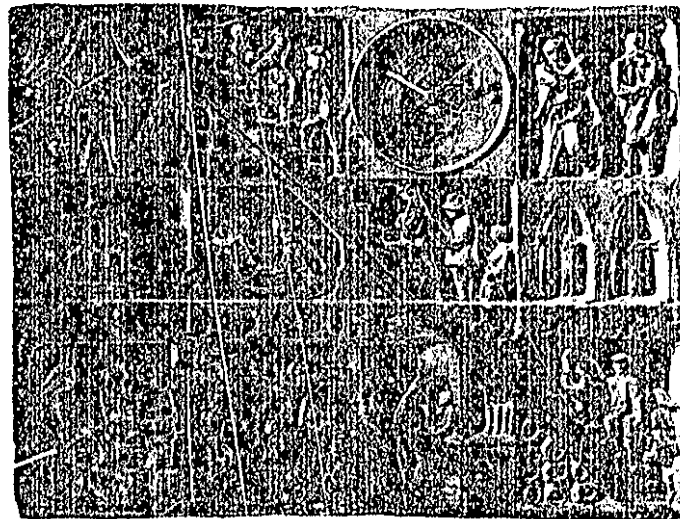


ANNUAL REPORT AND ACCOUNTS 1987

385846



• FINANCIAL HIGHLIGHTS •

| | £ million | |
|---|-----------|-------|
| | 1987 | 1986 |
| Turnover | 676.8 | 636.9 |
| Profit on ordinary activities before taxation | 38.1 | 35.8 |
| Shareholders investment | 309.7 | 283.3 |
| Gross capital investment | 48.8 | 34.2 |
| Return on average capital employed % | 12.3 | 13.0 |
| Ratio of borrowings to equity | 27.73 | 30.70 |

• REPORT TO SHAREHOLDERS •

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Front Cover "TIME OUT" by Gerda Rubenstein

Foundry cast aluminium sculpture, one of a series of 'Time Sculptures' developed and marketed by McDonald Rowe Ltd with assistance from British Alcan

• CHAIRMAN'S STATEMENT •

The world market for primary aluminium was strong throughout 1987 and ended the year near the peak. In the free world consumption reached a record level at 13.25 million tonnes: production rose to 12.5 million tonnes and inventories fell to levels not seen for fifteen years. In Europe the pressures were similar. Demand for rolled products, for instance, rose by 7% to 2 million tonnes: in the UK demand was up by 10% at 320,000 tonnes; that for extruded products by 8% at 190,000 tonnes. Although British Alcan's sales for the year rose by £40 million, the gross profit rose by less than £4 million due largely to the depressant effect of the falling dollar on sterling price realisations.

The company, nevertheless, had a satisfactory year, the fifth of profitable trading since Alcan UK and Baco came together in 1983. A net profit before tax of £38.1 million showed an increase of 6% on the previous year. Borrowings were further reduced; debt equity ratio at the year end being 27:73 as against 51:49 in 1983. The modernisation programme, involving the replacement of much antiquated plant, continued at an increased pace: capital investment being £49 million compared with £34 million in 1986. New plant at Rogerstone, Redditch, Kitts Green, Lynemouth, Lochaber, Banbury, Warrington, Falkirk and Burntisland afford welcome evidence of the effort now being made to replace old plant with new. This will enable the company to keep down its costs, offer quality to its customers and keep abreast of its competitors throughout the world.

A further sign of better health was the increase in research and development: £9 million in 1987 as against a mere £3.3 million two years earlier. I have no space here to do more than mention some of the principal features of the programme in which British Alcan is engaged in cooperation with Alcan International at Banbury. Aluminium Lithium (LITAL®), an important new development for the aerospace industry: a system of inorganic membrane filtration, capable of separating particles of the size of a virus: the bonding of aluminium to itself or to other materials by means of structural adhesives and its possible applications: these are of particular significance. Alcan Offshore has been set up to work alongside the energy industry and to develop new uses for the metal. The company continued to place emphasis on environmental, occupational health and safety matters. A

number of health and environmental audits were carried out, with training programmes to minimise the risk of accidents.

British Alcan makes a significant contribution to worldwide operations of Alcan Aluminium Limited. It produces around 10% of the group's primary metal; 13% of its rolled products, 18% of its extrusions and 10% of its wire and cable. It employs about 10,500 people in the UK, over 60% of them in Scotland, Wales and the north of England.

In addition the company is a major producer of alumina and zirconium based chemicals and is responsible for the global development of Alcan's business in this sector.

The company's prospects are inevitably close coupled to those of the UK economy. It has made a good start to 1988; its businesses do not seem to have been affected by the turbulence which struck the world's financial markets towards the end of 1987. There is no reason why this year should not mark a further step forward.

One matter for concern is the Government's plan for the future of the Electricity Supply Industry. A constant and secure supply of electricity at a reasonable cost is a basic requirement in the aluminium industry. So far as smelting is concerned the company provides for its own needs. For the rest of its operations, it is dependent upon the publicly owned industry. The present system, with the CEGB responsible for both generation and transmission, could without doubt be improved by a measure of privatisation, particularly if it involved easier access to the grid. At the same time, one cannot ignore that, as things now stand, control is simple and the responsibility to supply clearly identified. The Government's proposals, on the other hand, seem likely to involve an immensely complex system of control with the responsibility to supply diffused. The benefits might well turn out to be less real than the risks. We can, I think, look back on the five years of British Alcan's existence with satisfaction: we can also look to the future with confidence. It would not be possible to do so without a dedicated management and a skilled workforce. Neither should be taken for granted.

PEYTON OF YEOVIL
6 April 1988

COMMENTARY (CONTINUED)

Rolled Products

The first phase of a £14 million investment programme with support from the Welsh Office in the rolling mill complex at Rogerstone (South Wales) is now nearing completion. The single largest item is the £6 million pre-heat furnace, due for completion in the first half of 1988.

The modernisation plan has also resulted in supporting investments in the Falkirk sheet mill, and the Glasgow and Silvertown (London) foil rolling mills. The programme will reduce costs and improve quality, enabling the company to consolidate its position as the premier UK aluminium rolled products producer, and to become a larger supplier to the European market.

This programme is covered in more detail in Putting Investment to Work, pages 5 to 8.

