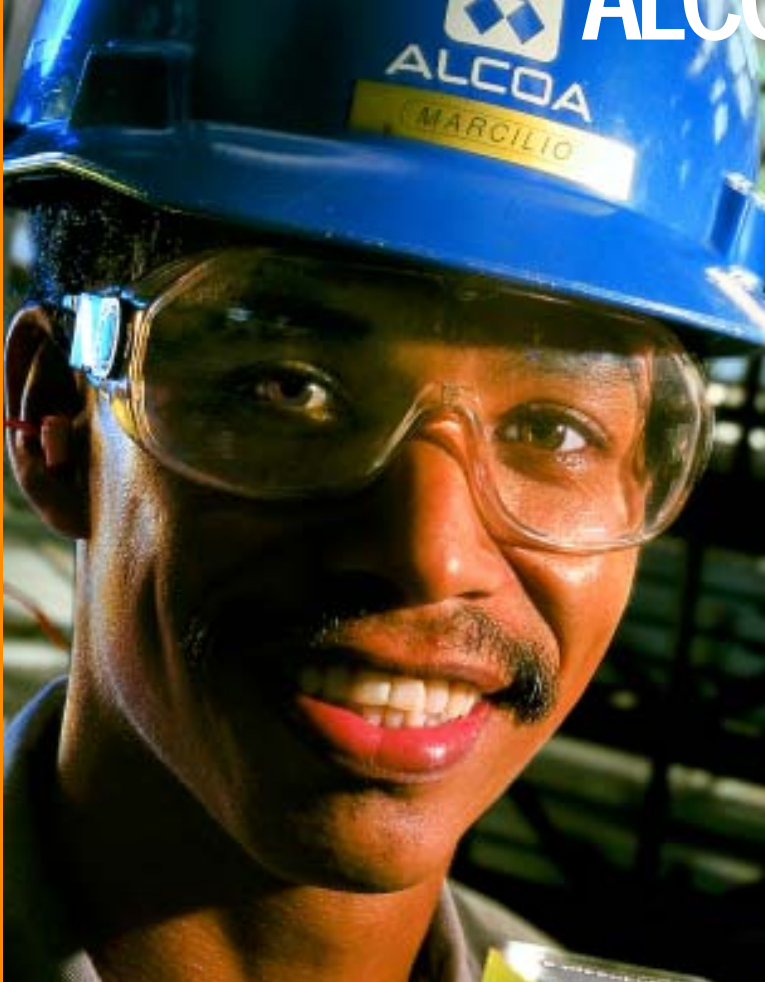


ALCOA97



Alcoa at a Glance

The world's largest producer of aluminum and alumina, Alcoa participates in all major segments of the industry: mining, refining, smelting, fabricating, and recycling. We serve customers worldwide in the packaging, automotive, aerospace, construction and other markets with a variety of fabricated and finished products. Nonaluminum businesses include packaging machinery, vinyl siding, plastic bottles and closures, and electrical distribution systems for cars and trucks. The company is organized into 21 business units, with 187 operating locations and 81,600 employees in 28 countries.

Alcoa's mission is to be the best aluminum company in the world, setting world standards in quality and creating value for customers, employees and shareholders through innovative technology and operating expertise.

We believe that future growth and success have their roots in the fundamental values of an organization. For Alcoa, these values begin with integrity, with respect for our people, their safety and health, and for the environment within which we live and work. Alcoa brings these values to each of its operations around the world.

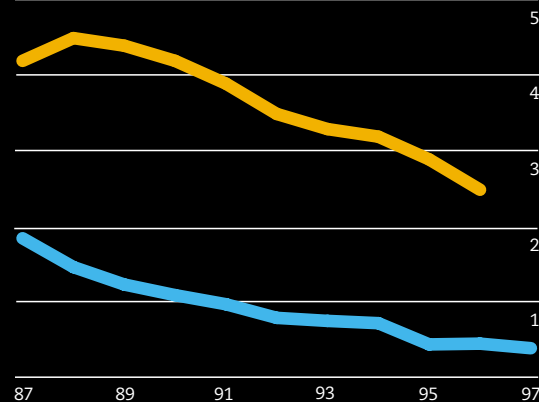
"We have accelerated our efforts to be the provider of choice in every region...which is playing a part in reaching our year 2000 goal to have \$20 billion in revenues. We intend to be seen as a local producer everywhere in the world."

Paul O'Neill
January 8, 1998

On the cover (clockwise from upper left):
Kevin Hubertz, Lafayette, Ind., U.S.
Mecseki Tibor, Székesfehérvár, Hungary
Rosalie Byrd, Wagerup, Australia
José Marcílio de Melo, Itapissuma, Brazil.

Progress in Safety

lost workday rate per 200,000 work hours



■ U.S. Manufacturing*
■ Alcoa

*Source: Bureau of Labor Statistics

Financial and Operating Highlights

(dollars in millions, except share amounts)

	1997	1996	% change
Sales	\$13,319.2	\$13,061.0	2
Income from operations*	1,073.0	721.0	49
Net income*	805.1	514.9	56
Per common share:			
Basic earnings	4.66	2.94	59
Diluted earnings	4.62	2.91	59
Dividends paid	.975	1.33	(27)
Book value	25.93	25.54	2
Total assets	13,070.6	13,449.9	(3)
Capital expenditures	912.4	995.7	(8)
Cash flow from operations	1,887.6	1,278.9	48
Return on average shareholders' equity †	18.1%	11.6%	56
Debt as a percent of invested capital	20%	22%	(9)
Interest coverage ratio	9.4	8.6	9
Current assets/liabilities ratio	1.8 to 1	1.8 to 1	-
Shipments of aluminum products (000 metric tons)	2,956	2,841	4
Number of shareholders	95,800	88,300	9
Average common shares outstanding (000)	172,226	174,334	(1)
Number of employees	81,600	76,800	6

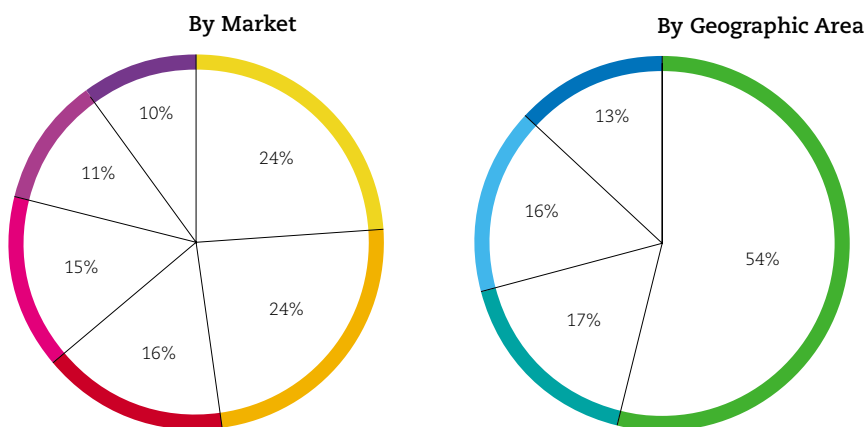
* Includes net gains of \$43.9, or 25 cents per basic share, in 1997 and net charges of \$122.3, or 70 cents per basic share, in 1996

† Without the above, the return on equity was 17.1% in 1997 and 14.4% in 1996.

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1997 Revenues: \$13.3 Billion



■ Packaging
■ Transportation
■ Distribution and Other
■ Alumina and Chemicals
■ Aluminum Ingot
■ Building and Construction

■ U.S.
■ Europe
■ Other Americas
■ Pacific

Market Trends covered on page 56

To Alcoa Shareholders

Earnings in 1997 totaled \$805 million with revenues of \$13.3 billion and a return on equity of 18.1%. It was a good year for Alcoa — the third best earnings year in our history.

The absolute level of earnings is important because that level and the future earnings level anticipated by investors have a direct effect on the market price of our shares. During the first nine months of 1997, the U.S. equity market and Alcoa's share price were on a steady upward course with an anticipation that aluminum prices were going to strengthen. At the high point of the year, Alcoa's shares reached \$90, giving us a total market value of \$15.3 billion.

By contrast, at the beginning of the year our share price was \$65 and our total market value was \$11 billion. When the so-called "Asian flu" hit in October, our shares were pummeled by the market as analysts decided the world economy was going to be severely punished as a result of financial excesses in the Asian economy and that aluminum prices would fall. By the end of the year, our shares had been driven down to their beginning of the year levels. Since then we have seen a share price recovery to as high as \$78 and a market capitalization of \$13.1 billion.

What Counts

I recount this recent history to make a point — underneath these wild gyrations in the stock market, we are a company that does not change course because of the vagaries of the stock market and the fickle speculators who can move markets and company share prices over the short run.

We are committed to profitable growth that comes from serving customers' current and future needs — better than the competition. While we are not oblivious to the push and pull of external events, we are focused with intensity on what we know are the eternal verities of business success: Serve your customers

well. Prepare for the future. Never relax.

We are a company on the move. Some long-term shareholders will remember Alcoa's advertising slogan from years gone by — "We can't wait for Tomorrow." This generation of Alcoans is giving new meaning to the slogan.

Systematic Learning

As I think about the driving force in today's Alcoa, the words that best characterize what's going on here are "systematic accumulation and application of knowledge."

I see the evidence that we are truly doing this in many aspects of our activity, but none is more satisfying than the year-by-year improvement in our safety performance. 1997 was another year when we reduced the rate of lost workday cases — the rate for the year was .40 per 200,000 work hours — and progress continues. The rate for the last three months was .30. This progress, from a rate of 1.86 in 1987, is the direct result of "systematic accumulation and application of knowledge."

We have a real-time, computer-based, safety data system that shares immediately facts about safety incidents — what happened, what were the circumstances, what corrective action has been taken — so that we don't have to learn the same lesson over and over again. This kind of learning and sharing system works not just in safety but in everything we do. It is the backbone of our expectations for a successful future.

The Alcoa Business System

In the last two years we have begun to codify our learning process with the creation of what we have designated as the Alcoa Business System (ABS) and

the Alcoa Production System (APS). At heart, these systems are integrative mechanisms for learning, teaching about and operating the business.

In recent months we have taken the next step to weave our teaching and learning process into the fabric of our organization with the creation of what we are calling Alcoa University. The University curriculum includes the principles of the ABS and APS and features intensive learning on the factory floor and benchmark visits to other companies.

Knowledge and Growth

We believe successful companies grow, and another example of the idea of “systematic accumulation and application of knowledge” is reflected in the growth of the company.

On February 6, 1998 we signed the papers completing the acquisition of Inespal — the Spanish aluminum company. We began the discussions in 1990 that led to the acquisition of this \$1.1 billion company. Knowledge of the industry and perseverance produced this successful outcome. With full integration of Inespal into the Alcoa system, we are confident we will have taken another major step toward making Alcoa the preeminent supplier in the European market.

On the other side of the world, our path-breaking agreement with the China National Nonferrous Metals Industry has given us a 30-year contract to supply alumina to the world’s largest future market.

In turn, this agreement has given us a basis to restart our alumina capacity in St. Croix (the Virgin Islands) and to begin an expansion of our alumina production capacity in Australia. And a host of other expansions and investments are being made to strengthen our cost position and capacity to serve customers — a hydroelectric project in Brazil, a new



Paul H. O'Neill
Chairman and Chief
Executive Officer

forged wheel plant in Hungary, extrusion capacity in Lafayette, Ind., and many more.

Signs of Financial Strength

In an industry such as ours, subject to the ebb and flow of business cycles, we believe it is important to maintain a conservative financial position. Doing so insures that we can maintain our dividend in good times and bad, that we can do financings when we choose — not when we must — and that we are always prepared to take advantage of new business opportunities when they come along.

This policy approach has served us well. In 1997, our earnings level created a “bonus dividend” of 50 cents per share, which will be paid to shareholders through the course of 1998. Our business activity also supported more than \$900 million of reinvestment in property, plant and equipment and a nearly equal amount in repair and maintenance to keep our production capability in first-class condition.

In addition, we repurchased more than eight million shares of Alcoa common stock. At year-end our debt to total capital ratio was 20%. We are in great shape financially.

Global Warming: Defining the Issues

On the world stage, global climate change moved to the top of the agenda. This issue — whether or not global warming is taking place — is important to everyone. It has particular relevance to our industry and our company because of our energy intensive nature and the relationship between hydrocarbon sources of energy, particularly coal and oil, and so-called greenhouse gas emissions.

We have sought to take a leadership role in defining the issues surrounding this complex problem because we believe economic growth and a sustainable environment are compatible and necessary objectives. We are environmentalists first and industrialists second.

We do not accept the proposition that economic growth can only occur with damage to the environment as a necessary cost. At the same time, we want the world political community to deal with this issue from a scientific fact base — not on the basis of emotional scare tactics. Unfortunately, the scientific understanding of atmospheric change is in its infancy. In our discussions with U.S. government leaders, we have urged a major step-up in scientific research and a disengagement of this issue from the “politics as usual” approach.

Science vs. Politics

It appears there will be more scientific research. On the other hand, the Kyoto climate change conference was more “politics as usual,” with developed nations present agreeing to greenhouse gas containment levels that have no scientific basis.

If there is a “good” aspect of what came out of the Kyoto conference it is that the agreed emission targets have no near-term practical effect because the targets are set for the end of the next decade. This may be

“good” politics, but we don’t think it is the right answer for responsible citizenship.

Meaningful Steps

If the most extreme proponents of the dangers of global warming are even nearly correct, then timely action to reduce hydrocarbon emissions is essential. Accordingly, we are taking initiatives to study these issues and to reduce hydrocarbon emissions where we can.

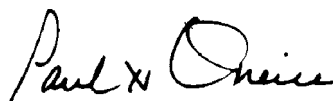
Through our involvement with the Heinz Center on Science, Economics and the Environment, we are supporting their efforts to become the impartial, non-political source of facts regarding global climate change.

As a member of the International Primary Aluminium Institute, we have agreed to chair a committee of members to create a scientifically “bullet-proof” life cycle analysis of the industry’s products.

And, within Alcoa, we have established a process to examine every aspect of our energy utilization to determine where and how we can further reduce energy consumption and atmospheric emissions. These issues will be with us for the foreseeable future.

One final thing.

As you look at the pictures of people in this year’s annual report I hope you will notice what we do when we study them. These people, all Alcoans, have a twinkle in their eyes. They are people from locations around the world. The photographs were taken by many different local photographers and yet — there is a quality in the faces that says pride, belonging, contributing — Alcoans. The success we produce is theirs and yours.



Paul H. O’Neill
Chairman and Chief Executive Officer
February 16, 1998

NEWS97

The newsmakers — Alcoa people worldwide: their energy, skills, and ideas in action. Here, Steve Hanna, cold mill operator at Davenport, inspects a sample of bright sheet for surface quality. *Story on page 14.*



Szántó László, computer control operator, Székesfehérvár, Hungary



Europe

In the past two years, Alcoa's European operations have grown dramatically, with the acquisition of the national aluminum companies of Italy and Spain and expanded activity in automotive structures, closure systems, forged wheels, and alumina-based products.



Alcoa in Spain

After approval by the European Commission and the Spanish government, Alcoa completed the acquisition of Spain's state-owned aluminum producer, Inespal. Alcoa will pay approximately \$410 million for the stock of substantially all of Inespal's businesses, which include an alumina refinery, three smelters, three rolling mills, two extrusion plants, and an administrative center in Madrid. Inespal has annual revenue of approximately \$1.1 billion.

Hide the Thermometer!

On Russia's coldest Dec. 17th in 100 years (-38 degrees C) the atmosphere was warm and congenial inside Alcoa CSI's newest closure plant in Lyubachany. Some 200 guests braved the weather to celebrate the plant's official opening, including officials of Coke, Pepsi, independent bottling companies, and local government. The operation, near Moscow, makes compression-molded, tamper-evident plastic closures for the growing East European beverage market. It is CSI's first plant in the former Soviet Union.



Rome's New Trolleys

Alcoa Italia teamed up with Fiat Ferroviaria, a producer of trains and mass transit vehicles, to design and develop an aluminum frame for a new trolley in Rome. Alcoa supplied about 15,500 pounds of extrusions for the 280-passenger vehicle. The first new trolley hit the streets in October. About 30 trolleys are planned for delivery in 1998, with an additional 30 in 1999.



Rendering of the Millennium Center under construction in Greenwich.



Aluminum for London's Skyline

Alcoa Extruded Products in Swansea, Wales received contracts to supply extrusions for two major buildings under construction in London. Swansea will furnish 24 mt of extruded sections for the

Millennium building in Greenwich, which will be the focal point for U.K. celebrations of the year 2000. Swansea will also supply 200 mt of architectural sections for the cladding system of the new Citibank U.K. headquarters building.

Two Plants Expanding

Alcoa Industrial Chemicals started work in 1997 on two expansion projects at its Rotterdam and Ludwigshafen facilities. The business unit is adding 6,000 mt of cement capacity in Rotterdam and 25,000 mt of tabular alumina capacity in Ludwigshafen. Both expansions are geared to the growth these products are showing in Europe and China. The new capacity will come on-stream in 1998.

Environment

Looking at Life Cycles

What are the total environmental impacts of aluminum — from mining and refining through the useful life and recycling of finished products? That's the question to be addressed by a new task force, headed by Alcoa Chairman Paul O'Neill. Empaneled by the International Primary Aluminium Institute, the task force is charged with putting together an industry-wide environmental life cycle analysis of aluminum products. "A pooled, jointly developed life cycle analysis will be beneficial to the entire industry," O'Neill commented. "It will help to protect us from studies that examine only part of the industry, such as bauxite mining, as a basis for assessing the environmental status of the aluminum business."



Worldwide Wheels

Alcoa is now shipping forged aluminum truck wheels from its new plant in Székesfehérvár, Hungary, to customers on three continents. Production began in mid-1997 to serve Alcoa's European truck wheel customers and those in Brazil and Australia who require European-style wheels. A full-service facility, Székesfehérvár forges, machines, and polishes wheels before shipping. Modernization

and start-up of the plant were accomplished in 18 months, and now Székesfehérvár and the European sales and marketing team have received ISO 9001/QS9000 certification, the international quality standard required by the automotive industry. Alcoa also produces and ships aluminum truck wheels worldwide from its ISO 9001/QS9000 certified Cleveland, Ohio plant.

Pizzey Joins LME Board

John Pizzey, Alcoa vice president and president, Alcoa World Alumina, was elected to the board of directors of the London Metal Exchange (LME). The LME is the international trading body that facilitates the international open market in the buying and selling of metals.



Capping Cokes in Poland

Coca-Cola Amatil in Poland is converting all of its plants to Wing-Lok® closures produced by Closure Systems International (CSI), one of 21 Alcoa business units. CSI's Hungarian operation is handling conversion of capping machines in Coca-Cola's plants near Warsaw. Annual volume will be 300 million pieces.



Market Report: Alumina

Rising Demand, Expanding Facilities

Alcoa World Alumina & Chemicals (AWAC) has moved to expand production in response to strong customer demand.

Refining Capacity Growing. AWAC restarted its alumina refinery on St. Croix, U.S. Virgin Islands, which had been idle since 1994. Acquired in 1995 from



the Virgin Islands Alumina Corporation, the refinery has a capacity of 600,000 mt per year. On the other side of the globe, AWAC began a 440,000 mt per year expansion of the Wagerup refinery

in Western Australia, scheduled to come onstream in 1999. Alcoa's worldwide capacity for alumina is sold out for 1998, including the new production from St. Croix. AWAC is owned by Alcoa and WMC Ltd.



China Shipments Begin. Alumina deliveries have commenced under an historic 30-year contract with the government-owned aluminum company in China. The first shipment — 35,000 mt of alumina — by AWAC to China National Nonferrous Metals Industry Corp. (CNNC) arrived on July 30 aboard the *Pisces Explorer*. Sino Mining, a unit of CNNC, signed an agreement with Alcoa last year to buy 400,000 mt per year of alumina for 30 years, with the option to increase

this amount in the future.

Alcoa Executive Vice President Robert F. Slagle attended the ribbon-cutting ceremony along with representatives from CNNC and Sino Mining and leaders from Qingdao City, where the shipment arrived.

"If this arrangement achieves its full potential," said Slagle, "as I believe it will, the equivalent of more than 800 similar shipments of alumina will arrive at Chinese ports during the next 30 years."

Lids, Cans and Closures

Fresh Ideas in Packaging

Based on new Alcoa technologies, beverage marketers can attract consumers with embossed textures and high-fidelity photographs on their aluminum cans.

Embossed Cans Debut. Anheuser-Busch's Budweiser beer in an embossed can is now on sale in Japan, and its Michelob brand is in four test markets in the U.S. The Sprite soda embossed can — the first can with texture as well as color and graphics —

Registered embossing enhances graphics by raising images from the side of the can. The marketing potential of this new technology has stirred intense interest on the part of beverage customers worldwide.

New Product for Lids. Alcoa's new lidding film laminate, AL1000™, has passed lidding trials at a number of yogurt makers. Preliminary evaluations indicate the product has the potential to reduce leakage to one-tenth the rate of lid stock in use up to now. The new lids are also more consumer-friendly because they don't tear like conventional products when being removed. AL1000 is the latest addition to Alcoa's family of patented, cohesively peeling lidding materials, chosen by major food producers including Cadbury/Mott for their single serve applesauce.

Advances in Packaging Equipment. Stolle Machinery in Sidney, Ohio, part of Alcoa Packaging Equipment, has

extended its product

line with two new systems for making can ends. For beer and beverage cans, the new Tetrad™ conversion system raises production rates by more than 40%, to 2,800 ends per minute. For food cans, the first QuickEx™ end conversion press, developed by Stolle, was ordered recently by Phoenix Packaging.

This system can produce either steel or aluminum can ends for food packagers.

A Word to the Consumer. Four new television commercials have taken to the air for 1997 and 1998 to promote aluminum beverage cans to U.S. consumers. Commercials carry humorous reminders of the aluminum can's convenience, freshness, and unique value in recycling. The campaign runs in selected markets, sponsored by Alcoa Rigid Packaging and other can sheet producers and canmakers through the Aluminum Association.



A First in Aluminum Cans. Orange Groove is not your usual soft drink brand. It's an experimental label owned by Alcoa Packaging Machinery and used to demonstrate new possibilities in two-piece cans. The latest Orange Groove package design — a can printed in high definition by waterless lithography — just won an international packaging award from the National Metal Decorators Association in the U.S. Alcoa worked with Presstek, Inc. to develop the new process. When used on the advanced Alcoa metal decorating press, Presstek's digitally imaged plates make it possible to print magazine-quality photographs directly onto aluminum beverage cans with no significant increase in costs.



is being introduced in the Pacific Northwest. Alcoa Packaging Equipment developed the new technology and machinery for these cans, which not only look different but also feel different from any previous package.



Breakthrough at Tropicana. Alcoa's Closure Systems International (CSI) scored a home run with the introduction of its spout fitment closure for Tropicana's paperboard juice cartons. Developed in collaboration with Tropicana and International Paper Company, the CSI system features a reclosable closure with a removable inner plug that provides seal and tamper evidence. It was the first project completed under CSI's newly established product development process.



Robyn Allingham, operator,
Wagerup refinery



Australia

Alcoa of Australia is the world's foremost producer of alumina, one of Australia's largest exporters, and an internationally recognized leader in land care and environmental management.

Headquarters Moves West

Alcoa of Australia transferred its corporate headquarters from Melbourne to Perth early in 1997. The move was designed to rationalize services and to relocate senior management to the principal focus of Australian activities. About 70% of Alcoa's Australian employees work in Western Australia.

A Change in Capitalization

Shareholders in Alcoa of Australia approved a reduction in capital of A\$300 million, trimming shareholders' equity to approximately A\$1.6 billion. The funds were distributed to shareholders in proportion to ownership: A\$180 million to Alcoa, A\$117.75 million to WMC, and A\$2.25 million to QBE, an Australian insurance group. The company decided on the reduction after a review of its capital structure and near-term investment plans continued to show very low debt levels. "Our current financial strength and a strong business outlook have enabled this move," said Roger Vines, chairman and managing director.

