Extending Our Reach

Alcoa 1994

PLAINTIFF'S EXHIBIT
AL-202

AR 1197

Room to Grow

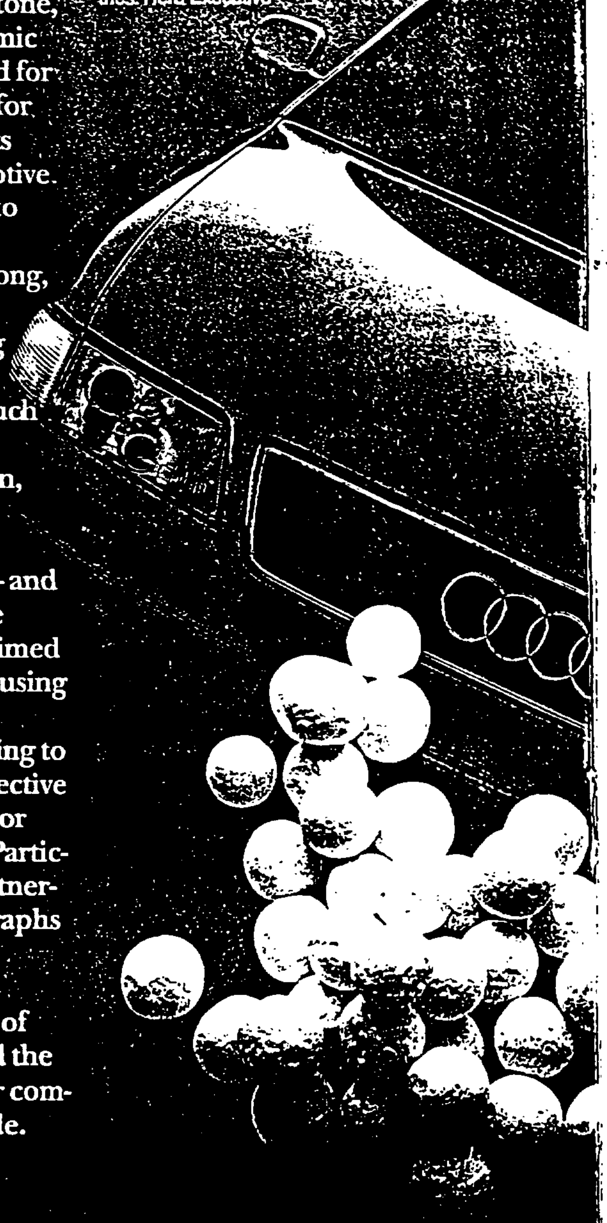
Where are Alcoa's most promising paths to growth? After a hundred years of discovering and expanding the uses of aluminum, is the excitement winding down? Or is it just beginning?

In the world of structural materials, aluminum is one of the irrepressible youngsters. Stone, wood, iron, steel, and ceramic materials have been around for millennia, aluminum only for decades. Entrenched habits die hard, but as the automotive industry is now beginning to demonstrate, the inherent advantages of this light, strong, fully recyclable metal offer solutions to some of the big problems ahead — in the case of carmaking, issues such as efficiency, safety, performance, energy conservation, and emissions.

In industry after industry — and country after country — the promise of aluminum is primed for realization. Alcoa is focusing its firepower on the major opportunities and continuing to forge partnerships with effective allies to leverage the effort or accelerate the timetable. (Participants in some of these partnerships are shown in photographs throughout this report.)

This essay highlights some of these growth initiatives and the assets Alcoa can muster for competitive successes worldwide.

What began 10 years ago as a joint investment in a smelter by Alcoa and Camargo Correa has grown into the diversified business of Alcoa Aluminio and new ventures in several South American countries. Here Executive Vice President Paulo Periquito and President Fausto Moreira of Alcoa Aluminio meet with Directors Carlos Dias and Fernando Botelho of Camargo.



AR 1198

Aluminum sheet from Alcoa goes into cans of many shapes, sizes and designs. In the U.S. alone, consumers choose aluminum cans 100 billion times a year and recycle nearly two-thirds of them. In many other markets around the world, the aluminum can growth rate is beginning to accelerate.

Alcoa Chairman Paul O'Neill with Kobe Steel President Sokichi Kametaka. Alcoa and Kobe have joint ventures serving packaging markets in Asia and automotive markets in the U.S. and Japan. Currently the two companies are exploring opportunities in China.

Above: Audi's highly acclaimed A8, the first all-aluminum production car—with technology and spaceframe components from Alcoa. Left: Alumina, a major Alcoa product in its own right and the feedstock for a growing family of industrial chemicals.

Firm Foundations

In surveying the growth horizons ahead, the first place to look is underfoot. How solid is the ground?

For Alcoa, the footing is firm. Through five extraordinarily difficult years in the aluminum industry, Alcoa has outperformed its competitors and emerged in fighting trim. Signs of readiness:

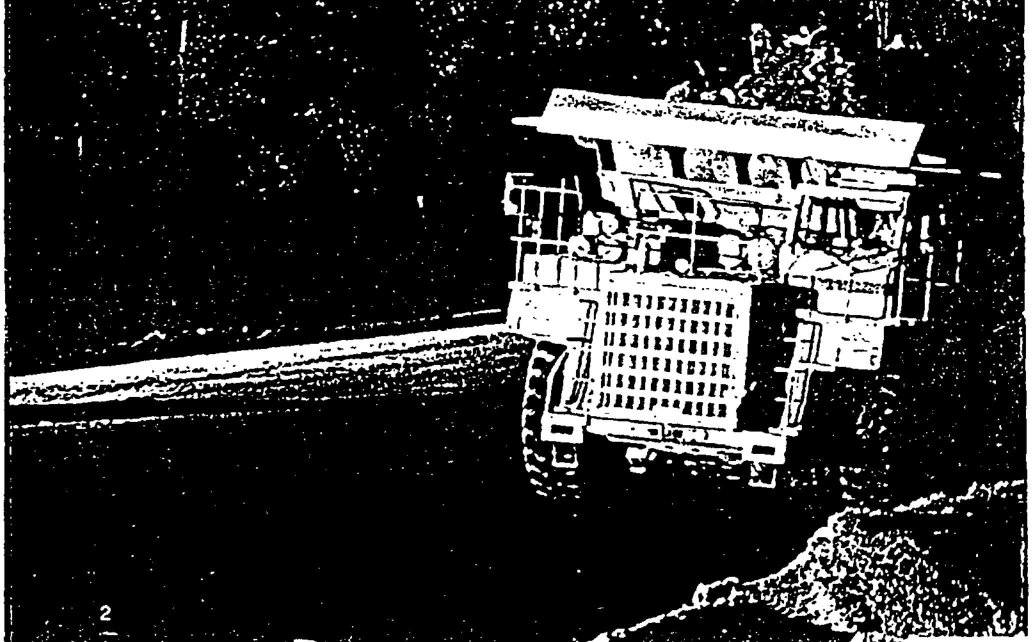
A strong balance sheet, with low debt, low-*cost* debt, and ample resources to pursue key opportunities.

A global network of low-cost raw materials and processing facilities.

Technological depth and breadth to add marketable value to materials, products, and manufacturing processes in present and future Alcoa businesses.

An organization transformed into a worldwide enterprise — global not only in resources and markets but, increasingly, also in terms of talent, outlook, production facilities, and strategic partnerships.

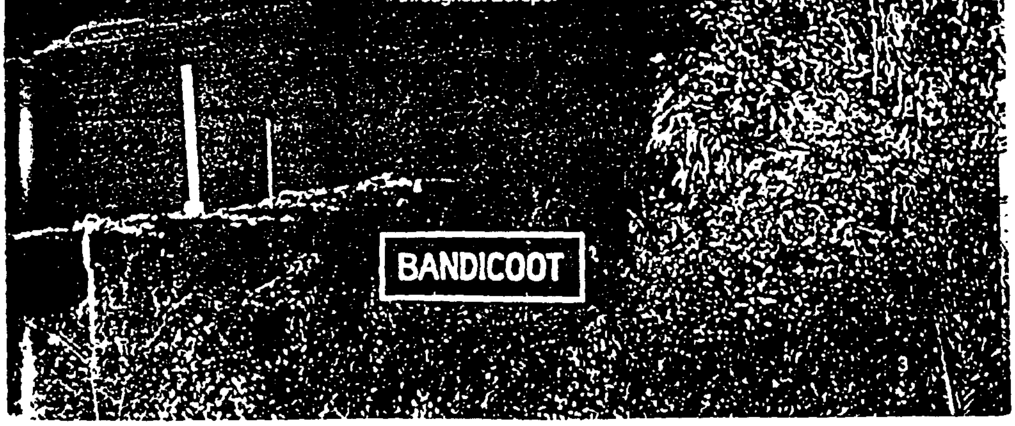
We are putting down roots in every promising region. And Alcoa in the mid-nineties is well along the road to integrating these worldwide operations electronically for instant information and technology transfer — to be ready to take a good idea from any place in the system and apply it immediately to every place where it can make a difference.



Alcoa of Australia, the world's largest alumina producer, mines the extensive bauxite deposits in Western Australia, then restores the minesites in an ongoing reforestation program that has won international recognition.

Sir Arvi Parbo, Chairman of Western Mining Corp. and Alcoa of Australia, and Bob Slagle, managing director of Alcoa of Australia. In 1994 the successful three-decade partnership of Alcoa and Western Mining Corp. was extended to embrace alumina and alumina chemicals operations worldwide.

Ole Enger, CEO of Elkem a/s, with Alcoa Executive Vice President Dick Fischer. From smelters in Lista and Mosjoen, Norway, the 32-year-old Alcoa/Elkem partnership supplies aluminum alloys and shapes to rolling mills and extruders throughout Europe.



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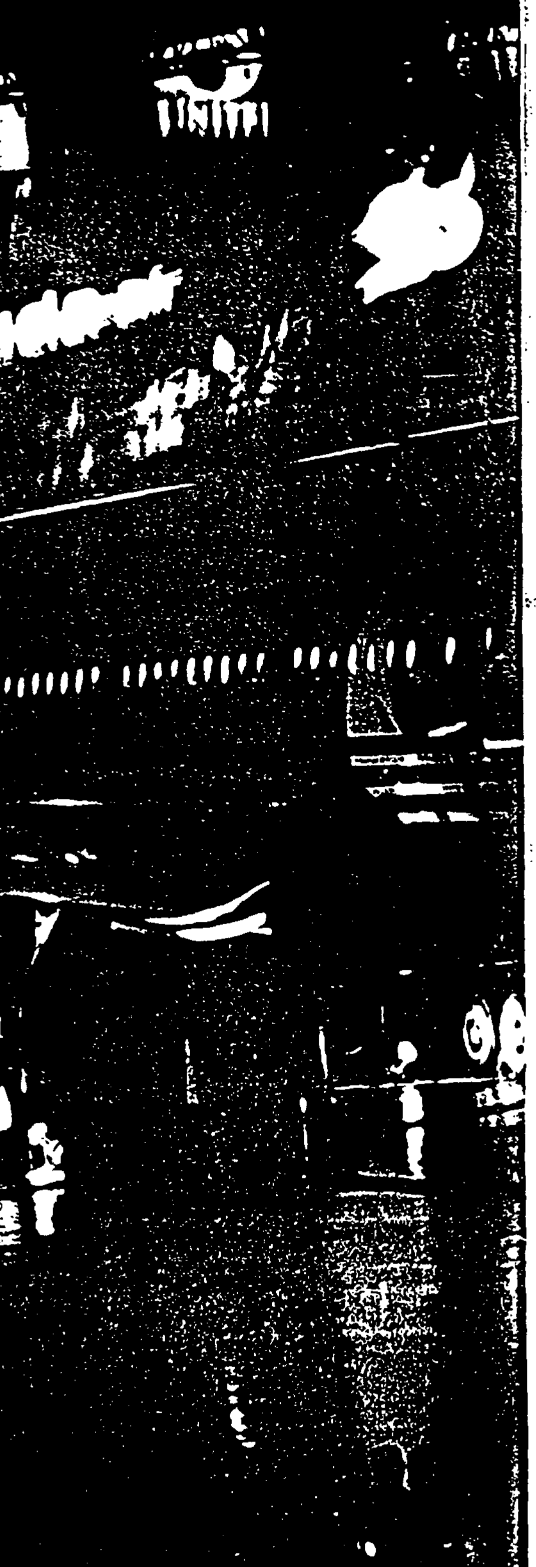
A World of Opportunities

Alcoa has changed in response to a climate shift in world business, and in anticipation of changes that are clearly in prospect.

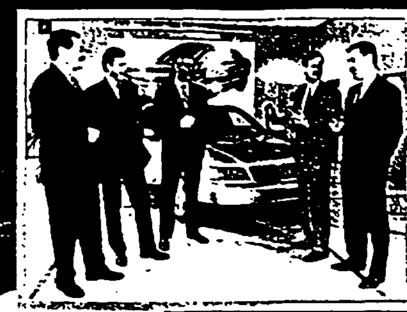


In developing countries, each advancing economy generates rising demand for aluminum products. For Alcoa, this holds the promise of multiple, worldwide market penetrations comparable with those already achieved in the U.S. Not just through exports, but increasingly by means of production close to the customer. So Alcoa has major investments in Australia, South America and Eastern Europe, and is studying possible ventures in India, Russia, China, and elsewhere.

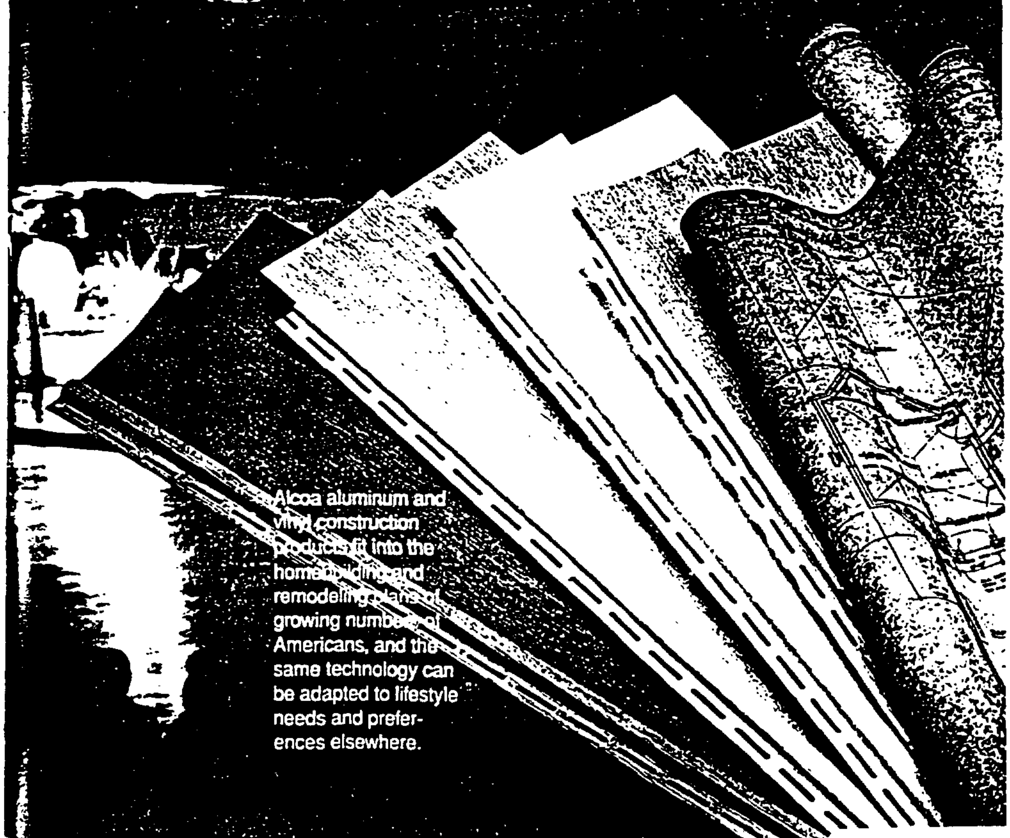
In advanced economies, environmental and competitive pressures are driving the need for higher performance materials, products and processes. In Europe, North America, and parts of Asia, the same technological and material strengths that have earned Alcoa a special place in aerospace and packaging markets now answer to the needs of customers in automotive, trucking, rail, construction, chemical, and a host of businesses where performance standards are escalating.

AR 1202

In a 12-year collaboration, Alcoa and Audi developed the spaceframe for the first all-aluminum production car and are now working on designs and processes to accommodate future, higher volume aluminum-structured cars. From left, Hans-Peter Rottländer, manager of advanced manufacturing development, and Franz Paefgen, director of technical development for Audi; Rick Winter of Alcoa Technical Center and Dave Schlendorf, president of Alcoa Automotive Structures; and Jürgen Gebhardt, director of manufacturing for Audi.



In The Boeing Company Everett, Wash., plant, Alcoa's Dan Goodyear, manager of applications engineering, and sales engineer Mark Behrends confer with Terry Vallon, senior metallurgical engineer for Boeing Materials Technology. Technical collaborations with Boeing and other aerospace customers have spearheaded the development of advanced alloys, many of which are designed into the new Boeing 777.



Alcoa aluminum and vinyl construction products fit into the homebuilding and remodeling plans of growing numbers of Americans, and the same technology can be adapted to lifestyle needs and preferences elsewhere.

Joining Forces

In 1994 Alcoa and Western Mining Corp. — for 35 years our major partner in Alcoa of Australia — forged a worldwide enterprise in alumina and chemicals.

From a strong base in Brazil, Alcoa and Camargo Correa, long-time partners in Alcoa Aluminio, are adding new enterprises in Argentina, Chile, Colombia and Peru.

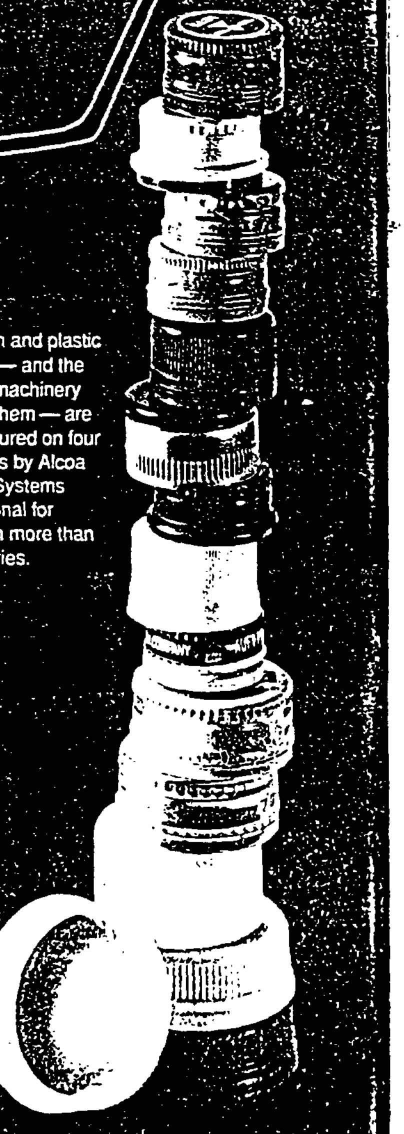
KAAL, a joint venture of Alcoa and Kobe Steel, is producing can sheet in Moka, Japan for export to Asian markets.