Speciality and Aerospace

Alcan Aerospace Europe was inaugurated at the 1987 Paris Air Show. A specialist team now operates from Birmingham combining the functions of market research, planning, promotion and technical representation. They are also responsible for offset and countertrade management which features increasingly in major international contracts.

Over 60% of the sales of Alcan Plate were exported, once again a record, reflecting the truly international nature of the business in aerospace and general engineering applications.

Sales of LITAL® aluminium lithium alloys quadrupled in plate, sheet, extrusion, tube and for forgings.

British Alcan Tubes at Redditch commissioned the world's first fully automatic draw centre for large diameter tubes. The new extrusion press ordered in 1986 is expected on stream in mid 1988, following delivery ahead of schedule in December 1987.

A £7 million modernisation programme at the Distington plant of Alcan High Duty Extrusions, assisted by a DTI grant, has been approved.

Superform Metals equipped its plants in Worcester (England) and Riverside (California), with back pressure forming capability to add structural components to their product offer for aerospace. 1987 also saw the first production of formed parts in APC – carbon fibre reinforced thermoplastic.

Enterprises

This Division includes small scale rolled products, consumer products, commercial extrusion, high pressure gas cylinders, conductor, wire and building product businesses.

Aluminium Corporation provided rolling resources for the development of aluminium lithium and for the special alloys required for the Alcan aluminium-air battery.

Alcan Conductor developed a new overhead conductor for the CEGB which enabled them to reduce costs and increase the

power load. A new wire strander was purchased for Port Tennant. Early in 1988 the closure of the Merton wire factory was announced, the business being transferred to Port Tennant. This move will secure lower manufacturing costs.

Cambridge Glasshouse announced a new Venlo glasshouse and a solar kiln for drying timber in the third world. Buoyancy in both commercial grower and garden centre markets led to a 30% sales growth for Cambridge Glasshouse.

The new casting unit for extrusion billet was commissioned on schedule at the Banbury Aluminium remelt centre.

Strong consumer spending contributed to a record year in foil consumer products and to another very good year in extrusions and Luxfer gas cylinders.

Stockholders

1987 was a record year for volume, turnover and earnings.

Further progress was made in securing added value processing work, and important contracts for fabricated products for the road, rail and building industries have been secured. The development of added value activity will continue in 1988.

The wide customer base provides opportunities for non-aluminium sales. Stainless steel and UPVC volumes increased substantially to reach record levels in the year under review.

New conservatory designs were very well received in autumn presentations to the market at Chalfont Park, and promise buoyant business in 1988.

Chemicals

Production and sales of alumina chemicals from BA Chemicals, Burntisland (Fife), exceeded the record levels achieved in 1986. Marketing emphasis continued to be given to newer speciality products for ceramics, refractory and flame retardant applications, supported by further investment in production capacity for these products.

Magnesium Elektron (MEL) experienced lower demand from the US aerospace industry for its speciality magnesium alloys but zirconium chemicals demand remained strong internationally. MEL continued to invest in improved production facilities at both its Clifton (Manchester) and Flemington (New Jersey) plants. Further investment was made in the development of new applications for magnesium alloys in aerospace and automotive applications and for zirconium chemicals.

The Chemicals R & D group at Chalfont Park concentrated on new product development for flame retardants, technical ceramics and applications of aluminium organic compounds in resin and coating systems. Collaborative programmes were established with a number of outside organisations.

Financial

Attributable profit for the year at £37.0 million was up £2.9 million on 1986 reflecting increased volume but a narrowing of

COMMENTARY (CONTINUED)

margins. Sales volume in aluminium was up 19,000 tonnes, or 7%, and chemicals showed continued growth. Despite a sharp rise in the price of aluminium in international markets, European price rises were delayed largely through the weakness of the dollar. Although some price increases were initiated, these were insufficient to offset cost increases.

Exports amounted to 27% of total sales revenue (1986: 26%) helped by a relatively stable exchange rate against European currencies – the weak dollar, however, has adversely affected the profitability of North American sales particularly in the already highly competitive aerospace sector.

Research and development expenditure at £9 million was 17% above 1986 and nearly three times the 1985 level, underlining the commitment of the company to increased investment in the products of tomorrow. Interest was reduced by £3 million compared to 1986 as a result of both reduced debt and lower average interest rates. The charge for taxation still reflects primarily overseas tax with brought forward losses offsetting current U.K. tax and the capital investment programme obviating the need for a deferred taxation provision.

With earnings maintained just above their 1986 level and continuing control of working capital, cash generated by operations was similar to 1986 at £58 million. The value of inventories showed a small increase, although aluminium

tonnage was held below end 1986 levels despite higher sales volume.

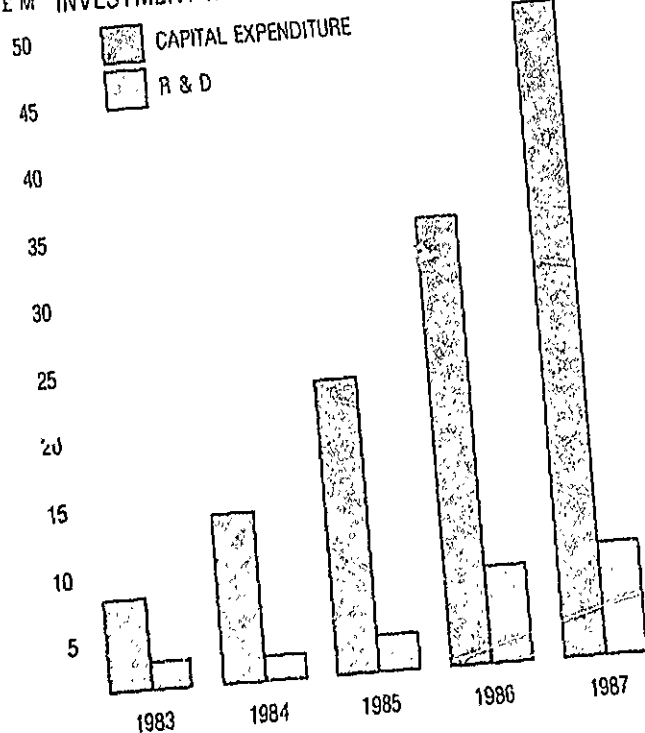
Capital expenditure rose from £34 million to £49 million as can be seen from fig 1. This increase in capital expenditure is expected to continue, with £58 million planned to be spent in 1988, reflected the company's commitment to modernise its facilities at the maximum sustainable rate.

