	1981	1980	1979
Repairs and maintenance	$228	$202	$161
Taxes, other than payroll and income taxes	71	46	62
Research and development	36	31	27

13. 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 1981 was $47 ($41 in 1980 and $31 in 1979). 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 present value of vested accumulated plan benefits was $519 ($412 in 1980 and $366 in 1979), and of non-vested benefits was $10 ($9 in 1980 and $8 in 1979). These present values were determined using a weighted average assumed rate of return of 6.9%. The net assets available for benefits amounted to $665 ($521 in 1980 and $397 in 1979) at market values. The apparent surplus will be needed to meet increases in pension liabilities arising from future increases in salaries, which have not been allowed for in the above present values. The effective date of the principal actuarial reports for the Canadian and United States plans was 1 January 1981.

14. Information by geographic areas

	Canada	United States	Other	Eliminations	Consolidated
Year 1981					
Sales and operating revenues					
Third parties	$ 963	$1,319	$ 69	$ —	$2,351
Related companies	303	8	78	—	389
Subsidiaries	569	93	203	(865)	—
Total	1,835	1,420	350	(865)	2,740
Net income	231	18	35	4	288
Identifiable assets	2,575	716	438	(136)	3,593
Year 1980*					
Sales and operating revenues					
Third parties	$1,097	$1,273	$ 54	$ —	$2,424
Related companies	492	16	—	—	508
Subsidiaries	514	71	356	(941)	—
Total	2,103	1,360	410	(941)	2,932
Net income	338	33	52	(2)	421
Identifiable assets	1,962	697	269	(163)	2,765
Year 1979*					
Sales and operating revenues					
Third parties	$ 987	$1,073	$ 30	$ —	$2,090
Related companies	380	7	4	—	391
Subsidiaries	356	55	186	(597)	—
Total	1,723	1,135	220	(597)	2,481
Net income	187	48	23	(16)	242
Identifiable assets	1,665	643	223	(190)	2,341

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.

*Certain amounts have been reclassified to conform with the presentation adopted in 1981.

AUDITORS' REPORT

To the Shareholders of
Aluminum Company of Canada, Limited

We have examined the consolidated balance sheets of Aluminum Company of Canada, Limited as at 31 December 1981, 1980 and 1979 and the consolidated statements of income, retained earnings and changes in financial position for 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 1981, 1980 and 1979 and the results of its operations and the changes in its financial position for the three years then ended, in accordance with generally accepted accounting principles in Canada which (except for the change in 1980 in accounting for interest as explained in note 1, with which we concur) have been applied on a consistent basis.

Montreal, Canada
5 February 1982

PRICE WATERHOUSE
Chartered Accountants

INFLATION ACCOUNTING

(unaudited)
(in millions of U.S. dollars)

Introduction

The use of historical costs results in the measurement of various elements contained in the basic historical cost (HC) financial statements in differing economic units. Some balance sheet amounts reflect current values, e.g., cash and receivables, while other amounts represent values of the past — most notably fixed assets but also inventories. Similar mismatches of economic values are contained in the Statement of Net Income. Sales and many elements of expense reflect the economic values as of the transaction dates but cost of sales and depreciation expense are based on past economic values associated with the sale or use of assets purchased or produced in prior periods.

With prolonged periods of inflation, the use of historical costs significantly understates the economic value of net assets while significantly overstating the economic value of earnings. The Company believes these anomalies caused by inflation should be adjusted if the readers of financial statements are to obtain a more realistic assessment of the Company's results. Accordingly, the Company is again publishing inflation accounting information in accordance with Statement No. 33 of the Financial Accounting Standards Board (FASB) in the United States even though, as a foreign registrant of the U.S. Securities and Exchange Commission (SEC), the Company is not required to do so.

Although Statement No. 33 only calls for restatement of certain historical cost items, the Company has developed a comprehensive set of statements for both constant dollar (CD) and current cost (CC) methods, as described below, which should enable readers to make meaningful comparisons against the HC financial statements.

Constant Dollar Accounting

It is well recognized that inflation has the effect of reducing the purchasing power of the dollar. However, recognition of the precise impact is frequently lacking when it comes to judging the level of corporate profits as reported under historical cost accounting.

Constant dollar accounting, by measuring the effects of general price level changes on financial data, gives recognition to the declining purchasing power of the dollar. CD amounts are derived by applying the U.S. Consumer Price Index (CPI) to HC amounts.

Current Cost Accounting

CC accounting focuses on the specific changes in prices of assets and expenses associated with the use or sale of assets, and is a method of measuring their current values in terms of what the assets would cost to purchase or produce at the balance sheet date or at the date of use or sale. CC amounts for the Company's assets were determined primarily by using appropriate specific indexes or reliable market prices. For property, plant and equipment this method assumes the assets will be replaced with like technology. The net current cost values for property, plant and equipment are based on the original estimated lives of the assets used for historical cost accounts. Based on the existing physical condition of the Company's hydroelectric power facilities, the expected total life span of those assets is much longer than the original life estimates. A more realistic assessment of these asset lives would significantly increase the net current cost value of property, plant and equipment.

