A N N U A L R E P O R T

ALUMINUM COMPANY OF CANADA, LIMITED

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PRESIDENT'S MESSAGE

The Company reported a loss of $119 million, including special charges and rationalization expenses totalling $168 million after tax. Excluding these items, net income in 1985 was $49 million, compared to $123 million in 1984 and $80 million in 1983. The decline in earnings was primarily due to lower realizations on both ingot and fabricated products, particularly compared with the first half of 1984. Total shipments of aluminum products exceeded the level of 1984 by 46%, due in large part to the acquisition early in the year of assets from Atlantic Richfield Company (Arco).

About two-thirds of the special charges and rationalization expenses of $320 million on a pre-tax basis related to a provision reflecting the impairment in economic value of the Company's investments in bauxite and alumina operations. This has arisen from a large excess of production capacity in the world compared with existing and anticipated demand. The balance of the special charges and rationalization expenses related to costs associated with a reduction in the numbers employed at all levels in the Company and also the restructuring and disposal of a number of small businesses.

The acquisition in January of certain assets from Arco added nearly 50% to the Company's sheet rolling capacity in the U.S., provided a smelter in that country and led to an increase in the Company's share of an alumina joint-venture in Ireland.

Production of primary aluminum was 1,159,000 tonnes in 1985. In March, in response to low U.S. prices for aluminum products and high inventories, the Company reduced production by one-third at its 163,000 tonnes per year Sebree, Kentucky, smelter. In September, in view of the uncertain state of world aluminum markets, the Company announced postponement of construction of its Laterrière, Quebec, smelter project.

In July, the Company entered into a new three-year labour contract for smelter employees in British Columbia. The labour contract at the Sebree smelter expired on 31 January 1986. The final offer made to the union, which included reductions in wages and benefits, was implemented on 1 February. The employees have voted to continue working without a contract.

Since early December, there has been an improvement in aluminum prices. A continuation of this trend, together with the benefits from the Company's cost reduction programs, would result in improved profitability in 1986.

Montreal, Canada
6 February 1986

David Morton
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Sales revenues increased in 1985 to $3,197 million, up from $2,746 million in 1984 and $2,455 million in 1983. The increase was due to higher shipments of both ingot and fabricated products, which reached a record total of 1,439,000 tonnes. As a result, and despite the acquisition in January of an inventory of approximately 100,000 tonnes of aluminum products from Arco, inventories declined during the year by 46,000 tonnes overall to 337,000 tonnes.

Other income increased by $19 million, largely due to higher income from investments in related companies and foreign exchange gains.

Interest charges for the year totalled $95 million (of which $16 million was capitalized) compared to $89 million in 1984 (of which $10 million was capitalized). In 1985, as in 1984, the parent company waived interest charges on its demand loan to the Company.

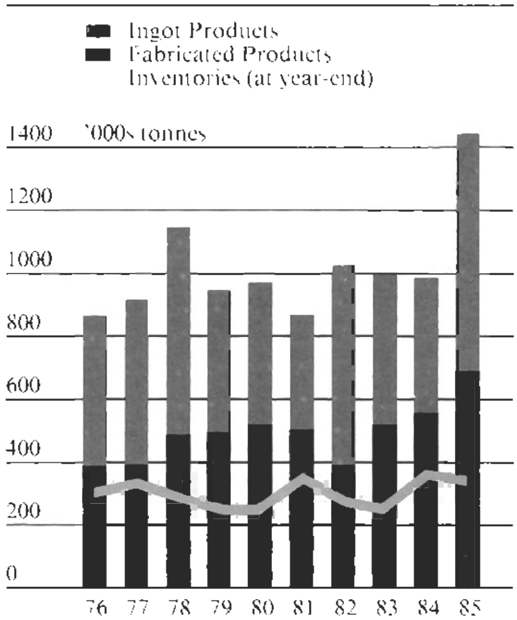
The negative provision for taxes in 1985 related largely to the special charges and rationalization expenses.

LIQUIDITY AND CAPITAL RESOURCES

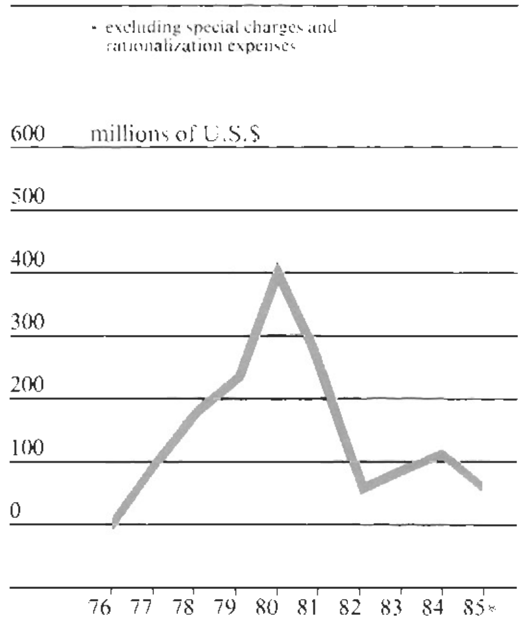
Cash generation from operations increased to $381 million in 1985 compared with $275 million in 1984, largely due to a reduction in operating working capital. Dividends on preferred and common shares were $33 million and $5 million respectively, compared to $31 million and $40 million respectively in 1984.

Total borrowings were reduced by $48 million during the year. With a view to increasing the proportion of fixed rate debt to floating rate debt and increasing the average life of outstanding borrowings, the Company issued $100 million of fixed-rate ten year Eurodollar bonds in June 1985 and in January 1986 issued a further $100 million of fixed-rate debentures due 1998. The proceeds of these issues were used to repay floating rate borrowings.