External borrowings of the group were reduced by £6 million, and the debt equity ratio ended the year at 27:73 compared to 30:70. Subordinated loans of £4 million were repaid during the year, and the remaining £3.8 million of preference shares was redeemed.

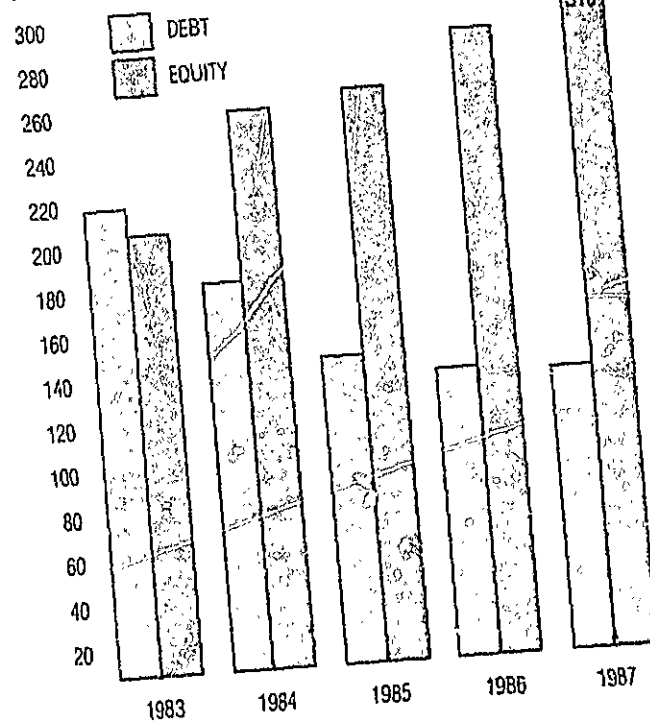
Towards the end of 1987, a five to ten year loan facility for £20 million was arranged with the European Investment Bank, in connection with capital projects at Rogerstone, Redditch and Distington. The new facility will, when used, lengthen the average maturity of debt and increase the proportion of debt which is at fixed interest rates. The level of total available facilities exceeded borrowings at the year end by £75 million.

The improvement in debt equity ratios is clearly shown in fig 2. Since 1982 debt has been progressively reduced to a more acceptable level, allowing a change of emphasis towards the funding of capital investment for cost cutting and profitable growth opportunities.

£ M INVESTMENT IN PLANT AND R & D – fig 1



£ M TOTAL BORROWINGS AND EQUITY – fig 2

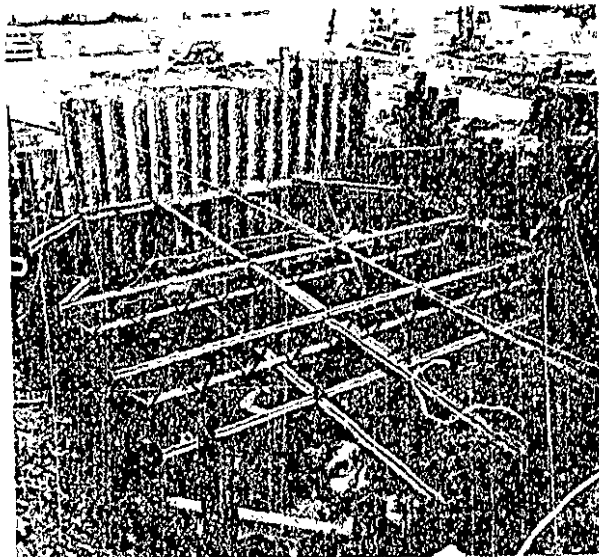


• PUTTING INVESTMENT TO WORK - 1 •

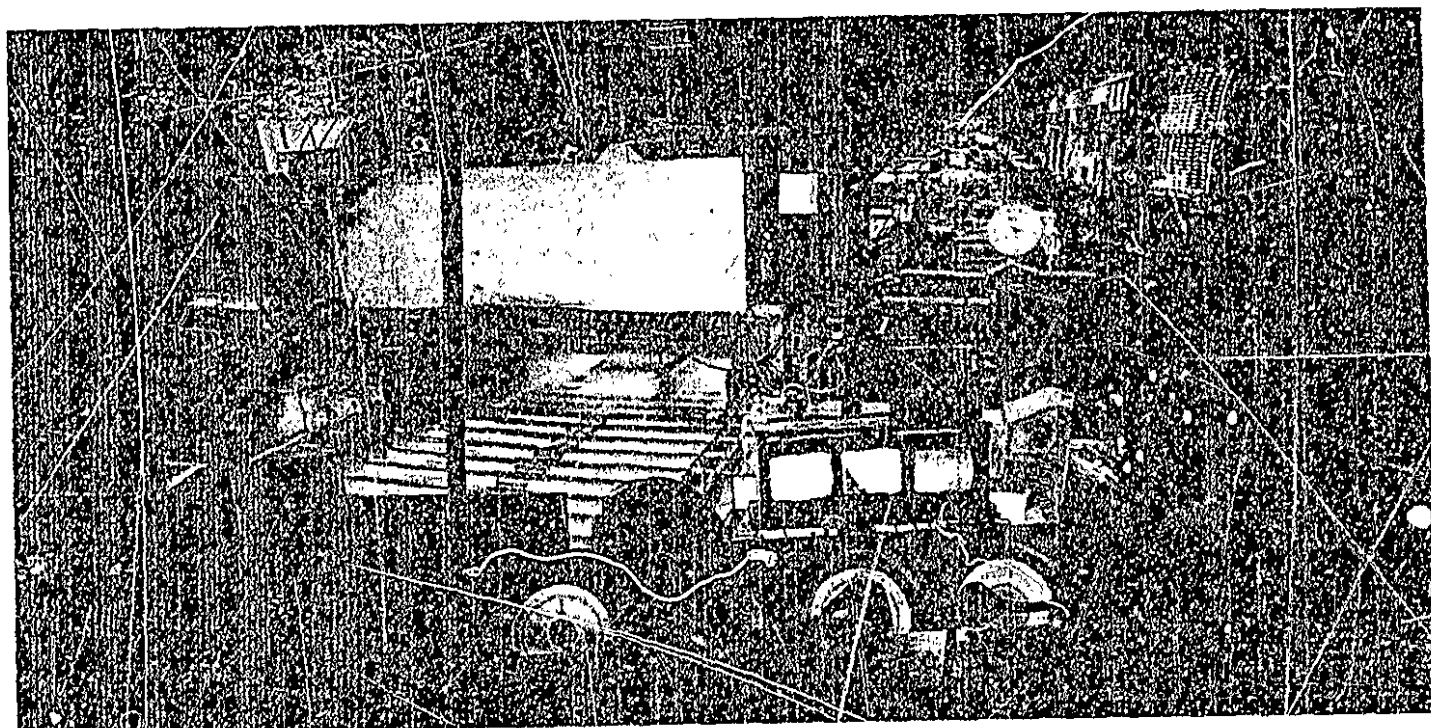
The heart of British Alcan's commercial rolled products activity is the large hot mill at Rogerstone, South Wales. Originally installed many years prior to the formation of British Alcan, the potential capacity has always far outstripped that of the cold rolling equipment downstream. Despite supplying the hot rolled coil requirements of the Falkirk cold mill since 1983, substantial potential capacity remains to be exploited. The hot mill has been kept technically up to date and the replacement value at today's prices would be enormous.