And in Eastern Europe, Alcoa-Köfém, a 1992 joint venture of Alcoa and Hungalu, began to make a profit in 1994 on its extrusions and rolled products.

International partnerships extend Alcoa's reach and provide the on-the-scene presence of respected partner companies in each region of the world.

The principle applies not only to countries but to industries. In its long-term strategy for a larger role in the automotive industry, Alcoa has entered design and technology collaborations with carmakers in Europe, Japan and the U.S., as well as joint ventures with other leading partsmakers: Fujikura Ltd. (1984), to produce wiring systems; Superior Industries (1993), to develop new cast aluminum truck wheels; and CMI International (1994), to produce cast aluminum components.

In a global business climate, alliances become increasingly vital. For Alcoa, the strategy of joining forces with strong partners who share our objectives and values has proved to be a solid, long-term success.



Aluminum and plastic closures — and the capping machinery to apply them — are manufactured on four continents by Alcoa Closure Systems International for bottlers in more than 50 countries.

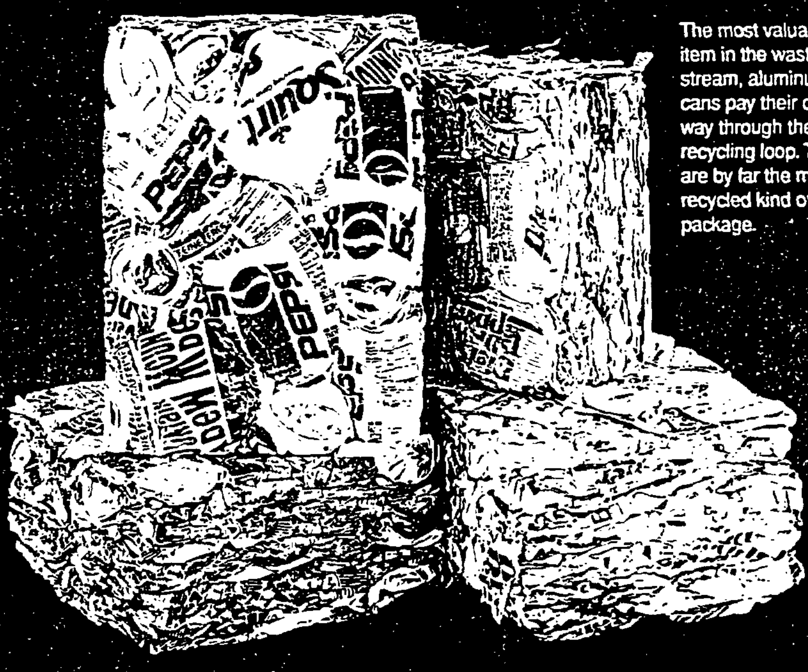
A Toolbox for Values

One group of Alcoans has won worldwide recognition for environmental leadership. Another business unit, on another continent, has shown an extraordinary ability to adapt quickly and cost-effectively to change. A number of operating units have raised safety performance to levels once thought impossible. Others have had extraordinary success in self-directed teaming or quality or waste reduction.

As matters of policy, these are Alcoa's values. As bottom-line factors, they are leading indicators. As segments of technology — albeit soft technology — they are skills and systems that some group, somewhere in Alcoa, has carried to world-standard levels.

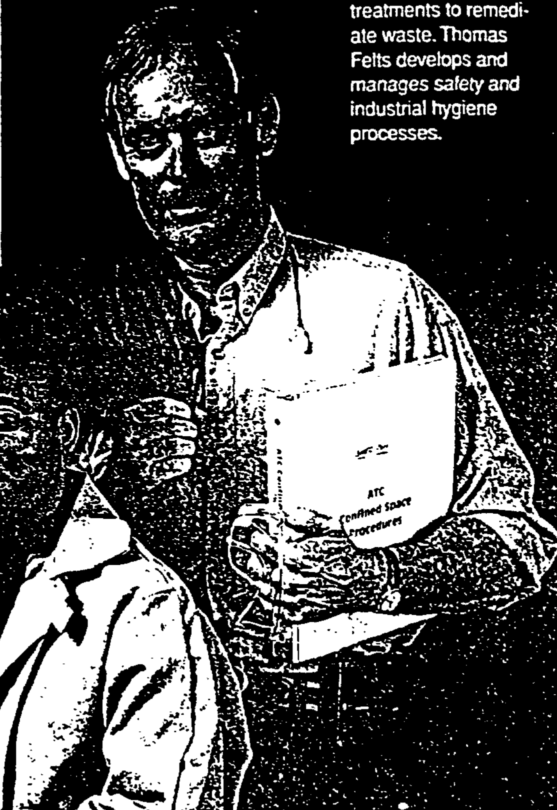
A work in progress within Alcoa is to take the best safety methodologies to be found anywhere in the company and to assemble them into a toolbox, for use anywhere else in the world. As in the traditional technology transfer of product and process engineering, the best practices in safety, health, environmental management, teaming, or adapting to change can be systematized and transferred, with proper coaching, around the world.

Best practices travel well. They partner well with good companies on any continent. And in the long run they lift the level of performance, avoid costs and delays, generate enthusiasm on the plant floor, and raise the batting average on successful new ventures.



The most valuable item in the waste stream, aluminum cans pay their own way through the recycling loop. They are by far the most recycled kind of package.

Elaine Sharp of Microsoft, Bob Smythe of Alcoa, and Bob Lee of Hewlett Packard are working together on the models that will achieve fully integrated information sharing and technology transfer throughout the Alcoa world.



Margaret Egbe, senior engineer at Alcoa's Environmental Technology Center, is responsible for testing new biological treatments to remediate waste. Thomas Felts develops and manages safety and industrial hygiene processes.

Alcoa-Köfém is a joint venture of Alcoa and Hungary's government-owned aluminum company, Hungalu. Through active collaboration with the Alcoa Nederland group of companies on technology, marketing and management issues, Alcoa-Köfém is becoming a competitive force in Eastern Europe.

At this meeting in Budapest: Dr. Péter Keresztes, CEO of Hungalu; Dr. József Hegyháti, deputy state secretary of Hungary's Ministry of Industry; Berry Bemelmans, president of Alcoa Nederland Holding B.V.; and Rudi Armbrüster, general manager of Alcoa-Köfém.

Tomorrow's Winners

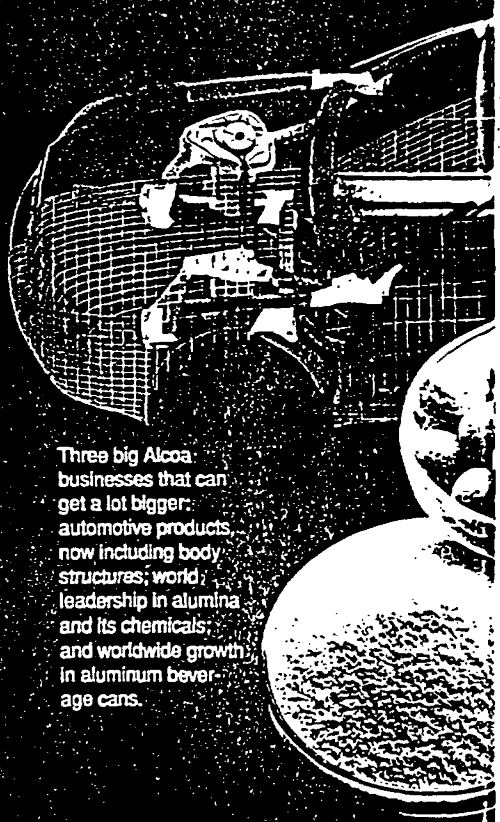
The Vision hasn't changed: "Alcoa will be the best aluminum company in the world and a leader in other businesses in which we choose to compete."

"Choosing to compete" is a highly selective process which focuses most keenly on prospects for profitable growth. Today, some of the choices made in recent years — both in aluminum and nonaluminum businesses — are beginning to deliver on their promise.

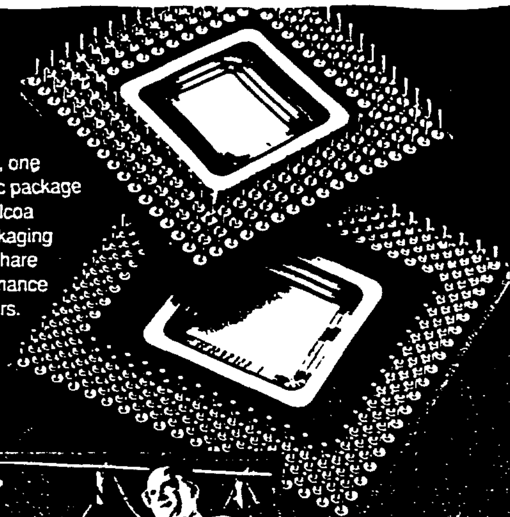
Examples. *Alcoa Fujikura Ltd.* has surpassed $600 million in annual sales of automotive electrical systems and fiber optics and is now moving into Eastern and Western Europe. A restructured *Alcoa Construction Products* has developed a powerhouse distribution system and has grown to over $600 million in sales. *Alcoa Automotive Structures* and *Alcoa Forged Products* are rapidly expanding the manufacture of high-value-added automotive products.

Alcoa Closure Systems International has become a worldwide leader in closures and capping systems for beverage packaging, with 18 plants on four continents, and is now adding PET plastic bottle production in developing countries for many of the same customers. *Alcoa Electronic Packaging* has taken on dominant Japanese producers and carved out a major share of the U.S. market in ceramic packages for integrated circuits. *Northwest Alloys* is growing its magnesium business and now developing marketable applications in fertilizers for several of its by-products.

And the list goes on — potential growth stories in aerospace, rail transport, residential construction, packaging, chemicals, alumina, primary metals and elsewhere — around the Alcoa world.

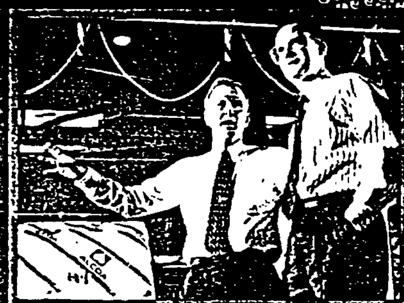


Three big Alcoa businesses that can get a lot bigger: automotive products, now including body structures; world leadership in alumina and its chemicals; and worldwide growth in aluminum beverage cans.

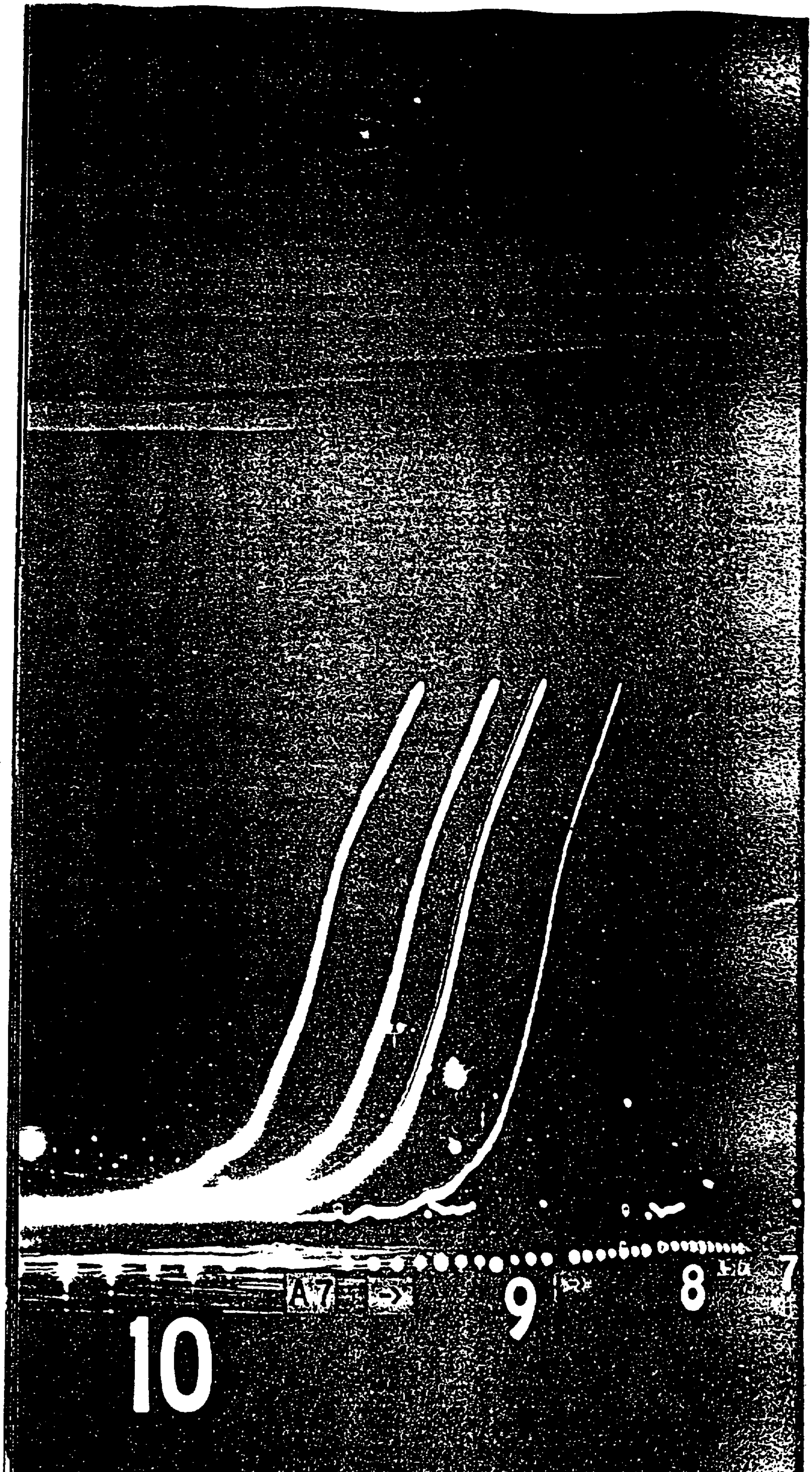


Pin grid arrays, one type of ceramic package produced by Alcoa Electronic Packaging for a growing share of high-performance microprocessors.

Auto and truck electrical systems rely on complex wire harnesses like this one, organizing up to 1,700 wires. That's the special expertise of Alcoa Fujikura Ltd. (AFL). Yoshihiro Wada, president of Fujikura International, and Bob Barton, president and CEO of AFL, have worked 10 years to build this joint enterprise into an international leader in electrical distribution system design, manufacture, and quality.



Alfred Jensen, senior vice president of Central Steel & Wire, with John Campbell of Alcoa Aerospace/Commercial Rolled Products. For over 65 years, the two companies have teamed up to deliver mill products to customers with service center responsiveness. CSW is a distributor of Alcoa's sheet, plate, wire, rod, bar, and extruded products.



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Report to Shareholders Alcoa 1994

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To Alcoa Shareholders

Earnings in 1994 were $375.2 million. Included in this total are several one-time adjustments – a $300 million gain and charges of $118 million. What is noteworthy here is not the raw numbers but their direction, and the reversal of fortunes these results express for Alcoa and the aluminum industry as a whole.

After several years of the most extreme aluminum market distortions of this century, the industry is returning to something recognizable as a normal business climate; that is, a climate in which exceptional efforts have a reasonable chance of producing exceptional results.

For Alcoa, 1994 was a year of solid progress on many fronts.

Safety

For the seventh consecutive year, we improved our safety performance. Lost workday cases fell to .72 per 200,000 work hours, giving us a worldwide rate that is 78% less than the latest published figures for U.S. manufacturing industry and 61% lower than 1987, when we made safety our first internal priority. We still have much to do to deliver our goal of an injury-free workplace, and we have plans in place to continue our progress.

Operating Proficiency

Each of our businesses and resource units has financial and non-financial measurements to plan, track and achieve progress as compared with past performance, world benchmark levels and theoretical limits. These measurements cover everything from on-time delivery to customers to safety and environmental performance to physical performance of individual processes. Almost all of our processes have continued to improve, and this is the key reason Alcoa was able to maintain its profitability through the downward spiral of the industry that began in 1991 and continued into early 1994. We believe this is the key to creating distinguished total returns for our shareholders by outperforming our industry, and that is our goal. We want to excel in everything we do – in customer satisfaction, in applying technology, in serving worldwide markets, in safety and environmental stewardship, in administrative processes. We want to do it better and faster.

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Perhaps you noticed that one of our businesses, Alcoa Fujikura (AFL), was recognized in 1994 as a TQE supplier by Ford Motor Company and as supplier of the year by Volkswagen. This exemplifies what can be achieved by dedicated people, applying quality tools and leading-edge ideas to customer needs.

Perhaps you have also noticed that your company reports its quarterly financial results soon after the end of each quarter – well before most of the corporations in the world. This is because we set an objective a few years ago to complete the closing of our worldwide financial books within three working days after the end of each quarter. Our objective was to improve the quality of all financial transactions, which in turn reduces the amount of time our financial staff spends adding up the past results in order to free them up to work on the future, and shortens the time lag between performance and measurement. In an enterprise with 169 operating and sales locations in 26 countries, this was no timid objective, but our financial staff has done the job.

The AFL and financial closing examples only highlight the thousands of actions that have been taken by Alcoans to strengthen our competitive position. When added together, they are the reason for growth in the market value of our company. To make the point concrete: in 1988, our market value was $4.9 billion. By contrast, at December 31, 1994 Alcoa's market value was $7.7 billion. In addition, since the beginning of 1988 Alcoa has paid $1.190 billion in dividends to our shareholders while we have further strengthened our balance sheet as compared with our competitors.

None of this should be taken as an indication that we take our competitors lightly. We know them to be intelligent, aggressive and determined to outperform your company.

The market valuation and dividends paid, we believe, validate the idea that our policies are on the right track. Our intention now is to speed up our rate of progress.

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External Conditions

As we begin 1995, external conditions have turned in our favor, permitting more attention to expansion and growth and less to elemental survival.

At the beginning of 1994, surplus aluminum inventories on the London Metal Exchange (LME) had accumulated to 2.5 million metric tons, driving the price of a pound of aluminum ingot to 47 cents – the lowest ever real level. Through the first half of the year, inventories continued to rise, reaching 2.6 million metric tons in June. Through the second half of the year, production curtailments and strong demand for the product reversed this trend, and LME inventories dropped by nearly one million metric tons by year end. As surplus inventories dropped, prices on the LME began to rise, and at year end the price stood at 90 cents a pound. These trends are continuing into early 1995. The most important reason for these changed conditions is the simultaneous economic growth in Western Europe, the Americas and major parts of Asia. We expect this growth to continue through 1995.

Prices

As prices for primary metal have risen, we have begun to pass along these increases to our customers in fabricated product prices and, as you might imagine, the increases have not been gladly received, even though everyone concedes that continuation of price levels of the recent past would destroy the aluminum industry. We, as much as our customers, would prefer more stability in prices, high enough on a steady basis to provide a competitive rate of return to our stockholders. This is especially important to our growing position as a supplier to the automotive industry because the auto companies need to plan their product cost over a seven-year product life. It is also important to our major position as a supplier to the aluminum can business.