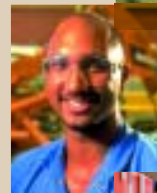
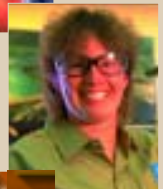
A Respected Employer

Alcoa's Wagerup alumina refinery was recognized by the Australian Human Resource Institute, the leading HR body in the country, for providing leadership and excellence in the field of human resources. Wagerup won in the "Respected and Preferred Employer" category, reflecting strategies and initiatives maintained by the organization to satisfy the needs of employees and demonstrate concern for individuals.



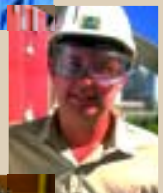
Brett Marnham,
refinery operator

Vicky Herring,
laboratory analyst



Quintin Bowes,
apprentice mechanic

Mark Collins,
chemical engineer



Gino Pisconeri,
senior vehicle mechanic



Growth at Wagerup

Construction work is under way to increase operating capacity of the Wagerup alumina refinery from 1.75 to 2.19 million mt per year. The \$193 million (A\$257.5 million) project is scheduled for completion by mid-1999. This is the first stage of a planned expansion at Wagerup to 3.3 million mt per year, for which AWAC has obtained environmental approval.

Hold Down the Dust

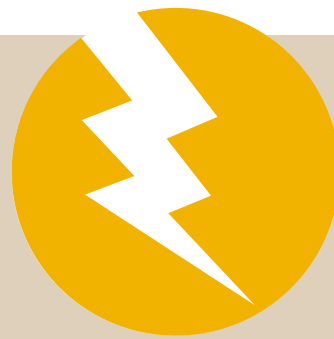
A custom-built loader bucket has been delivered to the carbon dust project at Portland Aluminium in Australia. The bucket has the ability to pick up and totally enclose damaged bags from the stockpile and convey them with minimum spillage to the process plant. This handling method has been developed to minimize site contamination.

Environment

A World's First in Recycling

At its Portland smelter, Alcoa of Australia has developed a facility to recycle the spent linings of aluminum smelting pots rather than dispose of them as waste. The linings consist mainly of carbon, refractory and insulation materials, along with fluorides from the smelting process. Some of the material contains trace amounts of cyanide.

The first of its kind in the world, the new facility is a full-scale pilot plant — the only way to test the complete process. It's designed to recapture aluminum fluoride for reuse in the smelting process while destroying any cyanide and creating a by-product usable as road base or construction aggregates.



More Power for Portland

Agreement has been reached between the Victorian state government and the Portland Aluminium smelter joint venture participants for the provision of 100 megawatts of supplementary power to the smelter. With the exception of Alcoa of Australia, which owns 45% of the smelter, participants will use the additional power to begin progressively restarting their respective shares of Portland's idle capacity. The five-year power contract will enable the staged optimization of output from the existing plant, subject to environmental and other regulatory requirements, technical considerations, and market demand. The government and joint venture participants will explore options for extension of the added power supply beyond the next five years. Alcoa of Australia is not restarting its share of idled capacity at Portland.



The Cutting Edge

Innovators at Work

In Alcoa, everyone is a potential inventor and no process or practice is immune from the question, “Isn’t there a better way to do this?” There are examples throughout *News/97* — in the automotive, packaging, aerospace, and environmental reports and from Alcoans in all parts of the world. Following are a few more, which were not so easily classified.

The first machining alloy to get the lead out. 1997 was the kickoff year for Alcoa’s patented lead-free



machining alloy — Screw Machine Stock alloy 6020. In its cold-drawn form, it provides manufacturers with an environmentally friendly material that

has the strength of alloy 6061 and improved machinability

compared with conventional lead-bearing aluminum alloys. Customers are already using it for fishing reels, hunting telescopes, and a variety of automotive parts.

For super surface quality, cut the chatter. A “chatter monitor,” jointly developed by Alcoa Technical Center (ATC) and the Aerospace/Commercial Rolled Products business unit, has been installed on the No. 3 Cold Mill at Alcoa’s Davenport plant. Eight sensors, hooked up to an online computer, detect and identify roll defects or very low-level mill vibrations,



called chatter, which could impair the quality of surface-critical sheet products rolled on the mill.

Here’s a factory set up to improve the way factories work. Alcoa has

created a “development factory” in Lafayette, Ind. that will support the advancement and transfer of extrusion technologies for 23 operating locations worldwide. The idea is to strengthen the link between process technology fundamentals and actual production equipment — an accelerated path for putting theory into practice and getting the results to customers. Plans include a pilot press line for next-generation process development, and the full range of Lafayette presses will support process improvements and new alloy development projects.

Environment

Reducing Waste

Alcoa’s Vernon, Calif. facility earned the Waste Reduction Award sponsored by the California Integrated Waste Management Board. The Board commended Alcoa for its successful waste reduction program and its efforts to recycle aluminum dross, or skim, that is produced when melting aluminum.

This material is collected and cooled to a solid, then recycled to secondary aluminum remelting facilities. Vernon recycles approximately 100,000 pounds of dross a month — at a cost saving of \$25,000 per month as well as a reduction in landfill space.

Employee ideas make Itapissuma a winner. The anodizing unit at Alcoa

Aluminio’s Itapissuma plant in Brazil received the National Confederation of Industries (CNI) Industrial Award for



Quality and Productivity in the state of Pernambuco. Since 1991, CNI has recognized companies that stimulate employee ideas, projects, and sugges-

tions as sources of competitive advantage. Itapissuma earned the award for innovative improvements in the fabrication of anodized profiles, which are extrusions used in making window frames.

Li Yu Min, melting
furnace operator,
Alcoa Shanghai



Asia

At present, about 10% of Alcoa's sales originate in Asia. In the future, this dynamic region of the world will account for significant growth. Alcoa has formed successful partnerships with three major Japanese companies and is beginning to build a manufacturing base with local partners in China.

Shanghai Success Story

In May of 1995, Alcoa formed a joint venture with Shanghai Light Industry (Holding) Group. Their facility was a plant which had been trying since 1989 to use roll casting technology to produce extremely thin, 7-micron foil (.007 millimeters or .000275 inches). As managing partner, Alcoa transferred roll casting technology from Alcoa Aluminio's Itapissuma plant in Brazil. In just four months, the Shanghai plant was turning out 7-micron foil, and it's now able to produce even thinner 6-micron foil.

Monthly production grew 224% in 1997, making Alcoa Shanghai China's market leader in 6- and 7-micron products using roll casting technology. ISO 9002 certification is expected early this year.



Xu Yun Hua, packing operator,
Alcoa Shanghai

New Refractories Plant for China

Alcoa Industrial Chemicals plans to begin construction of a processing center in China to import tabular converter discharge (tabular balls) from Industrial Chemicals' European and Japanese plants. The center will crush, screen and grind the converter discharge to sizes specific for the refractory market in China. The facility will also have the capability to produce "preblended" multicomponent mixtures of tabular and binder additives in addition to sized tabular materials. Ultimately, the center will process calcined alumina, reactive alumina, polished alumina, calcium aluminate cement, and hydrated alumina as demand for these products develops.

Market Report: Automotive

Here Come the Aluminum Cars!

Aluminum usage in automobiles and light trucks has been climbing steadily.

Even more important, auto manufacturers are beginning to see aluminum the way aircraft manufacturers do — as the basic structural material for their vehicles. Increasingly, in the case of car-makers, that thinking begins with an aluminum body structure such as the spaceframe.

It's a new and potentially powerful trend, and Alcoa has played a major role in getting it started. As recently as 1990, there were no aluminum-structured passenger cars in production anywhere in the world. The closest thing was the HMMV (Hummer), at that time strictly a military vehicle.

As of 1997, there were seven aluminum-structured passenger cars in production. For three of them — Audi A8, Plymouth Prowler, and GM EV-1 — Alcoa has been the principal partner in designing, engineering and manufacturing aluminum components, subassemblies, and — in the case of the Prowler — the frame itself.

And that's just the beginning. Alcoa Automotive Structures (AAS) is currently working with a dozen automakers on aluminum car projects that have significant promise. Those can't be discussed right now, but here are a few other developments that can.

A concept car with a modular spaceframe. In technology reviews held for Ford and Chrysler, Alcoa unveiled a vehicle concept embodying ideas for future cars and light trucks. The design is based on a spaceframe structure comparable to those Alcoa has helped to devel-

op for the Audi A8 and Plymouth Prowler. But in the concept vehicle, the spaceframe is modular — a step toward using such structures in a broad range of future vehicles. By changing modules, a carmaker could produce a sedan, a sport utility vehicle, and a pickup truck, all from a single production platform.



New programs with Daimler-Benz and Chrysler. Alcoa is producing the front energy management structure for the new Mercedes-Benz A-class car (above) now selling in Europe. This 11-piece structure was designed by Alcoa



and is robotically assembled at Alcoa's plant in Soest, Germany. Production volume is expected to reach 1,000 units per day.

For Chrysler, an aluminum rear cross-member designed and manufactured by Alcoa improves the handling and noise-vibration-harshness performance of the all-new 1998 Dodge Intrepid and Chrysler Concorde as well as the 1999 Chrysler LHS and 300M models. AAS will manufacture 270,000 units per year at its Northwood, Ohio plant.

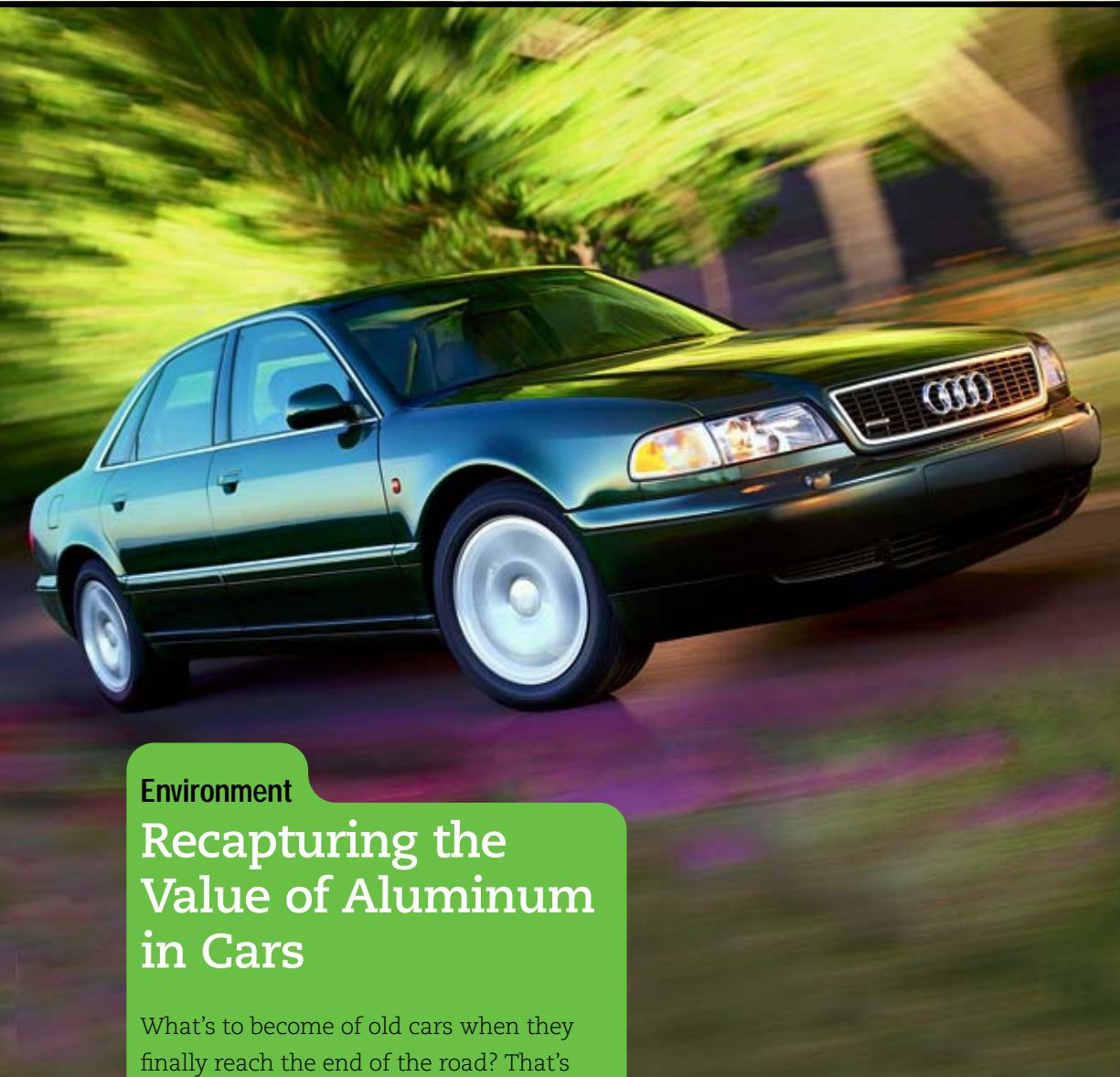


©1997 GM Archives

Something new around the windshield. A key advance incorporated in the 1997 Corvette is a first-of-its-kind windshield surround developed in a design and engineering collaboration of General Motors and Alcoa. An effective combination of aluminum cast and extruded products makes this an extremely stiff structure, helping the new Corvette to earn excellent reviews for its stiffness and superior handling. Northwood will produce 25,000 windshield surrounds annually.

Explosive demand for aluminum drive shafts. Aluminum drive shafts for rear wheel drive cars, light trucks, and sport utility vehicles showed strong growth in 1997. Alcoa Engineered Products was challenged by its customers — Ford, General Motors, Chrysler, Jaguar, and Isuzu — to increase capacity. Using the tools of their new Alcoa Production System, workers at Lafayette Operations achieved sharp reductions in changeover and cycle times, raising monthly production by 70%. Further gains are in the works.

Design tools to aid in product development. New guidelines for use in designing automotive components have been installed at AAS operations in Esslingen, Germany; Southfield, Mich; and Alcoa Technical Center (ATC) near Pittsburgh. Developed by AAS and ATC, the guidelines will assist automotive engineers in evaluating product design and fabrication options. Objectives: Improve design quality and cut development time by 30%.



Audi A8 is picked as a technological winner. In December, the Audi A8 was named one of the top 25 Winning Technologies by *Industry Week (IW)* magazine in the U.S. The editors report: “The 1997 Audi A8 with its aluminum spaceframe body technology indicates what is possible when the status quo in materials is challenged in automotive design. The luxury sedan delivers a new standard in weight savings, structural integrity, safety, performance and comfort.” *IW* traces the origins of the Audi spaceframe to “an early 1980s R&D initiative that became a joint-venture with Alcoa. The spaceframe took 10 years to develop,” the editors note, “and is the result of 40 new patents, seven new aircraft-grade aluminum alloys, and extensive design analysis via supercomputers.”

Environment

Recapturing the Value of Aluminum in Cars

What’s to become of old cars when they finally reach the end of the road? That’s the challenge being addressed by a cooperative effort among German automakers and European aluminum producers. The group is exploring best methods for recycling end-of-life automobiles, taking full advantage of their most valuable material — aluminum. This requires that wrought alloy scrap be remanufactured into new wrought alloy products. Participants are investigating laser sorting technology, dismantling methods, and — Alcoa’s contribution — research on color sorting and the economics of thermomechanical separation processes.



Ann Ngo, accounting specialist, Davenport (Iowa) Works



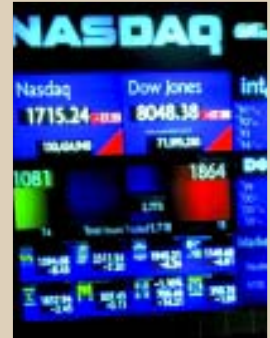
North America

North America is Alcoa's largest market and home to a highly diversified manufacturing base. There are 82 Alcoa refining, smelting, and manufacturing locations in this part of the world, plus administrative, research, and customer service facilities.



Siding With Alcoa

In the battle for leadership among 20 U.S. brands of residential siding, Alcoa Building Products (ABP) is more than holding its own. According to surveys by both *Professional Remodeler* and *Professional Builder* magazines, Alcoa remains the brand of vinyl siding used most by remodelers and builders. In remodeling, more than 38% of a random sampling of contractors from across the country report using the Alcoa brand. For new construction, in a survey of some 20,000 building contractors, 32% say they use Alcoa vinyl siding. In independent surveys of siding contractors, ABP's Mastic® brand also rates high. It's consistently mentioned among the top four brands in the country.



Special Recognition

In December, Alcoa Chairman Paul O'Neill was elected to a three-year term on the new Board of Governors of the National Association of Securities Dealers, which oversees self-regulation of its members and operations of the Nasdaq stock exchange.

Earlier in the year, the Chairman was chosen by his peers in the aluminum industry to receive the first International Aluminium Industry Lifetime Achievement Award, sponsored by Metal Bulletin Journals Ltd. of London. He also received the 1997 Gold Medal Award from the National Policy Association in Washington, D.C., in recognition of "outstanding individual contributions to the business and labor communities."



Progress in Fiber Optics

Growing at 25% a year over the past five years, the Telecommunications Division of Alcoa Fujikura Ltd. (AFL) is quietly building up a significant business in fiber-optic cables and components and is now the world's largest supplier of fiber-optic aerial cable systems. Latest developments:

- A contract in China to supply over 300 kilometers of fiber-optic cable between Harbin and Modanjiang — China's

largest fiber-optic aerial cable project to date.

- A five-year agreement with Rostelecom, the Russian long-distance company, to supply optical ground wire and other components.

- Exclusive supplier status for a cable network in Anaheim, Calif., one of the first cities to take fiber optics to the home.

- Fiber-optic components and assemblies for the new Alcoa Corporate Center in Pittsburgh.

The Educational Edge

To enhance employees' job competence, Alcoa's Lebanon (Pa.) Works is partnering with the Harrisburg Area Community College to offer off-the-job training courses in computer software, conflict resolution in the workplace, and effective leadership styles. The program has drawn an enthusiastic response, with 100% of available classes filled in the first week. The initiative continues into 1998.

A New Product Launch

The first wheels from Alcoa's joint venture with Superior Industries International have been shipped to customers for test and evaluation. In 1996, Alcoa and Superior formed a company to develop a new line of cast aluminum wheels for

commercial trucks and buses. The wheels are produced at Superior's Van Nuys, Calif. facility and marketed through Alcoa's existing wheel sales organization. Superior is a leading international manufacturer of cast aluminum wheels and automotive accessories.



Environment

Protecting Wildlife

Alcoa and The Nature Conservancy are partnering in a forest conservation effort on 21,000 acres of land adjacent to the Great Smoky Mountains National Park. The property contains four hydroelectric dams that supply power to Alcoa's plant near Knoxville, Tenn.

Nature Conservancy botanists and biologists will study and record aquatic, plant and animal life in the area, especially rare or endangered species, migrating songbirds, and naturally occurring wetlands. Their findings will assist Alcoa in preparing a land management plan. Alcoa previously collaborated with the Conservancy in Virginia and Arkansas.

"Alcoa's commitment to the environment is as broad as it is deep," said John Sawhill, president and CEO of the Nature Conservancy. "By setting the model for other major forest landholders, Alcoa is leading by example."

Full Service to Telecoms

In mid-1997, AFL's Telecommunications Division bought a majority stake in Six R Communications L.L.C., a provider of EF&I services (engineer, furnish and install) to the telecom, CATV, and electric utility industries. The acquisition gives AFL the capability to offer full systems solutions to the telecommunications industry. Located in Monroe, N.C., Six R is the number one supplier of these services in the Bell South Region. Since the acquisition, the company has also signed new contracts with GTE, MCI, and Sprint.

Pimalco Chooses USW

Workers at Alcoa's Pimalco aerospace extrusions plant in Chandler, Ariz. agreed to be unionized by the United Steelworkers Union (USW). Pimalco is part of the Alcoa Engineered Products business unit. With the merger of the Aluminum, Brick, and Glass Workers Union with the USW in January, the combined organization represents more than 90% of the aluminum workers in North America.

Truckers Love Alcoa Wheels

U.S. Xpress, a Chattanooga-based trucking company, has begun to specify Alcoa wheels on all of its new Freightliner tractors. For weight savings? Performance? Low maintenance? Yes, but the main reason is that truck drivers really like the look of Alcoa wheels — and one of the critical factors in the success of a trucking company is its ability to hire and retain drivers. The company purchases more than 1,000 new tractors each year.



Recognition for Safety

Two local unions at Alcoa's Davenport facility received the Award of Honor from the National Safety Council. The United Steelworkers Local 105 and the International Brotherhood of Electrical Workers Local 1379 received the award in recognition of their on-going safety efforts. Both locals have received honors from the National Safety Council almost every year for more than a decade. The Award of Honor is the highest form of recognition given by the Safety Council to labor organizations.

Environment

Working on the River

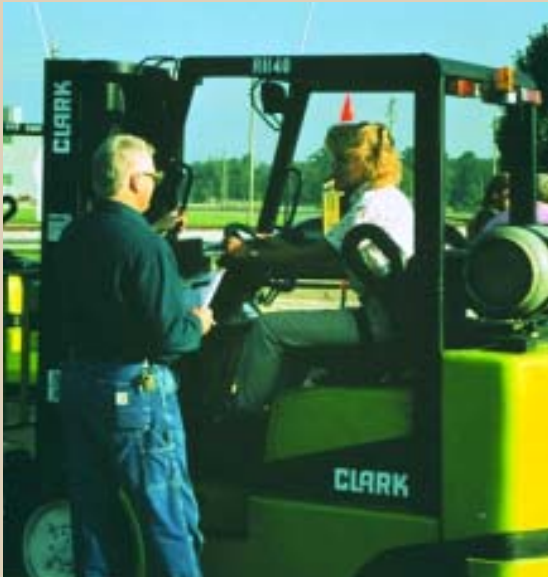
Alcoa's Davenport Works has given funding to a local college student and commercial fisherman, Chad Pregracke, who has taken it on himself to rid the Mississippi River banks of trash and debris in the Quad Cities area. With Alcoa's financial backing and some help from volunteers, he cleared the shores of 30,000 pounds of debris, including 92 metal barrels, 153 tires, three refrigerators, a stove and a television. Pregracke was named the Illinois Wildlife Federation's Environmental Citizen of the Year. Alcoa is continuing to fund his efforts in 1998.



A School for Acuña

The Alcoa Foundation and the Ford Foundation have provided funds for the construction of an elementary school in Acuña, Mexico, where AFL has facilities. Formal groundbreaking ceremonies took place last summer. Desperately needed by the Acuña community, the school will improve educational prospects for the area's children.

Ron Garrett (l), vehicle trainer; Deitera Meyer, safety/training coordinator, Warrick



The Lift-Truck Rodeo

Since many industrial accidents involve moving vehicles, Alcoa devotes special attention to vehicle safety awareness and practices. At Warrick (Ind.) Operations, these efforts were underscored by a Lift-Truck Safety Rodeo. Warrick's Joint Vehicle Safety Committee and its Vehicle Operator Training for Efficiency

and Safety group designed the event to include one-on-one instruction from qualified vehicle trainers. Emphasis was on proper lift-truck operating procedures and operator safety expectations. A record 575 employees participated in the training.

Solar System News

The Cassini Satellite departed earth aboard a Titan IV rocket on a seven year, half billion mile journey to Saturn. The rocket was powered by some 300,000 pounds of Alcoa aluminum powder, produced by the Specialty Metals Division in its Rockdale, Texas atomizer. If anyone's counting, that's roughly 1,700 miles per pound of fuel.