Working in cooperation with other Alcan rolling mills in West Germany and Italy a European rolled products strategy has been evolved to make the best use of the opportunity provided by market growth. The first phase of a multi-million pound investment programme within British Alcan is now nearing completion.

The key objective of the first phase is to make it possible to hot roll, and subsequently process, much larger ingots. The increase in ingot weight of 40% will bring British Alcan coil sizes into line with the German operations and greatly increase flexibility. Hot rolling speeds will also be increased.

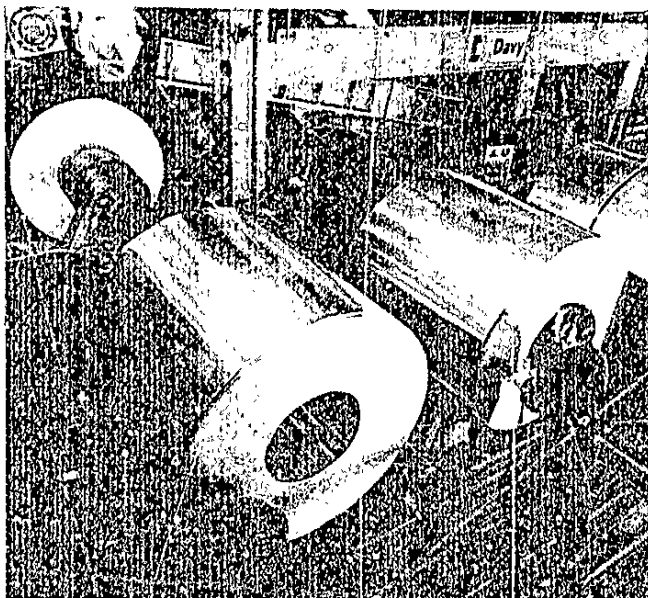


Ingot pre-heat furnace foundations during an early stage of construction at Rogerstone

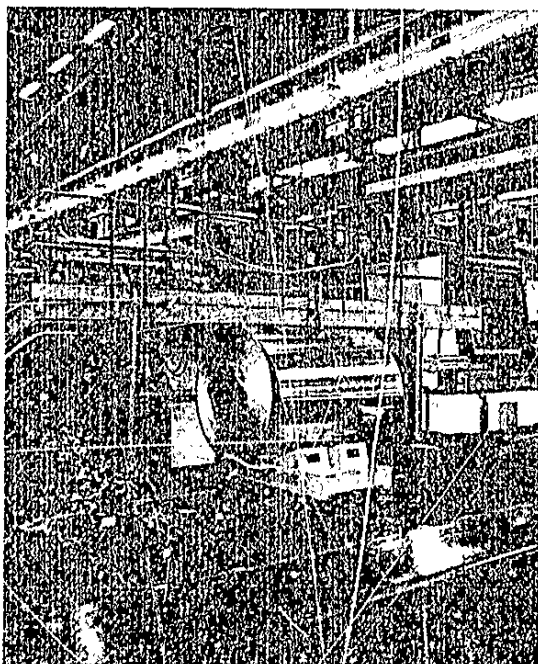


The Rogerstone hot mill control cabin

• PUTTING INVESTMENT TO WORK - 1 •



Hot line coiler, Rogerstone



A new foil stocker to handle heavier coils, Rogerstone

All main plant and handling systems from the smelters through to the finished goods despatch bay in the sheet and foil factories have had to be modified or replaced.

New casting units at the Lynemouth and Lochaber smelters feature in the second colour section of this report. The remelt and casting equipment at Rogerstone was considerably augmented at an early stage of the investment programme. The opportunity was taken to benefit from modern energy saving technology. Rogerstone was a regional winner of a national energy saving competition earlier in 1987.

Ingots have to be scalped to achieve acceptable levels of sheet and foil quality. To accept the increase in ingot length from 3.5m to 4.2m the scalping machine bed has been replaced and the cranes uprated.

The new ingot pre-heat furnace, now at an advanced stage of construction and at a cost of over £6 million, represents the largest single investment item. The new furnace will operate at high speed and high energy efficiency. Compared with the existing furnaces, it will show a fifty percent improvement in energy consumption and take much less time to raise ingots to the required rolling temperature.

The hot line table rollers, upstream of the mill, have been extended to cater for the increased strip length obtained from the larger ingots. At the other end of the hot line the rewind coiler has been entirely replaced with new equipment.

The hot line tandem mill has been fitted with a new motor control system to allow faster operation, with the additional benefit of improved metallurgical quality.

• PUTTING INVESTMENT TO WORK - 1 •

The cold rolling operations at both Rogerstone and Falkirk have also been upgraded to accept the larger coils of hot rolled material. A new foil stock splitter has been installed to allow larger coils to be supplied to the foil rolling mills at Rogerstone, Glasgow and Silvertown. A finstock splitter is also under installation to serve the growing automotive radiator and general engineering heat exchanger market.