Cyclicality is an issue that we have dealt with for some time with the aircraft industry. We have long-term pricing arrangements with customers in the aircraft industry that smooth out the price cycles. Their product life cycle can effectively build in a fixed cost for aluminum so that they're not subjected to sharp ups and downs in the day-to-day pricing of aluminum in the market. We are hopeful as we go through this strong upcycle that we will be able to structure supply arrangements with more of our customers on a long-term basis that will serve to smooth the violent cycles of the recent past.

Growth

With good external economic conditions, we are stepping up our drive to make each of our businesses responsible for its own financial success while accelerating growth in those that produce the best results.

One of our major moves in 1994 to create the basis for growth was the establishment of a worldwide partnership with Western Mining Corp. encompassing our alumina and chemicals production assets. This new arrangement expands a long-standing partnership with Western Mining in Australia and paves the way for further world expansion in a business where we have technological strength and an excellent market and cost position.

This annual report features some of our many partnership arrangements because they have served us well and we believe an expansion of the partnership idea is a major avenue to future, profitable growth.

In this vein, we have taken great pride as Audi began marketing the A8 in 1994: the first all aluminum car to use a spaceframe body structure – the product of a technical collaboration of Alcoa and Audi spanning the past 12 years. The car has been widely acclaimed as a major breakthrough in automotive design, engineering and performance, called by *The Sunday Times* of London "the best car of its generation." The aluminum spaceframe structure in the A8 gives the car an incomparable level of torsional stiffness and remarkable crash-worthiness relative to all other cars in production. The other major automobile companies have increased their utilization of aluminum, and there is a growing level of interest in new applications.

We are hopeful as we go through this strong upcycle that we will be able to structure supply arrangements with more of our customers on a long-term basis that will serve to smooth the violent cycles of the recent past.

In Summary

Looking back, 1994 was a year of accomplishment and preparation for an exciting future for our company. 1995 holds the promise of economic success for our shareholders and our employees. In fact, our confidence in the future caused the Board of Directors to raise the dividend rate and split the stock two-for-one. By design, our employees participate in the economic success we create, and therefore, 1995 should be a good year for all.

We thank our customers for their business, our employees for their innovations and perseverance, and our shareholders for their support.

Paul H. O'Neill
Chairman of the Board and Chief Executive Officer

February 28, 1995

Financial Review

(dollars in millions, except share amounts and ingot prices)

Five-Year Selected Financial Data	1994	1993	1992	1991	1990
Sales and operating revenues	$ 9,904.3	$ 9,055.9	$ 9,491.5	$ 9,884.1	$10,710.2
Income before extraordinary loss and accounting changes*	443.1	4.8	22.4	62.7	295.2
Extraordinary loss and accounting changes	(67.9)	–	(1,161.6)	–	–
Net income (loss)*	375.2	4.8	(1,139.2)	62.7	295.2
Per common share†					
Before extraordinary loss and accounting changes	2.48	.02	.12	.36	1.70
Net income	2.10	.02	(6.70)	.36	1.70
Alcoa's average realized price per pound for aluminum ingot	.64	.56	.59	.67	.75
Average U.S. market price per pound for aluminum ingot (*Metals Week*)	.71	.53	.58	.59	.74
Cash dividends declared per common share†	.80	.80	.80	.89	1.53
Total assets	12,353.2	11,596.9	11,023.1	11,178.4	11,413.2
Long-term debt (noncurrent)	1,029.8	1,432.5	855.3	1,130.8	1,295.3

*Includes net charges of $50.0, or 28 cents per common share, in 1994; $74.5, or 43 cents per share, in 1993; $173.9, or $1.02 per share, in 1992; $217.0, or $1.28 per share, in 1991; and $275.0, or $1.60 per share, in 1990. Also included in 1994 is a gain of $300.2, or $1.69 per share.

†All per share amounts have been restated to reflect the two-for-one stock split in February 1995.

Results of Operations

Earnings Summary

Earnings for the year, before unusual items, were $193 compared with $79 in 1993. Total revenues of $9,904 were $848 higher than those for the previous year. Most of the revenue increase was from a higher-value aluminum product mix and higher shipments of nonaluminum products, partially offset by lower prices for a number of products.

Gross margin (sales and operating revenues less cost of goods sold) was up $190 from 1993. The increase was helped by the higher revenues and improved cost performance. Margin was unfavorably affected by higher purchased metal and other raw material costs.

The following table summarizes Alcoa's results adjusted for unusual items described later in this discussion.

	1994	1993	1992
Net income (loss)	$375.2	$ 4.8	$(1,139.2)
Significant unusual items:			
Gain from Alcoa/ WMC transaction	(300.2)	–	–
Special charges, net	50.0	74.5	173.9
Extraordinary loss	67.9	–	50.2
Accounting changes, net	–	–	1,111.4
Adjusted net income	$192.9	$79.3	$ 196.3

The year-to-year comparisons in the discussion that follows on geographic and segment information also exclude the unusual items.

Geographic and Segment Information

Operating profit in 1994 was $513 compared with $351 in 1993 and $533 in 1992. Operating profit, for geographic and segment purposes, consists of sales and operating revenues less operating expenses—except interest expense, nonoperating income, income taxes and minority interests. See Note P to the financial statements for additional geographic and segment information.

Operations by Geographic Area

USA—Revenues of $5,574 were up 6% from 1993 after a decline of 7% in 1993 from 1992. Most of the recovery in revenues was due to higher fabricated products shipments. Prices for these products continued to be weak. Revenues were also negatively affected by lower shipments of aluminum ingot due to the idling of 410,000 metric tons (mt) of U.S. smelting capacity that began in 1993. Although the average ingot price rose 13% from 1993, lower ingot shipments more than offset that benefit and ingot revenues fell 23%.

U.S. operations had an operating loss in 1994 of $65 compared with a loss of $193 in 1993 and a profit of $55 in 1992. The improvement from 1993 is principally reflected in building products, forged products and commercial rolled products.

Pacific—Revenues of $1,670 in 1994 were down 5% from 1993. The Pacific area principally reflects the activities of Alcoa of Australia (AofA). The decline in revenues was mainly due to a 10% drop in prices for alumina, and lower shipments of aluminum ingot resulting from production cutbacks at AofA smelters. Operating profit in 1994 was $291 compared with $399 in 1993 and $298 in 1992. The lower profit reflects the effects of the decline in alumina prices.

Other Americas—Revenues of $1,362 in 1994 jumped 44% from 1993. Alcoa Aluminio (Aluminio) in Brazil benefited from higher shipments and prices in virtually all of its product lines. Shipments and prices of closures, particularly in the Mexican operations, also improved. With these benefits plus improved performance, operating profit reached $239 in 1994 compared with $139 in 1993 and $91 in 1992.

Europe — Revenues of $1,298 in 1994 improved by 21% over those in 1993. Operating profit in 1994 reached $48 compared with $6 in 1993 and $90 in 1992. The most significant improvements in both revenues and profits came from Alcoa's operations in Hungary and in the Netherlands. Alcoa-Köfém, located in Hungary, benefited from higher fabricated products sales and significantly greater plant utilization.

Operations by Segment
Alcoa's integrated operations consist of three segments: Alumina and Chemicals, Aluminum Processing, and Non-Aluminum Products.

I. Alumina and Chemicals Segment

	1994	1993	1992
Revenues	$1,508	$1,437	$1,422
Operating profit	277	373	278

Approximately two-thirds of the revenues from this segment are from sales of alumina. An oversupply of alumina that began in 1992 continued into 1994. With this overhang and smelter cutbacks worldwide, prices for alumina fell 16% in 1992, dropped slightly in 1993, and declined 12% in 1994.

Alumina shipments rose 12% from 1993, following an 8% increase from 1992 to 1993. Part of the increase was due to full utilization of AofA's Wagerup refinery expansion. Revenues, on the other hand, were flat, as the additional volume just about offset lower prices. Revenues in 1993 were up 8% from 1992 because of higher volume.

Revenues from alumina-based chemical products were 13% higher than in 1993. Higher volumes in the U.S. and Brazilian markets more than offset continued pressure on prices in the European market. Revenues in 1993 fell 10% from 1992 due primarily to lower demand and prices in the U.S. and Europe.

Operating profit of $277 for this segment was down $96 from 1993. The chemicals businesses showed about an 8% improvement. However, the alumina businesses were unfavorably affected by lower prices that more than offset lower unit production costs.

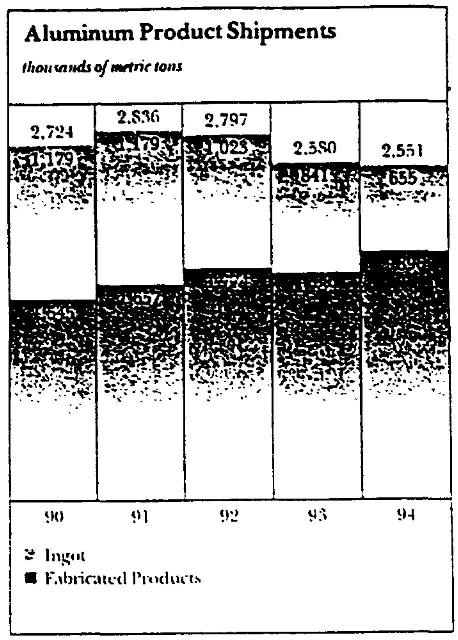
II. Aluminum Processing Segment

	1994	1993	1992
Total aluminum shipments (000 mt)	2,551	2,580	2,797
Revenues	$6,477	$5,974	$6,517
Operating profit (loss)	145	(21)	289

Total aluminum shipments in 1994 were down slightly from 1993 after falling 8% from 1992 to 1993. The declines were mostly from aluminum ingot, which reflects the shutdown of 24% of the company's smelting capacity.

Total revenues from this segment rose 8% from 1993 on higher sales of engineered and flat-rolled products. This segment had an operating profit of $145 in 1994 after sustaining a loss of $21 in 1993. Factors contributing to the improvement include a higher-value product mix, cost reductions — including lower smelting costs — and the higher revenues. These were partially offset by lower prices for rigid container sheet (RCS) for beverage cans and higher cost of purchased metal. The loss in 1993 was mainly in packaging and aerospace markets, and from aluminum ingot operations. This segment's shipments and revenues are made up of the following product classes:

Product classes	1994	1993	1992
Shipments (000 metric tons)			
Flat-rolled products	1,381	1,271	1,323
Engineered products	433	379	353
Aluminum ingot	655	841	1,023
Other aluminum products	82	89	98
Total shipments	2,551	2,580	2,797
Revenues			
Flat-rolled products	$3,201	$2,974	$3,189
Engineered products	1,882	1,528	1,527
Aluminum ingot	920	1,042	1,336
Other aluminum products	173	430	465
Total revenues	$6,176	$5,974	$6,517



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Flat-Rolled Products — A significant portion of the shipments and revenues in this product class comes from the sale of RCS. In 1993, Alcoa experienced severe competition for RCS market share. As a result, RCS prices fell 9% from their 1992 level and declined 2% in 1994. Higher demand for RCS in 1994 resulted in a 2% increase in shipments from the year earlier. Revenues, however, stayed about even.

Sheet and plate shipments, serving the aerospace and commercial products markets, were up 31% over 1993 despite continuing weakness in the aerospace sector. In both 1994 and 1993, shipments to aerospace customers were down but were more than offset by higher commercial products sales. Revenues for sheet and plate were up 21% from 1993, due mostly to the higher volume of commercial products.

Engineered Products — The products in this class include extrusions used principally in the transportation and construction markets, forgings and wheels, wire, rod and bar, and automobile bumpers. Total shipments of engineered products were up 14% from 1993 and revenues rose 23%. This compares with a 7% rise in shipments in 1993 from 1992 while revenues were about the same.

Shipments of extrusions were 17% higher than in 1993 and revenues rose 22%. Approximately one-half of 1994 revenues for this product came from Europe and Brazil. In 1993, shipments of extrusions were down 12% from 1992 while revenues fell 19%, reflecting the weak aerospace market and declining prices.

Shipments of forged wheels for the transportation market climbed 39% in 1994 with a similar increase in revenues. These dramatic increases followed a 27% increase in shipments from 1992 to 1993 and a 31% increase in revenues.

Shipments of aluminum products for the U.S. building and construction market rose 27% in 1994; revenues were up 24%.

Aluminum Ingot — Alcoa's smelters operated at approximately 80% of worldwide rated capacity during 1994 as 450,000 mt of capacity was idled due to the oversupply of aluminum ingot on world markets during the last several years. As a result, ingot shipments in 1994 were 22% lower than in 1993. Shipments in 1993 fell 18% from 1992. The average U.S. market price for ingot, which was 58 cents per pound in 1992, fell to 53 cents in 1993. As world inventories declined during 1994, ingot prices began to recover and the average U.S. price rose to 71 cents per pound. The price in early 1995 has further risen to the high 80 cent range.

Alcoa's average realized price for ingot in 1994 was 64 cents compared with 56 cents in 1993. Ingot revenues in 1994 were down 12% from 1993 after falling 22% in 1993 from 1992. Partially offsetting lower volumes and prices in the U.S. and Australia during 1994 were higher ingot shipments and prices at Aluminio.

Other Aluminum Products — Shipments of these products, which are principally scrap and aluminum closures, were down 8% from 1993, mostly due to lower scrap sales. Revenues, however, rose 10% on the strength of higher prices for scrap. In 1993, shipments of other aluminum products were down 9% from 1992 while revenues declined 8%.

III. Non-Aluminum Products Segment

	1994	1993	1992
Revenues	$1,919	$1,646	$1,553
Operating profit (loss)	91	5	(31)

Revenues from this segment were up 17% in 1994 following a 6% increase in 1993. Operating profit of $91 rose $86 from 1993. Revenues from packaging, retail and copper conductor products for Aluminio were up 66%. Alcoa Fujikura benefited from strong automobile sales in 1994; its revenues rose 17%, principally from automobile wire harness sales. Alcoa Electronic Packaging increased its revenues by over 200% from 1993 with greater plant utilization and higher demand for electronic components. Plastic closures revenues in Latin American markets jumped 27%. Alcoa is a leading supplier worldwide of both plastic and aluminum closures. Nonaluminum building products revenues rose 14%.

Gain From Alcoa/WMC Transaction

In December 1994, Alcoa recorded a gain of $400.2 ($300.2 after-tax) from the acquisition by Western Mining Corporation Holdings Limited (WMC), located in Melbourne, Australia, of a 40% interest in Alcoa's worldwide bauxite, alumina and inorganic chemicals businesses. As part of the agreement, Alcoa acquired an additional 9% interest in AofA, bringing its total interest in that company to 60%. An additional cash payment may be made by WMC in the year 2000 if certain financial performance targets of the alumina chemicals businesses are met. See Note C for additional information about this transaction.

Special Items

Included in income from operations in 1994 is a charge of $79.7 ($50.0 after-tax) from closing a forgings and extrusion plant in Vernon, California. The charge included $32.8 for asset write-offs and $46.9 related primarily to severance costs.

Special charges of $150.8 in 1993 ($98.0 after-tax) included $134.1 for severance costs associated with permanent reductions of hourly paid and salaried employees, mainly in the company's U.S. aluminum operations. The remaining $16.7 was associated with closing certain businesses at several plants, including the manufacture of aluminum rod at Rockdale, Texas. There was also a credit of $35.4 related to tax rate reductions, partially offset by an $11.9 charge for new three-year labor agreements.

The 1992 special charges of $251.6 ($173.9 after-tax) consisted of $95.7 for redundancies and $155.9 for asset dispositions. The dispositions included the shutdown of a facility in South Bend, Indiana and impairment of Alcoa Composites, Inc.

Extraordinary Losses

The extraordinary losses in 1994 and 1992 of $67.9 and $50.2, respectively, were from the early retirements of 7% discount debentures that carried effective interest rates through maturities in 2011 and 1996 of 14.7%. The losses were the unamortized portions of the original discounts that would have been paid at the time the debt matured.

Costs and Other Income

Cost of Goods Sold — Cost of goods sold in 1994 rose $659, or 9% from 1993. The major contributors were:

■ A higher-cost product mix	$350
■ Higher volume	265
■ Higher prices for purchased metal and other raw materials	215

These were partially offset by:

■ Operating performance and efficiencies	160

Cost of goods sold in 1993 was $152 lower than in 1992 principally because of lower volume — $275; operating performance — $110; and lower purchased metal costs — $57. These were partially offset by costs associated with new subsidiaries of $181 and inventory profits in 1992 of $76.

Selling and General Administrative Expenses — These expenses rose 5% during 1994 and primarily reflect higher commissions and compensation costs. Selling and administrative expenses as a percent of sales was 6.4% in 1994, 6.7% in 1993 and 6.2% in 1992.

Interest Expense — Interest expense was up $19 from 1993 primarily because of higher borrowings by Aluminio, higher short-term interest rates and higher average commercial paper outstanding during most of the year. These were partially offset by the favorable effects of early redemption in 1994 of high-cost debentures. At the end of 1994, there were no U.S. commercial paper borrowings outstanding. Comparing 1993 with 1992, an $18 decline in interest costs reflects lower rates and the payment in 1992 of high-cost discount debentures.

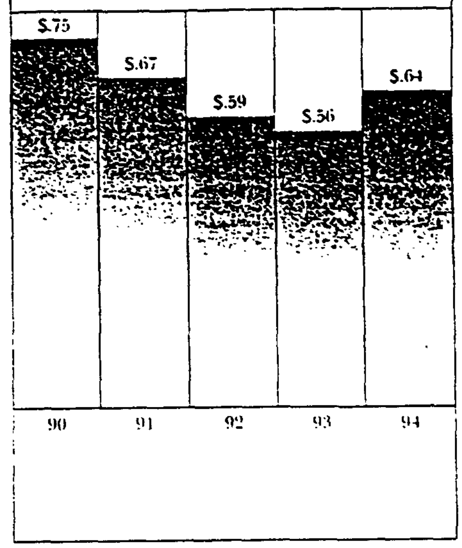
Income Taxes — Taxes on income in 1994 were $219, for an effective tax rate for the year of 26.7%. The difference between this rate and the U.S. statutory rate of 35% is mostly due to a portion of the gain on the Alcoa/WMC transaction being nontaxable.

The provision for income taxes in 1993 resulted in a tax benefit of $10 compared with a tax cost of $132 in 1992. Besides the effect of a lower level of pretax income in 1993, the difference included the effects of a change in Australia's tax rate from 39% to 33% in 1993. This resulted in a $65 reduction to AofA's taxes. In addition, the U.S. tax rate increased from 34% to 35% in 1993. Although the rate increased, Alcoa benefited by a one-time credit of $10 because of its net deferred tax assets in the U.S.