ALUMINUM SHIPMENTS AND INVENTORIES



NET INCOME



Common shares of $272 million were issued to the parent company during the year. Of this amount $150 million was subscribed in cash and the balance was allotted as consideration for certain assets at book value arising from the transfer of management responsibility to the Company of the related raw material businesses. The Company also issued $37 million of preferred shares, and redeemed its Floating Rate Second Preferred Shares, Series B, totalling $34 million.

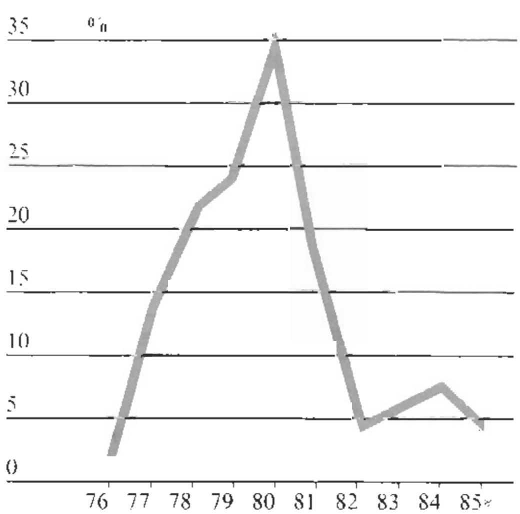
At year-end, the ratio of total debt (including short-term borrowings and a demand loan from the parent company) to equity (including redeemable preferred shares) was 35:65, compared with 38:62 at the end of 1984. Including deferred income taxes with equity, the ratio was 31:69 at the end of 1985, and 32:68 at the end of 1984.

During the year, the Company's term credit lines from banks continued unchanged at $650 million and CAN$200 million, of which $600 million and CAN$40 million were unutilized at year-end (after deducting the amount required to back-up short-term promissory notes). Subsequent to year-end, the Company has reduced the unutilized credit lines by $100 million. In addition, the Company's U.S. subsidiary had revolving credit facilities which were increased from $150 million to $300 million during the year. Of these facilities, $142 million were unutilized at year-end.

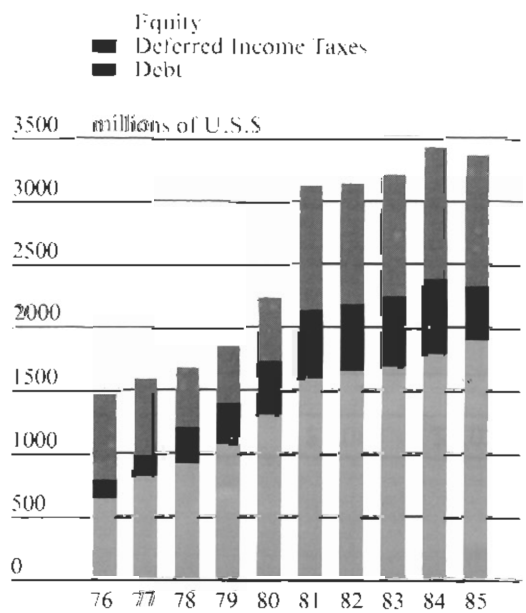
Excluding the purchase of plant and equipment from Arco and the acquisition of certain assets from the parent company arising from the transfer of management responsibilities, in 1985 capital expenditures totalled $191 million, compared with $243 million in 1984. Capital expenditures for 1986 are currently forecast at $170 million. Sales and disposals of assets in 1985 generated $38 million compared to $19 million in 1984.

RETURN ON CAPITAL EMPLOYED

(before interest and income taxes)
*excluding special charges and rationalization expenses



CAPITAL EMPLOYED



QUARTERLY FINANCIAL DATA (unaudited)

(Certain items have been reclassified for purposes of comparability)

(in millions of U.S. $)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1985				
Sales and operating revenues	$ 782	$ 902	$ 847	$ 799
Gross profit	75	101	99	72
Net income (Loss)	5	(8)	19	(135)
1984				
Sales and operating revenues	$ 703	$ 768	$ 707	$ 656
Gross profit	139	159	116	75
Net income	42	53	14	14
1983				
Sales and operating revenues	$ 535	$ 679	$ 660	$ 688
Gross profit	51	91	110	143
Net income (Loss)	(10)	21	23	46

SALES BY END USE

(in millions of U.S. $)	**1985**	1984
Packaging and Containers	**$ 678**	$ 499
Transportation	**141**	183
Electrical	**303**	353
Building and Construction	**432**	495
Other	**1,643**	1,216
	$3,197	$2,746

CONSOLIDATED STATEMENT OF INCOME

Year Ending 31 December *(in millions of U.S. $)*	**1985**	1984	1983
Revenues			
Sales *(note 4)*	**$3,197**	$2,746	$2,455
Operating revenues	**133**	88	107
Other income	**49**	30	18
	3,379	2,864	2,580
Costs and Expenses			
Cost of sales and operating expenses *(note 4)*	**2,815**	2,186	2,028
Depreciation	**168**	159	139
Selling, administrative and general expenses	**184**	183	175
Research and development expenses	**50**	49	43
Interest *(note 15)*	**79**	79	81
Other expenses	**31**	27	11
	3,327	2,683	2,477
Income Before Special Charges and Rationalization Expenses and Income Taxes	**52**	181	103
Special Charges and Rationalization Expenses *(note 6)*	**320**	—	—
Income (Loss) before Income Taxes	**(268)**	181	103
Income Taxes *(note 7)*	**(149)**	58	23
Net Income (Loss) *(note 2 and 3)*	**(119)**	123	80
Dividends on Preferred Shares	**33**	31	31
Net Income (Loss) Attributable to Common Shareholder	**$ (152)**	$ 92	$ 49