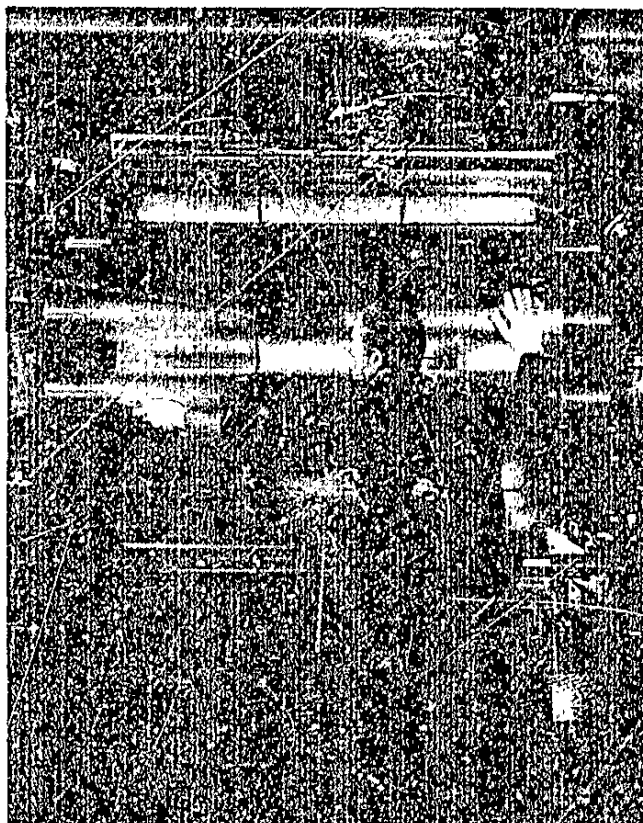
The processing of larger coils will have a major impact in reducing costs. The overall energy savings provided by modern equipment and the greater efficiency in producing the finished product will provide additional benefits.

Wherever possible UK equipment suppliers have been used; over half the investment has been with British companies.

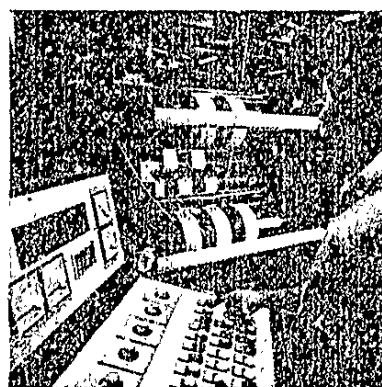
The cascade effect of the larger ingots has continued into British Alcan's foil operations. A new foil slitting machine has been installed at Silvertown at a cost of £0.5 million. The new equipment, designed to accept wider coils and to operate at higher speeds, has replaced no less than six old machines.

At the Rogerstone foil plant a new separator has been commissioned to handle the thinnest gauges of foil that are double rolled in the final rolling stages. Handling foil in the gauge range of 6 to 45 microns this £0.75 million investment has greatly increased light gauge foil capacity.

Typical of the many smaller projects the Glasgow foil plant spent a total of £1 million on annealing furnaces, upgrading slitter equipment and installing modern control equipment.