Other Income/Foreign Currency — Included in other income are translation and exchange gains (losses) of $(10.3) in 1994, $14.6 in 1993 and $(25.5) in 1992. In 1994 there were unfavorable variances at operations in Germany and Australia; and in Mexico, the peso was devalued in December. The favorable change in 1993 from 1992 was mainly at AofA where the exchange rate moved from 78 cents to 68 cents, and at Suralco, which was affected by a significant devaluation of the Suriname guilder late in 1993. At the time of the devaluation, Suralco was in a net monetary liability position.

The effect on net income from translation and exchange gains (losses), after taxes and minority interests, was $(9.6) in 1994, $9.0 in 1993 and $(11.1) in 1992.

Alcoa's Average Realized Ingot Price
cents per pound



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Risk Factors

In addition to the risks inherent in Alcoa's worldwide business and operations, the company is exposed generally to market, financial, political, and economic risks.

Commodity Risks — Alcoa is a leading global producer of aluminum ingot and aluminum fabricated products. Aluminum ingot is an internationally priced, sourced and traded commodity. The principal trading market for ingot is the London Metal Exchange (LME). Alcoa participates in this market by buying and selling forward portions of its aluminum requirements and output.

In 1993, when world metal prices reached an all-time low, Alcoa temporarily idled 310,000 mt of its primary aluminum production. Further reductions in early 1994 brought Alcoa's total worldwide idled capacity to 450,000 mt.

For purposes of risk assessment, Alcoa divides its operations into four regions: U.S., Pacific, Other Americas and Europe. The Pacific, principally Australia, and the Other Americas, principally Brazil, are in net long metal positions, and from time to time, may sell production forward. Europe has no smelting operations controlled by Alcoa, and accordingly, is net short and may purchase forward positions from time to time. At the present time, forward purchases activity within the latter three regions is not material.

In 1994 the company had entered into longer-term contracts with a variety of customers in the U.S. for the supply of approximately 1,500,000 mt of aluminum products over the next several years.

As a hedge against the economic risk of higher prices for metal needs associated with these contracts, Alcoa entered into long positions using principally futures and option contracts. At December 31, 1994, these contracts totaled approximately 1,400,000 mt. The contracts limit the unfavorable effect of price increases on metal purchases and likewise limit the favorable effect from price declines. The futures and option contracts are with creditworthy counterparties and are further supported by cash, treasury bills or irrevocable letters of credit issued by carefully chosen banks, as appropriate.

For financial accounting purposes, the gains and losses on the hedging contracts are reflected in earnings concurrent with the hedged costs. The cash flows from these contracts are classified in a manner consistent with the underlying nature of the transactions.

The volatility of aluminum market prices can produce significant fluctuations in the periodic mark-to-market measurement of the futures and option contracts. Focusing only on that valuation is meaningless because the effect of price changes on future hedged metal purchases will approximately equal and offset the mark-to-market valuation of the contract position. Alcoa intends to close out the hedging contracts at the time it purchases the metal from third parties, thus creating the right economic match both in time and price. The deferred gains on the hedging contracts at December 31, 1994 are expected to offset the increase in the price of the purchased metal.

The expiration dates of the call options and the delivery dates of the futures contracts do not always coincide exactly with the dates on which Alcoa is required to purchase metal in order to perform under its customer agreements.

Accordingly, the company anticipates rolling forward some of its futures and option positions. This may result in significant cash inflows if the hedging contracts are "in-the-money" at the time they are rolled forward. Conversely, there could be significant cash outflows if metal prices fall below the price of contracts being rolled forward.

In late 1994 Alcoa implemented a program to protect the unrealized gains that result from the increase in metal prices. Approximately 10% of its hedge position was protected at the end of 1994 through the purchase of options from highly rated financial institutions. The maximum risk on the option contracts is the premiums paid.

In addition, Alcoa had 14,000 mt of LME contracts outstanding at year-end 1994 that cover fixed-price commitments to supply customers with metal from internal sources. Accounting convention requires that these contracts be marked-to-market.

Alcoa purchases other commodities, such as natural gas and copper, for its operations and enters into contracts to eliminate volatility in the prices of such products. None of these contracts are material.

Financial Risk — Alcoa is subject to exposure to fluctuations in foreign currencies. As a matter of policy, Alcoa enters into foreign currency exchange contracts, including forwards and options, to manage its transactional exposure to changes in currency exchange rates.

To keep financing costs as low as possible, Alcoa uses interest rate swaps to maintain a balance between fixed and floating rate debt.

Risk Management — All of the aluminum and other commodity contracts, as well as the various types of financial instruments, are straightforward. They are primarily entered into for the purpose of removing uncertainty and volatility, and principally cover underlying exposures. Alcoa's commodity and derivative activities are subject to the management, direction and control of its Strategic Risk Management Committee. The committee is composed of the Chief Executive Officer, the Chief Financial Officer and other officers and employees that the Chief Executive Officer may select from time to time. The committee reports to the Board of Directors at each meeting on the scope of Alcoa's activities and programs.

In 1994 Alcoa tested its policies regarding its derivatives and commodities trading activities against the recommendations of the "Group of 30." A clarified policy was approved by the Board. The "Group of 30" was a global derivatives study group formed to help dealers and users better manage risks and issues associated with derivative activities. It was composed of worldwide industry representatives, bankers, central bankers and academics whose recommendations included issues related to the role of senior management (including the board of directors), authorization, control and disclosure of derivatives. For additional information on financial instruments, see Note R.

Environmental Matters

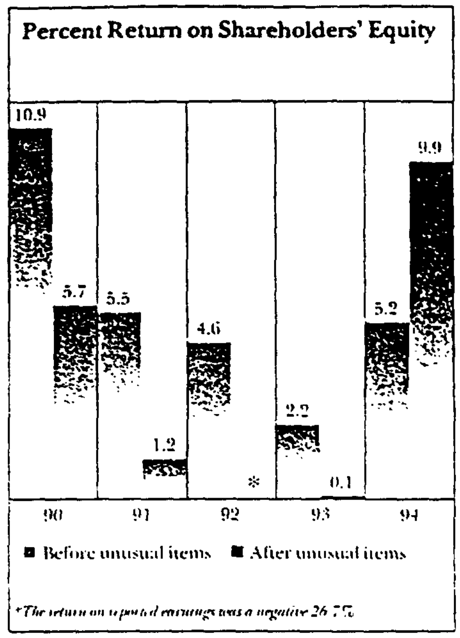
Alcoa participates in environmental assessments and cleanups at a number of locations, including operating facilities and adjoining property, at previously owned or operated facilities and at Superfund and other waste sites. Alcoa records a liability for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. See Note A for additional information.

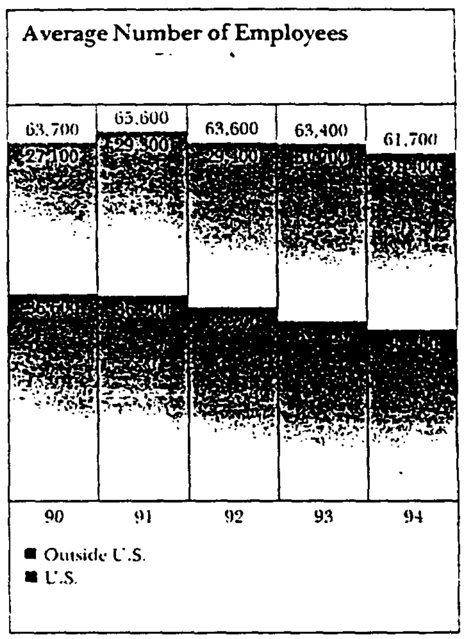
As assessments and cleanups proceed, the liability is adjusted based on progress in determining the extent of remedial actions and related costs and damages. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements and technological changes.

For example, there are certain matters, including several related to alleged natural resource damage or alleged off-site contaminated sediments, where investigations are ongoing. It is not possible to determine the outcomes or to estimate with any degree of certainty the ranges of potential costs for these matters.

Alcoa's remediation reserve balance at the end of 1994 was $329 and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. About 28% of this balance relates to Alcoa's Massena, New York plant site. Remediation costs charged to the reserve were $79 in 1994, $71 in 1993 and $102 in 1992. They include expenditures currently mandated as well as those not required by any regulatory authority or third parties.

Included in annual operating expenses are the recurring costs of managing hazardous substances and pollution. Such costs are estimated to be about 2% of cost of goods sold in 1994 and 1½% in 1993 and 1992.





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Liquidity and Capital Resources

Cash From Operations

Cash from operations was $1,394 in 1994 compared with $535 in 1993. Among the factors that accounted for the increase in 1994 over 1993 was a higher level of operating income in 1994. Additionally, working capital provided cash in 1994 by reductions in inventories and other current assets and an increase in accounts payable. These were partially offset by higher accounts receivable. In 1993 just the opposite occurred.

Cash outlays for the 1992–1994 special items related to severance costs consist of salary continuation payments for up to two years, and pension and medical costs to be paid over the lives of the employees. The latter represents about 45% of the total severance costs.

Financing Activities

Financing activities resulted in a net cash outflow of $825 in 1994. In 1993 there was a cash inflow of $386. In 1994 the company paid off early its 7% discount debentures due 2011 that had a face value of $225 and an effective interest rate of 14.7%. The unamortized discount was $108 at the time of redemption. Proceeds from issuance in February 1994 of $250 of 5.75% notes due 2001 were used to redeem the 7% debentures.

Alcoa's U.S. commercial paper borrowings, which had an outstanding balance at the end of 1993 of $337, were also liquidated in 1994. AofA also significantly reduced its outstanding commercial paper balance in 1994. Short-term debt was reduced by $105 in 1994 compared with an increase of $68 in 1993.

Debt as a percent of invested capital was 15% at the end of 1994 compared with 22% and 15% at the end of 1993 and 1992, respectively.

In July 1994, Alcoa entered into a one billion dollar, five-year revolving credit facility with a group of international banks, replacing the previous $750 facility. The new arrangement will be used to back the issuance of commercial paper.

Dividends paid to shareholders were $144 in 1994 compared with $142 in 1993 and $139 in 1992. In November 1994, Alcoa's Board declared a two-for-one stock split distributable on February 25, 1995. The Board also approved two changes in the company's common stock dividend policy: an increase in the base quarterly dividend and a change in the payment schedule for the extra dividend above the base dividend. The base quarterly dividend was increased from 20 cents to 22.5 cents per common share. The extra dividend payment of 30% of Alcoa's annual earnings in excess of $3.00 per share will be paid in the following year in equal quarterly installments with the base quarterly dividend instead of in a single payment.

Dividends paid to minority interests of $148 in 1994 included $86 paid by AofA and $19 paid by Aluminio. In 1993, such dividends totaled $159, including $126 and $18 paid by AofA and Aluminio, respectively.

Investing Activities

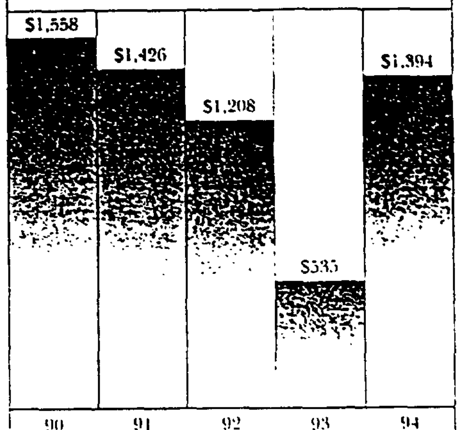
Cash used for investing activities in 1994 amounted to $375 compared with $1,050 in 1993. In both years, the most significant outlay was for capital expenditures. Spending for capital projects in 1994 was $612, down $145 from 1993 and reflects continued focus on improving manufacturing processes with a minimum of capital spending. More than one-half of the expenditures were for sustaining activities.

Capital expenditures for new and expanded facilities for environmental control in ongoing operations were $45 in 1994, $76 in 1993 and $75 in 1992.

Cash inflows from investing activities in 1994 consisted mainly of liquidating short-term investments, primarily at AofA. AofA used the proceeds to pay down its commercial paper borrowings. Additionally, Alcoa received a partial payment from the Alcoa/WMC transaction of $68. Additional net proceeds of $367 related to this transaction were received in early January 1995.

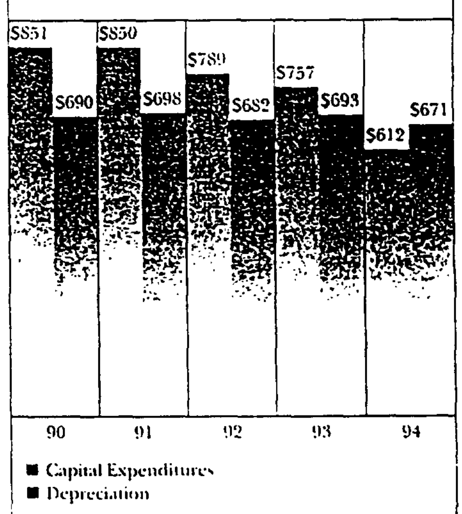
Cash from Operations

millions of dollars



Capital Expenditures and Depreciation

millions of dollars



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Management's Report to Alcoa Shareholders

The accompanying financial statements of Alcoa and consolidated subsidiaries were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this annual report is consistent with that in the financial statements.

The company maintains a system of internal controls, including accounting controls, and a strong program of internal auditing. The system of controls provides for appropriate procedures that are consistent with high standards of accounting and administration. The company believes that its system of internal controls provides reasonable assurance that assets are safeguarded against losses from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

Management also recognizes its responsibility for conducting the company's affairs according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in key policy statements issued from time to time regarding, among other things, conduct of its business activities within the laws of the host countries in which the company operates and potentially conflicting outside business interests of its employees. The company maintains a systematic program to assess compliance with these policies.

Paul H. O'Neill
Chairman of the Board and Chief Executive Officer

Jan H. M. Hommen
Executive Vice President and Chief Financial Officer

Audit Committee Report

The Audit Committee of the Board of Directors, which is composed of five independent directors, met five times in 1994.

The Audit Committee oversees Alcoa's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibility, the committee recommended to the Board the reappointment of Coopers & Lybrand as the company's independent public accountants. The Audit Committee reviewed with the Director — Internal Audit and the independent accountants the overall scope and specific plans for their respective audits. The committee reviewed with management Alcoa's annual and quarterly reporting process, and the adequacy of the company's internal controls. Without management present, the committee met separately with the Director — Internal Audit and the independent accountants to review the results of their examinations, their evaluations of the company's internal controls, and the overall quality of Alcoa's financial reporting.

Franklin A. Thomas
Chairman, Audit Committee

Independent Auditor's Report

To the Shareholders and Board of Directors
Aluminum Company of America (Alcoa)

We have audited the accompanying consolidated balance sheet of Alcoa as of December 31, 1994 and 1993, and the related statements of consolidated income, shareholders' equity and consolidated cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of Alcoa's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alcoa at December 31, 1994 and 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Notes S and V to the consolidated financial statements, Alcoa changed its methods of accounting for income taxes and postretirement benefits other than pensions in 1992.

Coopers & Lybrand L.L.P.
600 Grant St., Pittsburgh, Pa.
January 11, 1995

Statement of Consolidated Income

For the year ended December 31	1994	1993	1992
(in millions, except share amounts)			
Revenues			
Sales and operating revenues (P)	$ 9,904.3	$9,055.9	$ 9,491.5
Gain from Alcoa/WMC transaction (C)	400.2	–	–
Other income, principally interest	87.0	93.0	96.9
	10,391.5	9,148.9	9,588.4
Costs and Expenses			
Cost of goods sold and operating expenses	7,845.7	7,187.0	7,339.1
Selling, general administrative and other expenses	632.7	603.6	586.8
Research and development expenses	125.8	130.4	212.2
Provision for depreciation, depletion and amortization	671.3	692.6	682.4
Interest expense (N)	106.7	87.8	105.4
Taxes other than payroll and severance taxes	107.1	105.6	112.3
Special items (D)	79.7	150.8	251.6
	9,569.0	8,957.8	9,289.8
Earnings			
Income before taxes on income	822.5	191.1	298.6
Provision (credit) for taxes on income (S)	219.2	(10.3)	132.3
Income from operations	603.3	201.4	166.3
Minority interests (K)	(160.2)	(196.6)	(143.9)
Income before extraordinary loss and accounting changes	443.1	4.8	22.4
Extraordinary loss on debt prepayments, net of tax benefits of $40.4 in 1994 and $25.8 in 1992 (D)	(67.9)	–	(50.2)
Cumulative effect of accounting changes for:			
Postretirement benefits, net of $667.2 tax benefit (V)	–	–	(1,166.4)
Income taxes (S)	–	–	55.0
Net Income (Loss)	$ 375.2	$ 4.8	$(1,139.2)
Earnings (Loss) per Common Share: (B and L)			
Before extraordinary loss and accounting changes	$ 2.48	$ .02	$ .12
Extraordinary loss	(.38)	–	(.30)
Accounting changes:			
Postretirement benefits	–	–	(6.85)
Income taxes	–	–	.33
Earnings (Loss) per common share	$ 2.10	$ .02	$ (6.70)

The accompanying notes are an integral part of the financial statements.

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Consolidated Balance Sheet

Alcoa and subsidiaries

December 31 (in millions)	1994	1993
Assets		
Current assets:		
Cash and cash equivalents (includes cash of $177.5 in 1994 and $58.0 in 1993) (R and T)	$ 619.2	$ 411.7
Short-term investments (R)	5.5	243.6
Receivables from customers, less allowances: 1994–$37.4; 1993–$33.2	1,440.6	1,218.7
Receivable from WMC, net (C)	366.9	–
Other receivables	182.5	211.3
Inventories (E)	1,144.2	1,227.2
Deferred income taxes	235.6	103.2
Prepaid expenses and other current assets	158.7	286.8
Total current assets	4,153.2	3,702.5
Properties, plants and equipment (F)	6,689.4	6,506.8
Other assets (G)	1,510.6	1,387.6
Total Assets	$12,353.2	$11,596.9
Liabilities		
Current liabilities:		
Short-term borrowings (weighted average rate 7.9% in 1994 and 5.8% in 1993) (R)	$ 261.9	$ 362.5
Accounts payable, trade	739.3	596.3
Accrued compensation and retirement costs	363.9	288.0
Taxes, including taxes on income	393.0	364.3
Provision for layoffs and impairments (D)	84.4	128.8
Other current liabilities	557.0	302.2
Long-term debt due within one year	154.0	50.8
Total current liabilities	2,553.5	2,092.9
Long-term debt, less amount due within one year (H and R)	1,029.8	1,432.5
Accrued postretirement benefits (V)	1,850.5	1,845.2
Other noncurrent liabilities and deferred credits (I)	1,011.8	1,022.2
Deferred income taxes	220.6	231.1
Total liabilities	6,666.2	6,623.9
Minority Interests (A, C and K)	1,687.8	1,389.2
Contingent liabilities (O)	–	–
Shareholders' Equity		
Preferred stock (M)	55.8	55.8
Common stock (B and M)	178.7	88.8
Additional capital (B)	663.5	715.9
Translation adjustment (A)	(68.6)	(188.5)
Retained earnings	3,173.9	2,946.1
Unfunded pension obligation	(4.0)	(7.0)
Treasury stock, at cost	(.1)	(27.3)
Total shareholders' equity	3,999.2	3,583.8
Total Liabilities and Equity	$12,353.2	$11,596.9

The accompanying notes are an integral part of the financial statements.