Net income (Loss) per common share and average number of shares outstanding are not reported as all of the common shares are owned by Alcan Aluminium Limited.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ending 31 December *(in millions of U.S. $)*	**1985**	1984	1983
Retained Earnings – Beginning of Year	**$1,080**	$1,029	$ 992
Net Income (Loss)	**(119)**	123	80
	961	1,152	1,072
Share Issue Expenses	**1**	1	—
Dividends			
Preferred	**33**	31	31
Common	**5**	40	12
	39	72	43
Retained Earnings – End of Year *(note 13)*	**$ 922**	$1,080	$1,029

CONSOLIDATED BALANCE SHEET

ASSETS

31 December *(in millions of U.S. $)*	**1985**	1984	1983
Current Assets			
Cash and time deposits	**$ 57**	$ 190	$ 18
Receivables	**486**	380	441
Inventories			
Aluminum	**461**	483	339
Raw materials	**213**	239	263
Other supplies	**174**	148	152
	1,391	1,440	1,213
Deferred Receivables and Charges	**76**	86	94
Investments in Related Companies	**72**	38	47
Property, Plant and Equipment			
Cost *(note 9)*	**4,602**	4,257	4,056
Accumulated depreciation	**1,971**	1,846	1,721
	2,631	2,411	2,335
Total Assets	**$4,170**	$3,975	$3,689

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

31 December *(in millions of U.S. $)*	**1985**	1984	1983
Current Liabilities			
Payables	**$ 361**	$ 347	$ 335
Demand loan from parent company *(note 4)*	**141**	423	323
Short-term borrowings (principally from banks)	**60**	91	61
Income and other taxes	**16**	18	—
Debt maturing within one year	**14**	15	19
	592	894	738
Debt Not Maturing Within One Year *(note 10)*	**837**	566	594
Deferred Credits and Other Liabilities *(note 5)*	**162**	152	133
Provision for Rationalization and Related Liabilities *(note 6)*	**262**	—	—
Deferred Income Taxes	**389**	542	522
Redeemable Retractable Preferred Shares *(note 11)*	**249**	293	337
Redeemable Non-Retractable Preferred Shares *(note 12)*	**149**	112	—
Common Shareholder's Equity *(note 13)*			
Common shares	**608**	336	336
Retained earnings	**922**	1,080	1,029
	1,530	1,416	1,365
Commitments *(note 14)*			
Total Liabilities and Shareholders' Equity	**$4,170**	$3,975	$3,689

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. $)*	**1985**	1984	1983
Operating activities			
Net income (Loss)	**$ (119)**	$ 123	$ 80
Depreciation	**168**	159	139
Special charges and rationalization expenses	**307***	—	—
Deferred income taxes	**(151)**	21	28
Operating working capital	**194**	(25)	(41)
Other – net	**(18)**	(3)	(6)
	381	275	200
Dividends	**(38)**	(71)	(43)
Cash from operating activities	**343**	204	157
Financing activities			
New debt	**535**	138	95
Debt repayments	**(270)**	(154)	(306)
Short-term borrowings – net	**(313)**	130	235
Preferred shares	**37**	112	—
Redemption of preferred shares	**(34)**	(34)	(1)
Common shares	**272**	—	—
Cash from financing activities	**227**	192	23
Total cash available for investment activities	**570**	396	180
Investment activities			
Property, plant and equipment	**408**	243	196
Investments	**59**	—	1
Operating working capital acquired	**274***	—	—
Sales and disposals	**(38)**	(19)	(17)
Cash used for investment activities	**703**	224	180
Increase (Decrease) in cash and time deposits for the year	**(133)**	172	—
Cash and time deposits, beginning of year	**190**	18	18
Cash and time deposits, end of year	**$ 57**	$ 190	$ 18

Changes in Operating Working Capital	**1985**	1984	1983
Receivables	**$ 106**	$ (61)	$ 155
Inventories	**(22)**	116	(39)
Payables	**(14)**	(12)	(75)
Income and other taxes	**2**	(18)	—
Less: Operating working capital acquired	**(274)***	—	—
Other	**8**	—	—
Increase (Decrease) for the year	**$ (194)**	$ 25	$ 41

**Net of cash items*

NOTES TO FINANCIAL STATEMENTS

(in millions of U.S. $, except where indicated)

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. Joint ventures, irrespective of percentage of ownership, are included to the extent of the Company's ownership. In addition, consolidated net income includes the Company's equity in the net income or loss of companies owned 50% or less where the Company has significant influence over management, and the investments in these companies are 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 date of acquisition, the difference is amortized over the estimated average useful life of the underlying fixed assets acquired. Investments in companies in which the Company does not have significant influence over management are carried at cost.

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, under translation procedures recommended by The Canadian Institute of Chartered Accountants (CICA).

Current assets (excluding inventories), current liabilities and long-term monetary assets and liabilities 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. Income statement items are translated at average rates prevailing during the year, except for the cost of inventories and for depreciation which are translated at rates prevailing when the related assets were acquired. Translation gains and losses are included in income except for unrealized gains and losses arising from the translation of long-term monetary assets and liabilities which are deferred and amortized over the remaining lives of the related items.

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.

Certain income statement and balance sheet items in 1984 and 1983 have been reclassified for purposes of comparability with 1985 presentation.