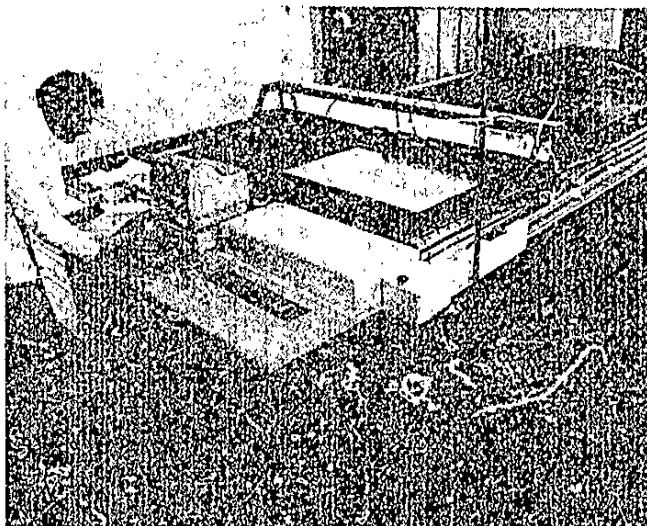


Foil separator Rogerstone



Foil slitter Silvertown

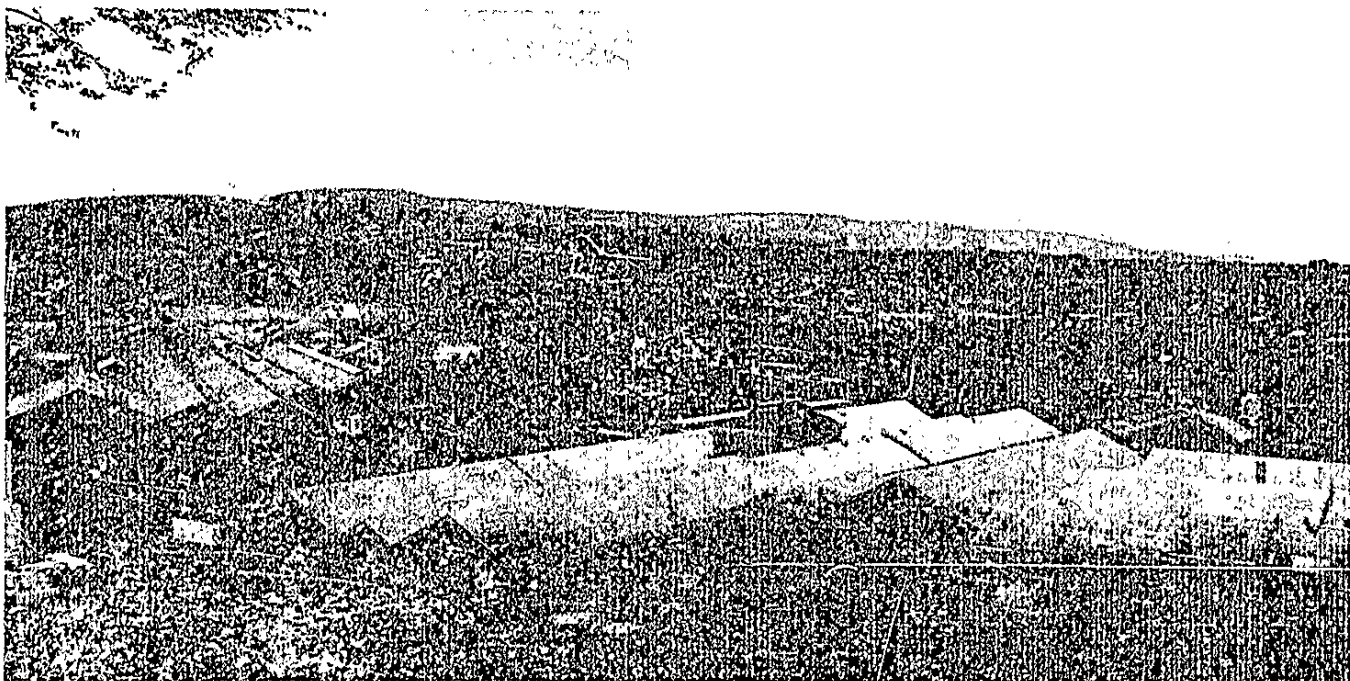
PUTTING INVESTMENT TO WORK - 1



Flatness testing - Rogerstone

Apart from investment in the commercial rolled products operations, attention continues to be given to quality and service improvement. Better control of products supplied to the important lithographic sheet market has been achieved by the introduction of automatic precision measurement of shape.

Working to a technical requirement framed by the Rolled Products division, the new equipment was designed, built and approved by Alcan Design and Development at Chaifont Park. The equipment has already made a contribution to quality improvement.



British Alcan and Rogerstone Works

DIRECTORS' REPORT

The directors present their report and the audited accounts of the Company and its subsidiaries ('the Group') for the year ended 31 December 1987 which will be laid before the shareholders at the Annual General Meeting on 12 May, 1988 (or such other date as the shareholders may agree).

1. DIRECTORS

The directors as at 31 December 1987 are listed on page 25. On 1 January 1987 Mr D Morton was appointed a director and Lord Peyton of Yeovil became Non-executive Chairman. In the 1987 Birthday Honours List Sir Robert Smith received a knighthood.

In accordance with the Articles of Association all directors retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

2. ACTIVITY

The principal activity of the Group is the production and processing of aluminium, including the sale of aluminium ingot, aluminium semi-fabricated products and chemicals and the manufacture and sale of a range of related finished products. The operating divisions' activities are described in more detail on pages 2 and 3.

3. 1987 RESULTS

Profit attributable to shareholders of £37.0 million was £2.9 million up on 1986. Financial comment will be found on pages 3 and 4.

4. PROSPECTS

The immediate outlook is encouraging, with demand strong and international prices remaining firm; but the world's economic prospects and potential instability of exchange rates may cause problems.

5. FIXED ASSETS

Capital expenditure during the year amounted to £48.8 million (£34.2 million in 1986), as the refurbishment of facilities continued with major investments at several locations. Some of these projects enjoyed the benefit of Selective Financial Assistance, together with fixed rate financing from the European Investment Bank.

The land and buildings originally held by The British Aluminium Company have been included in the accounts on the basis of

the acquisition cost to the Group in 1982, and those originally held by Alcan Aluminium (UK) Limited on the basis of a 1976 valuation or, if acquired subsequently, at cost.

An internal review of the Group's properties was carried out as at 31 December 1987. The directors are of the opinion that the aggregate values of the land and buildings at the Lynemouth smelter and power station and at the Highland smelters (which have been valued at depreciated replacement cost) substantially exceeds their book values. The open market value of the balance of the Group's properties, taken as a whole, shows a modest increase on their book value which is a reflection of the increase in property values over the year, particularly in the South East of England.

6. FINANCING

During the year the company redeemed the final £3.8 million of its Non-participating Redeemable Preference Shares and repaid £4 million of Subordinated Loans. Borrowings were reduced by £5.7 million to £122.4 million, thus improving the Group's debt:equity ratio to 27:73. (See also page 4.)

7. RESEARCH AND DEVELOPMENT

Expenditure on research and development increased to £9.0 million (£7.7 million in 1986), described more fully elsewhere in this Annual Report.

8. PEOPLE

The employment policies of the Group continue to be developed with emphasis on consultation with employees of all levels. In addition at most major sites pay and conditions are largely determined by negotiation with recognised trade unions. Local representatives are involved in discussions aimed at improving business results in such matters as improved productivity, quality control, delivery performance and health and safety at work. During 1987 plant agreements were concluded satisfactorily in most cases. A few minor industrial disputes occurred in some plants, but these were resolved with little disruption.

Certain benefit improvements were made to the Group's pension plan during the year. In the light of current funding the company temporarily suspended its contributions. The scheme remains soundly funded despite the fall in the stock market in October 1987. The various improvements were introduced after discussion with members of Local Pensions Committees and the Group Pensions Council.

• DIRECTORS' REPORT •

Disabled persons continue to be considered for openings in the company. Disability does not constitute a barrier to engaging new employees, given that other selection indicators are favourable.

The average number of employees in the Group remained relatively stable at 10,814 compared to 10,997 in 1986.

The directors wish to thank all employees for their efforts during 1987.

9. CHARITABLE DONATIONS

Charitable donations during 1987 totalled £106,000 (1986 - £70,000).

No political contributions were made during the year.

10. DIRECTORS' INTERESTS

As the Company is a wholly owned subsidiary of Alcan Aluminium Limited, there were no disclosable directors' interests.

11. AUDITORS

Price Waterhouse have expressed their willingness to continue in office. Resolutions concerning their reappointment and the authorisation of the directors to determine their remuneration will be submitted to the forthcoming Annual General Meeting.

12. CLOSE COMPANY PROVISIONS

The close company provisions of the Income and Corporation Taxes Act 1988 (and of any amendments thereto) do not apply to the Company.

6 April, 1988



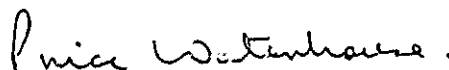
By order of the Board
R. H. A. FORBES
Secretary

• AUDITORS' REPORT •

Auditors' Report to the Members of British Alcan Aluminium plc

We have audited the financial statements on pages 11 to 20 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1987 and of the profit and the source and use of funds of the Group for the year then ended and comply with the Companies Act 1985.