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Statement of Consolidated Cash Flows

For the year ended December 31 (in millions)	1994	1993	1992
Cash from Operations			
Net income (loss)	$ 375.2	$ 4.8	$(1,139.2)
Adjustments to reconcile net income (loss) to cash from operations:			
Depreciation, depletion and amortization	688.8	711.1	710.1
Gain from Alcoa/WMC transaction	(400.2)	–	–
Reduction of assets to net realizable value	32.8	16.7	144.3
Reduction in deferred income taxes	(55.6)	(124.5)	(88.0)
Equity earnings before additional taxes, net of dividends	5.1	11.7	14.8
Provision for special items	46.9	134.1	107.4
Gains from investing activities	(10.3)	(1.3)	(7.2)
Book value of asset disposals	47.4	20.8	15.3
Accounting changes	–	–	1,111.4
Extraordinary loss	67.9	–	50.2
Minority interests	160.2	196.6	143.9
Other	(1.9)	(11.4)	53.9
(Increase) reduction in receivables	(155.0)	15.6	84.5
(Increase) reduction in inventories	115.8	(130.2)	166.7
(Increase) reduction in prepaid expenses and other current assets	129.4	(152.2)	70.8
Increase (reduction) in accounts payable and accrued expenses	336.6	(202.8)	(248.7)
Increase (reduction) in taxes, including taxes on income	(6.8)	(6.0)	(.6)
Payment of amortized interest on deep discount debt	(8.6)	–	(63.8)
Net change in noncurrent assets and liabilities	25.9	52.0	82.3
Cash from operations	1,393.6	535.0	1,208.1
Financing Activities			
Net additions (reduction) to short-term borrowings	(104.9)	67.5	244.0
Common stock issued and treasury stock sold	61.7	17.7	36.2
Dividends paid to shareholders	(144.4)	(142.3)	(138.9)
Dividends paid to minority interests	(148.1)	(159.3)	(140.9)
Additions to long-term debt	494.9	748.0	338.4
Payments on long-term debt	(934.4)	(145.8)	(687.1)
Redemption of subsidiary preferred stock	(50.0)	–	–
Cash from (used for) financing activities	(825.2)	385.8	(348.3)
Investing Activities			
Capital expenditures	(611.7)	(757.0)	(788.8)
Acquisitions, net of cash acquired	(9.6)	(16.3)	(7.7)
Sales of subsidiaries	–	–	12.6
Additions to investments	(21.2)	(5.9)	(127.1)
Sales of investments	–	.3	50.5
Reductions in minority interests	(44.7)	(14.2)	(18.4)
Proceeds from Alcoa/WMC transaction	67.8	–	–
Short-term investments	250.8	(243.6)	–
Other receipts	14.9	5.8	7.6
Other payments	(21.2)	(19.5)	(21.4)
Cash (used for) investing activities	(374.9)	(1,050.4)	(892.7)
Effect of exchange rate changes on cash	14.0	(6.9)	(44.7)
Net change in cash and cash equivalents	207.5	(136.5)	(77.6)
Cash and cash equivalents at beginning of year	411.7	548.2	625.8
Cash and cash equivalents at year-end	$ 619.2	$ 411.7	$ 548.2

The accompanying notes are an integral part of the financial statements.

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Statement of Shareholders' Equity

December 31 (in millions, except share amounts)	Preferred stock	Common stock	Additional capital	Translation adjustment	Retained earnings	Unfunded pension obligation	Treasury stock	Shareholders' equity
Balance at end of 1991	$55.8	$ 88.8	$713.8	$ (55.8)	$ 4,378.1	–	$(243.3)	$ 4,937.4
Net loss–1992					(1,139.2)			(1,139.2)
Cash dividends:								
Preferred @ $3.75 per share					(2.1)			(2.1)
Common @ $.80 per share					(136.8)			(136.8)
Stock issued: compensation plans			1.2		(10.7)		45.7	36.2
Stock issued: debt conversions							1.0	1.0
Translation adjustments				(92.2)				(92.2)
Balance at end of 1992	55.8	88.8	715.0	(148.0)	3,089.3	–	(196.6)	3,604.3
Net income–1993					4.8			4.8
Cash dividends:								
Preferred @ $3.75 per share					(2.1)			(2.1)
Common @ $.80 per share					(140.2)			(140.2)
Stock issued: compensation plans			.9		(3.0)		19.8	17.7
Stock issued: debt conversions					(2.7)		149.5	146.8
Minimum pension liability adjustments						$(7.0)		(7.0)
Translation adjustments				(40.5)				(40.5)
Balance at end of 1993	55.8	88.8	715.9	(188.5)	2,946.1	(7.0)	(27.3)	3,583.8
Net income–1994					375.2			375.2
Cash dividends:								
Preferred @ $3.75 per share					(2.1)			(2.1)
Common @ $.80 per share					(142.3)			(142.3)
Two-for-one stock split		89.3	(89.3)					–
Stock issued: compensation plans		.6	36.9		(3.0)		27.2	61.7
Minimum pension liability adjustments						3.0		3.0
Translation adjustments				119.9				119.9
Balance at end of 1994	$55.8	$178.7	$663.5	$ (68.6)	$ 3,173.9	$(4.0)	$ (.1)	$ 3,999.2

Share Activity (B)		Common Stock		
	Preferred stock	Issued	Treasury	Net outstanding
Balance at end of 1991	557,649	177,608,440	(7,443,802)	170,164,638
Stock issued: compensation plans			1,262,274	1,262,274
Stock issued: debt conversions			32,256	32,256
Balance at end of 1992	557,649	177,608,440	(6,149,272)	171,459,168
Stock issued: compensation plans			610,452	610,452
Stock issued: debt conversions			4,652,936	4,652,936
Balance at end of 1993	557,649	177,608,440	(885,884)	176,722,556
Stock issued: compensation plans		1,106,538	883,382	1,989,920
Balance at end of 1994	557,649	178,714,978	(2,502)	178,712,476

The accompanying notes are an integral part of the financial statements.

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A. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Alcoa and companies more than 50% owned. Also included are joint ventures in which Alcoa has an undivided interest. Investments in other entities are accounted for principally on an equity basis.

Inventory Valuation. Inventories are carried at the lower of cost or market, with cost for a substantial portion of U.S. inventories determined under the last-in, first-out (LIFO) method. The cost of other inventories is principally determined under the average cost method.

Depreciation, Depletion and Amortization. Depreciation is recorded principally on the straight-line method at rates based on the estimated useful lives of the assets. The book value of obsolete assets is charged to depreciation expense when they are scrapped. Profits or losses from the sale of assets are included in other income. Repairs and maintenance are charged to expense as incurred.

Depletion is taken over the periods the estimated mineral reserves are extracted.

Environmental Expenditures. Expenditures that relate to current operations are expensed or capitalized, as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to future revenues, are expensed. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated. The liability for remediation expenditures may include, as appropriate, elements of costs such as site investigations, consultants' fees, feasibility studies, outside contractor expenses and monitoring expenses. Estimates are not discounted, nor are claims for recovery recognized. The estimates also include costs apportioned to other potentially responsible parties to the extent that Alcoa has reason to believe such parties will not fully pay their proportionate share. The liability is periodically reviewed and adjusted to reflect current remediation progress, prospective estimate of required activity, and other factors that may be relevant, including changes in technology or regulations.

Interest Costs. Interest related to construction of qualifying assets is capitalized as part of construction costs.

Futures Contracts. Alcoa enters into forward and futures contracts to cover exposures for foreign exchange, interest rates and commodities that are primarily accounted for as hedges of its committed and, in some cases, anticipated revenues and costs. The gains and losses on these contracts are reflected in earnings concurrently with the hedged revenues or costs. The cash flows from these contracts are classified in a manner consistent with the underlying nature of the transactions.

Intangibles. The excess of purchase price over net tangible assets of businesses acquired is included in other assets in the consolidated balance sheets. It is Alcoa's policy to amortize intangibles on a straight-line basis over not more than forty years. The carrying value of intangibles is evaluated periodically in relation to the operating performance and future undiscounted cash flows of the underlying businesses. Adjustments are made if the sum of expected future net cash flows is less than book value.

Foreign Currency. The local currency is the functional currency for Alcoa's significant operations outside the U.S., except in Brazil.

Reclassification. Certain amounts in previously issued financial statements were reclassified to conform to 1994 presentations.

B. Common Stock Split

On November 11, 1994, the Board of Directors declared a two-for-one common stock split distributable on February 25, 1995 to shareholders of record at the close of business on February 3, 1995. In this report, all per share amounts and numbers of shares have been restated to reflect the stock split. In addition, an amount equal to the one dollar par value of the shares outstanding at December 31, 1994 has been transferred from additional capital to common stock.

C. Gain From Alcoa/WMC Transaction

In December 1994, Alcoa recorded a gain of $400.2 ($300.2 after-tax) from the acquisition by Western Mining Corporation Holdings Limited (WMC), located in Melbourne, Australia, of a 40% interest in Alcoa's worldwide bauxite, alumina and inorganic chemicals businesses. As part of the agreement, Alcoa acquired an additional 9% interest in Alcoa of Australia, bringing its total interest in that company to 60%. An additional cash payment may be made by WMC in the year 2000 if certain financial performance targets of the chemicals businesses are met. Alcoa has indemnified WMC for certain preformation environmental and other liabilities.

The significant effects of the transaction on the year-end balance sheet were increases of $68 in cash, $367 in net receivables and $202 in goodwill; offset by an increase in minority interests of $230. The net receivable was collected in early January 1995. If this transaction had occurred at the beginning of 1994, net income for the year would not have been materially different.

D. Special and Extraordinary Items

Special items in 1994 consisted of a charge of $79.7 ($50.0 after-tax) from closing a forgings and extrusion plant in Vernon, California. The charge included $32.8 for asset write-offs and $46.9 primarily related to severance costs.

Special items of $150.8 in 1993 ($98.0 after-tax and minority interests) included $134.1 for severance costs associated with permanent reductions of hourly paid and salaried employees, mainly in the company's U.S. aluminum operations. The remaining $16.7 was associated with closing certain businesses at several plants, including the manufacture of aluminum rod at the Rockdale, Texas plant.

Special items in 1992 totaling $251.6 ($173.9 after-tax and minority interests) consisted of $95.7 for redundancies and $155.9 for asset dispositions. The dispositions included the shutdown of a facility in South Bend, Ind. and impairment of Alcoa Composites, Inc.

The extraordinary losses in 1994 and 1992 were from early redemption of 7% debentures due 2011 and 1996, respectively, that carried effective interest rates of 14.7%.

E. Inventories

December 31	1994	1993
Finished goods	$ 249.6	$ 317.3
Work in process	456.1	415.7
Bauxite and alumina	195.2	165.9
Purchased raw materials	131.0	188.2
Operating supplies	112.3	140.1
	$1,144.2	$1,227.2

Approximately 55% of total inventories at December 31, 1994 were valued on a LIFO basis. If valued on an average cost basis, total inventories would have been $691.9 and $623.9 higher at the end of 1994 and 1993, respectively. During 1992 certain LIFO inventory quantities were reduced and flowed through cost of goods sold at prior years' lower costs rather than at current costs. The effect of this reduction increased pretax income from operations by $49.9.

F. Properties, Plants and Equipment, at Cost

December 31	1994	1993
Land and land rights, including mines	$ 238.0	$ 229.0
Structures	3,860.0	3,603.4
Machinery and equipment	10,003.7	9,317.7
	14,101.7	13,150.1
Less, accumulated depreciation and depletion	7,812.9	7,093.9
	6,288.8	6,056.2
Construction work in progress	400.6	450.6
	$ 6,689.4	$ 6,506.8

G. Other Assets

December 31	1994	1993
Investments, principally equity investments	$ 355.9	$ 322.2
Intangibles, net of accumulated amortization of $208.5 in 1994 and $189.8 in 1993	396.6	179.2
Noncurrent receivables	67.6	218.9
Deferred income taxes	361.6	431.5
Deferred charges and other	325.9	235.8
	$1,510.6	$1,387.6

H. Long-Term Debt

December 31	1994	1993
U.S.		
4.625% Notes payable, due 1996	$ 175.0	$ 175.0
5.75% Notes payable, due 2001	247.8	-
Bank loans 7.5 billion yen, due 1999, (4.4% fixed rate)	74.1	-
Discount debentures 7%, $225 face amount, due 2011 (14.7% effective yield)	-	117.3
Commercial paper (3.6% average rate)	-	337.3
Tax-exempt revenue bonds ranging from 3.7% to 7.5% due 2000–2012	132.7	133.5
Alcoa Aluminio		
Variable rate note due 1995–2001 (8.2% and 5.8% average rates)	322.6	328.7
Alcoa of Australia		
Euro-commercial paper, variable rate, due 1997 (3.9% and 3.4% average rates)	150.0	302.0
Other subsidiaries	81.3	89.5
	1,183.8	1,483.3
Less, amount due within one year	154.0	50.8
	$1,029.8	$1,432.5

The amount of long-term debt maturing in each of the next five years is $154.0 in 1995, $276.8 in 1996, $222.7 in 1997, $47.0 in 1998 and $86.9 in 1999.

Alcoa's Revolving Credit Agreement of $1,000 with a group of international banks matures in July 1999. Under the agreement, certain levels of consolidated net worth and working capital must be maintained while commercial paper balances are outstanding.

The commercial paper issued by Alcoa and the Euro-commercial paper issued by Alcoa of Australia are classified as long-term debt since they are backed by long-term revolving credit agreements.

I. Other Noncurrent Liabilities and Deferred Credits

December 31	1994	1993
On-site environmental remediation	$ 282.7	$ 348.0
Other noncurrent liabilities	511.3	437.1
Deferred credits	217.8	237.1
	$1,011.8	$1,022.2

J. Lease Expense

Certain equipment, warehousing and office space, and ocean-going vessels are under operating lease agreements. Total expense for all leases was $71.6 in 1994, $73.7 in 1993 and $74.8 in 1992. Under long-term operating leases, minimum annual rentals are $32.3 in 1995, $28.2 in 1996, $22.5 in 1997, $15.3 in 1998, $10.8 in 1999, and a total of $30.2 for 2000 and thereafter.

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K. Minority Interests

The following table summarizes the minority shareholders' interests in the equity of consolidated subsidiaries.

December 31	1994	1993
Alcoa of Australia	$ 588.1	$ 616.1
Alcoa International Holdings Company (AIHC)	200.0	250.0
Alcoa Aluminio	340.7	164.9
Alcoa Brazil Holdings Company (ABHC)	–	102.1
Alcoa Alumina and Chemicals	327.9	–
Other majority-owned companies	231.1	256.1
	$1,687.8	$1,389.2

AIHC's minority interests consist of three series of preferred stock with a weighted average annual dividend rate of 4.2% for 1994, 5.1% for 1993 and 6.7% for 1992.

During 1994, the minority shareholder of ABHC exchanged its interest in ABHC for common shares of Alcoa Aluminio. Additionally, Alcoa Aluminio's minority shareholder converted $214.7 of preferred stock to common stock.

Alcoa Alumina and Chemicals represents the primary entity formed by the Alcoa/WMC transaction.

L. Earnings per Common Share

Primary earnings per common share are computed by subtracting annual preferred dividend requirements from net income, and dividing that amount by the weighted average number of common shares outstanding during each year. The average number of shares used to compute primary earnings per common share was 177,881,428 in 1994, 175,346,282 in 1993 and 170,948,178 in 1992. Fully diluted earnings per common share are not stated since the dilution is not material.

M. Preferred and Common Stock

Preferred Stock. Alcoa has two classes of preferred stock. Serial preferred stock has 557,740 shares authorized, with a par value per share of $100 and an annual $3.75 cumulative dividend preference per share. Class B serial preferred stock has 10 million shares authorized (none issued) and a par value of $1 per share.

Common Stock. There are 300 million shares authorized at a par value of $1 per share. As of December 31, 1994, shares of common stock reserved for issuance were:

	Number of shares
Long-term stock incentive plan	9,659,040
Employees' savings plans	4,097,532
Incentive compensation plan	169,228
	13,925,800

Stock options under the long-term stock incentive plan have been and may be granted, generally at not less than market prices on the dates of grant, except for the $.50 per share options issued as a payout of earned performance share awards. At December 31, 1994, options for 4,242,636 shares were exercisable.

The transactions for shares under option were:

	1994	1993	1992
Outstanding, beginning of year:			
Number	8,032,852	6,572,104	6,028,062
Price	$.50–40.07	$.50–40.07	$.50–38.44
Granted:			
Number	5,050,798	2,963,458	3,168,004
Price	$35.88–44.72	$.50–38.57	$.50–40.07
Exercised:			
Number	(5,125,962)	(1,353,092)	(2,600,162)
Price	$.50–40.25	$.50–36.57	$.50–40.07
Expired or canceled	(57,598)	(149,618)	(23,800)
Outstanding, end of year:			
Number	7,900,090	8,032,852	6,572,104
Price	$.50–44.72	$.50–40.07	$.50–40.07
Shares reserved for future options at end of year	1,758,950	5,006,192	7,359,240

N. Interest Cost Components

	1994	1993	1992
Amount charged to expense	$106.7	$87.8	$105.4
Amount capitalized	1.5	3.5	11.1
	$108.2	$91.3	$116.5

O. Contingent Liabilities

Various lawsuits and claims and proceedings have been or may be instituted or asserted against Alcoa, including those pertaining to environmental, product liability, and safety and health matters. While the amounts claimed may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. However, based on currently available facts, management believes that the disposition of matters that are pending or asserted will not have a materially adverse effect on the financial position of the company.

Under a power contract that expires no earlier than 2011, Alcoa is entitled to a fixed percentage of the annual output from a Northwest U.S. hydroelectric facility. Alcoa makes minimum annual payments of $8 whether or not it receives power. Alcoa could be required to increase its participation if other parties to the contract default. If all other parties had defaulted as of December 31, 1994, Alcoa's maximum liability would have been about $190. There is no reason to believe the other parties will default or that power will not be provided.

P. Segment and Geographic Area Information

Alcoa is primarily an integrated producer of aluminum products. Alcoa's operations consist of three segments: Alumina and Chemicals, Aluminum Processing, and Non-Aluminum Products.

The Alumina and Chemicals segment includes the production and sale of bauxite, alumina, alumina chemicals and transportation services.

The Aluminum Processing segment comprises the production and sale of molten metal, ingot, and aluminum products that are flat-rolled, engineered or finished. Also included are power, transportation and other services.

The Non-Aluminum Products segment includes the production and sale of electrical, ceramic, plastic and composite materials products, manufacturing equipment, gold, magnesium products, and steel and titanium forgings.