2. Accounting Change

Beginning in 1985, the Company adopted the recommendations of the CICA under which investment tax credits are accounted for using the cost reduction approach instead of the flow through approach used prior to 1985.

Under the cost reduction approach investment tax credits are recognized over the same period as the related expenditures are charged to income principally through depreciation. Under the flow through approach, investment tax credits were generally recognized in income in the year that the related expenditures were made.

The loss for 1985 would have been reduced by $10 had the flow through approach been continued.

3. Currency Translation

Currency translation gains included in income were $15 in 1985 (gains of $10 in 1984 and $9 in 1983).

The currency translation recommendations of the CICA largely parallel those of the U.S. Financial Accounting Standards Board (FASB), with two principal exceptions. The first is the CICA recommendation to defer and amortize unrealized exchange gains and losses on long-term monetary items whereas the FASB recommends immediate absorption in income. The second exception is the CICA recommendation that deferred income taxes of companies using the temporal method be translated at historical exchange rates instead of current rates.

The following table compares results reported with those that would have been reported under the FASB method together with the cumulative effect on retained earnings.

	1985		1984		1983	
	As Reported	FASB Method	As Reported	FASB Method	As Reported	FASB Method
Consolidated net income (Loss)						
First quarter (Unaudited)	$ 5	$ 16	$ 42	$ 53	$ (10)	$ (2)
Second quarter (Unaudited)	(8)	(14)	53	70	21	19
Third quarter (Unaudited)	19	14	14	14	23	25
Fourth quarter (Unaudited)	(135)	(126)	14	18	46	45
	(119)	(110)	123	155	80	87
Consolidated retained earnings – end of year	922	1,037	1,080	1,186	1,029	1,103

4. 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 17). Cost of sales includes purchases from related companies as follows:

	1985	1984	1983
Alumina	$ 54	$103	$ 89
Bauxite	106	94	83

The demand loan from the parent company bears interest at the Citibank N.A. prime rate less 0.5%, payable on the first day of the month following the end of each quarter. However, interest charges for 1985 and 1984 were waived by the parent company. In 1983, interest charges amounted to $20.

5. Deferred Credits and Other Liabilities

Deferred credits include a prepayment by a related company under an alumina tolling arrangement of $58 in 1985 ($61 in 1984 and 1983), and unamortized net amount of unrealized exchange gains of $29 in 1985 ($39 in 1984 and $30 in 1983).

6. Special Charges and Rationalization Expenses

Approximately two-thirds of the charge of $320 reflects the estimated long-term impairment in economic value of the Company's bauxite and alumina operations, arising from a large excess of production capacity in the world compared with existing and anticipated demand.

6. Special Charges and Rationalization Expenses (cont'd)

The remainder of the special charges and rationalization expenses relates to a program to reduce levels of management and the total number of employees, and to costs associated with the sale and restructuring of a number of small businesses.

7. Income Taxes

	1985	1984	1983
Income (Loss) before income taxes			
Canada	$(246)	$205	$106
Other countries	(22)	(24)	(3)
	(268)	181	103
Current income taxes			
Canada	(9)	17	(1)
Other countries	11	20	(4)
	2	37	(5)
Deferred income taxes			
Canada	(146)	27	6
Other countries	(5)	(6)	22
	(151)	21	28
Total income tax provision	$(149)	$ 58	$ 23

The composite of the applicable statutory corporate income tax rates in Canada is at present 44.9% (44.8% in 1984 and 45.7% in 1983). Income earned by subsidiary companies located outside Canada is 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:

	1985	1984	1983
Income taxes at the composite rate	$(120)	$ 81	$ 47
Increase (Reduction) attributable to:			
Investment and other allowances	(27)	(40)	(26)
Prior years' tax adjustments	4	10	—
Other – net	(6)	7	2
Income tax provision	$(149)	$ 58	$ 23

The principal components giving rise to the deferred portion of income taxes are:

	1985	1984	1983
Depreciation claimed for tax purposes in excess of (less than) depreciation for book purposes	$ (1)	$ (1)	$ 14
Cost of sales claimed for U.S. tax purposes in excess of (less than) that recorded for book purposes	(20)	(14)	18
Reversal of investment tax credits and foreign tax credits (benefit in prior years)	7	51	(4)
Special charges and rationalization expenses	(152)	—	—
Other – net	15	(15)	—
	$(151)	$ 21	$ 28

8. Acquisition

In January 1985, the Company acquired certain assets of the aluminum business of the Atlantic Richfield Company (Arco) consisting of fixed assets recorded at a valuation of $196 and working capital valued at $282. The acquisition was accounted for by the purchase method.

The consideration given consisted of cash, including notes which were subsequently redeemed for cash, of $449 and aluminum ingot products valued at $29. In addition, contingent consideration in the form of 9% Abatable Preferred shares in 10 equal series with an initial total nominal value of $400 were issued to Arco. As the value of these shares is contingent on future aluminum prices as indicated below, they will not be recorded in the financial statements until such time as any such shares "qualify" for dividend and redemption. Each series of shares is related to one of the years 1985 to 1994 and the nominal redemption value of such series is subject to abatement at the rate of $6.667 (to a maximum of $40 per series) for each one cent by which the mathematical average of the price realized per pound of primary aluminum sales, as reported by Alcan and three other designated North American aluminum producers for the appropriate year, falls below:

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
$ per lb.	0.98	1.08	0.97	1.16	1.36	1.47	1.47	1.60	1.82	1.99

To the extent the shares do not abate, the qualifying amount will be reflected in the financial statements and a corresponding amount together with the cumulative dividend of 9% per annum payable thereon, at the time the shares qualify, retroactive to the date of issue (18 January 1985), will be added to the book value of the assets acquired and amortized against income over the remaining lives of the fixed assets acquired. Such qualifying shares are subject to retraction by the holder on 18 January 1997, but may be redeemed earlier at the option of the Company. The Company expects the 1985 series to be abated fully when information relating to the three other designated producers becomes available.