Recycling to Help Build Homes

Alcoans in various locations have contributed time and materials to the Habitat for Humanity initiative to build homes for disadvantaged families. Since 1976, 60,000 homes have been built around the world, providing decent housing for 300,000 people. Now U.S. consumers are being encouraged to recycle aluminum beverage and food cans to raise money for this work. Sponsored by Habitat for Humanity International and the Aluminum Association,



the multiyear effort will capture the value of recycled aluminum cans and apply the money to additional home-building projects. Consumers can call 1-888-798-CANS, toll-free, to locate official Habitat centers or consult the Yellow Pages for other recycling locations. Alcoa Rigid Packaging is a founding sponsor.

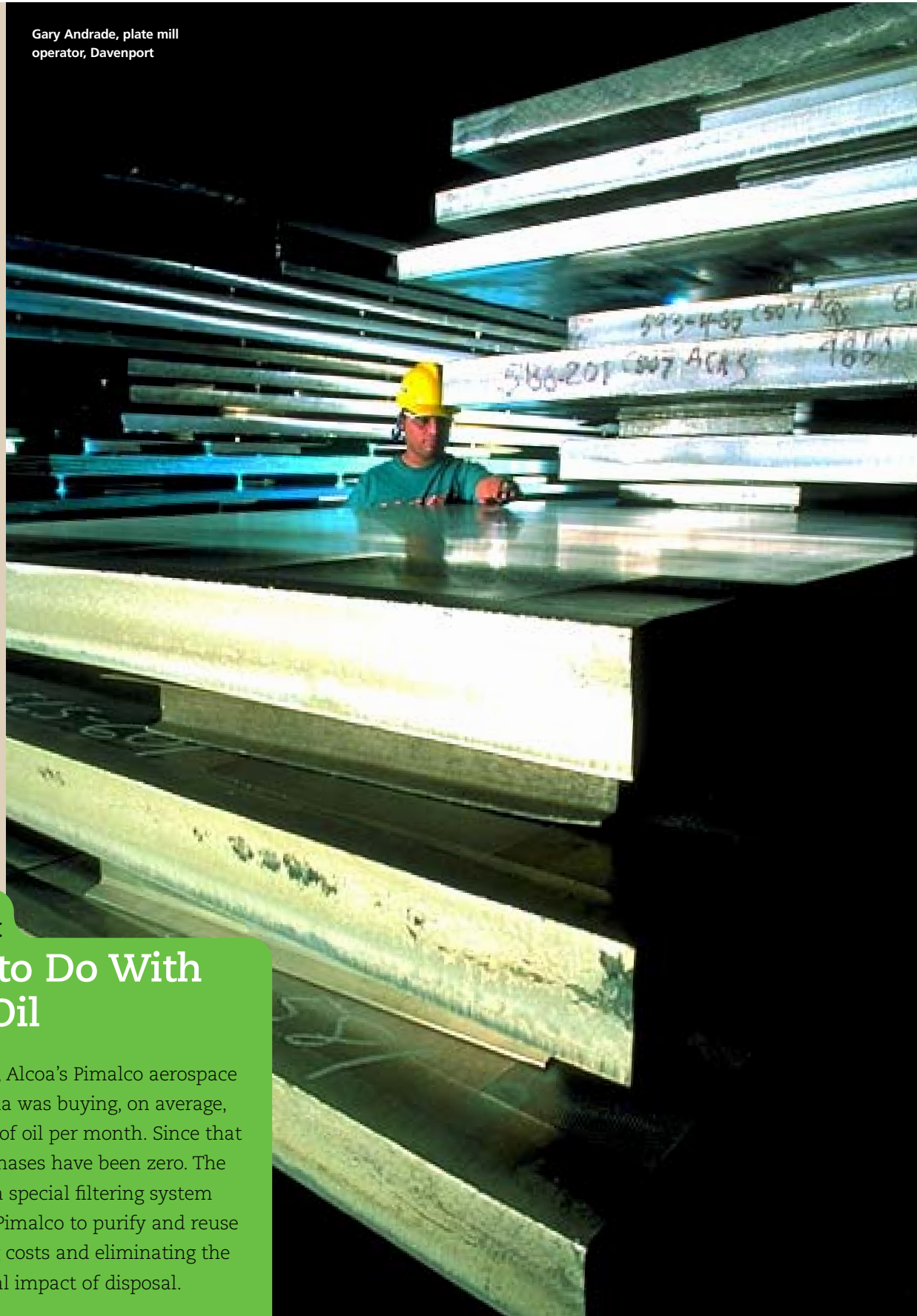
End of an Era

Almost 50 years to the day from start-up, Alcoa CSI sold its Richmond, Ind. closure plant to Silgan Holdings Inc. The move marked Alcoa's departure from the metal beverage closures business in the United States, where the soft drink market has been largely converted to plastic closures. Since 1947, Richmond had produced aluminum closures and designed and assembled capping machines for bottling plants. Alcoa has retained the equipment operations, transferring these to the Alcoa Packaging Equipment business unit.

'The Right Stuff' for Armor

Alcoa's proprietary 2519 armor plate alloy has been specified for the Advanced Amphibious Assault Vehicle being developed by General Dynamics Land Systems Division. The defense supplier may be awarded a contract for as many as 2,000 vehicles for the U.S. Marine Corps, which would require some 60 million pounds of Davenport plate over ten years. Full production is expected to start in 2005.

Gary Andrade, plate mill operator, Davenport



Environment

What to Do With Used Oil

Until last July, Alcoa's Pimalco aerospace unit in Arizona was buying, on average, 1,630 gallons of oil per month. Since that time, oil purchases have been zero. The difference is a special filtering system that enables Pimalco to purify and reuse its oil, cutting costs and eliminating the environmental impact of disposal.

Market Report: Aerospace

The Right Stuff, Right Now

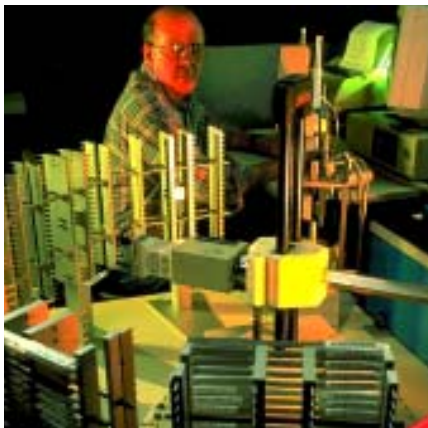
With aircraft build rates on the rise, Alcoa has expanded capacity and raised production levels in key product areas such as heat-treated plate, fuselage sheet, hard alloy extrusions, wing skins, and heat-treated sheet as well as adding new customer service facilities.

All told, 1997 showed a 14% rise in shipments to aerospace and defense customers by Alcoa's Aerospace/Commercial Rolled Products, Engineered Products, and Forged Products business units.

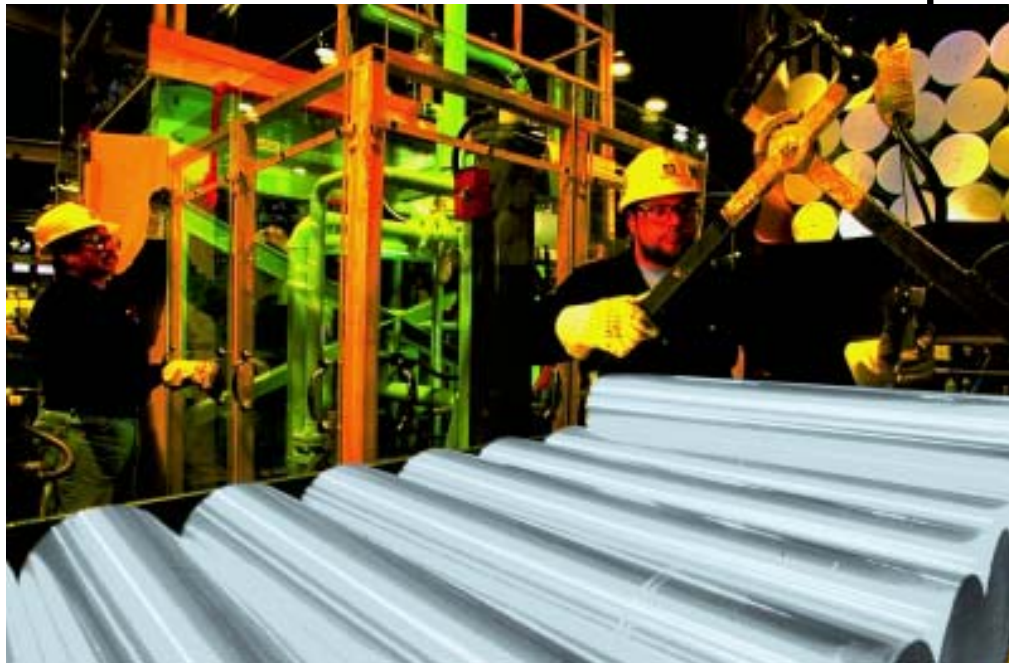
Also coming onstream were new contracts and new product developments that will have a positive impact on aerospace revenues in future years.

Following are a few highlights from a record year:

Dennis Hazlett, testing technician, Davenport



Testing Capacity Expanded. The project to extend the physical testing lab at Davenport is complete, and the commissioning of the new lab and equipment occurred in June. These new facilities increased fracture toughness testing capacity for aerospace alloys from 36 million pounds per year to a new capacity of 78 million pounds per year and enabled Davenport to meet rising aircraft build rates.



Pio Villegas (l) and Ron Ford, press operators, Lafayette

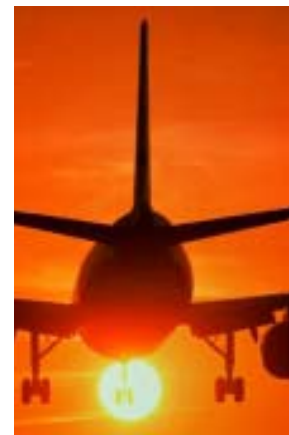
More Presses to Make Extrusions.

Responding to escalating demand from customers, Alcoa Engineered Products is expanding its aerospace hard alloy extrusion capacity in two locations. Hard alloy extrusions are used in commercial, general, and military aircraft for such applications as wing spars and seat tracks. A 5,000 ton press and a 2,500 ton press will go into service this year at Lafayette, Ind. A 2,500 ton press and heat-treating facility will go online by mid-1998 at the Pimalco plant in Chandler, Ariz. The two new 2,500 ton presses bring to six the number of 6-inch presses added by Engineered Products since 1995. By year end, Alcoa's hard alloy extrusion capacity will exceed 45,000 mt per year.

Kudos from the Customer. Davenport Works and Alcoa Aerospace Center in Irvine, Calif. received the MHI (Japan) excellent supplier award for 1997. Davenport supplies fuselage sheet to MHI for the Boeing 777 and 767 programs.

New Contracts in Europe.

In late December, Alcoa reached two important long-term supply agreements with European aerospace manufacturers. A four-year contract with Daimler-Benz Aerospace in Germany covers a major



portion of that company's plate and sheet requirements. With British Aerospace, Alcoa signed a memorandum of understanding for the supply of wing skin and plate requirements until the year 2006. Potential revenues for the two contracts exceed \$250 million. Alcoa now has long-term contracts with all major European aerospace firms.

Jader da Silva, anodizing operator, Itapissuma, Brazil



South America

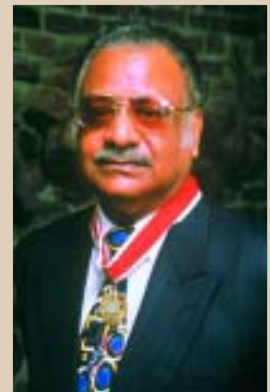
Alcoa Aluminio is in many ways a microcosm of Alcoa as a whole, engaging in all major segments of the industry — mining, refining, smelting, fabricating, and recycling. With principal operations in Brazil, Aluminio has also developed businesses in other Latin American countries.

Brazil Using More Aluminum

The Brazilian Aluminum Association (ABAL) reported that Brazil's domestic consumption of aluminum in 1997 reached 657,000 mt, an 18.1% increase over 1996. During the year, the Association launched a nationwide marketing program with the objective of increasing domestic consumption.

Quality Award Helps Community

Since Alcoa Aluminio's Poços de Caldas plant won Brazil's 1996 National Quality Award, it has been inundated with requests from other companies and government agencies to visit the plant. Employees saw an opportunity to extend quality of manufacturing to quality of life in the community. Alcoa Aluminio now asks visitors to donate R\$1,000 (US\$1,000) to a local charity of Aluminio's choice. By year's end, local charities had received 15,000 reals, one computer, and groceries for 30 needy families.



Suriname's Highest Honor

Henk Ramdin, president and managing director of Suralco, was honored with the decoration of Commander in the Honorable Order of the Yellow Star from the President of the Republic of Suriname, Jules Wijdenbosch. Ramdin received this highest Surinamese decoration for his community services and his efforts for economic development of the country.



Teaming Up With Phelps Dodge...

Alcoa Alumínio and Phelps Dodge Corporation of the U.S. signed a joint venture agreement to produce electric cable in Brazil. The venture will be Brazil's leading producer of aluminum electric cable and a major manufacturer of copper wiring and cable. Called Phelps Dodge & Alcoa Fios e Cabos Elétricos S.A., the

partnership will be owned 60% by Phelps Dodge and 40% by Alcoa Alumínio. Production will take place at Alumínio's existing manufacturing facility in Poços de Caldas, which is ISO 9000 certified and a recipient of Brazil's 1996 National Quality Award. Phelps Dodge is one of the world's largest copper mining operators.

... And Getting the Orders

Within weeks of its formation, Alumínio's joint venture with Phelps Dodge was awarded two significant public contracts with Furnas, the major government-owned electric generation and transmission utility. The

first is an order for 3,250 mt of Bluejay cable for the Itaipu/Ivaipora transmission line. The second calls for 4,350 mt of Rail cable to be used in building a segment of the North/South Transmission Line, aimed at integrating Brazil's northern transmission grid with the southern region.

Franklin Thomas, Alcoa Director



Environment

The Alcoa Forest

Alcoans have been busy planting trees — roughly three million trees over the past two years, either through direct seeding or the planting of seedlings. Included in this were 460,000 seedlings, over 70% of which came from Alcoa nurseries. Many of these plantings are part of ongoing programs to restore land after mining in the U.S., Jamaica, Suriname, Brazil and Australia.

In that same period, Alcoa of Australia has started 1.76 million trees in direct seeding programs on reclaimed mine land and has assisted in the planting of 778,000 trees on non-Alcoa property as part of Australia's national Landcare program.

Separately, a ten-year initiative called One Million Trees aims at getting individual Alcoans involved in personally planting trees at their work locations, nearby parks, or at home.

Rosey Mays, #8 press operator,
Lafayette, Ind., U.S.



Selected Financial Data

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

	1997	1996	1995	1994	1993
Sales and operating revenues	\$13,319.2	\$13,061.0	\$12,499.7	\$ 9,904.3	\$ 9,055.9
Income before extraordinary loss*	805.1	514.9	790.5	443.1	4.8
Extraordinary loss†	—	—	—	(67.9)	—
Net income*	805.1	514.9	790.5	375.2	4.8
Basic earnings per common share					
Before extraordinary loss†	4.66	2.94	4.43	2.48	.02
Net income	4.66	2.94	4.43	2.10	.02
Diluted earnings per common share					
Before extraordinary loss†	4.62	2.91	4.39	2.46	.02
Net income	4.62	2.91	4.39	2.08	.02
Alcoa's average realized price per pound for aluminum ingot	.75	.73	.81	.64	.56
Average U.S. market price per pound for aluminum ingot (<i>Metals Week</i>)	.77	.71	.86	.71	.53
Cash dividends paid per common share	.975	1.33	.90	.80	.80
Total assets	13,070.6	13,449.9	13,643.4	12,353.2	11,596.9
Long-term debt (noncurrent)	1,457.2	1,689.8	1,215.5	1,029.8	1,432.5

* Includes net after-tax gains of \$43.9, or 25 cents per basic share, in 1997; and net charges of \$122.3, or 70 cents, in 1996; \$10.1, or six cents, in 1995; \$50.0, or 28 cents, in 1994; and \$74.5, or 43 cents, in 1993. Also included in 1994 is a gain of \$300.2, or \$1.69 per share, related to the Alcoa/WMC transaction.

† The extraordinary loss relates to the early redemption of debentures.

Results of Operations

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

Earnings Summary

Alcoa's 1997 earnings before special items totaled \$761, an increase of 19% over 1996 results. This significant earnings improvement was the result of record shipments partially offset by lower overall prices. Cost performance also played a role in the increase, as improved manufacturing performance and lower administrative costs more than offset higher material costs.

Revenues of \$13,319 were also at record levels in 1997, as record volumes more than offset the loss of revenues related to the sale of noncore businesses. Overall prices were lower, but a more favorable mix in 1997 muted the decline.

Net income of \$805 for 1997 was the third best in Alcoa's history, even though fabricated aluminum and alumina prices were lower than 1996 and well below historic highs. In addition, Alcoa continues to have 450,000 metric tons (mt) of its worldwide smelting capacity idled.

Before special items, return on shareholders' equity for 1997 was 17.1%, compared with 14.4% in 1996 and 18.8% in 1995. The following table summarizes Alcoa's results adjusted for special items which are described in more detail later in this section.

	1997	1996	1995
Net income	\$805.1	\$514.9	\$790.5
Special items, net	(43.9)	122.3	10.1
Adjusted net income	\$761.2	\$637.2	\$800.6

Geographic and Segment Information

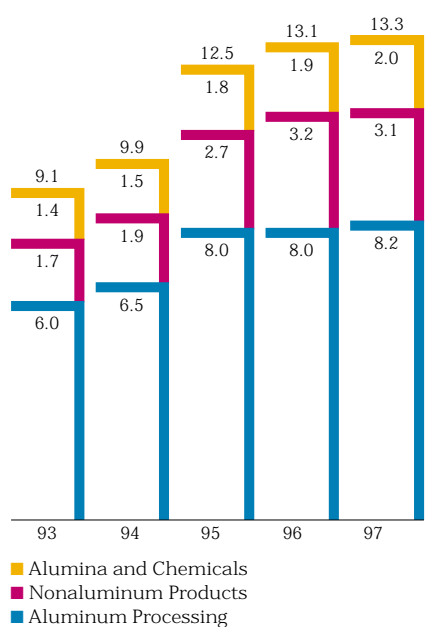
Operating profit before special items was \$1,475 in 1997 compared with \$1,350 in 1996 and \$1,435 in 1995. Operating profit, for geographic and segment purposes, consists of sales and operating revenues less operating expenses. It excludes interest expense, nonoperating income, income taxes, minority interests and special items. See Note P to the financial statements for additional information.

Operations by Geographic Area

USA – Revenues fell less than 1% from 1996 to \$7,189. The decline was the result of lower sales of building products, packaging machinery and the loss of revenues from the sale of noncore businesses. These declines were nearly offset by higher aluminum and alumina revenues, along with higher sales of automotive electrical components. Revenues in 1996 were \$7,246, up 3% from 1995, reflecting higher shipments of automotive electrical components.

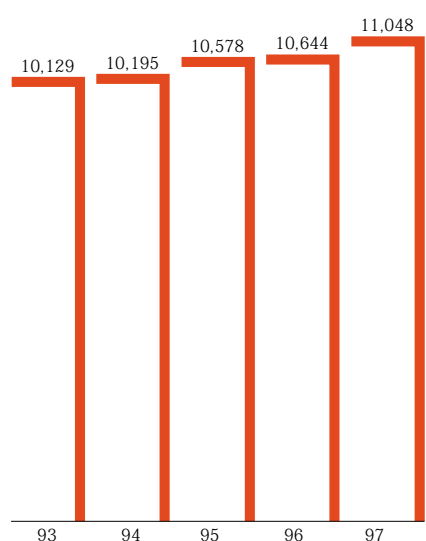
Operating profit in 1997 totaled \$669, compared with \$640 in 1996 and \$594 in 1995. Improved profits in 1997 from automotive electrical components, most aluminum products and alumina operations were partially offset by lower earnings related to building products. Improved profits for 1996 relative to 1995 for building products, automotive electrical components and alumina operations were partially offset by lower earnings from aluminum operations and plastic closures, and by the shutdown of Alcoa's ceramic packaging operations (AEP). Exports from the U.S. in 1997 were \$1,207, compared with \$1,015 in 1996 and \$1,206 in 1995.

Revenues by Segment
billions of dollars



Higher volumes for aluminum and alumina more than offset lower overall prices for these products. Nonaluminum product revenues fell as improved revenues from automotive electrical components and plastic closures were offset by the loss of revenues from divested operations.

Alumina Production
thousands of metric tons



Alumina production rose 4% from 1996 as a capacity expansion project in the U.S. was completed and Australia returned to full production. In addition, Alcoa's 1998 alumina production is sold out.

Pacific – Alcoa's primary operations in the Pacific region are those of Alcoa of Australia (AofA). In 1997, revenues for this region totaled \$2,222, of which 84% were attributable to AofA. Operating profit for 1997 amounted to \$482, with AofA accounting for 97% of the total. Relative to 1996, operating profit fell 4% in 1997, as higher revenues for ingot and alumina, along with improved cost performance, were offset by lower realized prices. Due to Alcoa's relatively small exposure to Asian markets, the financial problems there did not have a significant impact on earnings in 1997. Operating profit for 1996 increased 22% from 1995 due to higher alumina prices while costs increased at a much slower rate.

Other Americas – Revenues of \$1,818 in 1997 rose 5% from 1996 as a result of higher sales of rigid container sheet (RCS) and ingot and the start-up of a new facility producing automotive electrical components. Revenues for 1996 were \$1,726 compared with \$1,780 in 1995. Operating profit was \$224 in 1997, \$151 in 1996 and \$333 in 1995. The increase in 1997 operating profit was due to improved results at Alcoa Alumínio in Brazil and at alumina operations in Suriname. The decrease in 1996 operating profit relative to 1995 relates principally to higher costs and lower metal prices at Alcoa Alumínio's aluminum operations.

Europe – Revenues improved 14% to \$2,090 in 1997, versus \$1,841 in 1996 and \$1,691 in 1995. Operating profit rose to \$100 in 1997 from \$55 in 1996 and \$92 in 1995. Higher shipments at aluminum operations in Italy and Hungary, along with strong cost control at operations in Great Britain, drove the improvement in 1997 operating profit. Lower 1996 results compared with 1995 were due to weak economic conditions in Europe in 1996, partially mitigated by earnings from Alcoa's acquisition of Alumix in Italy.

Operations by Segment

Alcoa's operations consist of three segments: Alumina and Chemicals, Aluminum Processing and Nonaluminum Products.

I. Alumina and Chemicals Segment

	1997	1996	1995
Revenues	\$1,961	\$1,940	\$1,758
Operating profit	415	459	307

Approximately two-thirds of the revenues from this segment are derived from sales of alumina. Revenues from alumina in 1997 increased 5% from 1996, which rose 13% from 1995. Shipments were the primary factor behind the 1997 increase, rising 13% from 1996. Revenues for 1996 rose on the strength of prices as shipments were unchanged from 1995 levels.

Revenues from alumina-based chemical products fell 3% in 1997 as lower volumes more than offset higher realized prices. Revenues in 1996 rose 3% relative to 1995 on higher volumes, as a strengthening U.S. market more than offset weaker sales in Europe.

Operating profit in 1997 for this segment was \$415, down 10% from 1996. The decrease was the result of lower operating profit at AofA, partially offset by volume-driven improvements in Suriname

and the U.S. In 1996, operating profit of \$459 was up 50% from 1995, as the alumina business benefited from higher prices and good cost control.

In the 1997 second quarter, Alcoa World Alumina and Chemicals (AWAC) received an advance payment of \$240 related to a long-term alumina supply contract with Sino Mining Alumina Ltd. (SMAL). The contract entitles SMAL to purchase 400,000 mt of alumina per year for 30 years. SMAL has the option to increase its alumina purchases as its needs grow. Per-ton payments will also be made under the terms of the agreement.