Current cost of sales was determined by adjusting historical costs by the estimated specific inflation which occurred between the time of production and the time of sale. The amounts so derived were then restated in terms of year-end 1981 dollars for the accompanying statements.

Impact on Specific Financial Statement Items

The current cost values for net property, plant and equipment are higher than the corresponding constant dollar values because the specific prices for these assets from their dates of acquisition have increased at a faster rate than the general rate of inflation as measured by the CPI.

INFLATION ACCOUNTING
(unaudited)
(in millions of U.S. dollars)

Impact on Specific Financial Statement Items (cont.)

With larger monetary liabilities than cash and other monetary assets, the Company has a holding gain on monetary items, as the purchasing power of such items is eroded by inflation.

The CD and CC statements include income taxes in the same amounts as reflected in the HC statements except for the restatement to year-end 1981 dollars to conform to the presentation for all other amounts. The effective tax rates under the HC, CD and CC accounting methods are reflected in the following table:

	Effective Tax Rates	
	1981	1980
Historical cost	34.8	40.5
Constant dollar	53.9	52.5
Current cost	64.1	58.1

Consolidated Balance Sheet · 31 December

	Historical as reported		CD in terms of year-end 1981 dollars		CC in terms of year-end 1981 dollars	
	1981	1980	1981	1980 (a)	1981	1980 (a)
Current assets excluding inventories	$ 415	$ 414	$ 415	$ 451	$ 415	$ 451
Inventories	957	734	1.053	872	1.011	843
Deferred receivables and charges	79	89	79	97	79	97
Investments in related companies	55	25	81	51	81	51
Property, plant and equipment — net	2.087	1.503	2.785	2.271	3.331	2.742
	3.593	2.765	4.413	3.742	4.917	4.184
Current liabilities	552	587	552	640	552	640
Debt not maturing within one year	858	396	858	431	858	431
Deferred income taxes and credits	576	472	576	514	576	514
Preferred shares	294	145	294	158	294	158
Common shareholder's equity	1.313	1.165	2.133	1.999	2.637	2.441
	3.593	2.765	4.413	3.742	4.917	4.184

Consolidated Net Income Information — Year ending 31 December

	As reported in the financial statements (HC) — in historical dollars		As adjusted for general inflation (CD) — in year-end 1981 dollars		As adjusted for changes in specific prices (CC) — in year-end 1981 dollars	
	1981	1980	1981	1980 (a)	1981	1980 (a)
Sales and operating revenues	$2.740	$2.932	$2.832	$3.344	$2.832	$3.344
Cost of sales and operating expenses	1.946	1.960	2.061	2.324	2.032	2.297
Depreciation	115	85	230	191	327	278
Selling, research and administrative expenses	186	161	193	183	193	183
Interest	62	32	65	37	65	37
Other (income) expenses — net	(11)	(14)	(12)	(16)	(12)	(16)
	2.298	2.224	2.537	2.719	2.605	2.779
Income before income taxes and other items	442	708	295	625	227	565
Income taxes	154	287	159	328	159	328
Income from continuing operations	288	421	136	297	68	237
Holding gain on monetary items	—	—	121	131	121	131
Net income for the year	288	421	257	428	189	368

Inventories, property, plant and equipment

	in year-end 1981 dollars	
	1981	1980 (a)
Increase in specific prices	523	406
Increase in general price	327	395
Excess of increase in specific prices	196	11

(a) Restated to conform to refinements in methodology to derive 1981 data

Five-Year Comparison of Financial Data

	1981	1980	1979	1978	1977
	(in millions of U.S. dollars)				
HC Data					
Sales and operating revenues	$2,740	$2,932	$2,481	$2,280	$1,856
Income from continuing operations	288	421	242	191	105
Common shareholder's equity at year end	1,313	1,165	922	770	646
CD Data in Year-End 1981 Dollars					
Sales and operating revenues	2,832	3,344	3,212	3,285	2,878
Income from continuing operations	136	297	144	104	28
Holding gain on monetary items	121	131	136	105	89
Common shareholder's equity at year end	2,133	1,999	1,793	1,658	1,585
CC Data in Year-End 1981 Dollars					
Sales and operating revenues	2,832	3,344	3,212		
Income from continuing operations	68	237	121		
Holding gain on monetary items	121	131	136		
Common shareholder's equity at year end	2,637	2,441	2,261		
Excess of increase in specific prices/(excess of increase in general price level) of inventories and property, plant and equipment	196	11	(56)		
Year-end consumer price index (CPI-U, 1967 base year = 100)	281.5	258.4	229.9	202.9	186.1

Note: Certain prior years' CD and CC amounts have been restated to conform to refinements in methodology to derive 1981 data.

Conclusions

Both the CD and CC methods undoubtedly give more realistic results in terms of economic reality than HC. The CD method deals with only one aspect of inflation — the declining purchasing power of the dollar. The CC method focuses on specific price changes, but permits the application of judgement in determining many amounts.