Segment information	1994	1993	1992
Sales to customers:			
Alumina and chemicals	$ 1,508.4	$ 1,436.5	$ 1,421.6
Aluminum processing	6,476.5	5,973.6	6,516.9
Non-aluminum products	1,919.4	1,645.8	1,553.0
Intersegment sales: (1)			
Alumina and chemicals	496.0	649.3	671.8
Aluminum processing	3.0	13.6	22.0
Non-aluminum products	74.8	72.9	61.5
Eliminations	(573.8)	(735.8)	(755.3)
Total sales and operating revenues	$ 9,904.3	$ 9,055.9	$ 9,491.5
Operating profit (loss) before special items:			
Alumina and chemicals	$ 277.3	$ 372.7	$ 278.2
Aluminum processing	144.7	(21.2)	288.5
Non-aluminum products	91.2	5.0	(31.0)
Unallocated	–	(5.1)	(2.5)
Total	$ 513.2	$ 351.4	$ 533.2
Operating profit (loss) after special items:			
Alumina and chemicals	$ 277.3	$ 365.6	$ 273.5
Aluminum processing	65.0	(155.0)	181.9
Non-aluminum products	91.2	(4.9)	(171.3)
Unallocated	–	(5.1)	(2.5)
Total operating profit	433.5	200.6	281.6
Gain from Alcoa/WMC transaction	400.2	–	–
Other income	87.0	93.0	96.9
Add (deduct) other income in operating profits	8.5	(14.7)	25.5
Interest expense	106.7	87.8	105.4
Income before taxes on income	$ 822.5	$ 191.1	$ 298.6
Identifiable assets:			
Alumina and chemicals	$ 3,013.2	$ 2,854.3	$ 2,685.5
Aluminum processing	6,693.0	6,929.1	6,640.1
Non-aluminum products	1,607.1	1,483.7	1,313.6
Total identifiable assets	11,313.3	11,267.1	10,639.2
Investments	355.9	322.2	368.9
Corporate assets (2)	684.0	7.6	15.0
Total assets	$12,353.2	$11,596.9	$11,023.1
Depreciation and depletion:			
Alumina and chemicals	$ 139.1	$ 144.5	$ 137.6
Aluminum processing	455.3	475.3	483.0
Non-aluminum products	94.0	85.1	84.8
Total depreciation and depletion (3)	$ 688.1	$ 704.9	$ 705.4
Capital expenditures:			
Alumina and chemicals	$ 159.2	$ 232.6	$ 234.5
Aluminum processing	323.2	423.7	462.1
Non-aluminum products	129.3	100.7	92.2
Total capital expenditures	$ 611.7	$ 757.0	$ 788.8

Geographic area information	1994	1993	1992
Sales to customers:			
USA	$ 5,574.0	$ 5,279.4	$ 5,658.6
Other Americas	1,362.4	948.2	1,055.9
Pacific	1,670.1	1,752.5	1,710.2
Europe	1,297.8	1,075.8	1,066.8
Transfers between geographic areas: (1)			
USA	765.0	832.9	1,001.6
Other Americas	291.4	342.6	253.6
Pacific	17.2	36.1	54.3
Europe	13.4	28.3	65.1
Eliminations	(1,087.0)	(1,239.9)	(1,374.6)
Total sales and operating revenues	$ 9,904.3	$ 9,055.9	$ 9,491.5
Operating profit (loss) before special items:			
USA	$ (65.2)	$ (193.1)	$ 55.0
Other Americas	239.0	139.5	90.9
Pacific	291.1	399.2	297.6
Europe	48.3	5.8	89.7
Total	$ 513.2	$ 351.4	$ 533.2
Operating profit (loss) after special items:			
USA	$ (144.9)	$ (340.7)	$ (176.5)
Other Americas	239.0	139.5	87.0
Pacific	291.1	399.2	297.6
Europe	48.3	2.6	73.5
Total operating profit	$ 433.5	$ 200.6	$ 281.6
Identifiable assets:			
USA	$ 5,750.4	$ 6,270.9	$ 6,092.3
Other Americas	1,792.5	1,691.4	1,441.9
Pacific	2,646.1	2,384.2	2,345.6
Europe	1,124.3	920.6	759.4
Total identifiable assets	11,313.3	11,267.1	10,639.2
Capital expenditures:			
USA	$ 272.9	$ 405.0	$ 457.6
Other Americas	131.4	105.0	75.1
Pacific	131.6	162.7	184.5
Europe	75.8	84.3	71.6
Total capital expenditures	$ 611.7	$ 757.0	$ 788.8

(1) Transfers between segments and geographic areas are based on generally prevailing market prices.

(2) Corporate assets in 1994 include cash of $68 and a net receivable of $367 related to the Alcoa/WMC transaction.

(3) Includes depreciation of $17.1 in 1994, $12.3 in 1993 and $23 in 1992 reported as research and development expenses in the income statement.

Total exports from the U.S. in 1994 were $988 compared with $896 in 1993 and $993 in 1992.

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Q. Majority-Owned Subsidiaries

The condensed financial statements of Alcoa's principal majority-owned subsidiaries follow.

Alcoa Aluminio S.A. — a 59%-owned Brazilian subsidiary:

December 31	1994	1993
Cash and short-term investments	$ 34.5	$ 160.2
Other current assets	376.4	283.7
Properties, plants and equipment, net	929.0	870.8
Other assets	161.8	207.8
Total assets	1,501.7	1,522.5
Current liabilities	415.2	372.7
Long-term debt*	222.2	322.5
Other liabilities	33.3	35.9
Total liabilities	670.7	731.1
Net assets	$ 831.0	$ 791.4

*Held by Alcoa Brazil Holdings Company–$22.5

	1994	1993	1992
Revenues*	$ 915.1	$ 685.8	$ 659.0
Costs and expenses	(808.9)	(625.3)	(634.8)
Translation and exchange adjustments	(3.0)	(10.7)	(9.2)
Income tax expense	(19.7)	(.6)	5.6
Net income	$ 83.5	$ 49.2	$ 20.6

*Revenues from Alcoa were $54 in 1994. The terms of the transactions were established by negotiation between the parties.

Alcoa of Australia Limited — a 51%-owned subsidiary of Alcoa International Holdings Company (60% at December 31, 1994):

December 31	1994	1993
Cash and short-term investments	$ 88.2	$ 350.3
Other current assets	484.9	425.7
Properties, plants and equipment, net	1,645.3	1,430.1
Other assets	102.5	85.7
Total assets	2,320.9	2,291.8
Current liabilities	317.9	399.7
Long-term debt	150.2	302.0
Other liabilities	382.6	332.7
Total liabilities	850.7	1,034.4
Net assets	$1,470.2	$1,257.4

	1994	1993	1992
Revenues*	$ 1,519.2	$ 1,660.9	$ 1,661.7
Costs and expenses	(1,236.5)	(1,264.6)	(1,297.7)
Translation and exchange adjustments	.6	5.2	(13.8)
Income tax expense	(80.7)	(88.1)	(132.0)
Accounting changes†	–	–	33.6
Net income	$ 202.6	$ 313.4	$ 251.8

*Revenues from Alcoa were $28.5 in 1994, $50.3 in 1993 and $60.6 in 1992. The terms of the transactions were established by negotiation between the parties.
†Consists of $37 for income taxes and $(3.4) for postretirement benefits

R. Financial Instruments

The carrying values and fair values of Alcoa's financial instruments at December 31 follow.

	1994		1993	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	$ 619.2	$ 619.2	$ 411.7	$ 411.7
Short-term investments	5.5	5.5	243.6	243.6
Noncurrent receivables	67.6	67.6	218.9	218.9
Short-term debt	415.9	415.9	413.3	413.3
Long-term debt	1,029.8	1,002.5	1,432.5	1,545.0

The methods used to estimate the fair value of certain financial instruments follow.

Cash and Cash Equivalents, Short-Term Investments and Short-Term Debt. The carrying amount approximates fair value because of the short maturity of the instruments. All investments purchased with a maturity of three months or less are considered cash equivalents.

Noncurrent Receivables. The fair value of noncurrent receivables is based on anticipated cash flows and approximates carrying value.

Long-Term Debt. The fair value is based on interest rates that are currently available to Alcoa for issuance of debt with similar terms and remaining maturities.

Alcoa holds or purchases derivative financial instruments principally for purposes other than trading. Financial instruments held for trading purposes are insignificant. Details of the significant instruments follow.

Foreign Exchange Contracts. The company enters into foreign exchange contracts to hedge most of its firm and anticipated purchase and sale commitments denominated in foreign currencies for periods commensurate with its known or expected exposures. These contracts are part of a worldwide program to minimize the volatility due to foreign exchange exposures. The market risk exposure is essentially limited to risk related to currency rate movements. The forward exchange contracts and options in the following table are made up of contracts to hedge firm purchase and sale commitments and anticipated sales expected to be denominated in foreign currencies at December 31. The contracts generally mature within 12 months and are principally unsecured forward exchange contracts with carefully selected banks. Gains or losses arising from these contracts are reflected in other income when the transactions are completed. Unrealized gains (losses) at December 31, 1994 and 1993 were $47.8 and $(1.5), respectively.

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The table below reflects the various types of foreign exchange contracts Alcoa uses to manage its foreign exchange risk.

	1994		1993	
	Notional amount	Market value	Notional amount	Market value
Forwards	$1,578.7	$1,637.4	$1,776.6	$1,766.1
Options purchased	422.3	19.8	138.1	3.1
Options written	162.0	(9.9)	69.2	.1

The notional amounts of options summarized above do not represent amounts exchanged by the parties and thus are not a measure of the company's exposure to options. The amounts exchanged are based on the terms of the options which relate primarily to exchange rates and expiration dates.

The table below summarizes by major currency the contractual amounts of Alcoa's forward exchange and option contracts in U.S. dollars translated at December 31 rates. The "buy" amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies and the "sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies.

	1994		1993	
	Buy	Sell	Buy	Sell
Australian dollar	$1,197.8	$268.3	$ 928.0	$332.6
Dutch guilder	138.2	44.2	74.6	28.2
Deutsche mark	79.0	167.1	81.6	173.3
Pound sterling	41.9	89.6	10.5	115.7
Other	77.0	166.9	115.9	124.5
Total	$1,533.9	$736.1	$1,210.6	$774.3

Interest Rate Swaps. Alcoa's debt portfolio is managed by using interest rate swaps and options to achieve an overall desired position of fixed and floating rates. At December 31, 1994, Alcoa had outstanding four interest rate swap contracts to convert a fixed rate obligation to floating rates on a notional amount of $175. The contracts mature in 2001. The company also bought $100 notional amount of interest rate caps on the first 1995 swap payment. Alcoa Aluminio also had an outstanding interest rate swap to convert a floating rate obligation to a series of fixed rates on a notional amount of $109 at year-end 1994.

Credit and market risk exposures are limited to the net interest differentials. The net payments or receipts from interest rate swaps are recorded as part of interest expense and are not material. The effect of interest rate swaps on Alcoa's composite interest rate on long-term debt was not material at the end of 1994.

Alcoa is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, but does not anticipate nonperformance by any of the counterparties.

For further information on Alcoa's hedging and derivatives activities, see Risk Factors in the Financial Review section of this annual report.

S. Income Taxes

Alcoa implemented SFAS 109 as of January 1, 1992 and the cumulative effect of this change is reported in 1992 earnings. The components of income before taxes on income were:

	1994	1993	1992
U.S.	$203.6	$(359.4)	$(241.5)
Foreign	618.9	550.5	540.1
	$822.5	$ 191.1	$ 298.6

The provision for taxes on income consisted of:

	1994	1993	1992
Current:			
U.S. federal*	$114.0	$ (53.6)	$ 46.9
Foreign	151.1	163.0	174.1
State and local	9.7	4.8	(.7)
	274.8	114.2	220.3
Deferred:			
U.S. federal*	(51.3)	(80.2)	(71.2)
Foreign	5.8	(47.2)	(11.7)
State and local	(10.1)	2.9	(5.1)
	(55.6)	(124.5)	(88.0)
Total	$219.2	$ (10.3)	$132.3

* Includes U.S. taxes related to foreign income

Deferred taxes in 1993 included credits of $130.4 for a U.S. tax loss carryforward and for statutory tax rate changes of $9.9 in the U.S. and $41.6 in Australia.

Reconciliation of the effective tax rate to the U.S. statutory rate follows.

	1994	1993	1992
U.S. federal statutory rate (%)	35.0	35.0	34.0
Taxes on foreign income	(1.1)	(9.2)	10.0
State taxes net of federal benefit	(.1)	2.1	(1.3)
Tax rate changes	–	(26.9)	–
Adjustments to prior years' accruals	(1.8)	(3.0)	(1.5)
Nontaxable portion of Alcoa/WMC transaction gain	(4.9)	–	–
Other	(.4)	(3.4)	3.1
Effective tax rate (%)	26.7	(5.4)	44.3

The components of net deferred tax assets and liabilities follow.

	1994		1993	
December 31	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Depreciation	–	$ 938.8	–	$864.4
Employee benefits	$ 822.0	–	$ 781.5	–
Loss provisions	243.9	–	264.9	–
Deferred income	112.1	48.1	38.4	84.1
Tax loss carryforwards	212.9	–	291.2	–
Tax credit carryforwards	86.1	–	20.1	–
Other	56.0	18.2	41.0	21.2
	1,533.6	1,005.1	1,437.1	969.7
Valuation allowance	(170.0)	–	(171.4)	–
	$1,363.6	$1,005.1	$1,265.7	$969.7

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Of the total tax loss carryforwards, $13.1 expires over the next 10 years, $65.8 expires over the next 15 years and $134.0 is unlimited. A substantial portion of the valuation allowance is for these carryforwards because the ability to utilize a portion of them is uncertain. There is no limit on utilization of the tax credit carryforwards.

The cumulative amount of Alcoa's share of undistributed earnings for which no deferred taxes have been provided was $1,575.8 at December 31, 1994. Management has no plans to distribute such earnings in the foreseeable future. It is not practicable to determine the deferred tax liability on these earnings.

T. Cash Flow Information

Alcoa considers all investments purchased with a maturity of three months or less to be cash equivalents.

Cash payments for interest and income taxes follow.

	1994	1993	1992
Interest*	$107.3	$101.2	$193.9
Income taxes	238.4	193.6	264.4

*Includes $8.6 in 1994 and $63.8 in 1992 of amortized interest on the debentures retired early

In a noncash transaction early in 1993, $149 of 6¼ Convertible Subordinated Debentures due 2002 were converted to common stock by issuing 4.6 million shares of treasury stock.

U. Pension Plans

Alcoa maintains pension plans covering most U.S. employees and certain other employees. Pension benefits generally depend upon length of service, job grade and remuneration. Substantially all benefits are paid through pension trusts that are sufficiently funded to ensure that all plans can pay benefits to retirees as they become due.

Pension costs include the following components that were calculated as of January 1 of each year.

	1994	1993	1992
Benefits earned	$ 90.6	$102.4	$ 92.2
Interest accrued on projected benefit obligation	261.2	253.9	250.7
Net amortization	46.5	59.8	29.7
	398.3	416.1	372.6
Less: expected return on plan assets*	281.4	268.1	259.2
	$116.9	$148.0	$113.4

*The actual returns were higher (lower) than the expected returns by $(282.7) in 1994, $324.2 in 1993 and $82.4 in 1992 and were deferred as actuarial gains (losses).

The status of the pension plans follows.

	Assets exceed accumulated benefit obligation		Accumulated benefit obligation exceeds assets	
December 31	1994	1993	1994	1993
Plan assets, primarily stocks and bonds at market	$3,337.7	$3,688.4	$ 231.4	$ 90.6
Present value of obligation:				
Vested	2,721.2	3,154.8	335.2	197.1
Nonvested	237.3	310.9	4.9	17.3
Accumulated benefit obligation	2,958.5	3,465.7	340.1	214.4
Effect of assumed salary increases	236.1	328.1	32.9	20.0
Projected benefit obligation	$3,194.6	$3,793.8	$ 373.0	$ 234.4
Plan assets greater (less than) projected benefit obligation	$ 143.1	$ (105.4)	$(141.6)	$(143.8)
Unrecognized:				
Transition (assets) obligations	21.8	7.7	(8.9)	10.8
Prior service costs	45.9	138.6	32.2	53.8
Actuarial (gains) losses, net	(415.9)	(113.3)	34.0	(4.1)
Minimum liability adjustment	–	–	(23.2)	(43.4)
Accrued pension cost	$ (205.1)	$ (72.4)	$(107.5)	$(126.7)

Assumptions used to determine plan liabilities and expenses follow.

December 31	1994	1993	1992
Settlement discount rate	8.25%	6.75%	6.75%
Long-term rate for compensation increases	5.5	5.5	5.5
Long-term rate of return on plan assets	9.0	9.0	9.0

Supplemental information related only to Alcoa's U.S. pension plans partially insured by the Pension Benefit Guarantee Corporation follow.

	Assets exceed accumulated benefit obligation		Accumulated benefit obligation exceeds assets	
December 31	1994	1993	1994	1993
Plan assets at fair market value	$ 3,079.1	$ 3,270.5	–	$ 21.7
Accumulated benefit obligation	(2,813.2)	(3,115.6)	–	(23.9)
	$ 265.9	$ 154.9	–	$ (2.2)

Alcoa also sponsors a number of defined contribution pension plans. Expenses were $32.9 in 1994, $34.5 in 1993 and $23.9 in 1992.

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V. Postretirement Benefits

Alcoa implemented SFAS 106 as of January 1, 1992 and the cumulative effect of this change was reported in 1992 earnings.

Alcoa maintains health care and life insurance benefit plans covering most eligible U.S. retired employees and certain other retirees. Generally, the medical plans pay a stated percentage of medical expenses reduced by deductibles and other coverages. These plans are generally unfunded, except for certain benefits funded through a trust. Life benefits are generally provided by insurance contracts. Alcoa retains the right, subject to existing agreements, to change or eliminate these benefits.

Changes made in 1993 to certain medical plans may require contributions by future retirees to help offset medical cost increases. The changes reduced Alcoa's benefit expense and prior service costs.

The components of postretirement benefit expense follow.

	1994	1993	1992
Service cost of benefits earned	$ 20.2	$ 29.9	$ 42.9
Interest cost on liability	104.4	110.2	135.9
Net amortization	(50.0)	(32.4)	–
Return on plan assets	(4.8)	(5.2)	(3.7)
Postretirement benefit costs	$ 69.8	$102.5	$175.1

The status of the postretirement benefit plans was:

December 31	1994	1993
Retirees	$1,040.3	$1,070.4
Fully eligible active plan participants	112.5	142.9
Other active participants	307.8	378.6
Accumulated postretirement benefit obligation (APBO)	1,460.6	1,591.9
Plan assets, primarily stocks and bonds at market	53.3	53.4
APBO in excess of plan assets	1,407.3	1,538.5
Unrecognized net:		
Reduction in prior service costs	420.1	469.4
Actuarial gains (losses)	103.3	(78.8)
Accrued postretirement benefit liability	$1,930.7	$1,929.1

For measuring the liability and expense, a 10% annual rate of increase in the per capita claims cost was assumed for 1995, declining gradually to 5.5% by the year 2003 and thereafter. Other assumptions used to measure the liability and expense follow.