In late October 1997, AWAC announced that it would restart its St. Croix alumina refinery. The refinery has a rated operating capacity of 600,000 mt and production commenced in February 1998.

In November 1997, AWAC announced a 440,000 mt expansion of its Wagerup alumina refinery in Western Australia. Construction is expected to be completed in mid-1999.

II. Aluminum Processing Segment

	1997	1996	1995
Total aluminum shipments (000 mt)	2,956	2,841	2,582
Revenues	\$8,240	\$7,976	\$8,034
Operating profit	863	774	1,015

Total aluminum shipments were up 4% from 1996, primarily due to strong shipments of engineered and flat-rolled products. Revenues rose 3%, as the favorable impact of higher shipments was partially offset by lower prices for most fabricated products. Revenues in 1996 for this segment fell 1% from 1995, reflecting lower prices for most products, while shipments increased 10%.

This segment reported operating profit of \$863 in 1997, an increase of 12% over 1996. The factors contributing to the increase were higher volumes and improved cost performance, which were partially offset by lower fabricated product prices. Products responsible for the improved operating profit include sheet and plate, extruded products and forgings. Operating profit in 1996 totaled \$774, a decrease of \$241 from 1995. In addition to lower prices, other conditions contributing to the decline included a lower-value product mix and higher raw material costs that were partially offset by better cost performance.

This segment's shipments and revenues are made up of the following product classes.

	1997	1996	1995
Shipments (000 mt)			
Flat-rolled products	1,392	1,357	1,380
Engineered products	562	495	454
Aluminum ingot	920	901	673
Other aluminum products	82	88	75
Total shipments	2,956	2,841	2,582
Revenues			
Flat-rolled products	\$3,956	\$3,920	\$4,177
Engineered products	2,476	2,269	2,303
Aluminum ingot	1,521	1,449	1,197
Other aluminum products	287	338	357
Total revenues	\$8,240	\$7,976	\$8,034

Flat-Rolled Products – More than half of the shipments and revenues in this product class are derived from the sale of RCS, used in the production of beverage cans. Revenues from RCS fell 4% from 1996, primarily due to the 1996 sale of AofA's rolled products division, which resulted in a 29,500 mt loss of shipments for 1997 relative to 1996. Prices were down slightly from 1996 due to lower underlying metal prices. Revenues in 1996 declined 16% from 1995, resulting principally from a 10% decline in shipments. The shipment decline was due primarily to weaker U.S. export sales and the sale of AofA's rolled products division in 1996.

In late December 1997, the U.S. Department of Justice (DOJ) notified Alcoa that it had filed suit to block the company's planned acquisition of Reynolds' aluminum rolling operations in Muscle Shoals, Alabama. Subsequently, in light of the DOJ position, Alcoa discontinued its efforts to acquire this facility.

Revenues from sheet and plate, serving principally the aerospace and commercial products markets, increased 11% from 1996 as a result of a 10% increase in shipments. Aerospace shipments have increased as a result of higher aircraft build rates. Overall sheet and plate prices were up slightly, with a richer mix offsetting lower prices for commercial products. Sheet and plate revenues in 1996 rose 4% from 1995 as prices climbed 7%.

Engineered Products – The products in this class include extrusions used principally in the transportation and construction markets, forgings, wheels, wire, rod and bar. Total shipments were up 14% from 1996 and contributed to a 9% increase in revenues. Revenues in 1996 fell 2% from 1995 as prices decreased 11%.

Revenues from extruded products were up 12% from 1996, as shipments increased 19% but prices fell 6%. Prices for hard alloy extrusions were up 7% from 1996; however, lower prices for soft alloy extrusions in the U.S. and at Alcoa Nederland more than offset the increases. Extruded products revenues for 1996 were up 15% from 1995 as shipments, aided by acquisitions, rose 26%.

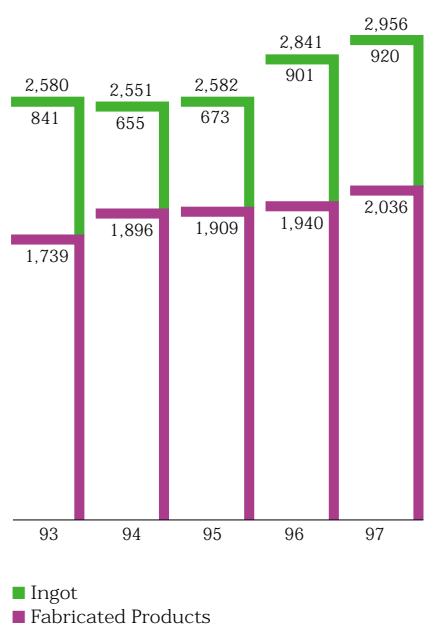
Revenues from forged wheels rebounded from 1996, increasing 18% on the strength of a 21% increase in shipments. Revenues in 1996 declined from 1995 due to an 18% decline in shipments.

Aluminum Ingot – For the fourth consecutive year, Alcoa had 450,000 mt of smelting capacity idle, operating its worldwide smelting system at 82% of rated capacity in 1997. Ingot revenues in 1997 increased 5% as prices climbed 3% and shipments rose 2%. In 1996, shipments of ingot were 34% higher than those in 1995, primarily due to the sale of AofA's rolled products division. The increase in shipments resulted in a 21% increase in revenues. Alcoa's average realized price for ingot in 1997 was 75 cents per pound, compared with 73 cents in 1996 and 81 cents in 1995.

Aluminum ingot produced by Alcoa and used internally is transferred within the aluminum processing segment at prevailing market prices.

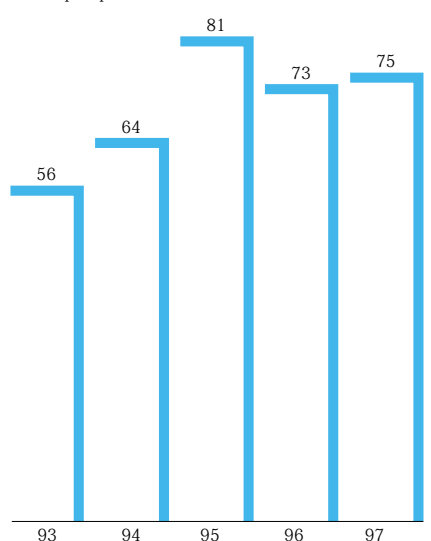
Other Aluminum Products – Revenues from these products, which consist primarily of scrap and aluminum closures, were down 15%

Aluminum Product Shipments
thousands of metric tons



Shipments of fabricated products in 1997 reached a record 2,036 metric tons, reflecting greater volumes to the transportation market.

Average Realized Ingot Price
cents per pound



Alcoa's realized ingot price for 1997 rose 3% from 1996 as worldwide inventories declined slightly.

from 1996. The revenue decline is the result of a 9% reduction in realized prices and a 7% drop in shipments. The shipment decline was principally due to the sale of Alcoa's U.S. aluminum closures facility in the first half of 1997. Realized prices for aluminum closures continued to fall in 1997, dropping 22% from 1996 levels. In 1996, revenues from other aluminum products fell 5% from 1995 due to lower prices, which were partially offset by a 17% increase in shipments.

III. Nonaluminum Products Segment

	1997	1996	1995
Revenues	\$3,118	\$3,146	\$2,708
Operating profit	197	117	113

Revenues from this segment were down slightly from 1996, as improved results from the automotive electrical components and plastic closures businesses were offset by the loss of revenues from the sale of noncore businesses. Revenues at Alcoa Fujikura Limited (AFL), which produces electrical components for the auto and truck markets, increased 18% due to significantly higher volumes, as prices declined slightly. Closures revenues were up 15% as global expansion drove higher shipments. Revenues from this segment in 1996 were up 16% from 1995, as higher revenues at AFL were partially offset by lower revenues resulting from the closing of AEP.

Operating profit was up 68% from 1996 as increased profits from the sale of automotive electrical components and plastic closures were fractionally offset by lower earnings from building products, magnesium products and packaging machinery. Operating profit in 1996 rose 4% from 1995, as higher earnings from AFL were partially offset by lower results for magnesium products, strong competition in the closures business and the shutdown of AEP.

Special Items

Special items in 1997 resulted in a net gain of \$95.5 (\$43.9 after tax and minority interests). The fourth quarter sales of a majority interest in Alcoa's Brazilian cable business and land in Japan generated gains of \$85.8. In addition, the sale of equity securities resulted in a gain of \$38.0, while the divestiture of noncore businesses provided \$25.0. These gains were partially offset by charges of \$53.3 related to environmental and impairment matters.

Included in 1996 income from operations was a charge of \$198.9 (\$122.3 after tax and minority interests) consisting of several items. A net severance charge of \$95.5, which included pension and OPEB curtailment credits of \$75.0, relates to incentive costs for employees who voluntarily left the company and for permanent layoff costs. In addition, the shutdown of AEP resulted in a charge of \$65.4, related primarily to asset writedowns. Impairments at various manufacturing locations added another \$38.0 to special items in 1996.

The 1995 special charge of \$16.2 (\$10.1 after tax and minority interests) consisted of a \$43.5 charge for severance costs, partially offset by a net credit of \$27.3 related to environmental matters.

Costs and Other Income

Cost of Goods Sold – Cost of goods rose 2% to \$10,156 in 1997, following a 6% increase in 1996 from 1995. Contributing to the 1997 increase was \$175 related to higher volumes partially offset by the absence of costs associated with divested businesses. Additionally, higher material costs of \$155 were nearly offset by cost improvements of \$140. Cost of goods sold in 1996 was \$606 higher than in 1995. Higher costs related to newly acquired companies and higher volumes were partially offset by a lower-cost product mix and cost improvements.

Selling and General Administrative Expenses – These expenses totaled \$671 in 1997, down \$38 or 5% from 1996. The decrease was the result of lower salary compensation costs resulting from a reduction in the number of employees at U.S. aluminum operations. Additionally, lower costs resulting from the divestiture of noncore businesses also had a positive impact. Expenses in 1996 were about even with those in 1995.

Research and Development Expenses – R&D expenses totaled \$143 in 1997, a 13% decline from 1996. Lower activity related to casting technology, closures and at AofA accounted for the decline.

Interest Expense – Interest expense increased \$7 from 1996 as a result of the full-year effect of Aluminio's 1996 debt offering and higher debt levels in 1997 at AofA.

Income Taxes – Alcoa's effective tax rate in 1997 was 33%, two percentage points below the statutory rate of 35%. The lower rate is primarily due to the favorable tax effect of certain special items.

The 1996 effective tax rate was 33.3%, and differs from the statutory rate due to the recognition of a tax benefit resulting from reversal of the valuation allowance on deferred tax assets at Suriname Aluminum Company, partially offset by state taxes on income.

The 1995 effective tax rate was 30.3%, and differs from the statutory rate primarily because of taxes on foreign income, partially offset by a higher tax rate in Australia.

Other Income/Foreign Currency – Other income rose to \$163 in 1997, a 141% increase from 1996. The majority of the change was due to reduced losses from marking-to-market certain aluminum commodity contracts. Higher equity and interest income, partially offset by a negative swing in foreign exchange, accounted for the remainder of the change. Other income in 1996 was \$67 compared with \$155 in 1995. The decrease primarily reflects higher losses from aluminum commodity contracts and lower equity and interest income.

Exchange gains (losses) included in other income were \$(9.8) in 1997, \$3.1 in 1996 and \$(16.5) in 1995. The total impact on net income, after taxes and minority interests, was \$6.9 in 1997, \$(.3) in 1996 and \$(10.2) in 1995.

Risk Factors

The following discussion about the company's risk management activities includes forward-looking statements that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

In addition to inherent operating risks, Alcoa is exposed to financial, market, political and economic risks.

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

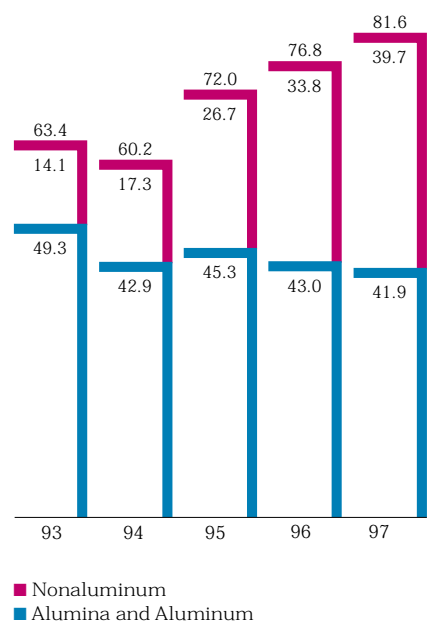
For aluminum price risk management purposes, Alcoa divides its operations into four regions: U.S., Pacific, Other Americas and Europe. AofA in the Pacific region and Aluminio in the Other Americas are generally in net long metal positions. From time to time, they may sell production forward. Operations in the European region are generally net metal short and may purchase forward positions periodically. Historically, forward purchase and sales activity within these three regions has not been material.

In the normal course of business, Alcoa enters into long-term contracts with a number of its fabricated products customers. At December 31, 1997 and 1996, such contracts approximated 2,093,000 mt and 2,369,000 mt, respectively. Alcoa may enter into similar arrangements in the future. In order to hedge the risk of higher prices for the anticipated metal purchases required to fulfill these long-term customer contracts, Alcoa enters into long positions, principally using futures and options. Alcoa follows a stable pattern of purchasing metal; therefore, it is highly likely that anticipated metal requirements will be met. At December 31, 1997 and 1996, these contracts totaled approximately 1,084,000 mt and 872,000 mt, respectively. A hypothetical 10% change from the 1997 year-end, three-month LME aluminum ingot price of \$1,552 per mt would result in a pretax gain or loss to future earnings of \$170 related to these contracts. However, it should be noted that any change in the value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the cost of purchased metal.

Earnings were selected as the measure of sensitivity due to the historical relationship between aluminum ingot prices and Alcoa's earnings. The hypothetical change of 10% was calculated using a parallel shift in the existing December 31, 1997 forward price curve for aluminum ingot. The price curve takes into account the time value of money, as well as future expectations regarding the price of aluminum ingot. The model also assumes there will be no aluminum smelter capacity restarted by Alcoa.

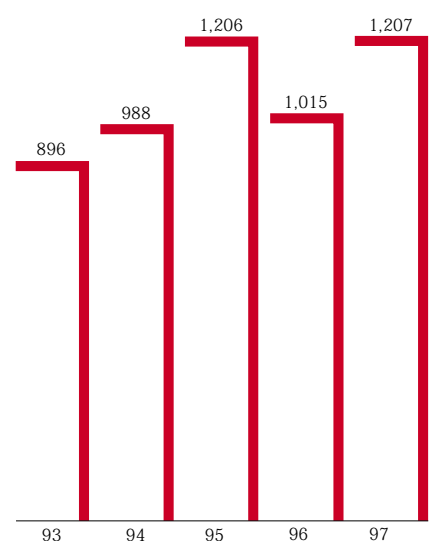
The futures and options contracts noted above are with credit-worthy counterparties and are further supported by cash, treasury bills or irrevocable letters of credit issued by carefully chosen banks.

Number of Employees
in thousands at year-end



Growth in the automotive electrical components business resulted in the hiring of nearly 7,000 additional employees in 1997.

U.S. Exports
millions of dollars



Higher shipments of automotive electrical components and rigid container sheet lead the rebound in export sales.

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.

Alcoa intends to close out the hedging positions at the time it purchases the metal from third parties, thus creating the right economic match both in time and price. Deferred gains of \$113 on the hedging contracts at December 31, 1997 are expected to offset the increase in the price of the purchased metal.

The expiration dates of the 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 to meet its contractual commitments with customers. Accordingly, some of the futures and options positions will be rolled forward. 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 addition to the above noted aluminum positions, Alcoa also had 259,000 mt and 205,000 mt of futures and options contracts outstanding at year-end 1997 and 1996, respectively, that cover long-term, fixed-price commitments to supply customers with metal from internal sources. Accounting convention requires that these contracts be marked-to-market, which resulted in after-tax charges to earnings of \$13 in 1997 and \$57 in 1996. A hypothetical 10% change in aluminum ingot prices from the year-end 1997 level of \$1,552 per mt would result in a pretax gain or loss of \$30 related to these positions. The hypothetical gain or loss was calculated using the same model and assumptions noted earlier.

Alcoa also purchases certain other commodities, such as gas and copper, for its operations and enters into futures contracts to eliminate volatility in the prices of such products. None of these contracts are material. For additional information on financial instruments, see Notes A and Q.

Foreign Exchange Risks – Alcoa is subject to significant exposure from fluctuations in foreign currencies. As a matter of company policy, foreign currency exchange contracts, including forwards and options, are used to limit transactional exposure to changes in currency exchange rates. The forward contracts principally cover existing exposures and firm commitments, while options are generally used to hedge anticipated transactions. A hypothetical 10% change in applicable 1997 year-end forward rates would result in a pretax gain or loss of approximately \$80 related to these positions. However, it should be noted that any change in value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items. The model assumes a parallel shift in the forward curve for the applicable currencies. See Note Q for information related to the notional and fair market values of Alcoa’s foreign exchange contracts at December 31, 1997 and 1996.

Interest Rate Risks – Alcoa attempts to maintain a reasonable balance between fixed- and floating-rate debt and uses interest rate swaps and caps to keep financing costs as low as possible. At December 31, 1997 and 1996, Alcoa had \$1,952 and \$2,075 of debt outstanding at effective interest rates of 7.00% and 6.71%, after the impact of interest rate swaps and caps is taken into account. A hypothetical change of 10% in Alcoa’s effective interest rate from year-end 1997 levels would increase or decrease interest expense by \$14. For more information related to Alcoa’s use of interest rate instruments, see Notes A and Q.

Risk Management – All of the aluminum and other commodity contracts, as well as the various types of financial instruments, are straightforward and are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility, and principally cover underlying exposures.

Alcoa’s commodity and derivative activities are subject to the management, direction and control of the Strategic Risk Management Committee (SRMC). It is composed of the chief executive officer, the president, the chief financial officer and other officers and employees that the chief executive officer may select from time to time. SRMC reports to the board of directors at each of its scheduled meetings on the scope of its derivative activities.

Material Limitations – The disclosures with respect to aluminum prices and foreign exchange risk do not take into account the underlying anticipated purchase obligations and the underlying transactional foreign exchange exposures. If the underlying items were included in the analysis, the gains or losses on the futures and options contracts may be offset. Actual results will be determined by a number of factors that are not under Alcoa’s control and could vary significantly from those disclosed.

Environmental Matters

Alcoa continues to participate in environmental assessments and cleanups at a number of locations, including operating facilities and adjoining properties, previously owned or operated facilities and Superfund and other waste sites. A liability is recorded for environmental remediation costs or damages when a cleanup program becomes probable and the costs or damages can be reasonably estimated. See Notes A and U for additional information.

Alcoa’s remediation reserve balance at the end of 1997 was \$243 and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. About 24% of this balance relates to Alcoa’s Massena, N.Y. plant site and 23% relates to Alcoa’s Pt. Comfort, Texas plant site. Remediation expenses charged to the reserve were \$64 in 1997, \$72 in 1996 and \$62 in 1995. They include expenditures currently mandated, as well as those not required by any regulatory authority or third party.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be about 2% of cost of goods sold.

Liquidity and Capital Resources

(dollars in millions, except share amounts)

Cash from Operations

Cash from operations for 1997 totaled \$1,888 versus \$1,279 in 1996. The increase was primarily the result of higher earnings and a prepayment from a long-term alumina supply contract. Special item gains in 1997 compared with losses in 1996 partially offset these items. Lower working capital requirements for 1997 resulted in net cash inflows of \$94, compared with cash outlays of \$64 in 1996. The decrease in working capital requirements in 1997 relative to 1996 was essentially due to higher levels of accounts payable and accrued expenses, partially offset by a decrease in taxes.

Cash outlays related to 1996 severance costs have been substantially completed. The majority of the 2,900 affected employees have left the company.

Financing Activities

Financing activities during 1997 resulted in cash outflows of \$989 compared with \$535 in 1996. The 1997 total included \$604 to repurchase 8,077,267 shares of the company's common stock at an average price of \$74.72 per share. In 1996, Alcoa used \$317 to repurchase 5,402,500 shares. Stock purchases in 1997 were partly offset by \$203 of treasury stock issued primarily for employee stock option plans.

Dividends paid to shareholders were \$170 in the 1997 period, a decrease of \$64 over 1996. The difference was due to Alcoa's bonus dividend program, which paid out 10.75 cents in addition to the base dividend in each quarter of 1996. The bonus program provides for the distribution in the following year of 30% of Alcoa's annual earnings in excess of \$3.00 per share. There was no bonus dividend in 1997; however, in 1998 the bonus program will pay out an additional 12.5 cents per quarter above the base dividend of 25 cents. In the 1997 first quarter, Alcoa raised the quarterly base dividend to 25 cents per share, an 11% increase.

Dividends paid and return of capital to minority interests totaled \$343 as AWAC and AofA returned funds to their investors in 1997. Of the \$343, \$206 relates to payments made by AofA to its minority shareholders, while a payment of \$96 was made by AWAC.

Payments on long-term debt during 1997 exceeded additions by \$218. During the 1997 fourth quarter, AFL issued a \$250 five-year term loan and entered into a \$250 five-year, revolving-credit facility. The term loan was used to refinance existing debt, while the revolving-credit facility will be used for general corporate purposes. Higher short-term borrowings in 1997 relative to 1996 were a result of higher borrowings at Alcoa Italia.

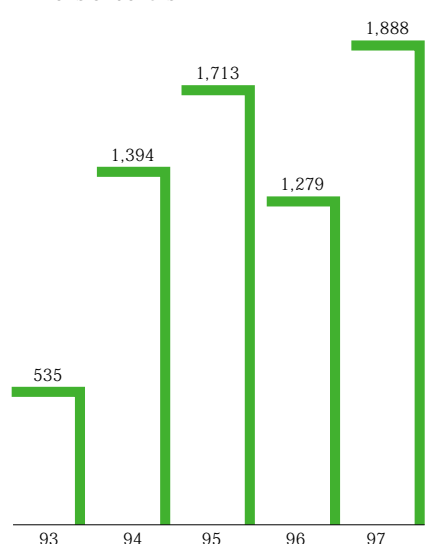
For 1996, Alcoa had net long-term borrowings of \$289. Of this amount, \$400 relates to notes issued by Aluminio. The proceeds were used to prepay Aluminio's 1995 notes and for its general corporate purposes.

Debt as a percentage of invested capital was 19.9% at the end of 1997, compared with 21.8% for 1996 and 16.7% for 1995.

Investing Activities

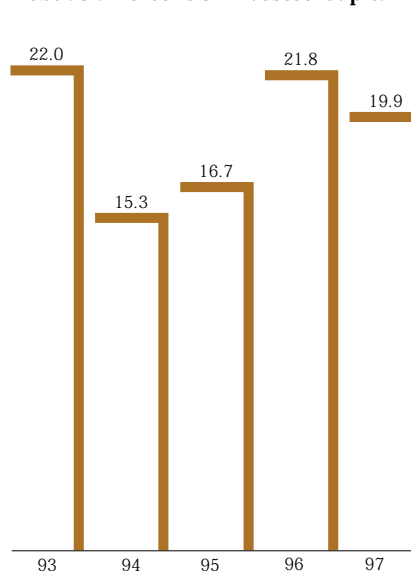
Cash used for investing activities during 1997 totaled \$679, compared with \$1,208 in 1996 and \$1,072 in 1995. Capital expenditures totaled

Cash from Operations
millions of dollars



The 48% increase in cash from operations in 1997 was due to higher earnings, a \$240 cash receipt from a long-term alumina supply contract and better management of working capital.