The Company prefers the simplicity and objectivity of the CD method but feels it necessary to measure the specific rate of inflation on its operations. After all, the funds required to replace the productive assets used in the Company's operations will be determined by specific price changes and not by changes in the CPI.

The impact of inflation on the Company's 1981 results was such that price realizations increased by only some 5.6%, or 3.4% below the general rate of inflation. When compared to 1979, the 1981 sales price realizations fell short of the two-year change in the CPI by 8%.

When the marketplace precludes a company from maintaining sales prices in line with changes in the rate of inflation, especially in capital intensive industries such as aluminum, it is virtually impossible to maintain operating margins. During those periods, it is not possible to generate the necessary funds to maintain existing productive capacity and provide a satisfactory return to shareholders. Management believes it is imperative to develop more systematic methods to clarify the impact of inflation on the Company's operations. Accordingly, an internal inflation accounting system is being implemented in order to provide management at all levels with financial data adjusted for inflation to assist them in identifying opportunities and developing strategies to provide for the future real growth and health of the Company.

SELECTED FINANCIAL DATA*

Operating Data (thousands of tonnes except as indicated)	1972	1973	1974	1975	1976	1977	1978	1979	1980	**1981**
Aluminum shipments										
Ingot and ingot products	653	722	699	702	484	526	665	450	456	**365**
Fabricated products	375	439	435	311	383	397	484	500	517	**506**
Total	1,028	1,161	1,134	1,013	867	923	1,149	950	973	**871**
Primary aluminum production	799	792	874	761	493	826	898	709	918	**962**
Aluminum inventories (end of year)	238	249	304	271	282	348	270	240	244	**369**
Primary aluminum capacity (end of year)	939	939	939	907	894	894	894	904	961	**1,018**
Net realization on sales of ingot and ingot products (U.S. $ per tonne)	447	487	682	716	837	1,023	1,062	1,295	1,578	**1,526**
Consolidated Income Statement Items (millions of U.S. dollars)										
Total revenues										
Sales of aluminum ingot and ingot products	292	352	477	503	405	538	707	583	719	**557**
Sales of aluminum fabricated products	380	464	618	544	665	760	962	1,129	1,281	**1,335**
Sales of all other products	210	231	334	360	385	428	476	599	761	**690**
Operating revenues	59	60	81	73	81	130	135	170	171	**158**
Other income	14	9	8	8	11	6	11	31	17	**13**
Costs and expenses										
Cost of sales and operating expenses	752	928	1,171	1,242	1,348	1,457	1,709	1,865	1,960	**1,946**
Depreciation	61	60	60	65	67	75	82	84	85	**115**
Interest	40	46	66	67	62	53	51	48	32	**62**
Other	75	81	97	102	103	116	135	141	164	**188**
Income taxes		(4)	47	6	(23)	56	123	132	287	**154**
Net income (Loss)	27	5	77	6	(10)	105	191	242	421	**288**
Consolidated Balance Sheet Items (millions of U.S. dollars)										
Working capital	331	244	409	439	409	526	575	565	561	**820**
Property, plant and equipment — net	745	744	830	866	868	913	986	1,146	1,503	**2,087**
Long-term debt	548	491	636	621	565	484	415	374	396	**858**
Deferred income taxes	121	101	140	145	118	175	248	311	405	**506**
Other — net	70	70	92	64	55	38	43	58	47	**64**
Redeemable preferred shares	40	35	31	78	74	172	171	162	145	**294**
Common shareholder's equity	437	432	523	525	576	646	770	922	1,165	**1,313**
Total assets	1,346	1,361	1,716	1,738	1,762	1,893	2,120	2,341	2,765	**3,593**
Other Statistics										
Funds from operations (millions of U.S. dollars)	77	45	176	75	29	237	346	388	599	**503**
Property, plant and equipment expenditures (millions of U.S. dollars)	38	61	151	113	67	131	156	257	450	**710**
Employees (thousands at end of year)	26	28	29	27	25	26	26	27	28	**27**

Mining — Bauxite Reserves 1981

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 108 million crude tonnes as of the beginning of the year 1981 (100 million crude tonnes at the beginning of 1980), with a total weighted average aluminum content of 26%. The Company estimates that these reserves are sufficient to meet 35 years' requirements at annual rated 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 the alumina plant efficiency. Bauxite mined during the year totalled 2.8 million crude tonnes (2.7 million crude tonnes in 1980).

*Restated where necessary to give retroactive effect to changes in accounting practices

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	Senior 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
David Morton, Montreal	President and Chief Executive Officer
Hon. John L. Nichol, O.C., Vancouver	President of a private investment company in Vancouver
W. J. Rich, Vancouver	Vice President, British Columbia
R. F. Sharratt, Montreal	Executive Vice President and Chief Financial Officer

OFFICERS

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David Morton	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 Chief Financial Officer
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Jacques Vaillancourt	Vice President, Government Relations
F. C. Winser	Vice President
Suresh Thadhani	Treasurer

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Aughinish alumina plant, on the Shannon River in Ireland, will have an annual capacity of 800,000 tonnes when completed in 1983.

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