December 31	1994	1993	1992
Settlement discount rate	8.25%	6.75%	6.75%
Long-term rate for compensation increases	5.5	5.5	5.5
Long-term rate of return on plan assets	9.0	9.0	9.0

For 1994 a 1% increase in the trend rate for health care costs would have increased the APBO by 8% and service and interest costs by 9%.

Quarterly Data (unaudited)

(dollars in millions, except share amounts)

1994	First	Second	Third	Fourth	Year
Sales and operating revenues	$2,221.6	$2,479.4	$2,561.5	$2,641.8	$9,901.3
Income from operations	1.5	78.7	121.3	401.8	603.3
Net income (loss)*	(108.3)	45.4	70.1	368.0	375.2
Per common share	(.61)	.25	.39	2.07	2.10

*After a special charge of $50.0, or 28 cents per share, and an extraordinary loss of $67.9, or 38 cents per share, in the first quarter and a gain of $300.2, or $1.69 per share, in the fourth quarter

1993	First	Second	Third	Fourth	Year
Sales and operating revenues	$2,109.6	$2,405.3	$2,230.2	$2,310.8	$9,055.9
Income from operations	64.5	109.6	73.4	(46.1)	201.4
Net income (loss)*†	27.6	35.3	28.8	(86.9)	4.8
Per common share	.16	.20	.16	(.50)	.02

*After special items of $23.8, or 14 cents per share, in the second quarter, $4.0, or two cents per share, in the third quarter and $70.2, or 43 cents per share, in the fourth quarter

†Net income for the second quarter includes a credit of $26.3 from a reduction in Australia's corporate tax rate from 39% to 33% and a $9.1 credit in the third quarter from the change in the U.S. tax rate.

Average Number of Employees (unaudited)

	1994	1993	1992
USA	30,300	31,700	34,200
Other Americas	16,700	16,600	17,000
Pacific	6,400	6,700	6,200
Europe	8,300	8,400	6,200
	61,700	63,400	63,600

11-Year Summary of Financial and Other Data

(dollars in millions, except share amounts)

For the year ended December 31	1994	1993	1992
Operating results			
Sales and operating revenues	$ 9,904.3	$ 9,055.9	$ 9,491.5
Other income (loss)	487.2	93.0	96.9
Cost of goods sold and operating expenses	7,845.7	7,187.0	7,339.1
Selling, general and administrative expenses	632.7	603.6	586.8
Research and development expenses	125.8	130.4	212.2
Depreciation and depletion	671.3	692.6	682.4
Interest expense	106.7	87.8	105.4
Taxes on income	219.2	(10.3)	132.3
Other taxes	107.1	105.6	112.3
Special items–(income) expense	79.7	150.8	251.6
Income from operations	603.3	201.4	166.3
Minority interests	(160.2)	(196.6)	(143.9)
Extraordinary gains (losses) and accounting changes*	(67.9)	–	(1,161.6)
Net income (loss)	375.2	4.8	(1,139.2)
Alcoa's average realized price per pound for aluminum ingot	.64	.56	.59
Average U.S. market price per pound for aluminum ingot *(Metals Week)*	.71	.53	.58
Dividends declared			
Preferred stock	2.1	2.1	2.1
Common stock	142.3	140.2	136.8
Financial position			
Working capital	1,599.7	1,609.6	1,083.0
Properties, plants and equipment	6,689.4	6,506.8	6,415.8
Other assets (liabilities), net	(1,572.3)	(1,710.9)	(1,733.6)
Total assets	12,353.2	11,596.9	11,023.1
Long-term debt (noncurrent)	1,029.8	1,432.5	855.3
Minority interests	1,687.8	1,389.2	1,305.6
Shareholders' equity	3,999.2	3,583.8	3,604.3
Common share data (dollars per share)†			
Net income (loss)	2.10	.02	(6.70)
Dividends declared	.80	.80	.80
Book value (based on year-end outstanding shares)	22.07	19.96	20.70
Price range: High	45⅜	39¼	40⅞
Low	32⅜	29½	30½
Shareholders (number)	55,200	55,300	55,200
Average shares outstanding (thousands)	177,882	175,346	170,948
Operating data (thousands of metric tons)			
Aluminum product shipments:			
Primary	655	841	1,023
Fabricated and finished products	1,896	1,739	1,774
Total	2,551	2,580	2,797
Primary aluminum capacity:			
Consolidated	1,905	1,905	1,905
Total, including affiliates and others' share of joint ventures	2,428	2,428	2,428
Primary aluminum production:			
Consolidated	1,531	1,770	1,903
Total, including affiliates and others' share of joint ventures	2,067	2,315	2,446
Other statistics			
Capital expenditures	$612	$757	$789
Average number of employees	61,700	63,400	63,600
Return on average shareholders' equity (%)	9.9	.1	(26.7)
Return on average invested capital (%)	9.3	4.3	(14.0)

*Reflects the cumulative effects of the accounting changes for postretirement benefits and income taxes in 1992

†All common share amounts were restated to reflect the two-for-one stock split in February 1995.

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1991	1990	1989	1988	1987	1986	1985	1984
$ 9,884.1	$10,710.2	$10,910.0	$ 9,795.3	$7,767.0	$6,431.4	$6,599.5	$7,135.7
97.1	160.3	249.6	(27.8)	(19.3)	(8.7)	81.1	69.4
7,444.8	7,606.2	7,338.3	6,527.7	5,456.7	4,753.2	5,038.3	5,346.8
579.8	592.3	540.8	485.0	445.0	364.6	372.7	338.3
251.9	220.3	182.4	167.4	173.7	148.9	120.3	96.0
697.9	689.9	638.3	623.2	587.3	522.9	515.5	473.4
153.2	184.7	178.3	208.4	240.8	274.8	330.5	331.7
192.8	404.0	829.7	635.6	221.1	124.7	(26.9)	217.0
111.2	105.3	84.4	83.4	84.7	76.8	77.6	85.9
330.9	414.4	–	–	231.3	(138.5)	242.5	27.1
218.7	653.4	1,367.4	1,036.8	307.1	295.3	10.1	288.9
(156.0)	(358.2)	(422.5)	(175.4)	(83.1)	(31.3)	(26.7)	(32.9)
–	–	–	–	(23.9)	(9.9)	–	–
62.7	295.2	944.9	861.4	200.1	254.1	(16.6)	256.0
.67	.75	.92	.96	.72	.59	.54	.67
.59	.74	.88	1.10	.72	.56	.49	.61
2.1	2.2	2.5	2.5	2.5	2.5	2.5	2.5
151.2	264.9	240.4	114.7	105.1	102.7	97.5	97.2
1,546.0	1,706.3	1,594.9	1,307.9	984.1	839.3	1,326.1	1,380.4
6,586.1	6,747.0	6,658.6	6,415.0	6,402.7	6,230.4	6,199.9	5,977.3
(701.9)	(413.7)	(137.2)	(317.8)	(158.5)	(35.9)	(359.3)	(393.0)
11,178.4	11,413.2	11,540.6	10,537.5	9,901.9	9,545.1	9,428.9	9,218.4
1,130.8	1,295.3	1,316.3	1,524.7	2,457.6	2,521.7	3,123.5	3,063.2
1,362.0	1,581.0	1,533.1	1,244.9	860.0	790.5	735.3	557.9
4,937.4	5,163.3	5,266.9	4,635.5	3,910.7	3,721.6	3,307.9	3,343.6
.36	1.70	5.34	4.87	1.13	1.48	(.12)	1.57
.89	1.53	1.36	.65	.60	.60	.60	.60
28.69	30.10	29.71	25.88	21.81	21.00	19.92	20.20
36½	38⅝	39⅞	26⅞	32⅜	23⅛	20⅜	24⅜
26⅞	24⅞	27⅝	19⅜	16⅞	16⅜	14⅞	15⅜
55,800	56,300	56,500	58,400	52,600	56,400	57,900	57,500
169,968	172,408	176,608	176,404	175,342	169,800	162,482	162,130
1,179	1,179	960	796	493	452	521	460
1,657	1,545	1,619	1,708	1,720	1,563	1,624	1,656
2,836	2,724	2,579	2,504	2,213	2,015	2,145	2,116
1,903	1,903	1,907	1,756	1,689	1,659	1,481	1,809
2,498	2,498	2,420	2,231	2,076	2,046	1,739	2,064
1,919	1,870	1,876	1,814	1,498	1,401	1,492	1,665
2,511	2,395	2,391	2,250	1,851	1,662	1,735	1,873
$850	$851	$876	$866	$856	$825	$907	$880
65,600	63,700	60,600	59,000	55,000	54,000	55,000	55,000
1.2	5.7	19.1	20.2	5.2	7.2	(.5)	7.8
4.2	9.7	19.2	16.2	6.3	6.5	3.1	7.0

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Alcoa Worldwide Operations

Country	*Companies*	*Location*	Aerospace Components	Alumina	Alumina Chemicals	Auto Components, Assemblies	Bauxite Mining	Building Products	Can Reclamation	Castings, Forgings	Closures, Machinery	Electrical Products	Extrusions, Tube	Foil Products	Packaging Machinery	Primary Aluminum	Sheet, Plate	Wire, Rod, Bar	Other*
Argentina	Alusud Argentina S.A. Industrial y Comercial	Buenos Aires									■								■
	Feroscar S.A. Industrial y Comercial	La Plata											■						
Australia	Alcoa of Australia Limited	Boddington																	■
		Huntly, Jarrahdale, Willowdale					■												
		Kwinana, Pinjarra		■	■														
		Point Henry														■	■		
		Portland†														■			
		Wagerup		■															
	Australian Fused Minerals	Rockingham			■														
Bahrain	Gulf Closures W.L.L.	Manama†									■								
Belgium	Alcoa Bouwprodukten N.V.	Turnhout						■											
Brazil	Alcoa Aluminio S.A.	Barueri									■								■
		Cotia								■									
		Guarulhos										■							
		Itapissuma						■					■	■			■		
		Pindamonhangaba, Sorocaba						■					■						
		Poços de Caldas		■	■		■					■				■			■
		Salto			■														
		Tubarao											■						
		Valinhos				■													
	Alumar Consortium	São Luis		■												■			
	Mineracao Rio de Norte S.A.	Trombetas†					■												
	Tendtudo Materiais Para Construcao Ltda.	São Paulo																	■
Chile	Alusud Embalajes Chile Ltda.	Santiago									■								
China	Asian-American Packaging Systems, Co., Ltd.	Tianjin									■								
Colombia	Alusud Embalajes Colombia Ltda.	Bogota									■								
France	Forges de Bologne S.A.	Bologne								■									
Germany	Alcoa Automotive Structures GmbH	Soest				■													
	Alcoa Chemie GmbH	Ludwigshafen			■														
	Alcoa Deutschland GmbH	Tellig, Viernheim									■								
		Worms am Rhein									■								
	Alcoa VAW Hannover Presswerk GmbH & Co. KG	Hannover	■			■							■						
	Michels GmbH	Herzebrock, St. Vit				■						■							
	Stribel GmbH	Frickenhausen				■						■							
Guinea	Halco (Mining), Inc.	Sangaredi†					■												
Hungary	Michels GmbH	Enying, Mor, Salgotarjan				■						■							
		Székesfehérvár, Veszprem				■						■							
	Stribel GmbH	Mor				■						■							
	Alcoa-Köfém KFT	Székesfehérvár						■					■				■		
	CSI Hungary	Székesfehérvár									■								

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*Includes aluminum paste, particle, flake and atomized powder, ceramics, gold mining, magnesium, and systems and components for appliances

†Ownership of 50% or less

Country	Companies	Location	Aerospace Components	Alumina	Alumina Chemicals	Auto Components, Assemblies	Bauxite Mining	Building Products	Can Reclamation	Castings, Forgings	Closures, Machinery	Electrical Products	Extrusions, Tube	Foil Products	Packaging Machinery	Primary Aluminum	Sheet, Plate	Wire, Rod, Bar	Other*
India	Alumina Products India, Ltd.	Falta			■														
Ireland	AFL Ireland Ltd.	Dundalk				■						■							
Jamaica	Alcoa Minerals of Jamaica, L.L.C.	Clarendon		■			■												
Japan	Alcoa Kasei Limited	Naoetsu			■														
	KSL Alcoa Aluminum Company, Ltd. (KAAL)	Moka†															■		
	Moralco Limited	Iwakuni City			■														
	Shibazaki Seisakusho Limited	Ichikawa, Nogi									■								
Malaysia	Unified Accord SDN. BHD.	Kuala Lumpur									■								
Mexico	Alcoa Fujikura Ltd.	Acuna, Monterrey				■						■							
		Piedras Negras				■						■							
	Alutodo de Mexico, S.A. de C.V.	Guadalahara																	■
	H-C Industries de Mexico, S.A. de C.V.	Saltillo									■								
Netherlands	Alcoa Chemie Nederland B.V.	Rotterdam			■														
	Alcoa Moerdijk B.V.	Rotterdam			■														
	Alcoa Nederland B.V.	Assen, Cuijk, DeLier						■											
		Geldermalsen, Giessen						■											
		Zwijndrecht						■											
		Drunen						■					■				■		■
Norway	Elkem Aluminium ANS	Lista†, Mosjoen†														■			
Peru	Alusud Embalajes Peru Ltda.	Lima									■								
Singapore	ACAP Singapore Pte Ltd.	Singapore			■														
	Closure Systems International	Singapore									■								
Spain	Capsulas Metalicas S.A.	Barcelona									■								
	Extrusion de Aluminio S.A.	Valls, Tarragona											■						
Suriname	Suriname Aluminum Company, L.L.C.	Moengo					■												
		Paranam		■			■									■			
United Kingdom	Alcoa Extruded Products (UK) Limited	Swansea											■						
	Alcoa Manufacturing (G.B.) Limited	Swansea															■		
	Alcoa Systems (UK) Limited	Stratford-on-Avon						■											
United States	Alcoa	Alcoa, Tenn.; Evansville, Ind.							■							■	■		
		Badin, N.C.														■	■		■
		Bauxite, Ark.; Fort Meade, Fla.			■														
		Cleveland, Ohio				■				■									
		Davenport, Iowa; Irvine, Calif.	■											■			■		
		Lafayette, Ind.											■						
		Lebanon, Pa.												■			■		
		Leetsdale, Pa.		■															
		Massena, N.Y.														■		■	
		Mobile, Ala.; Vidalia, La.			■														
		New Kensington, Pa.																	■
		Point Comfort, Texas		■	■														■
		Richmond, Ind.									■								■

Operations listings continue on next page.

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*Includes aluminum paste, particle, flake and atomized powder, ceramics, gold mining, magnesium, and systems and components for appliances

†Ownership of 50% or less

Country	Companies	Location	Aerospace Components	Alumina	Alumina Chemicals	Auto Components, Assemblies	Bauxite Mining	Building Products	Can Reclamation	Castings, Forgings	Closures, Machinery	Electrical Products	Extrusions, Tube	Foil Products	Packaging Machinery	Primary Aluminum	Sheet, Plate	Wire, Rod, Bar	Other*
United States *continued*		Rockdale, Texas														■			■
		Wenatchee, Wash.														■			
	Alcoa Brite Products, Inc.	Norcross, Ga.				■		■											
	Alcoa Composites, Inc.	Monrovia, Calif.	■																■
		Springville, Utah	■																
	Alcoa Construction Products	Denison, Texas; Gaffney, S.C.						■											
		Miamisburg, Ohio; Princeville, Ill.						■											
		Rantoul, Ill.; Sidney, Ohio						■											
		Springboro, Ohio; Stuarts Draft, Va.						■											
	Alcoa CSI	Crawfordsville, Ind.									■								
		Indianapolis, Ind.									■								
		Olive Branch, Miss.									■								
	Alcoa Electronic Packaging, Inc.	San Diego, Calif.																	■
	Alcoa Fujikura Ltd.	Brentwood, Tenn.; Dearborn, Mich.				■						■							
		Del Rio, Texas; Mattawan, Mich.				■						■							
		North Royalton, Ohio				■						■							
		San Antonio, Texas				■						■							
		Houston, Miss.; Nashville, Tenn.										■							
		Spartanburg, S.C.										■							
	Alcoa Memory Products, Inc.	Sidney, Ohio																	■
	Alcoa Packaging Machinery, Inc.	Englewood, Colo.													■				
		Randolph, N.Y.													■				
	Alcoa Specialty Chemicals, Inc.	Nashville, Tenn.; Vidalia, La.			■														
	Alcoa-Zepf, L.L.C.	Indianapolis, Ind.									■								
	Alcotec Wire Company	Traverse City, Mich.																■	
	Autoprod, Inc.	Clearwater, Fla.†													■				
	B&C Research, Inc.	Barberton, Ohio				■				■									
	Halethorpe Extrusions, Inc.	Baltimore, Md.											■						
	Northwest Alloys, Inc.	Addy, Wash.																	■
	Norton-Alcoa Proppants	Fort Smith, Ark.†																	■
	Permatech, Inc.	Graham, N.C.																	■
	Pimalco, Inc.	Chandler, Ariz.											■						
	Stolle Machinery, Inc.	Sidney, Ohio													■				
	Stolle Products, Norcold and Arctek	Gettysburg, Ohio																	■
		Sidney, Ohio				■													■
	Structural Laminates Company	New Kensington, Pa.															■		
	Tifton Aluminum Company, Inc.	Delhi, La.; Tifton, Ga.											■						

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Business Units

Aerospace/Commercial Rolled Products
L. Patrick Hassey, President
Davenport, Iowa
General purpose and specialty aluminum sheet and plate for aerospace, automotive, printing and other industries

Alcoa Asia Ltd.
Joseph C. Muscari, President
Tokyo, Japan
Sales and marketing services, business development and management in the Asian region

Alcoa of Australia Limited
Robert F. Slagle, Managing Director
Melbourne, Australia
Bauxite mining and alumina refining, aluminum smelting, aluminum sheet for beverage can market and gold mining

Alcoa Bauxite and Alumina
Roger A. G. Vines, President
Pittsburgh, Pennsylvania
Bauxite mining and alumina refining in Jamaica and Suriname, bauxite mining in Guinea, and alumina refining in the United States

Alcoa Closure Systems International
Timothy J. Leveque, President
Indianapolis, Indiana
Plastic and aluminum closures (bottle caps), capping and other equipment and supplies for packaging markets

Alcoa Composites, Inc.
David L. Rittichier, President
Monrovia, California
Lightweight metallic and nonmetallic structures for aerospace, transportation and defense markets

Alcoa Construction Products
Dana R. Snyder, President
Sidney, Ohio
Aluminum and vinyl building products

Alcoa Electronic Packaging, Inc.
Kenneth W. Blevins, President
San Diego, California
Ceramic packages for semiconductors used in the computer and electronics markets

Alcoa Extrusion/Tube System
John W. Collins III, President
Lafayette, Indiana
Aluminum extrusions and tubes for aerospace, automotive, building and construction, machinery and equipment industries

Alcoa Foil Products
Kenneth R. McElheney, President
Lebanon, Pennsylvania
Aluminum sheet, foil and laminated materials used in heat exchangers and other applications for the automotive, building and construction, machinery and equipment, and packaging markets

Alcoa Forged Products
Robert S. Hughes II, President
Cleveland, Ohio
Aluminum castings and forgings in a variety of materials for the aerospace, transportation and commercial markets

Alcoa Fujikura Ltd.
Robert H. Barton III, President
Brentwood, Tennessee
Automotive electrical/electronic systems, electronic components, and specialty fiber optic products for the automotive and telecommunications markets; and wire products for the electrical market

Alcoa Industrial Chemicals
Michael J. Schreier, President
Charlotte, North Carolina
Alumina and other inorganic chemical products for the refractory, adsorbent and catalyst, ceramic and abrasive, polymer and water treatment markets

Alcoa Nederland Holding B.V.
H. A. J. Bemelmans, President
Drunen, Netherlands
Aluminum coil sheet, extrusions and other fabricated products for the horticultural, packaging, transportation, and building and construction markets

Alcoa Packaging Equipment
David W. Groetsch, President
Englewood, Colorado
Engineered packaging equipment for the beverage industry and filling equipment for the food and dairy industry

Alcoa Primary Metals
G. John Pizzey, President
Knoxville, Tennessee
Primary aluminum products produced in the United States for various markets and applications

Alcoa Rigid Packaging
George E. Bergeron, President
Knoxville, Tennessee
Aluminum sheet for the beverage and food can industries and can recycling

Alcoa Wire, Rod and Bar
Timothy S. Mock, President
Massena, New York
Aluminum wire, rod and bar for various markets and applications

Automotive Structures International
David W. Schlendorf, President
Munich, Germany
Extruded and cast aluminum parts and subassemblies for spaceframe structures used in the automotive market

Latin America and Alcoa Aluminio S.A.
Fausto P. Moreira, President
Paulo F. Periquito, Executive Vice President
São Paulo, Brazil
Bauxite mining, alumina refining, aluminum smelting and fabricating, for various markets and applications; plastic closures, bottles and labels; copper cable, aluminum truck bodies and retailing of home building products

Northwest Alloys, Inc.
Edward L. Sandman, President
Addy, Washington
Magnesium as an alloying material for Alcoa and other aluminum fabricators

Worldwide Automotive Products
Richard A. Schultz, Director
Pittsburgh, Pennsylvania
Coordinates Alcoa products and systems for automotive markets

Shareholder Information

Annual Meeting
The annual meeting of shareholders will be at 9:30 a.m. on Friday, May 12, 1995 at the Vista International Hotel in Pittsburgh.