Debt as a Percent of Invested Capital



The decline in debt as a percent of invested capital was primarily due to the 14% reduction in long-term debt in 1997 relative to 1996.

\$912, compared with \$996 in 1996 and \$887 in 1995. Of the total expenditures in 1997, 29% related to capacity expansion, including forged wheel production in the U.S. and Europe along with automotive sheet production in the U.S. Also included are costs of new and expanded facilities for environmental control in ongoing operations totaling \$94 in 1997, \$68 in 1996 and \$54 in 1995.

Alcoa received \$265 in 1997 from the sale of assets including its Caradco, Arctek, Alcoa Composites, Norcold, Dayton Technologies and Richmond, Indiana facilities. Also included was the sale of a majority interest in Alcoa's Brazilian cable business. In 1996, Alcoa received \$83 from the sale of AofA's rolled products division to Kaal Australia.

Acquisitions accounted for \$302 of investing cash outflows during 1996 and included the purchase of Alumix in Italy and Alcan's extrusion operations in Brazil. The company also purchased the remaining 49.9% interest in Alcoa-Köfém in Hungary.

Subsequent Events

In January 1998, Alcoa issued \$300 of 6.75% bonds due 2028. The net proceeds were used for general corporate purposes.

On February 6, 1998, Alcoa completed its acquisition of Inespal, S.A. of Madrid, Spain. Alcoa paid \$210 in cash and assumed \$200 of debt in exchange for substantially all of Inespal's businesses. Inespal is an integrated aluminum producer with 1997 revenues of \$1,100. The acquisition included an alumina refinery, three aluminum smelters, three aluminum rolling facilities, two extrusion plants, an administrative center and related sales offices in Europe.

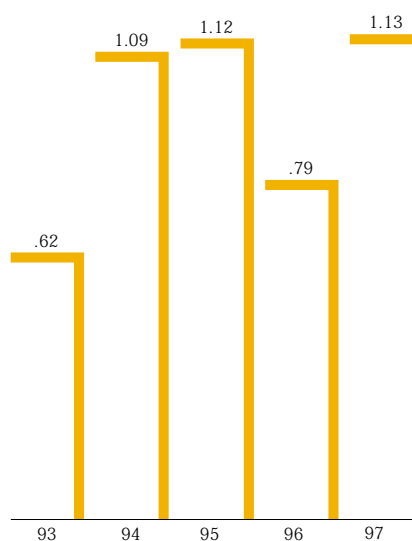
On February 25, 1998, Alcoa and the government of British Columbia, Canada, signed a memorandum of understanding to proceed with a feasibility study for the construction of a 250,000 mt per year primary aluminum smelter. The study will be completed no later than December 31, 1998. If the study produces a favorable result, construction could start in 1999 and would represent an investment of approximately \$850.

Year 2000 Issue

The company, assisted by outside consults, has conducted a detailed review of its administrative and process control computer systems to identify areas that are affected by the "Year 2000" issue. The Year 2000 issue is the result of computer programs being written using two digits (rather than four) to define the applicable year. This could result in computational errors as dates are compared across the century boundary.

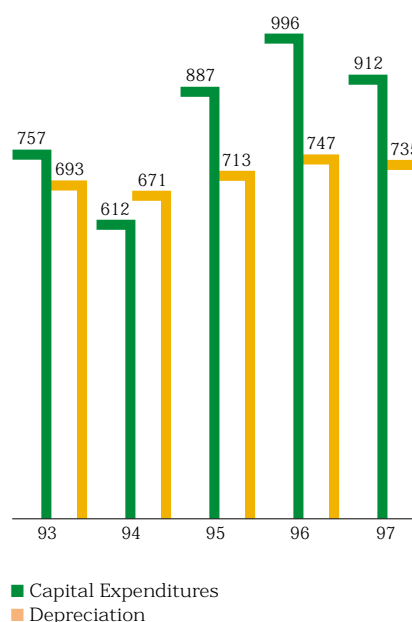
A detailed implementation plan has been developed to manage and resolve the issues identified in the review. The plan includes the modification of existing systems as well as the purchase of new software. It also requires that each system be audited after the modifications are complete to ensure compliance with Year 2000 requirements. Employees of the company as well as outside resources have been assigned to the completion of the implementation plan. The total cost of purchasing new software and altering the applicable program codes is estimated to be between \$50 and \$75 for 1998. The company is currently assessing the impact of the implementation plan on its 1999 operations.

Free Cash Flow to Debt
times covered



The free cash flow to debt ratio improved significantly in 1997 due to better operating results and lower levels of long-term debt.

Capital Expenditures and Depreciation
millions of dollars



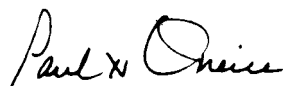
Capital expenditures for 1997 included a new automotive sheet facility, expansions to forged wheel facilities in Cleveland and Hungary and the construction of the new Alcoa Corporate Center.

Management's Report to Alcoa Shareholders

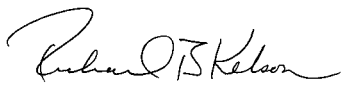
The accompanying financial statements of Alcoa and consolidated subsidiaries were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's 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

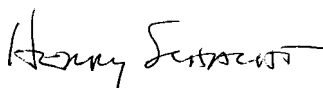


Richard B. Kelson
Executive Vice President and
Chief Financial Officer

Audit Committee Report

The Audit Committee of the Board of Directors, which is composed of six independent directors, met eight times in 1997.

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 L.L.P. as the company's independent public accountants. The Audit Committee reviewed with the Vice President- 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 Vice President- 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.



Henry B. Schacht
Chairman, Audit Committee

Independent Accountant'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, 1997 and 1996, 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, 1997. 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, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.



600 Grant St., Pittsburgh, Pa.

January 8, 1998, except for Note V,

for which the date is February 6, 1998

Statement of Consolidated Income

Alcoa and subsidiaries

(in millions, except per-share amounts)

For the year ended December 31	1997	1996	1995
Revenues			
Sales and operating revenues (P)	\$13,319.2	\$13,061.0	\$12,499.7
Other income, principally interest	162.5	67.4	155.2
	13,481.7	13,128.4	12,654.9
Costs and Expenses			
Cost of goods sold and operating expenses	10,155.8	9,966.0	9,360.1
Selling, general administrative and other expenses	670.6	708.8	707.6
Research and development expenses	143.2	165.5	141.3
Provision for depreciation, depletion and amortization	734.9	747.2	712.9
Interest expense (N)	140.9	133.7	119.8
Taxes other than payroll taxes	130.1	126.6	126.8
Special items (B)	(95.5)	198.9	16.2
	11,880.0	12,046.7	11,184.7
Earnings			
Income before taxes on income	1,601.7	1,081.7	1,470.2
Provision for taxes on income (T)	528.7	360.7	445.9
Income from operations	1,073.0	721.0	1,024.3
Minority interests	(267.9)	(206.1)	(233.8)
Net Income	\$ 805.1	\$ 514.9	\$ 790.5
Earnings per Share (K)			
Basic	\$ 4.66	\$ 2.94	\$ 4.43
Diluted	\$ 4.62	\$ 2.91	\$ 4.39

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

Consolidated Balance Sheet

Alcoa and subsidiaries

(in millions)

December 31	1997	1996
Assets		
Current assets:		
Cash and cash equivalents (includes cash of \$100.8 in 1997 and \$93.4 in 1996) (Q)	\$ 800.8	\$ 598.1
Short-term investments (Q)	105.6	18.5
Receivables from customers, less allowances: 1997 - \$36.6; 1996 - \$48.4	1,581.2	1,674.7
Other receivables	216.4	154.2
Inventories (C)	1,312.6	1,461.4
Deferred income taxes	172.3	159.9
Prepaid expenses and other current assets	228.0	214.4
Total current assets	4,416.9	4,281.2
Properties, plants and equipment (D)	6,666.5	7,077.5
Other assets (E and Q)	1,987.2	2,091.2
Total Assets	\$13,070.6	\$13,449.9
Liabilities		
Current liabilities:		
Short-term borrowings (weighted average rate of 6.3% in 1997 and 6.5% in 1996) (Q)	\$ 347.7	\$ 206.5
Accounts payable, trade	811.7	799.2
Accrued compensation and retirement costs	436.0	404.3
Taxes, including taxes on income	334.2	407.9
Other current liabilities	375.7	377.0
Long-term debt due within one year (G and Q)	147.2	178.5
Total current liabilities	2,452.5	2,373.4
Long-term debt, less amount due within one year (G and Q)	1,457.2	1,689.8
Accrued postretirement benefits (S)	1,749.6	1,791.2
Other noncurrent liabilities and deferred credits (F)	1,271.2	1,205.5
Deferred income taxes	281.0	317.1
Total liabilities	7,211.5	7,377.0
Minority Interests (A and H)	1,439.7	1,610.5
Contingent liabilities (M)	—	—
Shareholders' Equity		
Preferred stock (O)	55.8	55.8
Common stock (O)	178.9	178.9
Additional capital	578.1	591.9
Retained earnings	4,717.3	4,082.6
Treasury stock, at cost	(758.0)	(371.3)
Accumulated other comprehensive income (A and Q)	(352.7)	(75.5)
Total shareholders' equity	4,419.4	4,462.4
Total Liabilities and Equity	\$13,070.6	\$13,449.9

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

Statement of Consolidated Cash Flows

Alcoa and subsidiaries

(in millions)

For the year ended December 31	1997	1996	1995
Cash from Operations			
Net income	\$ 805.1	\$ 514.9	\$ 790.5
Adjustments to reconcile net income to cash from operations:			
Depreciation, depletion and amortization	753.6	764.2	730.3
Change in deferred income taxes	83.2	120.3	(36.2)
Equity earnings before additional taxes, net of dividends	(30.9)	(6.6)	(25.6)
Special items – net of payments	(95.5)	168.3	16.2
Book value of asset disposals	42.2	61.8	44.6
Minority interests	267.9	206.1	233.8
Other	(5.2)	(8.5)	(1.9)
(Increase) reduction in receivables	12.0	42.7	(50.6)
(Increase) reduction in inventories	52.5	87.8	(225.3)
Increase in prepaid expenses and other current assets	(25.6)	(40.3)	(13.4)
Increase (reduction) in accounts payable and accrued expenses	81.5	(181.1)	(40.3)
Increase (reduction) in taxes, including taxes on income	(26.5)	27.4	(95.1)
Cash received on long-term alumina supply contract	240.0	–	–
Increase (reduction) in deferred hedging gains	(113.3)	(264.5)	365.5
Net change in noncurrent assets and liabilities	(153.4)	(213.6)	20.0
Cash from operations	1,887.6	1,278.9	1,712.5
Financing Activities			
Net additions (reduction) to short-term borrowings	142.5	(140.7)	83.3
Common stock issued and treasury stock sold	203.0	41.4	58.1
Repurchase of common stock	(603.5)	(317.2)	(224.9)
Dividends paid to shareholders	(170.4)	(234.2)	(162.5)
Dividends paid and return of capital to minority interests	(342.5)	(173.2)	(121.9)
Additions to long-term debt	519.8	916.2	612.1
Payments on long-term debt	(738.2)	(627.1)	(243.4)
Redemption of subsidiary preferred stock	–	–	(200.0)
Cash used for financing activities	(989.3)	(534.8)	(199.2)
Investing Activities			
Capital expenditures	(912.4)	(995.7)	(887.1)
Acquisitions, net of cash acquired	–	(302.3)	(426.1)
Sale of assets	265.2	82.8	–
Sale of (additions to) investments	51.7	(58.8)	(15.2)
Changes in minority interests	14.2	(34.2)	30.9
Proceeds from Alcoa/WMC transaction	–	–	366.9
Repayment from (loan to) WMC	–	121.8	(121.8)
Changes in short-term investments	(87.3)	(11.7)	(1.3)
Other	(10.0)	(10.0)	(17.8)
Cash used for investing activities	(678.6)	(1,208.1)	(1,071.5)
Effect of exchange rate changes on cash	(17.0)	6.5	(5.4)
Net change in cash and cash equivalents	202.7	(457.5)	436.4
Cash and cash equivalents at beginning of year	598.1	1,055.6	619.2
Cash and cash equivalents at end of year	\$ 800.8	\$ 598.1	\$ 1,055.6

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

Statement of Shareholders' Equity

Alcoa and subsidiaries

(in millions, except share amounts)

December 31	Comprehensive income	Preferred stock	Common stock	Additional capital	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total shareholders' equity
Balance at end of 1994		\$ 55.8	\$ 178.7	\$ 663.5	\$ 3,173.9	\$ (.1)	\$ (72.6)	\$ 3,999.2
Comprehensive income – 1995:								
Net income – 1995	\$790.5				790.5			790.5
Other comprehensive income, net of tax:								
Minimum pension liability, net of \$2.9 tax benefit	(5.3)							
Unrealized translation adjustments	(10.1)							
Realized translation adjustments	(.3)						(15.7)	(15.7)
Comprehensive income	<u>\$774.8</u>							
Cash dividends: Preferred @ \$3.75 per share					(2.1)			(2.1)
Common @ \$.90 per share					(160.4)			(160.4)
Treasury shares purchased						(224.9)		(224.9)
Stock issued: compensation plans			.2	(26.4)	(1.8)	86.1		58.1
Balance at end of 1995		55.8	178.9	637.1	3,800.1	(138.9)	(88.3)	4,444.7
Comprehensive income – 1996:								
Net income – 1996	\$514.9				514.9			514.9
Other comprehensive income, net of tax:								
Minimum pension liability, net of \$1.9 tax expense	3.5							
Unrealized translation adjustments	(8.9)							
Realized translation adjustments	(5.2)							
Unrealized gains on securities, net of \$12.6 tax benefit	23.4						12.8	12.8
Comprehensive income	<u>\$527.7</u>							
Cash dividends: Preferred @ \$3.75 per share					(2.1)			(2.1)
Common @ \$1.33 per share					(232.1)			(232.1)
Treasury shares purchased						(317.2)		(317.2)
Stock issued: compensation plans				(45.2)	1.8	84.8		41.4
Balance at end of 1996		55.8	178.9	591.9	4,082.6	(371.3)	(75.5)	4,462.4
Comprehensive income – 1997:								
Net income – 1997	\$805.1				805.1			805.1
Other comprehensive income, net of tax:								
Minimum pension liability, net of \$2.3 tax benefit	(4.2)							
Unrealized translation adjustments	(249.6)							
Unrealized gains on securities, net of \$.7 tax expense	1.3							
Gains on securities included in net income, net of \$13.3 tax benefit	(24.7)						(277.2)	(277.2)
Comprehensive income	<u>\$527.9</u>							
Cash dividends: Preferred @ \$3.75 per share					(2.1)			(2.1)
Common @ \$.975 per share					(168.3)			(168.3)
Treasury shares purchased						(603.5)		(603.5)
Stock issued: compensation plans				(13.8)		216.8		203.0
Balance at end of 1997		\$55.8	\$178.9	\$578.1	\$4,717.3	\$(758.0)	\$(352.7)*	\$4,419.4

*Comprised of unrealized translation adjustments of \$(342.7) and minimum pension liability of \$(100)

Share Activity (number of shares)

	Preferred stock	Common stock
	Issued	Treasury
	Net outstanding	
Balance at end of 1994	557,649	178,712,476
Treasury shares purchased		(4,575,400)
Stock issued: compensation plans	207,605	2,176,954
Balance at end of 1995	557,649	176,314,030
Treasury shares purchased		(5,402,500)
Stock issued: compensation plans		1,598,109
Balance at end of 1996	557,649	172,509,639
Treasury shares purchased		(8,077,267)
Stock issued: compensation plans		3,843,254
Balance at end of 1997	557,649	168,275,626

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

Notes to Consolidated Financial Statements

(dollars in millions, except share amounts)

A. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Alcoa and companies more than 50% owned. Investments in other entities are accounted for principally on an equity basis.

The consolidated financial statements are prepared in conformity with generally accepted accounting principles and require management to make certain estimates and assumptions. These may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. They may also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates upon subsequent resolution of some matters.

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 and Depletion. Depreciation is recorded principally on the straight-line method at rates based on the estimated useful lives of the assets. 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 during which the estimated mineral reserves are extracted.

Amortization of Intangibles. The excess of purchase price over net tangible assets of businesses acquired is included in other assets in the consolidated balance sheet. Intangibles are amortized on a straight-line basis over not more than 40 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.

Environmental Expenditures. Expenditures for current operations are expensed or capitalized, as appropriate. Expenditures relating to existing conditions 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 may include elements of costs such as site investigations, consultant fees, feasibility studies, outside contractor expenses and monitoring expenses. Estimates are not discounted or reduced by potential claims for recovery. Claims for recovery are recognized when received. The estimates also include costs related 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 estimates of required activity and other factors that may be relevant, including changes in technology or regulations. See Note U for additional information.

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

Financial Instruments and Commodity Contracts. Alcoa enters into long-term contracts to supply fabricated products to a number of its customers. To hedge the market risk of changing prices for purchases or sales of metal, Alcoa uses commodity futures and options contracts.

Gains and losses related to transactions that qualify for hedge accounting, including closed futures contracts, are deferred and reflected in cost of goods sold when the underlying physical transaction takes place. The deferred gains or losses are reflected on the balance sheet in other current and noncurrent liabilities or assets. If future purchased metal needs are revised lower than initially anticipated, the futures contracts associated with the reduction no longer qualify for deferral and are marked-to-market. Gains and losses are recorded in other income in the current period.

The effectiveness of the hedge is measured by a historical and probable future high correlation of changes in the fair value of the hedging instruments with changes in value of the hedged item. If correlation ceases to exist, hedge accounting will be terminated and gains or losses recorded in other income. To date, high correlation has always been achieved.

Alcoa also enters into futures and options contracts that cover long-term, fixed-price commitments to supply customers with metal from internal sources. These contracts are marked-to-market, and the gains and losses from changes in market value of the contracts are recorded in other income in the current period. This resulted in after-tax losses of \$12.7 in 1997, \$57.1 in 1996 and \$37.9 in 1995.

Alcoa also attempts to maintain a reasonable balance between fixed- and floating-rate debt, using interest rate swaps and caps, to keep financing costs as low as possible. Amounts to be paid or received under swap and cap agreements are recognized over the life of such agreements as adjustments to interest expense.

Upon early termination of an interest rate swap or cap, gains or losses are deferred and amortized as adjustments to interest expense of the related debt over the remaining period covered by the terminated swap or cap.

Alcoa is subject to significant exposure from fluctuations in foreign currencies. To mitigate these risks, foreign exchange contracts are used to manage transactional exposures to changes in currency exchange rates. Gains and losses on forward contracts that hedge firm foreign currency commitments, and options that hedge anticipated transactions, are deferred and included in the basis of the transactions underlying the commitments. If the underlying transaction is not completed, the financial position is closed and gains or losses are recognized in other income in the period such commitment is terminated.

Cash flows from financial instruments are recognized in the statement of cash flows in a manner consistent with the underlying transactions.

Stock-Based Compensation. Alcoa accounts for stock-based compensation in accordance with the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation cost is not required to be recognized

on options granted. Disclosures required with respect to alternative fair value measurement and recognition methods prescribed by Statement of Financial Accounting Standard (SFAS) No. 123, "Accounting for Stock-Based Compensation," are presented in Note O.

Foreign Currency. The local currency is the functional currency for Alcoa's significant operations outside the U.S., except in Brazil, where the U.S. dollar is used as the functional currency. The determination of the functional currency for Alcoa's Brazilian operations is made based on the appropriate economic and management indicators and is not dependent on Brazil's status as a hyperinflationary economy.

Recently Adopted Accounting Standards. Alcoa has adopted SFAS No. 128, "Earnings per Share," issued in February 1997. This statement requires the disclosure of basic and diluted earnings per share and revises the method required to calculate these amounts. The adoption of this standard did not impact previously reported earnings per share amounts.

In June 1997, SFAS No. 130, "Reporting Comprehensive Income," was issued. Alcoa has adopted this standard which requires the display of comprehensive income and its components in the financial statements. In Alcoa's case, comprehensive income includes net income and unrealized gains and losses from currency translation, equity investments and pension liability adjustments.

Recently Issued Accounting Standards. A new accounting rule, SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," was issued in June 1997. The implementation of SFAS No. 131 will require the disclosure of segment information on the same basis that is used internally for evaluating segment performance and allocating resources to segments. The company is currently assessing the effect of this new standard; however, it will not have a financial impact on the company. Implementation of this new standard is required for calendar year 1998.

In February 1998, SFAS No. 132, "Employers Disclosures about Pensions and Other Postretirement Benefits," was issued. The implementation of SFAS No. 132 will revise certain footnote disclosure requirements related to pension and other retiree benefits. The new standard will not have a financial impact on the company. Implementation is required for calendar year 1998.

Reclassification. Certain amounts in previously issued financial statements were reclassified to conform to 1997 presentations.

B. Special Items

Special items in 1997 resulted in a gain of \$95.5 (\$43.9 after tax and minority interests). The fourth quarter sales of a majority interest in Alcoa's Brazilian cable business and land in Japan generated gains of \$85.8. In addition, the sale of equity securities resulted in a gain of \$38.0, while the divestiture of noncore businesses provided \$25.0. These gains were offset by charges of \$53.3, related primarily to environmental and impairment matters.

Special items in 1996 consisted of a charge totaling \$198.9 (\$122.3 after tax and minority interests). A net severance charge of \$95.5,

which included pension and OPEB curtailment credits of \$75.0, relates to incentive costs for employees who voluntarily left the company and for permanent layoff costs. The shutdown of Alcoa Electronic Packaging resulted in an additional charge of \$65.4, related primarily to asset writedowns. Impairments at various manufacturing locations added another charge of \$38.0.

Special items in 1995 totaled \$16.2 (\$10.1 after tax and minority interests). It included a charge of \$43.5 for severance costs, partially offset by a net credit of \$27.3, related to environmental matters.

C. Inventories

December 31	1997	1996
Finished goods	\$ 314.9	\$ 403.1
Work in process	433.0	421.1
Bauxite and alumina	263.9	283.1
Purchased raw materials	197.3	235.5
Operating supplies	103.5	118.6
	\$1,312.6	\$1,461.4

Approximately 57% of total inventories at December 31, 1997 were valued on a LIFO basis. If valued on an average-cost basis, total inventories would have been \$769.8 and \$753.7 higher at the end of 1997 and 1996, respectively.

D. Properties, Plants and Equipment, at Cost

December 31	1997	1996
Land and land rights, including mines	\$ 221.2	\$ 237.0
Structures	3,898.1	4,028.0
Machinery and equipment	10,482.8	10,742.5
	14,602.1	15,007.5
Less: accumulated depreciation and depletion	8,587.5	8,652.4
	6,014.6	6,355.1
Construction work in progress	651.9	722.4
	\$ 6,666.5	\$ 7,077.5

E. Other Assets

December 31	1997	1996
Investments, principally equity investments	\$ 464.7	\$ 497.7
Intangibles, net of accumulated amortization of \$257.5 in 1997 and \$310.7 in 1996	607.4	571.1
Noncurrent receivables	83.9	75.5
Deferred income taxes	387.9	478.4
Deferred charges and other	443.3	468.5
	\$1,987.2	\$2,091.2

F. Other Noncurrent Liabilities and Deferred Credits

December 31	1997	1996
Deferred hedging gains	\$ 101.6	\$ 218.9
Deferred alumina sales revenue	235.9	-
On-site environmental remediation	170.3	216.9
Deferred credits	161.3	181.0
Other noncurrent liabilities	602.1	588.7
	\$1,271.2	\$1,205.5

The deferred hedging gains are associated with metal contracts and will be reflected in future earnings concurrent with the hedged revenues or costs.