PRICE WATERHOUSE

Chartered Accountants
Southwark Towers
32 London Bridge Street
London SE1 9SY

6 April, 1988

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1987 - £MILLION

| | Notes | 1987 | 1986 |
|---|-------|-------|-------|
| Turnover | 2 | 676.8 | 636.9 |
| Cost of sales | | 559.3 | 523.3 |
| Gross profit | | 117.5 | 113.6 |
| Operating expenses | | | |
| Distribution | | 15.7 | 15.0 |
| Selling | | 19.1 | 19.6 |
| Research and Development | | 9.0 | 7.7 |
| Administration | | 21.5 | 20.5 |
| Other (income)/expense | | 0.3 | (1.8) |
| | | 65.6 | 61.0 |
| Operating profit | 3 | 51.9 | 52.6 |
| Interest | 5 | 13.8 | 16.8 |
| Profit on ordinary activities before taxation | | 38.1 | 35.8 |
| Taxation | 6 | 1.1 | 1.7 |
| Profit attributable to the members of British Alcan Aluminium plc | 17 | 37.0 | 34.1 |
| Attributable profit for the year is dealt with in the accounts of: | | | |
| Parent company | | 34.8 | 31.6 |
| Subsidiaries and consolidation adjustments | | 1.9 | 2.3 |
| Related companies | | 0.3 | 0.2 |
| | | 37.0 | 34.1 |

Movements on reserves are set out in note 17.

BALANCE SHEETS AT 31 DECEMBER 1987 - £MILLION

| Company | | | | Group | |
|--------------|--------------|---|-------|--------------|--------------|
| 1987 | 1986 | | Notes | 1987 | 1986 |
| | | FIXED ASSETS | | | |
| 234.0 | 208.5 | Tangible assets | 7 | 274.8 | 251.6 |
| 3.7 | 3.3 | Investments | 8 | 7.3 | 6.8 |
| <u>237.7</u> | <u>211.8</u> | | | <u>282.1</u> | <u>258.4</u> |
| | | CURRENT ASSETS | | | |
| 146.3 | 138.8 | Stocks | 9 | 153.6 | 148.4 |
| 130.6 | 126.1 | Debtors | 10 | 136.0 | 130.4 |
| 6.1 | 3.0 | Cash at bank and in hand | | 6.3 | 3.6 |
| <u>283.0</u> | <u>267.9</u> | | | <u>295.9</u> | <u>282.4</u> |
| | | CREDITORS (amounts falling due within one year) | | | |
| 8.6 | 2.1 | Loans and overdrafts | 11 | 11.0 | 5.5 |
| 158.8 | 143.3 | Other | 12 | 130.7 | 115.3 |
| <u>167.4</u> | <u>145.4</u> | | | <u>141.7</u> | <u>120.8</u> |
| 115.6 | 122.5 | NET CURRENT ASSETS | | 154.2 | 161.6 |
| <u>353.3</u> | <u>334.3</u> | TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>436.3</u> | <u>420.0</u> |
| | | CREDITORS (amounts falling due after more than one year) | | | |
| 103.3 | 112.5 | Loans | 11 | 111.4 | 122.6 |
| 20.0 | 24.0 | Subordinated loans from fellow subsidiary | 13 | 20.0 | 24.0 |
| 0.7 | 2.0 | Other | 12 | 0.7 | 2.0 |
| <u>124.0</u> | <u>138.5</u> | | | <u>132.1</u> | <u>148.6</u> |
| 14.3 | 11.8 | Provisions for liabilities and charges | 14 | 14.5 | 12.0 |
| — | — | Minority interests | 15 | — | 0.1 |
| | | CAPITAL AND RESERVES | | | |
| 45.8 | 49.6 | Called up share capital | 16 | 45.8 | 49.6 |
| 0.1 | 0.1 | Share premium account | | 0.1 | 0.1 |
| 10.1 | 10.6 | Revaluation reserve | 17 | 10.2 | 10.7 |
| 11.8 | 8.0 | Other reserves | 17 | 56.0 | 58.1 |
| 147.2 | 115.7 | Profit and loss account | 17 | 177.6 | 140.8 |
| <u>215.0</u> | <u>184.0</u> | | | <u>289.7</u> | <u>259.3</u> |
| <u>353.3</u> | <u>334.3</u> | | | <u>436.3</u> | <u>420.0</u> |

DOUGLAS M. RITCHIE
ROBERT C. SMITH

Directors

Douglas M. Ritchie
Robert C. Smith

The Board of Directors approved the accounts on 6 April, 1988

• STATEMENT OF SOURCE AND USE OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 1987 - £MILLION •

| | 1987 | 1986 |
|---|--------------|---------------|
| SOURCE OF FUNDS | | |
| Profit before tax | 38.1 | 35.8 |
| Depreciation | 20.5 | 19.5 |
| Profit retained by related companies | (0.3) | (0.2) |
| Total generated by operations | 58.3 | 55.1 |
| Funds from other sources: | | |
| Disposal of tangible assets and investments | 2.8 | 1.8 |
| Government grants | 3.9 | 3.1 |
| Other items | (3.2) | (2.0) |
| | 61.8 | 58.0 |
| USE OF FUNDS | | |
| Repayment of subordinated loans | 4.0 | 6.7 |
| Redemption of preference shares | 3.8 | 4.0 |
| Capital expenditure | 48.8 | 34.2 |
| Investments in shares | 0.6 | — |
| Taxation | 3.3 | 1.2 |
| Increase/(decrease) in working capital (note (a)) | (4.4) | — |
| | 56.1 | 46.1 |
| (DECREASE) IN EXTERNAL BORROWINGS (note (b)) | (5.7) | (11.9) |
| Notes: | | |
| (a) | 1987 | 1986 |
| Increase/(decrease) in working capital | | |
| Stocks | 5.2 | (3.1) |
| Debtors | 5.6 | 7.3 |
| Cash | 2.7 | 2.9 |
| Creditors (excluding loans and overdrafts and taxation) | (17.9) | (7.1) |
| | (4.4) | — |
| (b) | | |
| Increase/(decrease) in external borrowings | | |
| Short term loans and overdrafts | 5.5 | (18.7) |
| Medium and long term loans | (11.2) | 6.8 |
| | (5.7) | (11.9) |

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

(i) ACCOUNTING CONVENTION

These accounts have been prepared under the historical cost convention as modified by the revaluation of certain properties. They comply, in all material respects, with the ASC Statements of Standard Accounting Practice and, accordingly, with International Accounting Standards.

(ii) COMPOSITION OF THE GROUP

The Group comprises British Alcan Aluminium plc ('the Company') and all its subsidiary companies. In addition the Group treats as related companies those active trading companies which are material and in which it holds, as a long term investment, an interest of between 20 per cent and 50 per cent.