9. Property, Plant and Equipment

	1985	1984	1983
Land, and property rights	$ 61	$ 60	$ 59
Buildings, machinery and equipment	4,352	3,919	3,833
Construction work in progress	189	278	164
	$4,602	$4,257	$4,056

Capital expenditures are expected to total $170 million in 1986.

10. Debt Not Maturing Within One Year

	1985	1984	1983
Bank loans under $400 revolving credit agreement (a)	$ 50	$ —	$ —
Bank loans under $150 credit agreement (b)	—	50	—
Notes payable (commercial paper) (c)	116	66	79
Notes payable (d)	120	—	—
9½% Sinking fund debentures, due 1988	20	24	31
5.10% Notes, due 1986/1992	—	3	41
15¾% Eurodollar debentures, due 1992	75	75	75
14¼% Notes, due 1992	100	100	100
9½% Notes, due 1986/1994	34	38	40
9½% Sinking fund debentures, due 1995	51	52	61
11¼% Debentures, due 1995	100	—	—
9⅜% Sinking fund debentures, due 1991 (CAN$27)	19	29	33
10¾% Sinking fund debentures, due 1994 (CAN$49)	35	39	42
8¾% Loan, due 1986/1992 (£28)	40	37	51
Other debt, due 1986/2005	91	68	60
	851	581	613
Debt maturing within one year included in current liabilities	(14)	(15)	(19)
	$837	$566	$594

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 providing for loans bearing interest at a rate equal to the base rate of Citibank, N.A., or rates related to the London interbank offered rate (LIBOR). Loans under this agreement are to be repaid in five annual instalments of 10%, 15%, 25%, 25% and 25%, beginning one year after 1 May 1988, the termination date of the credit agreement.

(b) A credit agreement with a group of banks providing for loans bearing interest at a rate related to LIBOR. Loans under this agreement are to be repaid in two instalments, the first instalment of 25% on 27 April 1988, and the second instalment of 75% on 27 April 1991.

(c) Notes payable (commercial paper) issued in Canada and the United States at market rates and fully backed up by long-term credit agreements with banks amounting to $100 and CAN$200 in addition to those available under (a) and (b). After 31 December 1985, the Company reduced the credit lines by U.S.$100.

(d) Core level of outstanding notes issued in the United States at market rates and fully backed up by long-term credit agreements amounting to $300.

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 $14 in 1986, $14 in 1987, $38 in 1988, $173 in 1989 and $60 in 1990.

11. Redeemable Retractable Preferred Shares

AUTHORIZED

3,760,503 Cumulative Redeemable First Preferred Shares without nominal or par value, issuable in series. The first series consists of 1,760,503 CAN $2.00 Tax Deferred Cumulative Redeemable Retractable First Preferred Shares.

7,333,000 Second Preferred Shares without nominal or par value, issuable in series. The third series consists of 1,333,000 floating rate shares in U.S. currency.

An unlimited number of Preference Shares without nominal or par value and issuable in series. Series A consists of 7,747,000 Cumulative Redeemable Retractable Preference Shares and Series B consists of 1,842,700 Cumulative Redeemable Retractable Preference Shares.

OUTSTANDING

	31 December		
	1985	**1984**	**1983**
First preferred – 1,760,503 shares (1984 – 1,762,203; 1983 – 1,771,703)	$ 32	$ 33	$ 35
Second preferred – 1,333,000 shares (1984 – 2,666,000; 1983 – 4,000,000)	33	67	100
Preference, series A – 7,747,000 shares (1984 and 1983 – 7,750,000)	138	147	156
Preference, series B – 1,842,700 shares (1984 and 1983 – 1,850,000)	46	46	46
	$249	$293	$337

Outstanding shares are eligible for quarterly dividends as follows:

First preferred – CAN $2.00 per share per annum payable out of the Company's 1971 capital surplus.
Second preferred – An amount determined by applying to U.S. $25.00 per share an annual rate of one-half the sum of (i) the average of the U.S. base rates for stated periods of certain Canadian banks for U.S. dollar demand loans in Canada, and (ii) 2½%.
Preference Series A – CAN $2.3125 per share per annum.
Preference Series B – U.S. $2.1875 per share per annum.

Retraction privileges which may be exercised at the option of holders of outstanding shares are as follows:

First preferred – At CAN $25.00 per share on 1 June 1988.
Second preferred – 1,333,000 shares at U.S. $25.00 per share on 5 July 1986. (1,334,000 shares were retracted on 5 July 1984 and 1,333,000 shares were retracted on 5 July 1985).
Preference Series A – At CAN $25.00 per share on 31 December 1989.
Preference Series B – At U.S. $25.00 per share on 31 December 1989.

The Company is obliged to make reasonable efforts to purchase in the open market for cancellation the following shares:

First preferred – 15,000 shares per quarter at a price not exceeding CAN $25.00 per share.
Second preferred – none.
Preference Series A – 58,125 shares per quarter up to 31 December 1989 and thereafter 1% per quarter of the shares outstanding on 1 January 1990 at prices not exceeding CAN $25.00 per share.
Preference Series B – 13,875 shares per quarter up to 31 December 1989 and thereafter 1% per quarter of the shares outstanding on 1 January 1990 at prices not exceeding U.S. $25.00 per share.