G. Long-Term Debt

December 31	1997	1996
U.S.		
5.75% Notes payable, due 2001	\$ 248.8	\$ 248.4
Commercial paper, variable rate, (5.4% average rate)	—	173.6
Bank loans, 7.5 billion yen, due 1999, (4.4% fixed rate)	78.0	78.0
Tax-exempt revenue bonds ranging from 3.5% to 6.6%, due 2000-2012	130.5	131.1
Alcoa Fujikura Ltd. - variable-rate term loan, due 1998-2002 (6.1% average rate)	250.0	262.5
Alcoa Aluminio		
7.5% Fixed-rate note, due 2008	395.2	400.0
Variable-rate notes, due 1998-2001 (6.9% and 7.3% average rates)	97.3	208.2
Alcoa of Australia		
Euro-commercial paper, variable rate, (5.7% and 5.5% average rates)	225.3	131.0
Other subsidiaries	179.3	235.5
	1,604.4	1,868.3
Less: amount due within one year	147.2	178.5
	\$1,457.2	\$1,689.8

The amount of long-term debt maturing in each of the next five years is \$147.2 in 1998, \$133.8 in 1999, \$82.5 in 2000, \$347.5 in 2001 and \$347.4 in 2002.

In 1997, Alcoa Fujikura issued a \$250 term loan and entered into a five-year, \$250 revolving-credit agreement. The proceeds of the term loan were used to repay existing debt. These agreements require Alcoa Fujikura to maintain certain financial ratios.

In 1996, Alcoa Aluminio issued \$400 of export notes. The agreement requires Aluminio to maintain certain financial ratios.

Under Alcoa's \$1.3 billion revolving-credit facility, which expires in July 2001, certain levels of consolidated net worth 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 the revolving-credit facility noted above.

H. Minority Interests

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

December 31	1997	1996
Alcoa of Australia	\$ 390.7	\$ 572.7
Alcoa Aluminio	387.7	362.5
Alcoa Alumina and Chemicals	320.9	376.7
Alcoa Fujikura	182.7	128.6
Other majority-owned companies	157.7	170.0
	\$1,439.7	\$1,610.5

I. Acquisitions

Alcoa made various acquisitions during 1996 totaling \$302. They include the purchase of Alumix, Italy's state-owned integrated aluminum producer, and Alcan's extrusion operations in Brazil.

In 1995, acquisitions totaled \$426, which resulted in goodwill of approximately \$250.

All of the acquisitions were accounted for by the purchase method. Accordingly, the purchase prices were allocated to assets acquired and liabilities assumed based on their estimated fair values. Operating results have been included in the Statement of Consolidated Income since the dates of the acquisitions. If the acquisitions had been made at the beginning of the year, net income for the year would not have been materially different.

J. Cash Flow Information

Cash payments for interest and income taxes follow.

	1997	1996	1995
Interest	\$145.9	\$136.4	\$123.4
Income taxes	342.5	265.8	508.3

The details of cash payments related to acquisitions follow.

	1997	1996	1995
Fair value of assets	—	\$365.2	\$509.5
Liabilities	—	62.4	79.8
Cash paid	—	302.8	429.7
Less: cash acquired	—	.5	3.6
Net cash paid for acquisitions	—	\$302.3	\$426.1

K. Earnings Per Share

Basic earnings per common share (EPS) amounts are computed by dividing earnings after the deduction of preferred stock dividends by the average number of common shares outstanding. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive equivalents outstanding. See Note O for additional information.

The details of basic and diluted earnings per common share follow.

	1997	1996	1995
Net income	\$805.1	\$514.9	\$790.5
Less: preferred stock dividends	2.1	2.1	2.1
Income available to common stockholders	\$803.0	\$512.8	\$788.4
Weighted average shares outstanding	172,225,796	174,333,524	178,018,083
Basic EPS	\$ 4.66	\$ 2.94	\$ 4.43
Effect of dilutive securities:			
Shares issuable upon exercise of dilutive outstanding stock options	1,633,925	1,846,215	1,642,922
Fully diluted shares outstanding	173,859,721	176,179,739	179,661,005
Diluted EPS	\$ 4.62	\$ 2.91	\$ 4.39

L. Lease Expense

Certain equipment, warehousing and office space and oceangoing vessels are under operating lease agreements. Total expense for all leases was \$110.9 in 1997, \$95.4 in 1996 and \$71.9 in 1995. Under long-term operating leases, minimum annual rentals are \$62.1 in 1998, \$46.1 in 1999, \$31.4 in 2000, \$21.0 in 2001, \$10.1 in 2002 and a total of \$27.2 for 2003 and thereafter.

M. Contingent Liabilities

Various lawsuits, 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 facts currently available, 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.

N. Interest Cost Components

	1997	1996	1995
Amount charged to expense	\$140.9	\$133.7	\$119.8
Amount capitalized	9.0	5.3	1.9
	\$149.9	\$139.0	\$121.7

O. 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 of \$100 per share 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, 1997, shares of common stock reserved for issuance were:

	Number of shares
Long-term stock incentive plan	19,447,255
Employees' savings plans	4,097,532
Incentive compensation plan	169,228

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 cents per-share options issued as a payout of earned performance share awards. The stock option program includes a reload or stock continuation ownership feature. Stock options granted have a maximum term of 10 years. Vesting occurs one year from the date of grant and six months for options granted under the reload feature.

Alcoa's net income and earnings per share would have been reduced to the pro forma amounts shown below if compensation cost had been determined based on the fair value at the grant dates.

	1997	1996	1995
Net income:			
As reported	\$805.1	\$514.9	\$790.5
Pro forma	755.5	472.2	756.9
Basic earnings per share:			
As reported	4.66	2.94	4.43
Pro forma	4.37	2.70	4.24
Diluted earnings per share:			
As reported	4.62	2.91	4.39
Pro forma	4.33	2.67	4.20

The weighted average fair value of options granted was \$11.79 per share in 1997, \$8.03 per share in 1996 and \$7.62 per share in 1995.

The fair value of each option is estimated on the date of grant or subsequent reload using the Black-Scholes pricing model with the following assumptions:

	1997	1996	1995
Average risk-free interest rate	6.1%	5.7%	6.7%
Expected dividend yield	1.3	2.2	1.8
Expected volatility	25.0	25.0	25.0
Expected life (years):			
Stock options that are not reloaded	2.5	3.0	3.0
Stock options that are reloaded	1.0	1.0	1.0

The transactions for shares under options were:

	1997	1996	1995
Outstanding, beginning of year:			
Number	10,033,942	8,549,643	7,900,090
Weighted average exercise price	\$51.73	\$43.84	\$35.55
Granted:			
Number	6,387,807	8,700,677	7,945,977
Weighted average exercise price	\$72.14	\$56.30	\$47.86
Exercised:			
Number	(5,712,176)	(7,161,003)	(7,212,081)
Weighted average exercise price	\$52.79	\$47.90	\$44.39
Expired or forfeited:			
Number	(160,848)	(55,375)	(84,343)
Weighted average exercise price	\$63.39	\$51.42	\$41.62
Outstanding, end of year:			
Number	10,548,725	10,033,942	8,549,643
Weighted average exercise price	\$63.33	\$51.73	\$43.84
Exercisable, end of year:			
Number	5,205,556	4,346,793	3,063,335
Weighted average exercise price	\$53.45	\$46.59	\$34.14
Shares reserved for future options	8,898,530	4,655,935	7,738,143

The following tables summarize certain stock option information at December 31, 1997:

Options outstanding:

Range of exercise price	Number	Weighted average remaining life	Weighted average exercise price
\$ 0.50	173,240	employment career	\$ 0.50
26.28- 39.41	653,693	3.6	34.22
39.42- 59.12	1,865,551	6.1	50.31
59.13- 88.94	7,856,241	7.0	70.23
	10,548,725	6.5	63.33

Options exercisable:

Range of exercise price	Number	Weighted average exercisable price
\$ 0.50	173,240	\$ 0.50
26.28- 39.41	653,693	34.22
39.42- 59.12	1,865,551	50.31
59.13- 70.31	2,513,072	64.43
	5,205,556	53.45

P. Segment and Geographic Area Information

Alcoa is the world's leading producer of aluminum and alumina and a major participant in all segments of the industry: mining, refining, smelting, fabricating, and recycling. Alcoa serves customers worldwide in the packaging, automotive, aerospace, construction and other markets with a great variety of fabricated and finished products. Its operations consist of the three segments that follow.

The Alumina and Chemicals segment includes the production and sale of bauxite, alumina, alumina chemicals and related 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 Nonaluminum Products segment includes the production and sale of electrical, plastic and composite materials products, manufacturing equipment, gold, magnesium products and steel and titanium forgings.

Total exports from the U.S. in 1997 were \$1,207, compared with \$1,015 in 1996 and \$1,206 in 1995.

Segment information	1997	1996	1995
Sales to customers:			
Alumina and chemicals	\$ 1,960.8	\$ 1,939.6	\$ 1,757.8
Aluminum processing	8,240.5	7,975.7	8,034.3
Nonaluminum products	3,117.9	3,145.7	2,707.6
Intersegment sales: (1)			
Alumina and chemicals	634.0	617.1	540.1
Aluminum processing	14.4	.4	3.7
Nonaluminum products	90.1	81.8	97.6
Eliminations	(738.5)	(699.3)	(641.4)
Total sales and operating revenues	\$13,319.2	\$13,061.0	\$12,499.7
Operating profit before special items:			
Alumina and chemicals	\$ 415.1	\$ 459.3	\$ 306.9
Aluminum processing	862.5	774.1	1,014.7
Nonaluminum products	197.2	116.6	112.9
Total	\$ 1,474.8	\$ 1,350.0	\$ 1,434.5
Operating profit after special items:			
Alumina and chemicals	\$ 416.4	\$ 431.1	\$ 309.9
Aluminum processing	952.5	711.8	1,001.4
Nonaluminum products	201.4	8.2	107.0
Total operating profit	1,570.3	1,151.1	1,418.3
Other income	162.5	67.4	155.2
Translation (gain) loss in operating profit	9.8	(3.1)	16.5
Interest expense	(140.9)	(133.7)	(119.8)
Income before taxes on income	\$ 1,601.7	\$ 1,081.7	\$ 1,470.2
Identifiable assets:			
Alumina and chemicals	\$ 3,022.5	\$ 3,316.3	\$ 3,101.9
Aluminum processing	6,578.8	6,691.0	6,621.6
Nonaluminum products	2,098.2	2,328.3	2,335.0
Total identifiable assets	11,699.5	12,335.6	12,058.5
Investments	464.7	497.7	397.3
Corporate assets (2)	906.4	616.6	1,187.6
Total assets	\$13,070.6	\$13,449.9	\$13,643.4
Depreciation and depletion:			
Alumina and chemicals	\$ 166.9	\$ 165.2	\$ 153.8
Aluminum processing	448.3	443.9	442.1
Nonaluminum products	138.4	155.1	134.4
Total depreciation and depletion (3)	\$ 753.6	\$ 764.2	\$ 730.3
Capital expenditures:			
Alumina and chemicals	\$ 216.6	\$ 314.6	\$ 246.8
Aluminum processing	516.1	472.9	399.2
Nonaluminum products	179.7	208.2	241.1
Total capital expenditures	\$ 912.4	\$ 995.7	\$ 887.1

Geographic area information	1997	1996	1995
Sales to customers:			
USA	\$ 7,189.4	\$ 7,245.9	\$ 7,042.7
Pacific	2,221.7	2,247.8	1,985.7
Europe	2,089.8	1,841.3	1,691.2
Other Americas	1,818.3	1,726.0	1,780.1
Transfers between geographic areas: (1)			
USA	770.4	790.2	959.2
Pacific	44.1	34.2	37.6
Europe	39.4	18.3	23.3
Other Americas	465.6	361.5	511.4
Eliminations	(1,319.5)	(1,204.2)	(1,531.5)
Total sales and operating revenues	\$13,319.2	\$13,061.0	\$12,499.7
Operating profit before special items:			
USA	\$ 669.1	\$ 639.5	\$ 593.6
Pacific	482.4	504.7	415.4
Europe	99.5	54.5	92.4
Other Americas	223.8	151.3	333.1
Total	\$ 1,474.8	\$ 1,350.0	\$ 1,434.5
Operating profit after special items:			
USA	\$ 699.2	\$ 479.3	\$ 586.4
Pacific	520.2	491.0	415.4
Europe	93.6	40.7	86.3
Other Americas	257.3	140.1	330.2
Total operating profit	\$ 1,570.3	\$ 1,151.1	\$ 1,418.3
Identifiable assets:			
USA	\$ 5,969.0	\$ 6,401.7	\$ 6,398.7
Pacific	2,245.7	2,671.0	2,603.1
Europe	1,404.9	1,204.2	1,053.4
Other Americas	2,079.9	2,058.7	2,003.3
Total identifiable assets	\$11,699.5	\$12,335.6	\$12,058.5
Capital expenditures:			
USA	\$ 498.4	\$ 534.4	\$ 439.7
Pacific	130.7	162.9	168.3
Europe	147.6	137.5	93.0
Other Americas	135.7	160.9	186.1
Total capital expenditures	\$ 912.4	\$ 995.7	\$ 887.1

- (1) Transfers between segments and geographic areas are based on generally prevailing market prices.
- (2) Corporate assets include: cash and marketable securities of \$906.4 in 1997, \$616.6 in 1996 and \$1,062.4 in 1995; and a net receivable of \$125.2 in 1995 related to the Alcoa/WMC transaction.
- (3) Includes depreciation of \$18.7 in 1997, \$17.0 in 1996 and \$17.4 in 1995 reported as research and development expenses in the income statement

Q. Financial Instruments

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

	1997		1996	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	\$ 800.8	\$ 800.8	\$ 598.1	\$ 598.1
Short-term investments	105.6	105.6	18.5	18.5
Noncurrent receivables	83.9	83.9	75.5	75.5
Investments available for sale	—	—	68.0	68.0
Short-term debt	494.9	494.9	385.0	385.0
Long-term debt	1,457.2	1,456.3	1,689.8	1,678.0

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

Cash and Cash Equivalents, Short-Term Investments and Short-Term Debt.

The carrying amounts approximate 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.

Investments Available for Sale. The fair value of investments is determined based on readily available market values. Investments in marketable equity securities are classified as "available for sale" and are carried at fair value. In 1997, Alcoa sold all of its marketable equity securities for \$60, resulting in a gain of \$24.7, net of \$13.3 in taxes.

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 for purposes other than trading. 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. The contracts generally mature within 12 months and are principally unsecured foreign exchange contracts with carefully selected banks. The market risk exposure is essentially limited to risk related to currency rate movements. Unrealized gains (losses) on these contracts at December 31, 1997 and 1996 were \$(84.9) and \$34.8, respectively.

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

	1997		1996	
	Notional amount	Market value	Notional amount	Market value
Forwards	\$2,235.8	\$(102.7)	\$2,579.5	\$32.8
Purchased options	232.5	(42.1)	649.9	5.6
Written options	202.1	40.3	390.8	(2.3)

The notional values summarized earlier provide an indication of the extent of the company's involvement in such instruments but do not represent its exposure to market risk. Alcoa utilizes written options mainly to offset or close out purchased options.

The table below summarizes by major currency the contractual amounts of Alcoa's forward exchange and option contracts translated to U.S. dollars 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.

	1997		1996	
	Buy	Sell	Buy	Sell
Australian dollar	\$1,492.0	\$291.3	\$1,858.7	\$ 808.6
Dutch guilder	111.9	18.1	198.8	18.7
Japanese yen	68.2	12.1	93.7	25.2
Deutsche mark	36.5	151.2	63.5	226.0
Pound sterling	62.3	115.3	21.5	74.3
Other	45.2	64.6	45.3	248.9
	\$1,816.1	\$652.6	\$2,281.5	\$1,401.7

Interest Rate Swaps. Alcoa manages its debt portfolio by using interest rate swaps and options to achieve an overall desired position of fixed and floating rates. As of December 31, 1997, Alcoa had outstanding four interest rate swap contracts maturing in 2001 to convert a fixed-rate obligation to floating rates on a notional amount of \$175. In addition, Alcoa Fujikura had five outstanding interest rate swap contracts to convert a floating-rate obligation to a fixed rate on a notional amount of \$238 at year-end 1997.

Alcoa utilizes cross-currency interest rate swaps to take advantage of international debt markets while limiting foreign exchange risk. At year-end 1997, Alcoa had in place foreign currency forward contracts to effectively convert the principal payment due in 1999 on its ¥7.5 billion loan to a U.S. dollar obligation on a notional amount of \$78. Alcoa also had in place cross-currency interest rate swaps that effectively convert U.S. dollar-denominated debt into liabilities in yen based on Japanese interest rates.

Based on current interest rates for similar transactions, the fair value of all interest rate swap agreements is not material.

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 1997 or 1996.

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 Note A.

R. 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.

	1997	1996	1995
Benefits earned	\$ 95.4	\$101.7	\$ 78.9
Interest accrued on projected benefit obligation	304.6	291.0	285.9
Net amortization	38.8	37.8	28.5
	438.8	430.5	393.3
Less: expected return on plan assets*	346.2	324.1	305.0
	\$ 92.6	\$106.4	\$ 88.3

*The actual returns were higher than the expected returns by \$681.9 in 1997, \$155.5 in 1996 and \$254.1 in 1995, and were deferred as actuarial gains.

The status of the pension plans follows.

December 31	Assets exceed accumulated benefit obligation		Accumulated benefit obligation exceeds assets	
	1997	1996	1997	1996
Plan assets, primarily stocks and bonds at market	\$5,074.5	\$4,327.6	\$ 26.3	\$ 7.6
Present value of obligation:				
Vested	3,963.4	3,779.2	169.2	134.5
Nonvested	268.1	292.9	9.8	7.5
Accumulated benefit obligation	4,231.5	4,072.1	179.0	142.0
Effect of assumed salary increases	257.4	283.5	32.4	37.3
Projected benefit obligation	\$4,488.9	\$4,355.6	\$ 211.4	\$ 179.3
Plan assets greater (less) than projected benefit obligation	\$ 585.6	\$ (28.0)	\$(185.1)	\$(171.7)
Unrecognized:				
Transition (assets) obligations	(2.4)	(.8)	6.9	9.2
Prior service costs	114.6	145.0	11.7	16.2
Actuarial (gains) losses, net	(822.6)	(272.0)	36.7	32.9
Minimum liability adjustment	—	—	(29.7)	(24.9)
Accrued pension cost	\$ (124.8)	\$ (155.8)	\$(159.5)	\$(138.3)

Assumptions used to determine plan liabilities and expenses follow.

December 31	1997	1996	1995
Settlement discount rate	6.75%	7.0%	7.0%
Long-term rate for compensation increases	5.0	5.0	5.0
Long-term rate of return on plan assets	9.0	9.0	9.0

Alcoa also sponsors a number of defined contribution pension plans. Expenses were \$47.2 in 1997, \$44.4 in 1996 and \$36.1 in 1995.

S. Postretirement Benefits

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.

The components of postretirement benefit expense follow.

	1997	1996	1995
Service cost of benefits earned	\$ 17.8	\$ 19.3	\$ 16.3
Interest cost on liability	104.7	104.4	114.6
Net amortization	(37.6)	(44.1)	(49.5)
Expected return on plan assets	(6.8)	(5.8)	(4.8)
Postretirement benefit costs	\$ 78.1	\$ 73.8	\$ 76.6

The status of the postretirement benefit plans was:

December 31	1997	1996
Retirees	\$1,135.7	\$1,022.6
Fully eligible active plan participants	200.9	172.6
Other active participants	338.5	364.6
Accumulated postretirement benefit obligation (APBO)	1,675.1	1,559.8
Plan assets, primarily stocks and bonds at market	88.3	75.1
APBO in excess of plan assets	1,586.8	1,484.7
Unrecognized net:		
Reduction in prior service costs	185.5	227.4
Actuarial gains	82.3	174.1
Accrued postretirement benefit liability	\$1,854.6	\$1,886.2

For measuring the liability and expense, a 7.5% annual rate of increase in the per capita claims cost was assumed for 1998, declining gradually to 5.0% by the year 2004 and thereafter. Other assumptions used to measure the liability and expense follow.

December 31	1997	1996	1995
Settlement discount rate	6.75%	7.0%	7.0%
Long-term rate for compensation increases	5.0	5.0	5.0
Long-term rate of return on plan assets	9.0	9.0	9.0

For 1997, a 1% increase in the trend rate for health care costs would have increased both the APBO and service and interest costs by 8%.

T. Income Taxes

The components of income before taxes on income were:

	1997	1996	1995
U.S.	\$ 707.5	\$ 419.0	\$ 556.5
Foreign	894.2	662.7	913.7
	\$1,601.7	\$1,081.7	\$1,470.2

The provision for taxes on income consisted of:

	1997	1996	1995
Current:			
U.S. federal*	\$172.1	\$ 3.5	\$246.4
Foreign	273.8	217.0	204.0
State and local	(.4)	19.9	31.7
	445.5	240.4	482.1
Deferred:			
U.S. federal*	81.7	143.1	(55.3)
Foreign	(3.5)	(34.8)	34.8
State and local	5.0	12.0	(15.7)
	83.2	120.3	(36.2)
Total	\$528.7	\$360.7	\$445.9

*Includes U.S. taxes related to foreign income

Deferred taxes in 1995 included charges of \$66.5 for utilization of a U.S. tax loss carryforward and for statutory rate changes of \$21.9 in Australia and \$14.4 in Brazil.

Reconciliation of the U.S. federal statutory rate to Alcoa's effective tax rate follows.

	1997	1996	1995
U.S. federal statutory rate	35.0%	35.0%	35.0%
Taxes on foreign income	(.2)	(3.0)	(5.5)
State taxes net of federal benefit	(.2)	1.7	.6
Tax rate changes	—	—	2.5
Adjustments to prior years' accruals	.1	.3	(1.3)
Other	(1.7)	(.7)	(1.0)
Effective tax rate	33.0%	33.3%	30.3%

The components of net deferred tax assets and liabilities follow.

	1997		1996	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
December 31				
Depreciation	—	\$ 840.4	—	\$ 921.5
Employee benefits	\$ 789.5	—	\$ 780.9	—
Loss provisions	186.3	—	197.1	—
Deferred income	128.9	113.0	176.1	120.6
Tax loss carryforwards	156.0	—	155.1	—
Tax credit carryforwards	—	—	48.2	—
Other	72.6	51.1	66.7	39.4
	1,333.3	1,004.5	1,424.1	1,081.5
Valuation allowance	(103.5)	—	(110.0)	—
	\$1,229.8	\$1,004.5	\$1,314.1	\$1,081.5

Of the total tax loss carryforwards, \$42.6 expires over the next 10 years and \$113.4 is unlimited. A substantial portion of the valuation allowance is for these carryforwards because the ability to utilize a portion of them is uncertain.

The cumulative amount of Alcoa's share of undistributed earnings for which no deferred taxes have been provided was \$1,389.1 at December 31, 1997. Management has no plans to distribute such earnings in the foreseeable future. It is not practical to determine the deferred tax liability on these earnings.

U. Environmental Matters

Alcoa continues to participate in environmental assessments and cleanups at a number of locations, including at operating facilities and adjoining properties, at previously owned or operated facilities and at Superfund and other waste sites. A liability is recorded 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 1997 and 1996 was \$243 and \$271, respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. About 24% of the 1997 balance relates to Alcoa's Massena, New York plant site and 23% of the 1997 balance relates to Alcoa's Pt. Comfort, Texas plant site. Remediation expenses charged to the reserve were \$64 in 1997, \$72 in 1996 and \$62 in 1995. They include expenditures currently mandated as well as those not required by any regulatory authority or third party.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be about 2% of cost of goods sold.

V. Subsequent Events

In January 1998, Alcoa issued \$300 of 6.75% bonds due 2028. The net proceeds were used for general corporate purposes.