Financial Information
For copies of the annual report, *Alcoa Update* and Forms 10-K and 10-Q, write Corporate Communications at the headquarters address or call (412) 553-4463.

Other Publications
A report of contributions and programs supported by Alcoa Foundation is available by writing Alcoa Foundation, 425 Sixth Avenue, Room 2220, Pittsburgh, PA 15219-1850 or by calling (412) 553-2343.

A report on Alcoa's environmental, health and safety performance is available by writing Alcoa Environment, Health and Safety Department, 425 Sixth Avenue, Room 1962, Pittsburgh, PA 15219-1850 or by calling (412) 553-4637.

Dividends
Alcoa's objective is to pay common stock dividends at rates competitive with other investments of equal risk and consistent with the need to reinvest earnings for long-term growth. To support this objective, Alcoa pays a base quarterly dividend and an additional dividend linked directly to the company's financial performance. The base quarterly dividend is 22.5 cents per common share, based on the two-for-one stock split in February 1995. The additional dividend is 30% of Alcoa's annual earnings over $3.00 per share.

Dividend Reinvestment
The company offers a Dividend Reinvestment and Stock Purchase Plan for shareholders of Alcoa common and preferred stock. The plan allows shareholders to reinvest quarterly dividends in shares of the company's common stock. Shareholders may also purchase additional shares under the plan with cash contributions. The company pays brokerage commissions and fees on these stock purchases.

Shareholder Services
Stock Transfer Agent, Registrar and Disbursing Agent (for inquiries and changes in shareholder accounts):

First Chicago Trust Company of New York
Attention: Shareholder Services, P.O. Box 2500,
Jersey City, NJ 07303-2500
Telephone Response Center:
1-800-446-2617

Shareholders with questions on other matters related to Alcoa may write to Barbara S. Jeremiah, Office of the Secretary, at the headquarters address or call (412) 553-4707.

Stock Data
Common: New York Stock Exchange and European exchanges in Basel, Brussels, Frankfurt, Geneva, Lausanne, London and Zurich
Preferred: American Stock Exchange
Ticker symbol: AA

Headquarters
Alcoa
425 Sixth Avenue
Pittsburgh, PA 15219-1850
Telephone: (412) 553-4545
Telex: 866470
Facsimile: (412) 553-4498

Aluminum Company of America is incorporated in the Commonwealth of Pennsylvania.

NewsBriefs

Community outreach. In a disadvantaged area near São Paulo, a neighborhood association has opened a new school to teach young people the trade of aluminum window-making. The school was funded and built by Alcoa Aluminio, through the Instituto Filantropico Alcoa, as part of its program to improve the quality of community life through better education, health and professional training.

Computer inroads. Sony will join 3M and Verbatim in converting all shutter doors on computer floppy disks from stainless steel to anodized aluminum in 1995. It's a new market for up to 20 million pounds of aluminum, which is lower in weight and cost than stainless.

Moving ahead in hydrates. An agreement reached with employees clears the way for major improvements in the Alcoa Hydrate Chemicals facility at Bauxite, Ark. Starting in early 1996, new facilities and reengineered processes will expand production and raise efficiency, consistency and quality. The plant produces fine white alumina trihydrates for the plastics, rubber, paper, coatings, catalysts, and ceramics markets.

Growth in litho sheet. In 1994, Alcoa Aerospace/Commercial Rolled Products logged a record year in litho sheet – the aluminum sheet used to make lithographic printing plates. Shipments were up 29% in 1994, for a gain of 70% in three years. Given its critical surface and flawless requirements, litho sheet is one of the most demanding products rolled by Alcoa.

Recycling in Singapore. Singapore's Ministry of Environment, which once asked that aluminum cans be burned in incinerators, is now considering purchase of reverse vending machines to recycle them. Singapore Airlines is also testing a recycling program.

Quarterly Stock Information

Quarter	1994* High	1994* Low	1994* Dividend	1993* High	1993* Low	1993* Dividend
First	$41	$34⅜	$.20	$39¼	$32⅛	$.20
Second	38⅜	32⅛	.20	35⅛	29½	.20
Third	43⅞	37⅛	.20	39	33	.20
Fourth	45⅛	38⅜	.20	37⅛	32⅞	.20
Year	$45⅛	$32⅛	$.80	$39¼	$29½	$.80

*Adjusted for two-for-one stock split

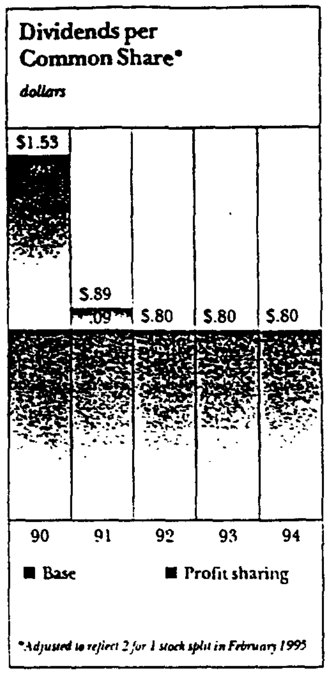
Common Share Data

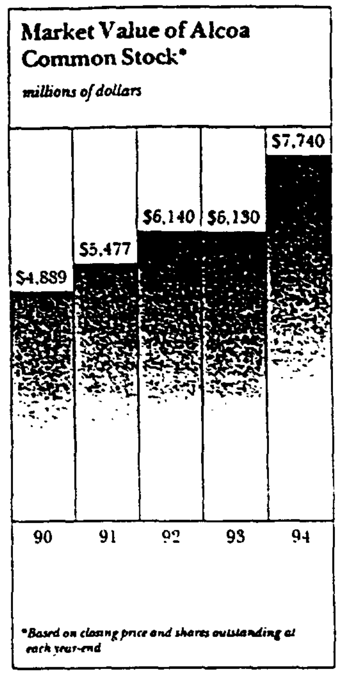
	Estimated number of shareholders*	Average shares outstanding (000)†
1994	55,200	177,882
1993	55,300	175,346
1992	55,200	170,948
1991	55,800	169,968
1990	56,300	172,408

*These estimates include shareholders who own stock registered in their own names and those who own stock through banks and brokers.
†Adjusted for two-for-one stock split

Investor Information

Security analysts and investors seeking information about the company may write to Edgar M. Cheely, Jr., Manager – Investor Relations, 425 Sixth Avenue, Room 2928, Pittsburgh, PA 15219-1850 or call (412) 553-2451.





News Briefs

Swiss recover 82% of cans. An innovative incentive program in Switzerland is recovering 82% of aluminum cans, compared with about 30% for the rest of Europe and 65% in the U.S. Alcoa is part of a consortium of aluminum suppliers and beverage companies who teamed up to place special can collection machines across Switzerland.

Environment in Hungary. Alcoa-Köfém, a joint venture between Alcoa and Hungalu, has been asked by the Environmental Ministry in Hungary to be an advisor to the government on environmental legislation. The invitation came after Alcoa-Köfém presented two environmental improvement projects to the ministry.

More ingots, more wheels. Alcoa Forged Products Division forges truck wheels from round ingots, cast at a sister plant in Massena, New York. With wheel sales rising, the division has invested in a new melter/holding furnace at Massena that will increase ingot casting capacity by 60 million pounds per year, at lower cost per pound.

Ford picks ATC panel design. Ford Motor has specified a weldless, multicone body panel design from Alcoa Technical Center for the aluminum hoods of a new family of autos and trucks. The Alcoa design reduces weight, improves dent resistance, and lowers tooling costs.

... and AFL wiring. Alcoa Fujikura Ltd. will supply the electrical distribution system for Ford's new *Transit* mini-van project in Europe.

Auto design and engineering. Alcoa Automotive Structures GmbH has opened a new design and engineering office in Esslingen, Germany, to support engineering collaborations with various European car manufacturers. Esslingen is linked electronically to the plant at Soest—where Alcoa makes spaceframe components for the Audi A8—and to Alcoa Technical Center in the U.S. The linkage allows rapid exchange of data from ongoing design work using advanced CAD and finite element analysis systems.

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Glossary

Alloy – A substance with metallic properties, composed of two or more chemical elements of which at least one is a metal. More specifically, aluminum plus one or more other elements, produced to have certain specific, desirable characteristics.

Alumina – Aluminum oxide produced from bauxite by an intricate chemical process. It is a white powdery material that looks like granulated sugar. Alumina is an intermediate step in the production of aluminum from bauxite and is also a valuable chemical on its own.

Anodizing – An electrochemical process for applying a protective or decorative coating to metal surfaces.

Bauxite – An ore from which alumina is extracted and from which aluminum is eventually smelted. Bauxite usually contains at least 45% alumina. About four pounds of bauxite are required to produce one pound of aluminum.

Brazing – Joining metals by flowing a thin layer of molten, nonferrous filler metal into the space between them.

Casting – The process of forming molten metal into a particular shape by pouring it into a mold and letting it harden.

Cold mill – The equipment on which aluminum is rolled into sheet or foil by passing it through pairs of rollers under pressure. In cold rolling, the incoming metal is normally at room temperature.

Engineered product – A basic aluminum fabricated product that has been mechanically altered to create special properties for specific purposes; forgings and extrusions are examples of engineered products.

Extrusion – The process of shaping material by forcing it to flow through a shaped opening in a die.

Fabricate – To work a material into a finished state by machining, forming or joining.

Flat-rolled products – Aluminum plate, sheet or foil products made by passing ingot through pairs of rolls. By moving the rolls closer together and passing the ingot between them, the thickness is reduced and the length is increased.

Forging – A metal part worked to predetermined shape by one or more processes such as hammering, pressing or rolling.

Hydrate – An aluminum oxide with three molecules of chemically combined water.

Ingot – A cast form suitable for remelting or fabricating. An ingot may take many forms: some may be 30 feet long and weigh 15 tons; others are notched or specially shaped for stacking and handling.

London Metals Exchange (LME) – The international trading body that facilitates the worldwide open market buying and selling of metals.

Magnesium – A light, silvery, moderately hard, metallic element used in processing metals and chemicals, and in alloying aluminum to give it desired metallurgical properties.

Mill products – Metal that has been fabricated into an intermediate form before being made into a finished product. The most common fabricating processes for aluminum are rolling, extruding, forging and casting. Example: aluminum sheet, a mill product, is used to make beverage cans, a finished product.

PET – Polyethylene terephthalate; a plastic commonly used to make bottles for beverages.

Pot – In aluminum production: the electrolytic reduction cell, commonly called a "pot," in which alumina dissolved in molten cryolite is reduced to metallic aluminum. A series of cells connected electrically is called a potline.

Smelt – To fuse or melt ore in order to extract or refine the metal it contains.

Spaceframe – An integrated structure of aluminum castings and extruded parts that form the primary body frame of a new generation of automobiles.

NewsBriefs

Dutch-American-Hungarian truck bodies. Alcoa Nederland Holding has reached an agreement with Mickey Body Company of the U.S. to manufacture and market truck bodies for beverage companies in Europe. The truck bodies will be manufactured by Alcoa-Köfém in Hungary.

Automating tomatoes. Alcoa Agro, a unit of Alcoa Nederland, has developed an automatic transporting system for picking and processing tomatoes. Introduced at the 1994 Dutch horticultural show in Amsterdam, the system includes self-adjusting picking cars which deftly harvest the tomatoes and transfer them to grading machines, maintaining high quality and raising productivity for the grower.

Women in the work force. Australia's *Business Review Weekly* singled out Alcoa of Australia as one of the leading companies working to expand its talent pool by opening up new opportunities for women. Recent initiatives have included developing recruitment efforts to encourage women to seek employment with the company in nontraditional areas and training and information programs for personnel at all operating locations.

Building products gain. Alcoa Construction Products reported a 30% rise in 1994 shipments of vinyl building products (siding, soffit, windows) compared with 1993 and a 29% gain in aluminum building products.

AEP expands capacity. Alcoa Electronic Packaging expects to surpass the $100 million mark in 1995 revenues. Demand for pin grid arrays – sophisticated ceramic electronic enclosures – is projected to grow 35% to 40% [illegible] and AEP is expanding capacity during the first half of [illegible] to meet the demand.

New auto parts plant. Alcoa is building a new plant near Toledo, Ohio, to manufacture aluminum structural assemblies for the automotive industry. Starting in late 1995, about 12[illegible] employees will produce high-volume parts for which Alcoa holds long-term supply contracts with carmakers. Future production and staffing are expected to grow as autos incorporate more aluminum to improve fuel economy and vehicle performance.

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*Chart

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Design: Arnold Saks Associates.
Editorial consulting: Alan VanDine

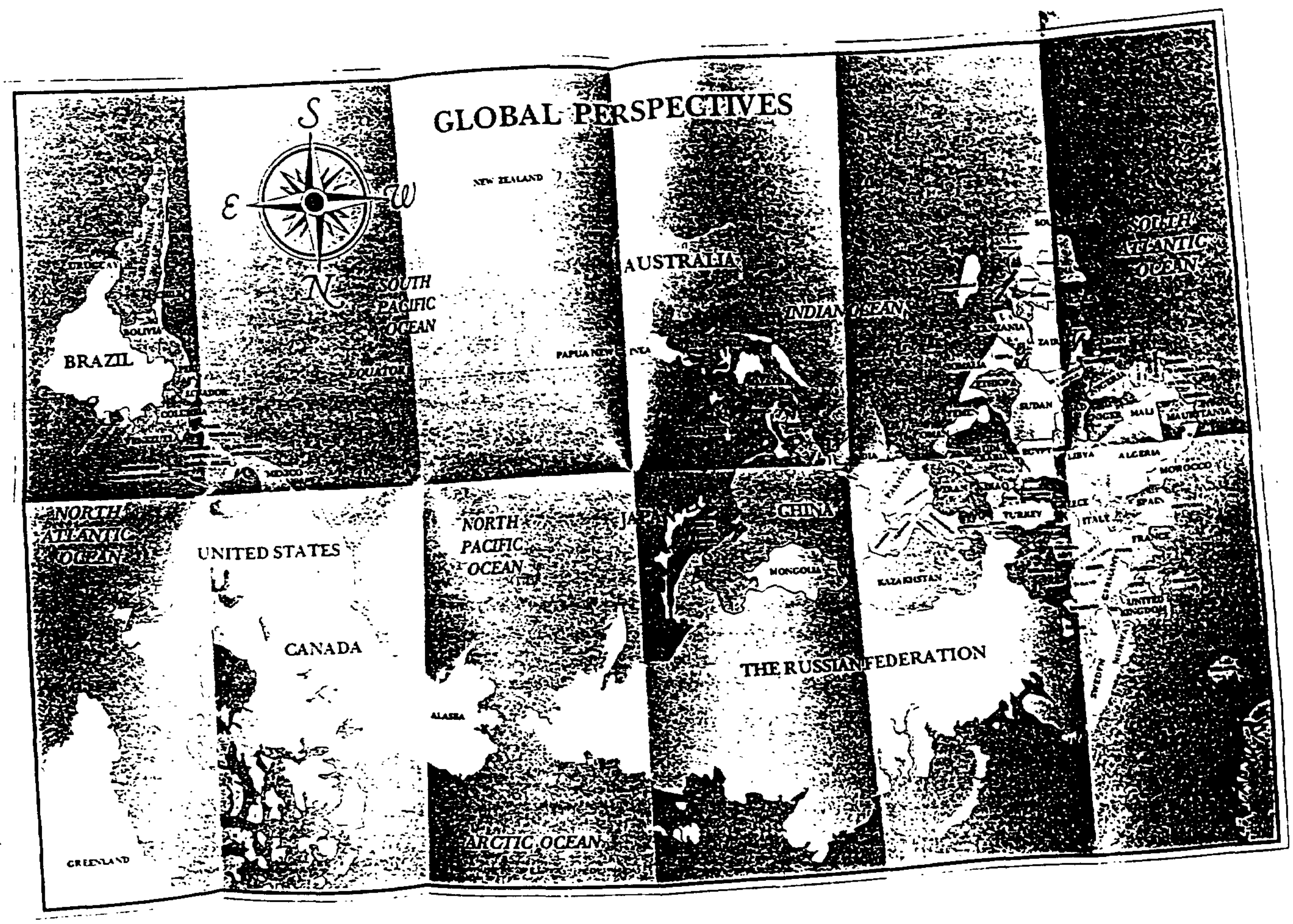
Printed in USA 9503
Form A07-15645

Printed on recycled paper

AR 1247

Latitude for Growth. On most maps, north is up and south is down – for no particular reason except that the original mapmakers lived in the northern hemisphere.

On Alcoa's global map, the key direction is forward – from some of the world's great resources of raw materials and energy, forward to the leading edge of aluminum technology in transportation, packaging, metalworking, and other industries worldwide. As to the map shown here, Australian Alcoans hang it up to remind them that being "down under" is no barrier to being the world's best.



ALCOA

AR 1248