The purchase obligations are cumulative only within each calendar year.

11. Redeemable Retractable Preferred Shares (cont'd)

Outstanding shares may be called for redemption at the option of the Company as follows:

First preferred – On 30 days' notice at CAN $25.60 per share during the twelve-month period commencing 1 December 1985 and reducing by CAN $0.30 per share in each of the succeeding twelve-month periods until 30 November 1987, after which the shares may be redeemed at CAN $25.00 per share.

Second preferred – On any dividend payment date on 90 days' notice at U.S. $25.00 per share.

Preference Series A – On 30 days' notice at CAN $26.25 per share during the twelve-month period commencing 31 December 1987 and reducing by CAN $0.25 per share in each of the succeeding twelve-month periods until 31 December 1992, after which the shares may be redeemed at CAN $25.00 per share.

Preference Series B – On 30 days' notice at U.S. $26.25 per share during the twelve-month period commencing 31 December 1987 and reducing by U.S. $0.25 per share in each of the succeeding twelve-month periods until 31 December 1992, after which the shares may be redeemed at U.S. $25.00 per share.

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

12. Redeemable Non-retractable Preferred Shares

AUTHORIZED

An unlimited number of Preference Shares without nominal or par value and issuable in series. Series C consists of 5,700,000 Floating Rate Cumulative Redeemable Non-retractable Preference Shares of which 4,200,000 are 1984 series C Preference Shares and 1,500,000 are 1985 series C Preference Shares, and series D consists of 1,700,000 Floating Rate Cumulative Redeemable Non-retractable Preference Shares of which 1,300,000 are 1984 series D Preference Shares and 400,000 are 1985 series D Preference Shares.

OUTSTANDING	31 December		
	1985	**1984**	**1983**
Preference, series C – 5,700,000 shares (1984 – 4,200,000)	$106	$ 79	—
Preference, series D – 1,700,000 shares (1984 – 1,300,000)	43	33	—
	$149	$112	—

Outstanding shares are eligible for quarterly dividends as follows:

Preference Series C – An amount determined by applying to CAN $25.00 per share one-quarter of the greater of (i) 72% of the average of the Canadian prime interest rates quoted by two major Canadian banks for stated periods, and (ii) the lesser of 7.5% and the average of the Canadian prime interest rates quoted by two major Canadian banks for stated periods.

Preference Series D – An amount determined by applying to U.S. $25.00 per share one-quarter of the greater of (i) 72% of the average of the U.S. prime interest rates quoted by two major Canadian banks for stated periods, and (ii) the lesser of 7.5% and the average of the U.S. prime interest rates quoted by two major Canadian banks for stated periods.

Outstanding shares may be called for redemption at the option of the Company as follows:

Preference Series C – On 30 days' notice at CAN $26.50 per share during the twelve-month period commencing 1 January 1988 and reducing by CAN $0.30 per share in each of the succeeding twelve-month periods until 31 December 1992, after which the shares may be redeemed at CAN $25.00 per share.

Preference Series D – On 30 days' notice at U.S. $26.50 per share during the twelve-month period commencing 1 January 1988 and reducing by U.S. $0.30 per share in each of the succeeding twelve-month periods until 31 December 1992, after which the shares may be redeemed at U.S. $25.00 per share.

12. Redeemable Non-retractable Preferred Shares (cont'd)

Any partial redemption must be made by lot.

The Company may at any time purchase for cancellation the whole or any part of the above shares at a price per share not exceeding CAN $26.50 for series C and U.S. $26.50 for series D if such purchase is made prior to 1 January 1988, and if such purchase is made thereafter, at a price per share not exceeding the then current redemption price, plus all accrued and unpaid dividends and costs of purchase.

13. Common Shareholder's Equity

COMMON SHARES

The authorized share capital is an unlimited number of common shares, without nominal or par value. The number of shares outstanding at 31 December 1985 was 13,691,325 (1984 and 1983: 11,480,712).

RETAINED EARNINGS

Consolidated retained earnings at 31 December 1985 include $222 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.

14. Commitments

Minimum rental obligations amount to $36 in 1986, $28 in 1987, $24 in 1988, $20 in 1989, $20 in 1990 and lesser annual amounts thereafter. Total rental expense amounted to $57 in 1985 ($33 in 1984 and $32 in 1983).

To assure long-term supplies of bauxite, the Company participates in long-term cost sharing arrangements with related companies. The Company's fixed and determinable commitments, which comprise of "take-or-pay" obligations are estimated at $119 in 1986, $118 in 1987, $118 in 1988, $119 in 1989, $120 in 1990 and $671 thereafter. The Company's total charge with these related companies was $81 in 1985.

See also reference to acquisition in note 8, to capital expenditures in note 9, debt repayments in note 10 and redeemable retractable preferred shares in note 11.

15. Supplementary Income Statement Information

	1985	1984	1983
Repairs and maintenance	$274	$266	$244
Taxes, other than payroll and income taxes	78	92	95
Interest on long-term debt	74	69	84
Capitalized interest	(16)	(10)	(27)

16. 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 1985 was $51 ($26 in 1984 and $42 in 1983). The increase in 1985 is due principally to pension expenses incurred in 1985 for early retirement incentive programs. Pension expense includes amortization of unfunded actuarial liabilities which the Company and its subsidiaries are funding and expensing for the most part over periods of 15 years or less.