On February 6, 1998, Alcoa completed its acquisition of Inespal, S.A. of Madrid, Spain. Alcoa paid \$210 in cash and assumed \$200 of debt in exchange for substantially all of Inespal's businesses. Inespal is an integrated aluminum producer with 1997 revenues of \$1,100. The acquisition included an alumina refinery, three aluminum smelters, three aluminum rolling facilities, two extrusion plants, an administrative center and related sales offices in Europe.

Supplemental Financial Information

W. Majority-Owned Subsidiaries

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

Alcoa Alumínio S.A. – a 59%-owned subsidiary of Alcoa Brazil Holdings Company:

December 31	1997	1996
Cash and short-term investments	\$ 305.8	\$ 269.1
Other current assets	389.8	441.2
Properties, plants and equipment, net	825.4	897.5
Other assets	233.1	235.0
Total assets	1,754.1	1,842.8
Current liabilities	316.8	404.0
Long-term debt	403.2	492.5
Other liabilities	88.5	62.1
Total liabilities	808.5	958.6
Net assets	\$ 945.6	\$ 884.2

	1997	1996	1995
Revenues*	\$ 1,213.4	\$ 1,188.1	\$ 1,200.1
Costs and expenses	(1,108.3)	(1,183.5)	(1,050.2)
Translation and exchange adjustments	1.6	(.3)	4.3
Income tax (expense) benefit	7.6	22.0	(2.3)
Net income	\$ 114.3	\$ 26.3	\$ 151.9

*Revenues from Alcoa were \$21.3 in 1997, \$12.3 in 1996 and \$188.4 in 1995. The terms of the transactions were established by negotiation between the parties.

Alcoa of Australia Limited – a 60%-owned subsidiary of Alcoa International Holdings Company:

December 31	1997	1996
Cash and short-term investments	\$ 9.5	\$ 13.9
Other current assets	386.1	522.4
Properties, plants and equipment, net	1,385.9	1,695.4
Other assets	86.2	108.6
Total assets	1,867.7	2,340.3
Current liabilities	304.1	341.9
Long-term debt	225.3	131.0
Other liabilities	361.6	435.7
Total liabilities	891.0	908.6
Net assets	\$ 976.7	\$ 1,431.7

	1997	1996	1995
Revenues*	\$ 1,949.3	\$ 1,971.5	\$ 1,785.0
Costs and expenses	(1,486.7)	(1,510.3)	(1,372.3)
Income tax expense	(167.9)	(157.7)	(164.1)
Net income	\$ 294.7	\$ 303.5	\$ 248.6

*Revenues from Alcoa were \$64.1 in 1997, \$54.3 in 1996 and \$55.4 in 1995. The terms of the transactions were established by negotiation between the parties.

Quarterly Data (unaudited)

(dollars in millions, except per-share amounts)

1997	First	Second	Third	Fourth	Year
Sales and operating revenues	\$3,231.1	\$3,432.0	\$3,357.5	\$3,298.6	\$13,319.2
Income from operations	220.8	276.0	286.4	289.8	1,073.0
Net income*	159.1	207.6	228.1	210.3	805.1
Earnings per share:					
Basic	.92	1.19	1.32	1.23	4.66
Diluted	.91	1.18	1.29	1.21	4.62

*After special charges (gains) of \$1.1, or one cent per basic share, in the first quarter; \$(12.3), or seven cents per basic share, in the third quarter; and \$(32.7), or 19 cents per basic share, in the fourth quarter

1996	First	Second	Third	Fourth	Year
Sales and operating revenues	\$3,149.6	\$3,413.1	\$3,240.6	\$3,257.7	\$13,061.0
Income from operations	246.2	187.7	104.7	182.4	721.0
Net income*	178.2	132.2	68.4	136.1	514.9
Earnings per share:					
Basic	1.01	.76	.39	.78	2.94
Diluted	1.00	.75	.39	.77	2.91

*After special charges of \$400, or 23 cents per basic share, in the second quarter; \$65.5, or 38 cents per basic share, in the third quarter; and \$16.8, or 10 cents per basic share, in the fourth quarter

Number of Employees (unaudited)

(at year-end)

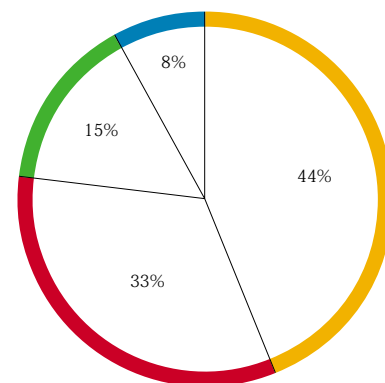
	1997	1996	1995
Other Americas	36,200	29,800	24,300
U.S.	27,200	28,900	31,600
Europe	11,900	12,500	10,100
Pacific	6,300	5,600	6,000
	81,600	76,800	72,000

Employees by Geographic Area

1997: 81,600*

- Other Americas
- U.S.
- Europe
- Pacific

*At year-end



11-Year Summary of Financial and Other Data

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

	For the year ended December 31	1997	1996	1995
Operating Results	Sales and operating revenues	\$13,319.2	\$13,061.0	\$12,499.7
	Other income (loss)	162.5	67.4	155.2
	Cost of goods sold and operating expenses	10,155.8	9,966.0	9,360.1
	Selling, general administrative and other expenses	670.6	708.8	707.6
	Research and development expenses	143.2	165.5	141.3
	Depreciation and depletion	734.9	747.2	712.9
	Interest expense	140.9	133.7	119.8
	Taxes on income	528.7	360.7	445.9
	Other taxes	130.1	126.6	126.8
	Special items – (income) expense	(95.5)	198.9	16.2
	Income from operations	1,073.0	721.0	1,024.3
	Minority interests	(267.9)	(206.1)	(233.8)
	Extraordinary losses and accounting changes*	—	—	—
	Net income (loss)	805.1	514.9	790.5
	Alcoa's average realized price per pound for aluminum ingot	.75	.73	.81
	Average U.S. market price per pound for aluminum ingot (<i>Metals Week</i>)	.77	.71	.86
Dividends Declared	Preferred stock	2.1	2.1	2.1
	Common stock	168.3	232.1	160.4
Financial Position	Working capital	1,964.4	1,907.8	2,089.5
	Properties, plants and equipment	6,666.5	7,077.5	6,929.7
	Other assets (liabilities), net	(1,314.6)	(1,222.6)	(1,749.6)
	Total assets	13,070.6	13,449.9	13,643.4
	Long-term debt (noncurrent)	1,457.2	1,689.8	1,215.5
	Minority interests	1,439.7	1,610.5	1,609.4
	Shareholders' equity	4,419.4	4,462.4	4,444.7
Common Share Data	Basic earnings per share	4.66	2.94	4.43
(dollars per share)	Diluted earnings per share	4.62	2.91	4.39
	Dividends declared	.975	1.33	.90
	Book value (based on year-end outstanding shares)	25.93	25.54	24.89
	Price range: High	89⁵/₈	66 ¹ / ₄	60 ¹ / ₄
	Low	64¹/₄	49 ¹ / ₈	36 ⁷ / ₈
	Shareholders (number)	95,800	88,300	83,600
	Average shares outstanding (thousands)	172,226	174,334	178,018
Operating Data	Alumina shipments	7,223	6,406	6,407
(thousands of metric tons)	Aluminum product shipments:			
	Primary	920	901	673
	Fabricated and finished products	2,036	1,940	1,909
	Total	2,956	2,841	2,582
	Primary aluminum capacity:			
	Consolidated	2,108	2,101	1,905
	Total, including affiliates' and others' share of joint ventures	2,652	2,642	2,428
	Primary aluminum production:			
	Consolidated	1,725	1,708	1,506
	Total, including affiliates' and others' share of joint ventures	2,254	2,240	2,037
Other Statistics	Capital expenditures	\$912	\$996	\$887
	Number of employees	81,600	76,800	72,000
	Pretax profit on revenues (%)	11.9	8.2	11.6
	Return on average shareholders' equity (%)	18.1	11.6	18.5
	Return on average invested capital (%)	15.5	11.0	15.9

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

1994	1993	1992	1991	1990	1989	1988	1987
\$ 9,904.3	\$ 9,055.9	\$ 9,491.5	\$ 9,884.1	\$10,710.2	\$10,910.0	\$9,795.3	\$7,767.0
487.2	93.0	96.9	97.1	160.3	249.6	(27.8)	(19.3)
7,845.7	7,187.0	7,339.1	7,444.8	7,606.2	7,338.3	6,527.7	5,456.7
632.7	603.6	586.8	579.8	592.3	540.8	485.0	445.0
125.8	130.4	212.2	251.9	220.3	182.4	167.4	173.7
671.3	692.6	682.4	697.9	689.9	638.3	623.2	587.3
106.7	87.8	105.4	153.2	184.7	178.3	208.4	240.8
219.2	(10.3)	132.3	192.8	404.0	829.7	635.6	221.1
107.1	105.6	112.3	111.2	105.3	84.4	83.4	84.7
79.7	150.8	251.6	330.9	414.4	-	-	231.3
603.3	201.4	166.3	218.7	653.4	1,367.4	1,036.8	307.1
(160.2)	(196.6)	(143.9)	(156.0)	(358.2)	(422.5)	(175.4)	(83.1)
(67.9)	-	(1,161.6)	-	-	-	-	(23.9)
375.2	4.8	(1,139.2)	62.7	295.2	944.9	861.4	200.1
.64	.56	.59	.67	.75	.92	.96	.72
.71	.53	.58	.59	.74	.88	1.10	.72
2.1	2.1	2.1	2.1	2.2	2.5	2.5	2.5
142.3	140.2	136.8	151.2	264.9	240.4	114.7	105.1
1,599.7	1,609.6	1,083.0	1,546.0	1,706.3	1,594.9	1,307.9	984.1
6,689.4	6,506.8	6,415.8	6,586.1	6,747.0	6,658.6	6,415.0	6,402.7
(1,572.3)	(1,710.9)	(1,733.6)	(701.9)	(413.7)	(137.2)	(317.8)	(158.5)
12,353.2	11,596.9	11,023.1	11,178.4	11,413.2	11,540.6	10,537.5	9,901.9
1,029.8	1,432.5	855.3	1,130.8	1,295.3	1,316.3	1,524.7	2,457.6
1,687.8	1,389.2	1,305.6	1,362.0	1,581.0	1,533.1	1,244.9	860.0
3,999.2	3,583.8	3,604.3	4,937.4	5,163.3	5,266.9	4,635.5	3,910.7
2.10	.02	(6.70)	.36	1.70	5.34	4.87	1.13
2.08	.02	(6.66)	.36	1.68	5.18	4.75	1.11
.80	.80	.80	.89	1.53	1.36	.65	.60
22.07	19.96	20.70	28.69	30.10	29.71	25.88	21.81
45 ¹ / ₈	39 ¹ / ₄	40 ³ / ₈	36 ¹ / ₂	38 ³ / ₈	39 ³ / ₈	26 ³ / ₈	32 ³ / ₈
32 ¹ / ₈	29 ¹ / ₂	30 ¹ / ₂	26 ³ / ₈	24 ³ / ₈	27 ³ / ₈	19 ³ / ₈	16 ³ / ₈
55,200	55,300	55,200	55,800	56,300	56,500	58,400	52,600
177,882	175,346	170,948	169,968	172,408	176,608	176,404	175,342
6,660	5,962	5,468	4,898	5,024	5,106	4,925	4,551
655	841	1,023	1,179	1,179	960	796	493
1,896	1,739	1,774	1,657	1,545	1,619	1,708	1,720
2,551	2,580	2,797	2,836	2,724	2,579	2,504	2,213
1,905	1,905	1,905	1,903	1,903	1,907	1,756	1,689
2,428	2,428	2,428	2,498	2,498	2,420	2,231	2,076
1,531	1,770	1,903	1,919	1,870	1,876	1,814	1,498
2,067	2,315	2,446	2,511	2,395	2,391	2,250	1,851
\$612	\$757	\$789	\$850	\$851	\$876	\$866	\$856
60,200	63,400	63,600	65,600	63,700	60,600	59,000	55,000
7.9	2.1	3.1	4.1	9.7	19.7	17.1	6.8
9.9	.1	(26.7)	1.2	5.7	19.1	20.2	5.2
9.3	4.3	(14.0)	4.2	9.7	19.2	16.2	6.3

Alcoa Worldwide Operations

Country	Companies	Location	Aerospace Components	Alumina	Alumina Chemicals	Auto Body Structure Design & Mfg.	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 Materials Pty Limited†	Rockingham		■																
	Kaal Australia Pty Limited†	Point Henry																		■	
		Yennora																		■	
Bahrain	Gulf Closures WL.L.†	Manama										■									
Brazil	Alcoa Alumínio S.A.	Barueri										■								■	
		Cotia									■										
		Itapissuma							■					■	■			■		■	
		Lages										■									■
		Pindamonhangaba, Sorocaba							■					■							
		Poços de Caldas		■	■			■					■					■			■
		Queimados																			■
		Salto			■																
		São Caetano, Turbarão, Utinga												■							
		AFL do Brasil Ltda.	Itajubá				■						■								
	Consórcio de Alumínio do Maranhão	São Luis		■													■				
	Mineração Rio do Norte S.A.†	Trombetas					■														
Canada	DBM Industries, Ltd.	Montreal																		■	
	Alcoa Fujikura Ltd.	Owen Sound					■														
Chile	Alusud Embalajes Chile Ltda.	Santiago										■									
China	Alcoa Shanghai Aluminum Products Co., Ltd.	Shanghai													■						
	Asian-American Containers Manufacturing Co., Ltd.	Tianjin																		■	
	Asian-American Packaging Systems Co., Ltd.	Tianjin										■									
Colombia	Alusud Embalajes Colombia Ltda.	Bogota										■								■	
Germany	Alcoa Automotive Structures GmbH	Esslingen, Soest				■	■														
	Alcoa Chemie GmbH	Ludwigshafen			■																
	Alcoa Deutschland GmbH	Viernheim, Worms am Rhein										■									
	Alcoa Extrusions Hannover GmbH & Co. KG	Hannover	■											■							
	Michels GmbH & Co., KG	Herzebrock, St. Vit											■								
	Stribel GmbH	Frickenhausen					■						■								
Guinea	Halco (Mining), Inc.†	Sangaredi					■														
Hungary	AFL/Michels GmbH	Enying, Mor, Salgotarjan					■					■									
		Székesfehérvár, Veszprem					■						■								
	AFL/Stribel GmbH	Mor					■					■									
	Alcoa-Köfém KFT	Székesfehérvár							■					■						■	
	Alcoa Wheel Products - Europe	Székesfehérvár										■									
	CSI Hungary Manufacturing and Trading, L.L.C.	Székesfehérvár										■									
India	Alcoa-ACC Industrial Chemicals Limited	Falta			■																

*Includes aluminum paste, particle, flake and atomized powder, ceramics, gold mining, magnesium, memory disks, PET preform bottle production, die-casting machinery, and systems and components for appliances
† Ownership of 50% or less

Country	Companies	Location	Aerospace Components	Alumina	Alumina Chemicals	Auto Body Structure Design & Mfg	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*
Ireland	AFL Ireland Ltd.	Dundalk					■						■							
Italy	Alcoa Italia S.p.A.	Bolzano, Feltre, Fossanova												■						
		Fusina																■	■	
		Iglesias, Mori												■						
		Portovesme																■		
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.	Acuña, Juárez					■						■							
		Monterrey, Piedras Negras, Torreón					■						■							
	H-C Industries de Mexico, S.A. de CV.	Saltillo											■							
Netherlands	Alcoa Chemie Nederland BV.	Rotterdam			■															
	Alcoa Moerdijk BV.	Moerdijk, Rotterdam			■															
	Alcoa Nederland BV.	Cuijk, DeLier							■											
		Drunen					■		■					■				■	■	
		Geldermalsen, Giessen, Zwijndrecht						■												
Norway	A-CMI†	Lista, Mosjøen					■				■									
	Elkem Aluminium ANS†	Lista, Mosjøen																■		
Peru	Alusud Peru S.A.	Lima										■								■
Russia	Aluminum East – Building Systems International	Moscow							■											
	Aluminum East – Closure Systems International	Moscow										■								
	CSI Vostok Ltd.	Lyubachany										■								
Singapore	ACAP Singapore Pte Ltd.	Singapore			■															
Spain	Alcoa Inespal, S.A.	Alicante, Amorebieta, Sabinánigo													■				■	
		Avilés, La Coruña, San Ciprián																■		
		La Coruña, Noblejas												■						
		San Ciprián				■														
	Capsulas Metalicas, S.A.	Barcelona										■								
	Extrusion de Aluminio, S.A.	Tarragona, Valls												■						
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.																	■	
		Baton Rouge, La.; Bauxite, Ark.				■														
		Cleveland, Ohio					■				■									
		Dalton, Ga.; Fort Meade, Fla.				■														
		Danville, Ill.																		■
		Davenport, Iowa; Hutchinson, Kansas		■																■
		Hawesville, Ky.													■					

Operations listings continue on next page.

Alcoa Worldwide Operations

continued

Country	Companies	Location	Aerospace Components	Alumina	Alumina Chemicals	Auto Body Structure Design & Mfg.	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		Lafayette, Ind.	■										■							
		Lebanon, Pa.			■										■			■		
		Leetsdale, Pa.			■															
		Massena, N.Y.											■				■		■	
		Mobile, Ala.; Vidalia, La.			■															
		New Kensington, Pa.																		■
		Point Comfort, Texas		■	■															■
		Rockdale, Texas																■		■
		Vernon, Calif.																	■	
		Wenatchee, Wash.																■		
		Alcoa Automotive Structures, Inc.	Alcoa Center, Pa., Northwood, Ohio			■	■													
			Southfield, Mich.			■														
		Alcoa Brite Products, Inc.	Norcross, Ga.				■			■										
		Alcoa Building Products, Inc.	Denison, Texas; Gaffney, S.C.							■										
			Princeville, Ill.; Sidney, Ohio							■										
			Stuarts Draft, Va.							■										
		A-CMI†	Fruitport, Mich.; Hawesville, Ky.				■					■								
		Alcoa Closure Systems International, Inc.	Crawfordsville, Ind.; Indianapolis, Ind.										■							
			Olive Branch, Miss.										■							
		Alcoa Fujikura Ltd.	Brentwood, Tenn.; Charlotte, N.C.				■							■						
			Dearborn, Mich.; Del Rio, Texas				■							■						
			El Paso, Texas; Houston, Miss.				■							■						
			Mattawan, Mich.; Nashville, Tenn.				■							■						
			New Boston, Mich.; Owasso, Mich.				■							■						
			San Antonio, Texas; Shelbyville, Ky.				■							■						
			Spartanburg, S.C.; Traverse City, Mich.				■							■						
		Alcoa Memory Products, Inc.	Sidney, Ohio																	■
		Alcoa Packaging Machinery, Inc.	Englewood, Colo.; Randolph, N.Y.														■			■
		Alcoa Specialty Chemicals, Inc.	Lake Charles, La.; Nashville, Tenn.			■														
		Alcotec Wire Company	Traverse City, Mich.																	■
		American Trim, L.L.C.†	Cullman, Ala.; Lima, Ohio																	■
			Sidney, Ohio; Spring Lake, Mich.																	■
			Wapakoneta, Ohio																	■
		B&C Research, Inc.	Barberton, Ohio				■					■								
		Discovery Aluminas, Inc.	Port Allen, La.			■														
		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.	■										■						
	St. Croix Alumina, L.L.C.	St. Croix, VI.		■																
	Stolle Machinery, Inc.	Sidney, Ohio														■				
	Tifton Aluminum Company, Inc.	Delhi, La.; Tifton, Ga.											■							
Venezuela	AFL Venezuela	Valencia				■														

*Includes aluminum paste, particle, flake and atomized powder, ceramics, gold mining, magnesium, memory disks, PET preform bottle production, die-casting machinery, and systems and components for appliances
† Ownership of 50% or less

Business Units

Aerospace/Commercial Rolled Products

John W. Collins III, President
Davenport, Iowa
General purpose and specialty aluminum sheet and plate for aerospace, automotive, printing and other industries

Alcoa Asia Ltd.

Timothy J. Leveque, President
Hong Kong, China
Regional management and business development, including sales and marketing services for other Alcoa businesses

Alcoa of Australia Limited

Roger A. G. Vines, Chairman and Managing Director
Perth, Western Australia
Bauxite mining, alumina refining, alumina chemicals, aluminum smelting and gold mining

Alcoa Automotive Structures

Timothy S. Mock, President
Alcoa Center, Pennsylvania
Design and manufacture of high-performance aluminum automotive body structures ranging from components to fully assembled bodies

Alcoa Bauxite and Alumina

John M. Sibly, President
Pittsburgh, Pennsylvania
Bauxite mining and alumina refining in Jamaica and Suriname, bauxite mining in Guinea, and alumina refining in the United States and the Virgin Islands

Alcoa Building Products, Inc.

Larry G. Gold, President
Sidney, Ohio
Coated aluminum, vinyl extruded, and injection molded building products

Alcoa Closure Systems International

Ronald A. Glah, President
Indianapolis, Indiana
Plastic and aluminum closures (bottle caps), plastic bottles, and services and supplies for packaging markets

Alcoa Engineered Products

Paul Thomas, President
Lafayette, Indiana
Aluminum extrusions and tube for aerospace, automotive, building and construction, machinery and equipment industries and aluminum wire, rod and bar for various markets and applications

Alcoa Europe

L. Patrick Hassey, President
Lausanne, Switzerland
Strategic, commercial, operational and regional leadership for Alcoa's primary, flat-rolled and extrusion businesses in Europe

Alcoa Europe Extrusions and End Products

Ricardo E. Belda, Vice President and President, Alcoa Nederland BV.
Milan, Italy
Aluminum extrusions, window systems, and end products for the building, transportation, general distribution, industrial, commercial, and aerospace markets

Alcoa Europe Flat Rolled Products

Leandro Guillen Barba, Vice President and President, Alcoa Inespal, S.A.
Madrid, Spain
Aluminum sheet and plate for the industrial, commercial, general distribution, transportation, lithographic, and lighting sheet markets

Alcoa Europe Primary Metals System

Giuseppe Toia, Vice President and President, Alcoa Italia S.p.A.
Milan, Italy
Primary aluminum ingot, billets and rolling slab

Alcoa Foil Products

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

Alcoa Forged Products

William F. Christopher, President
Cleveland, Ohio
Forged and cast structural parts for automotive and aerospace applications, and wheels for the truck and automotive industries

Alcoa Fujikura Ltd.

Robert S. Hughes II, Chairman, President and CEO
Brentwood, Tennessee
Automotive electrical/electronic systems, electronic components, and specialty fiber-optic products for automotive and telecommunications markets, and wire products for the electrical market

Alcoa Industrial Chemicals

Peter J. Bailey, President
Charlotte, North Carolina
Alumina and other inorganic chemical products for refractory, adsorbent and catalyst, ceramic and abrasive, polymer and water treatment markets

Alcoa Packaging Equipment

David W. Groetsch, President
Englewood, Colorado
Engineered equipment solutions for the beverage industry and other high production manufacturing processes

Alcoa Primary Metals

Alan C. Renken, President
Knoxville, Tennessee
Primary aluminum products produced in the United States for various markets and applications

Alcoa Rigid Packaging

Michael Coleman, President
Knoxville, Tennessee
Aluminum sheet for beverage and food cans, and can recycling

Alcoa World Alumina

G. John Pizzey, President
Pittsburgh, Pennsylvania
Strategic, commercial and operational leadership of Alcoa's global bauxite and alumina activities

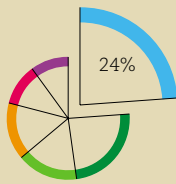
Latin America and Alcoa Aluminio S.A.