16. Pension Plans (cont'd)

Based on the most recent actuarial reports the present value of vested accumulated plan benefits was $819 ($725 in 1984 and $748 in 1983), and the present value of accumulated non-vested benefits was $14 ($14 in 1984 and 1983). These present values were determined using a weighted average assumed rate of return of 6.9% (6.7% in 1984 and 6.3% in 1983). The value of the net assets available for benefits was $1,111 ($995 in 1984 and $841 in 1983) at market prices prevailing at the time of actuarial valuation. The apparent surplus may 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 was 1 January 1985 for the two Canadian plans and the major United States plan.

17. Information by Geographic Areas

	Canada	United States	Other	Eliminations	Consolidated
Year 1985					
Sales and operating revenues					
Third parties	$ 895	$1,957	$ 84	$ —	$2,936
Related companies	366	1	27	—	394
Subsidiaries	471	82	198	(751)	—
Total	1,732	2,040	309	(751)	3,330
Net income (Loss)	11	23	(47)	(106)*	(119)
Identifiable assets	2,296	1,110	893	(129)	4,170
Year 1984					
Sales and operating revenues					
Third parties	$ 838	$1,576	$ 17	$ —	$2,431
Related companies	283	1	119	—	403
Subsidiaries	673	90	70	(833)	—
Total	1,794	1,667	206	(833)	2,834
Net income (Loss)	163	17	(51)	(6)	123
Identifiable assets	2,511	999	620	(155)	3,975
Year 1983					
Sales and operating revenues					
Third parties	$ 688	$1,358	$ 19	$ —	$2,065
Related companies	390	1	106	—	497
Subsidiaries	609	63	26	(698)	—
Total	1,687	1,422	151	(698)	2,562
Net income (Loss)	106	24	(46)	(4)	80
Identifiable assets	2,486	802	634	(233)	3,689

* Includes provision against the investments in bauxite and alumina operations.

Sales to subsidiary and related companies are made at a fair market price recognizing volume, continuity of supply and other factors. The loss incurred in "other" areas relates largely to alumina sales from Jamaica and Ireland, including transfers from Jamaica to the Company's smelters in Canada.

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

Identifiable assets represent the total book value of the assets located in each area.

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 1985, 1984 and 1983 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 financial statements present fairly the consolidated financial position of the Company as at 31 December 1985, 1984 and 1983 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 applied on a consistent basis, with the change in 1985 in accounting for investment tax credits described in note 2.

Montreal, Canada
6 February 1986

PRICE WATERHOUSE
Chartered Accountants

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. Financial and operating data elsewhere in the annual report are consistent with those contained in the accompanying 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, 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

Unless otherwise stated, 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 50% or less of the voting stock and has significant influence over management, or a company in which Aluminum Company of Canada, Limited owns 50% or less of the voting stock and has significant influence over management.

Version Française

La version française de ce rapport sera expédiée sur demande écrite adressée: Aluminium du Canada, Limitée, 1188, rue Sherbrooke Ouest, Montréal, (Québec) H3A 3G2.

INFLATION ACCOUNTING (unaudited)

(in millions of U.S. $)

This information is prepared in accordance with the recommendations of The Canadian Institute of Chartered Accountants (CICA).

The primary emphasis of the data is on current cost accounting. Historical reported information is adjusted for changes in prices of assets and expenses associated with the use of fixed assets and the sale of inventories. On this basis the current cost profit (loss) was ($193) in 1985 and $47 in 1984.

To measure income attributable to shareholders on a current cost basis, the CICA recommends the calculation of a "financing adjustment". It is based on the supposition that the funds required to maintain a company's operating capability (replace the assets it consumes) will be provided by a combination of shareholder and borrowed funds. On this basis, the current cost loss attributable to shareholders would be $223 for 1985 and $1 for 1984, after giving effect to preferred dividends of $33 in 1985 ($32 in 1984).

Two items of general inflation are presented. The first, 'increase in current cost amounts of inventory and property, plant and equipment based on general inflation' provides a comparison with the specific price change for these assets. The second is the 'general purchasing power gain on net monetary liabilities'. This calculation recognizes that monetary assets lose purchasing power during periods of inflation while debtors gain. Companies which have greater monetary liabilities than assets will experience a gain (the Financial Accounting Standards Board in the United States considers deferred income taxes to be monetary. Using their definition the Company's gain is $66 for 1985 and $56 for 1984).

Although inflation is currently continuing to run at a relatively low level, the effect of past inflation on capital intensive companies, such as Aluminum Company of Canada, Limited, is significant. Accordingly, the Company continues to support the disclosure of inflation adjusted accounting information to enable readers of financial statements to obtain another assessment of the Company's results.

SCHEDULE OF CONSOLIDATED INCOME

	Historical as reported		Current Cost Basis in average 1985 $	
(in millions of U.S. $)	**1985**	**1984**	**1985**	**1984**
Cost of sales and operating expenses	$2,815	$2,186	$2,790	$2,261
Depreciation expense	168	159	269	260
Income taxes	(149)	58	(149)	60
Net income (Loss)	(119)	123	(193)	47

SCHEDULE OF CONSOLIDATED ASSETS

	Historical as reported		Current Cost Basis in year-end 1985 $	
(in millions of U.S. $)	**1985**	**1984**	**1985**	**1984**
Inventory	$ 848	$ 870	$ 906	$ 914
Property, plant and equipment – net*	2,631	2,411	4,274	4,332
Net assets (common shareholder's equity)	1,530	1,416	3,255	3,324

SUPPLEMENTARY INFORMATION

(in millions of U.S. $)	In Average 1985 $	
	1985	**1984**
Increase in current cost amounts of inventory and property, plant and equipment based on:		
General inflation	206	216
Specific prices	12	(77)
Difference	194	293
General purchasing power gain on net monetary liabilities	48	35
Financing adjustment on specific price increases of inventory and property, plant and equipment**	3	(16)

**Assets related to raw materials operations are included at historical values.*

***Based on the current cost adjustments made to income during the year, the financing adjustment amounts to $17 ($17 in 1984).*

SELECTED FINANCIAL DATA

(Certain items have been reclassified for purposes of comparability)

Operating Data *(thousands of tonnes except as indicated)*	1976	1977	1978	1979	1980	1981	1982	1983	1984	**1985**
Aluminum shipments										
Ingot and ingot products	484	526	665	450	456	365	628	478	429	**746**
Fabricated products	383	397	484	500	517	506	398	523	560	**693**
Total	867	923	1,149	950	973	871	1,026	1,001	989	**1,439**
Primary aluminum production	493	826	898	709	918	962	917	945	1,075	**1,159**
Aluminum inventories - end of year	282	348	270	240	244	369	259	227	383	**337**
Primary aluminum capacity - end of year	894	894	894	904	961	1,018	1,075	1,075	1,075	**1,238**
Net realization on sales of ingot and ingot products (U.S.$ per tonne)	837	1,023	1,062	1,295	1,578	1,526	1,064	1,309	1,380	**1,086**
Consolidated Income Statement Items *(millions of U.S. $)*										
Total revenues										
Sales of aluminum ingot and ingot products	405	538	707	583	719	557	668	626	593	**810**
Sales of aluminum fabricated products	665	760	962	1,129	1,281	1,335	1,054	1,334	1,600	**1,821**
Sales of all other products	385	428	476	599	761	690	482	495	553	**566**
Operating revenues	81	130	135	170	171	158	163	107	88	**133**
Other income	11	6	11	31	17	13	14	18	30	**49**
Costs and expenses										
Cost of sales and operating expenses	1,340	1,448	1,698	1,854	1,948	1,936	1,930	2,028	2,186	**2,815**
Depreciation	67	75	82	84	85	115	125	139	159	**168**
Interest	62	53	51	48	32	62	75	81	79	**79**
Other expenses	111	125	146	152	176	198	205	229	259	**585**
Income taxes	(23)	56	123	132	287	154	(2)	23	58	**(149)**
Net income (Loss)*										
As reported	(10)	105	191	242	421	288	48	80	123	**(119)**
FASB method	(10)	115	200	243	418	291	51	87	155	**(110)**
Consolidated Balance Sheet Items *(millions of U.S. $)*										
Working capital	409	526	575	565	561	820	670	475	546	**799**
Property, plant and equipment - net	868	913	986	1,146	1,503	2,087	2,290	2,335	2,411	**2,631**
Long-term debt	562	471	393	357	380	844	814	594	566	**837**
Deferred income taxes	118	175	248	311	405	506	503	522	542	**389**
Redeemable preferred shares	74	172	171	155	140	289	340	337	405	**398**
Common shareholder's equity	576	646	770	922	1,165	1,313	1,328	1,365	1,416	**1,530**
Total assets	1,762	1,893	2,120	2,342	2,765	3,597	3,517	3,689	3,975	**4,170**
Other Statistics										
Cash from operating activities (millions of U.S. $)	96	161	428	318	554	246	307	200	275	**381**
Property, plant and equipment expenditures (millions of U.S. $)	67	131	156	257	450	710	331	196	243	**408**
Average number of employees (thousands)	25	26	26	27	27	27	25	24	24	**26**

* *See note 3 to the financial statements which explains the reasons for the differences between the As Reported and FASB methods.*

Bauxite Reserves *(millions of crude tonnes)*	1976	1977	1978	1979	1980	1981	1982	1983	1984	**1985**
Proved and probable bauxite reserves at beginning of year						108	108	106	101	**101**
Total weighted average aluminum content						26%	26%	26%	26%	**26%**
Bauxite mined during the year						2.8	2.0	2.4	2.4	**2.4**

DIRECTORS AND OFFICERS

DIRECTORS

David M. Culver, O.C. Montreal	President and Chief Executive Officer Alcan Aluminium Limited
Dr. Roger Gaudry, C.C. Montreal	Director of various companies
Pierre Laurin, O.C. Montreal	Vice President
David Morton Montreal	President and Chief Executive Officer
Hon. John L. Nichol, O.C. Vancouver	President of a private investment company
William J. Rich Vancouver	Vice President
Douglas M. Ritchie Montreal	President and Chief Executive Officer Alcan Smelters and Chemicals Limited
Richard F. Sharratt Montreal	Vice President and Chief Financial Officer
Eric A. Trigg Montreal	Director Alcan Aluminium Limited

OFFICERS

David M. Culver, O.C.	Chairman of the Board
David Morton	President and Chief Executive Officer
Stephen R. Brown	Vice President
Gerald Clark	Vice President
S. Bruce Heister	Vice President
Pierre Laurin, O.C.	Vice President
Jean-Pierre Méan	Vice President, Chief Legal Officer and Secretary
Owen M. Ness	Vice President, Personnel
William J. Rich	Vice President
Douglas M. Ritchie	Vice President
Everaldo Santos	Vice President
Richard F. Sharratt	Vice President and Chief Financial Officer
Jeffrey A. Skelton	Vice President, Government Relations
Timothy C. Tuff	Vice President
André Saint-Denis	Treasurer
Suresh Thadhani	Controller

ALCAN

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