Fausto P. Moreira, President
São Paulo, Brazil
Bauxite mining, alumina refining, aluminum smelting and fabricating for various markets and applications; plastic closures, bottles and labels; copper and aluminum cable and aluminum truck bodies

TRENDS IN ALCOA'S MAJOR MARKETS

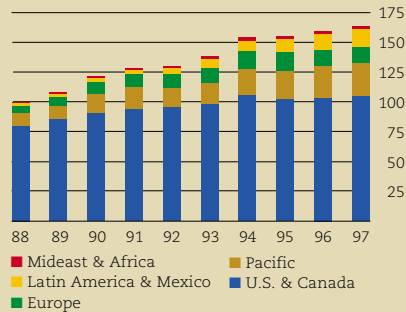
Packaging

1997 Revenues:
\$3.2 billion



Aluminum Beverage Can Demand

billions of cans



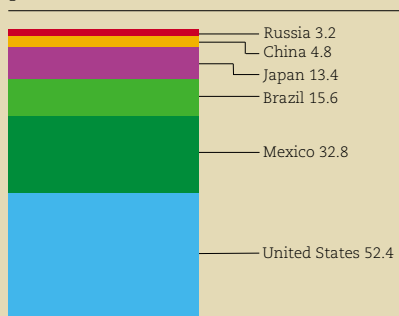
Sources: Alcoa, Canadean, CCI, Kaal, IMES

Alcoa's packaging revenues are mainly from sales of beverage can sheet, followed by plastic and aluminum closures, foil products and packaging machinery.

With the opening of closures plants in Hungary in 1995 and Russia in 1997, Alcoa became a major supplier to the growing Eastern European beverage market.

Per Capita Soft Drink Consumption

gallons - 1996

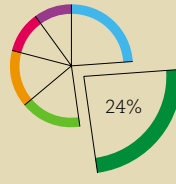


Source: Beverage Digest

In 1997, soft drink consumption in Russia grew over 20%. Opportunity for growth exists in other populous countries (over 100 million people), where consumption is far below that of the U.S. and Mexico (see chart).

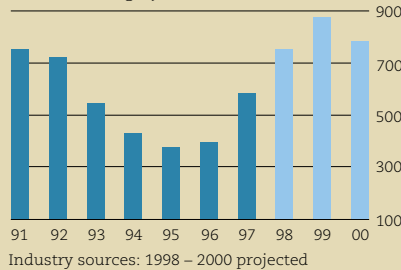
Transportation

1997 Revenues:
\$3.2 billion



Commercial Airplane Build Rates

50-seat and larger jets



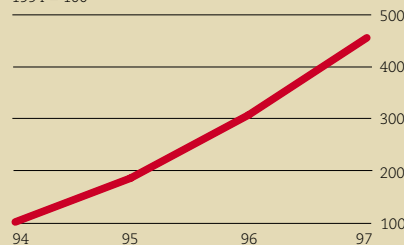
Industry sources: 1998 - 2000 projected

Alcoa's total revenues from the transportation market were up 20% from 1996, due to higher aerospace and automotive shipments.

Automobiles with aluminum frames are gaining momentum. In 1990, none existed. In 1997 there were seven, with more than ten others being considered. Alcoa serves this growing market through its Automotive Structures business unit.

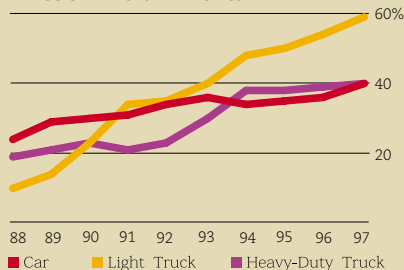
Growth in Alcoa Revenues From Aluminum Driveshafts

1994 = 100



Alcoa's revenues from automotive components were nearly \$2.2 billion in 1997, up 16% from 1996.

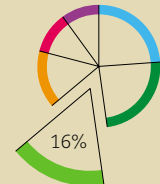
Growth in Market Share of Aluminum Wheels in North America



Alcoa's forged aluminum wheel business has quadrupled in the last ten years.

Distribution and Other

1997 Revenues:
\$2.1 billion



Most of the revenues in this market are from sales of aluminum sheet, plate and extrusions to distributors.

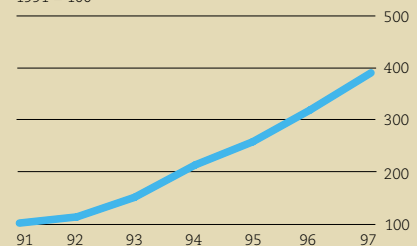
"Other" includes sales of products for the telecommunications industry and electric utilities, computer memory disks, and magnesium.

Alcoa's memory disk shipments increased from 71 million units in 1994 to 195 million units in 1997.

Sales of telecommunications products like fiber-optic cable and engineer, furnish and install services have also risen (see chart).

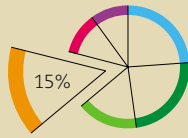
Revenue Growth From the Sale of Alcoa Telecommunications Products and Services

1991 = 100



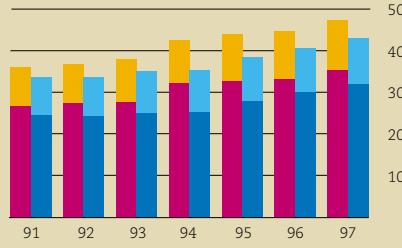
Alumina and Chemicals

1997 Revenues:
\$2.0 billion



Worldwide Alumina Capacity and Production

millions of metric tons



Capacity
■ Alcoa
■ All Other Producers

Production
■ Alcoa
■ All Other Producers

Note: Includes data from Russian Federation beginning in 1995

Sources: IPAI and Alcoa

■ Alcoa is the world's largest, and a low-cost producer of alumina, the white, powdery substance refined from bauxite ore. Alumina is used to produce aluminum and alumina-based chemicals.

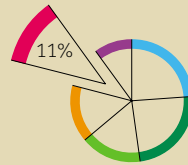
■ Alcoa has the most geographically diverse bauxite reserves in the industry.

■ In 1997, about 65% of Alcoa's 11.1 million metric tons of consolidated alumina production was sold to third parties.

■ Due to sustained worldwide demand for alumina, Alcoa announced plans to start its 600,000 mt St. Croix, U.S. Virgin Islands alumina refinery and expand its Wagerup, Australia refinery's capacity by 440,000 mt.

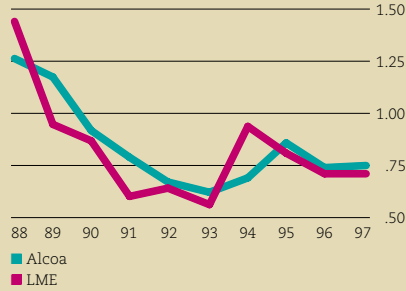
Aluminum Ingot

1997 Revenues:
\$1.5 billion



Average Ingot Price

per pound, in 1997 dollars

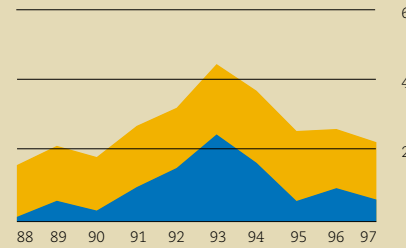


■ Aluminum ingot is an internationally-produced, priced and traded commodity whose principal trading market is the London Metal Exchange, or LME.

■ Alcoa produces aluminum ingot primarily for further fabrication into higher-value products. Ingot shipments in 1997 were 31% of total aluminum shipments.

Worldwide Aluminum Ingot Inventory*

millions of metric tons



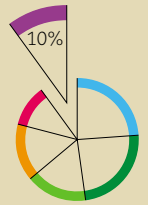
■ Producers
■ LME Warehouse

*At year-end

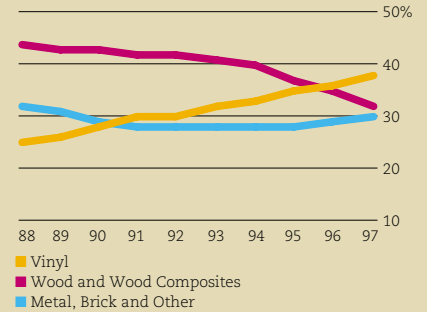
■ Since early 1994 Alcoa has kept idle 450,000 mt of its primary aluminum capacity due to oversupply of aluminum ingot worldwide.

Building and Construction

1997 Revenues:
\$1.3 billion



Trends in Siding Usage in the U.S.*



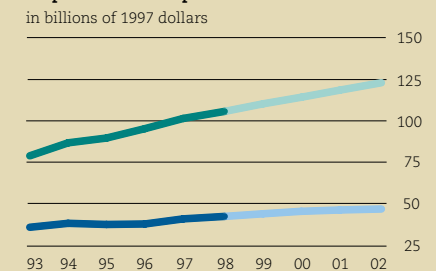
*Includes new construction and remodeling
Sources: NAHB and F.W. Dodge

■ The leading producer of vinyl siding in the U.S. is an aluminum company — namely, Alcoa.

■ The Alcoa Building Products business unit goes to market with the Alcoa and Mastic® residential siding brands. In a recent survey of U.S. contractors, Alcoa had the highest brand recognition.

Trends in U.S. Home Improvement Expenditures

in billions of 1997 dollars



■ Do-it-yourself
■ Contractor
1998 – 2002 projected
Source: DRI/McGraw-Hill

■ The U.S. National Association of Homebuilders predicts 5% annual growth in remodeling expenditures through 2005.

Officers

(As of February 9, 1998)

Paul H. O'Neill

Chairman of the Board and
Chief Executive Officer

Alain J.P. Belda

President and Chief Operating
Officer

George E. Bergeron

Executive Vice President

Linda B. Burke

Tax Counsel

Michael Coleman

Vice President - Alcoa and
President, Alcoa Rigid Packaging

John W. Collins III

Vice President - Alcoa and
President, Aerospace/Commercial
Rolled Products

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Secretary and Senior Counsel

Janet F. Duderstadt

Counsel and Assistant Secretary

Earnest J. Edwards

Senior Vice President and
Controller

Richard L. Fischer

Executive Vice President -
Chairman's Counsel

Ronald A. Glah

Vice President - Alcoa and
President - Alcoa Closure Systems
International

L. Patrick Hassey

Vice President - Alcoa and
President, Alcoa Europe

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Assistant Treasurer

Patricia L. Higgins

Vice President and
Chief Information Officer

Ronald R. Hoffman

Special Assistant to the Chairman

Cynthia E. Holloway

Assistant Treasurer

Robert S. Hughes II

Vice President - Alcoa and
Chairman, President and CEO,
Alcoa Fujikura Ltd.

Barbara S. Jeremiah

Vice President - Corporate
Development

Richard B. Kelson

Executive Vice President and
Chief Financial Officer

Kathleen L. Lang

Assistant Secretary

Frank L. Lederman

Vice President and
Chief Technical Officer

Timothy J. Leveque

Vice President - Alcoa and
President, Alcoa Asia Ltd.

Joseph R. Lucot

Assistant Controller

L. Richard Milner

Vice President - Automotive

Raymond B. Mitchell

Assistant Controller

Joseph C. Muscari

Vice President - Audit

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Assistant Controller

William J. O'Rourke

Vice President - Alcoa Business
Support Services

Joseph C. Pellegrino

Vice President - Pension Fund
Investments and Analysis

G. John Pizzezy

Vice President - Alcoa and
President, Alcoa World Alumina

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Assistant General Counsel

Lawrence R. Purtell

Executive Vice President -
Environment, Health and Safety
and General Counsel

Bruce W. Robinson

Assistant Treasurer

James B. Savage

Assistant Controller

Robert F. Slagle

Executive Vice President -
Human Resources and
Communications

G. Keith Turnbull

Executive Vice President -
Alcoa Business System

Roger A. G. Vines

Vice President - Alcoa and
Chairman and Managing Director,
Alcoa of Australia Limited

Robert G. Wennemer

Vice President and Treasurer

John M. Wilson

Assistant General Counsel

Russell C. Wisor

Vice President, Government Affairs

Directors

Kenneth W. Dam, 65, Max Pam Professor of American and Foreign Law, University of Chicago Law School; president and chief executive officer of the United Way of America 1992; vice president for law and external relations of IBM 1985-1992; Deputy Secretary of State 1982-1985; provost of the University of Chicago 1980-1982. Director since 1987.

Joseph T. Gorman, 60, chairman and chief executive officer of TRW Inc., a global company serving the automotive and space and defense markets, since 1988; chief operating officer 1985-1988; president 1985-1991. Director since 1991.

Judith M. Gueron, 56, president of Manpower Demonstration Research Corporation (MDRC), a nonprofit research organization, since 1986; executive vice president for research and evaluation 1978-1986; prior to MDRC, director of special projects and studies and a consultant at the New York City Human Resources Administration. Director since 1988.

Sir Ronald Hampel, 65, chairman of Imperial Chemical Industries PLC, a diversified chemicals manufacturer, since 1995, and a director since 1985; deputy chairman and chief executive 1993-1995; chief operating officer 1991-1993. Director since 1995.

John P. Mulroney, 62, president and chief operating officer of Rohm and Haas Company, a specialty chemicals manufacturer, since 1986; director and group vice president and corporate business director 1982-1986. Director since 1987.

Paul H. O'Neill, 62, chairman of the board and chief executive officer of Alcoa since 1987; president and director of International Paper Company 1985-1987 and officer 1977-1985. Director since 1986.

Sir Arvi Parbo, 72, chairman of WMC Limited, an Australian mining and minerals processing company, since 1974; managing director 1971-1986; chairman of Alcoa of Australia Limited 1978-1996. Director since 1980.

Henry B. Schacht, 63, director and senior advisor of Lucent Technologies Inc., a communications systems and technology company, since February 1996; chairman from 1977-1995 and chief executive officer of Cummins Engine Company, Inc. 1973-1994. Director since 1994.

Forrest N. Shumway, 70, former vice chairman of AlliedSignal Inc., a diversified technologically based corporation; retired as vice chairman of the board and chairman of the executive committee in 1987; chairman and chief executive officer of The Signal Companies, Inc. Director 1982-1987 and 1988 to present.

Franklin A. Thomas, 63, consultant, TFF Study Group, a nonprofit institution focusing on South Africa; president of The Ford Foundation 1979-1996; president and chief executive officer of Bedford Stuyvesant Restoration Corporation 1967-1977. Director since 1977.

Marina v.N. Whitman, 62, professor of Business Administration and Public Policy, University of Michigan; vice president and group executive, public affairs and marketing staffs of General Motors Corporation (GMC) 1985-1992; vice president and chief economist of GMC 1979-1985; member of the President's Council of Economic Advisers 1972-1973. Director since 1994.

The Executive Committee

Has been granted the authority of the Board in the management of the company's business and affairs. It meets principally when specific action must be taken between Board meetings.

Kenneth W. Dam
Paul H. O'Neill (chairman)
Franklin A. Thomas

The Nominating Committee

Reviews the performance of incumbent directors and the qualifications of nominees proposed for election to the Board and makes recommendations to the Board with regard to nominations for director.

Joseph T. Gorman
Sir Ronald Hampel
John P. Mulroney (chairman)
Sir Arvi Parbo
Franklin A. Thomas

Pension and Savings Plan Investment Committee

Reviews and makes recommendations to the Board concerning the investment management of the assets of Alcoa's retirement plans and principal savings plans.

Joseph T. Gorman
Judith M. Gueron
Sir Ronald Hampel
Forrest N. Shumway (chairman)
Franklin A. Thomas
Marina v.N. Whitman

Board Committees

The Audit Committee

Reviews the performance of the independent public accountants, makes recommendations, reviews audit plans, audit results and findings of the internal auditors and the independent accountants, reviews the environmental audits and monitors compliance with Alcoa business conduct policies.

Kenneth W. Dam
Judith M. Gueron
Henry B. Schacht (chairman)
Forrest N. Shumway
Franklin A. Thomas
Marina v.N. Whitman

The Compensation Committee

Determines the compensation of Alcoa officers and performs specified functions under company compensation plans.

Kenneth W. Dam
Joseph T. Gorman
John P. Mulroney
Sir Arvi Parbo
Franklin A. Thomas (chairman)



Left to right: Forrest N. Shumway, Judith M. Gueron, Henry B. Schacht, Kenneth W. Dam, Sir Arvi Parbo, Paul H. O'Neill, Marina v.N. Whitman, Franklin A. Thomas, Joseph T. Gorman, John P. Mulroney, Sir Ronald Hampel

Shareholder Information

Annual Meeting

The annual meeting of shareholders will be at 9:30 a.m. on Friday, May 8, 1998 at the Westin William Penn Hotel in Pittsburgh.

Company News

Call 1-800-522-6757 toll-free 24 hours a day for Alcoa's latest quarterly earnings report and other company news announcements. Reports may be requested by voice, fax or mail. This information, including current Alcoa stock quotes and SEC filings, also may be accessed through the Internet at <http://www.alcoa.com>

Copies of the annual report, *Alcoa Update*, and Forms 10-K and 10-Q are available through the Internet, by calling the toll-free number, or by writing to Corporate Communications at the headquarters address.

Investor Information

Security analysts and investors may write to Edgar M. Cheely, Jr., Director - Investor Relations, at the headquarters address or call him at (412) 553-2451.

Other Publications

A report of contributions and programs supported by Alcoa Foundation is available by writing Alcoa Foundation at the headquarters address or by calling (412) 553-2348.

A report on Alcoa's environmental, health and safety performance is available by writing Alcoa EHS Department at the headquarters address.

For a brochure of Alcoa Technical Center capabilities, write to Alcoa Technical Center, Customer Service Center, 100 Technical Drive, Alcoa Center, PA 15069-0001 or call (412) 337-2878.

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, currently 25 cents per common share, and a bonus dividend linked directly to financial performance. The bonus dividend is 30% of Alcoa's annual earnings over \$3.00 a share. This is calculated annually and paid quarterly, together with the base dividend, to shareholders of record at each quarterly distribution date.

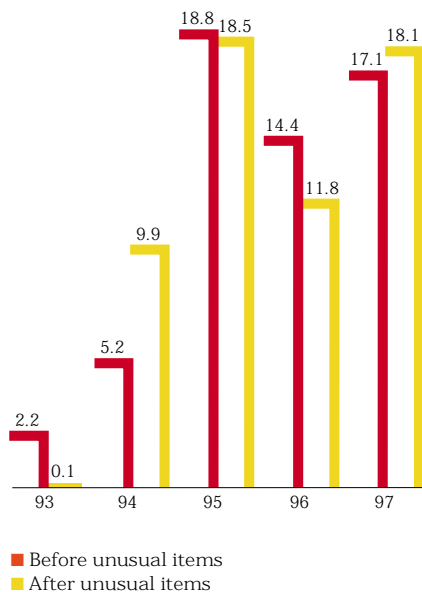
Dividend Reinvestment

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

Direct Deposit of Dividends

Shareholders may have their quarterly dividends deposited directly into their checking, savings or money market accounts at any financial institution that participates in the Automated Clearing House (ACH) system.

Percent Return on Shareholders' Equity



Shareholder Services

Shareholders with questions on account balances, dividend checks, reinvestment or direct deposit, address changes, lost or misplaced stock certificates, or other shareholder account matters may contact Alcoa's stock transfer agent, registrar and dividend disbursing agent:

First Chicago Trust Company Telephone Response Center:
 Shareholder Services Group 1-800-317-4445
 P.O. Box 2500 Outside U.S. and Canada:
 Jersey City, NJ 07303-2500 (201) 324-0313

Internet address: <http://www.fctc.com>
 E-Mail address: FCTC@delphi.com
 Telecommunications Device for the Deaf (TDD): (201) 222-4955

For shareholder questions on other matters related to Alcoa, write to Denis Demblowski, Office of the Secretary, at the headquarters address or call (412) 553-4707.

Stock Listing

Common: New York Stock Exchange, The Electronical Stock Exchange in Switzerland and exchanges in Brussels, Frankfurt and London

Preferred: American Stock Exchange
 Ticker symbol: AA

Quarterly Common Stock Information

Quarter	1997			1996		
	High	Low	Dividend	High	Low	Dividend
First	\$76 ¹ / ₄	\$64 ¹ / ₄	\$.225	\$64 ³ / ₈	\$49 ¹ / ₈	\$.3325
Second	79 ¹ / ₄	65 ¹ / ₄	.250	66 ¹ / ₄	57	.3325
Third	89 ³ / ₈	75 ¹ / ₈	.250	64 ¹ / ₈	55 ¹ / ₈	.3325
Fourth	83 ¹⁵ / ₁₆	66	.250	64 ³ / ₄	55 ³ / ₄	.3325
Year	\$89 ³ / ₈	\$64 ¹ / ₄	\$.975	\$66 ¹ / ₄	\$49 ¹ / ₈	\$1.33

Common Share Data

	Estimated number of shareholders*	Average shares outstanding (000)
1997	95,800	172,226
1996	88,300	174,334
1995	83,600	178,018
1994	55,200	177,882
1993	55,300	175,346

*These estimates include shareholders who own stock registered in their own names and those who own stock through banks and brokers.

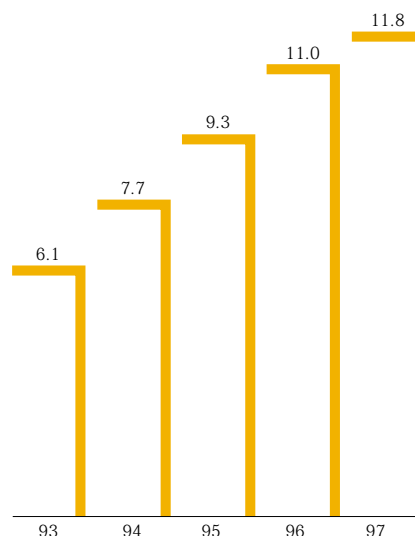
Headquarters

Alcoa
 425 Sixth Avenue
 Pittsburgh, PA 15219-1850
 Telephone: (412) 553-4545
 Fax: (412) 553-4498
 Internet: <http://www.alcoa.com>

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

Market Value of Common Stock*

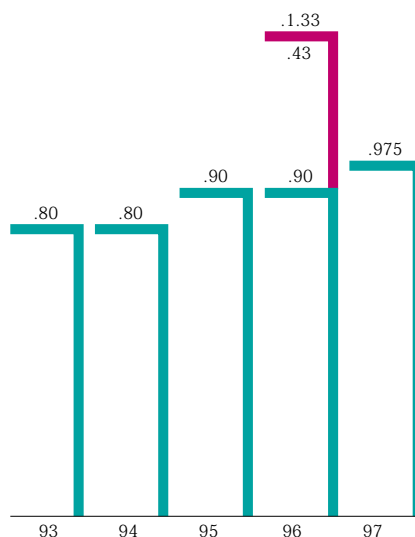
billions of dollars



*Based on closing price and shares outstanding at year-end

Dividends Paid per Common Share*

dollars



■ Bonus
 ■ Base

*Adjusted to reflect 2-for-1 stock split in February 1995

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.

Aluminum foil

A flat-rolled product, rectangular in cross section, of thickness from 0.006" to 0.0025"

Aluminum plate

A flat-rolled product, rectangular in cross section, of thickness not less than 0.250" and with sheared or sawed edges.

Aluminum sheet

A rolled product, flat or coiled, rectangular in cross section, with thickness less than 0.250" but not less than 0.006" and with slit, sheared or sawed edges.

Aluminum SpaceFrame™

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

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.

Crossmember

Component of a vehicle structure that spans the structure, joining two sides together.

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.

Extractive industries

Industries that derive their principal raw materials from the earth; e.g., Alcoa produces aluminum from mined bauxite ore.

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.

Greenhouse gas emissions

Gases emitted from both natural and man-made sources such as carbon dioxide, methane and water vapor that absorb and reradiate some of the sun's infrared energy.

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.

Lignite

A low-grade, brownish-black coal.

London Metal 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.

Metric ton (mt)

A unit of mass and weight equal to 1,000 kilograms, or 2,204.6 pounds.

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.

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*Chart

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