(iii) BASIS OF CONSOLIDATION

The consolidated accounts incorporate:

- (a) The assets, liabilities, profits and losses of the Company and its subsidiaries, as shown by their audited accounts made up to 31 December 1987, after making provision for unrealised profits on intra-Group transactions.
- (b) The Group's share of the profits and losses of related companies as shown by their latest available accounts which are not in all cases audited or made up to 31 December 1987. The effect of using accounts made up to a date other than 31 December 1987 is not significant in relation to the Group.

(iv) TURNOVER

Turnover represents the amount receivable in the ordinary course of business for goods sold and services provided, after eliminating intra-Group sales.

(v) DEPRECIATION

Depreciation of fixed assets is on a straight-line basis using rates applied to original cost or valuation calculated to write off each asset over its estimated useful life. Freehold land is not depreciated and leasehold land and buildings are written off over a period not exceeding that of the lease. Freehold buildings, plant, machinery and equipment are written off at fixed annual rates, which normally fall in the following ranges:

| | |
|--------------------------------|------------------|
| Freehold buildings | 2 to 5 per cent |
| Plant, machinery and equipment | 4 to 10 per cent |

(vi) LEASED PLANT

Assets acquired under financing leases are capitalised and the corresponding amounts still owing to the finance company are included in loans. The assets are amortised on a straight-line basis over their estimated lives and financing costs are absorbed over the terms of the leases.

(vii) CAPITALISATION OF INTEREST COST

Interest relating to the financing of major capital projects during their construction period is capitalised and amortised over the average life of the project.

(viii) GOVERNMENT GRANTS

Government grants received and receivable are credited to the Government grants account and a proportion of the grants, based on normal depreciation rates for all the relevant fixed assets, is credited each year to the profit and loss account.

(ix) STOCKS

Stocks have been stated at the lower of cost and net realisable value. In addition to the cost of purchase there are included such costs of conversion and overheads as relate to a normal utilisation of facilities.

(x) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are written off when incurred.

(xi) TAXATION

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is only provided to the extent that it is probable that a liability will crystallise.

(xii) FOREIGN CURRENCIES

The profits and losses of foreign subsidiaries are translated into sterling at the average rate prevailing during the year and the assets and liabilities are translated into sterling at the rates ruling at the year-end. Exchange adjustments arising from these translations are dealt with through reserves. Other assets and liabilities expressed in foreign currencies are translated into sterling at rates ruling at the year-end and adjustments are dealt with through the profit and loss account.

(xiii) SHORT TERM LOANS

Short term loans are loans repayable within one year except those which the Group intends to refinance for more than one year and for which there are sufficient unused committed long term facilities to guarantee the refinancing.

(xiv) PROFIT AND LOSS ACCOUNT

As permitted by section 228 (7) of the Companies Act 1985, the Company has not presented its own profit and loss account.

2. TURNOVER - GEOGRAPHICAL INFORMATION (£ million)

| | 1987 | 1986 |
|-------------------------|--------------|--------------|
| United Kingdom | 457.9 | 438.7 |
| Europe - W Germany | 61.2 | |
| - Other EEC | 56.3 | |
| - non EEC | 23.4 | 118.7 |
| North and South America | 47.7 | 51.6 |
| Asia | 15.9 | 14.4 |
| Africa and Middle East | 11.7 | 10.3 |
| Others | 2.7 | 3.2 |
| | <u>676.8</u> | <u>636.9</u> |

In the opinion of the directors the activities of the Group relate to only one class of business, namely the production and processing of aluminium and associated products.

NOTES TO THE ACCOUNTS (continued)

3. OPERATING PROFIT (£ million)

The operating profit of the Group is arrived at after charging/(crediting) the following:

| | 1987 | 1986 |
|---|-------|-------|
| Staff costs: | | |
| Wages and salaries | 131.5 | 121.7 |
| Social security costs | 9.3 | 8.8 |
| Other pension costs | 1.7 | 5.6 |
| Hire of plant and machinery and other operating lease rentals | 6.7 | 5.4 |
| Auditors' remuneration | 0.3 | 0.3 |
| Related companies - share of (profits) before taxation | (0.5) | (0.6) |

The total emoluments of directors of British Alcan Aluminium plc (including pension scheme contributions) amounted to:

| | 1987 | 1986 |
|------------------|-------|-------|
| | £'000 | £'000 |
| Fees | 35 | 35 |
| Other emoluments | 191 | 82 |

A loan of £5,000 to an officer of the Company was outstanding at 31 December 1987.

4. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Emoluments of the chairman were £25,000 (1986: £Nil) and of the highest paid director £178,000 (1986: £62,600), excluding pension scheme contributions.

The following table shows the total number of directors and senior UK employees of the Group whose emoluments during the year, excluding pension scheme contributions, were within the bands stated:

| | Directors | | UK Employees (Emoluments in excess of £30,000) | |
|---------------------|-----------|------|---|------|
| | 1987 | 1986 | 1987 | 1986 |
| £ 0—£ 5,000 | 2 | 3 | | |
| £ 5,001—£ 10,000 | 3 | 4 | | |
| £ 10,001—£ 15,000 | — | 1 | | |
| £ 20,001—£ 25,000 | 1 | — | | |
| £ 30,001—£ 35,000 | — | — | 53 | 26 |
| £ 35,001—£ 40,000 | — | — | 19 | 9 |
| £ 40,001—£ 45,000 | — | — | 11 | 6 |
| £ 45,001—£ 50,000 | — | — | 4 | 4 |
| £ 50,001—£ 55,000 | — | — | 9 | 1 |
| £ 55,001—£ 60,000 | — | — | — | 2 |
| £ 60,001—£ 65,000 | — | 1 | — | — |
| £ 70,001—£ 75,000 | — | — | 2 | — |
| £ 80,001—£ 85,000 | — | — | 1 | — |
| £ 95,001—£ 100,000 | — | — | 1 | — |
| £ 100,001—£ 105,000 | — | — | 1 | — |
| £ 135,001—£ 140,000 | — | — | — | — |
| £ 175,001—£ 180,000 | 1 | — | — | 1 |

5. INTEREST (£ million)

| | 1987 | 1986 |
|---|-------|-------|
| On bank loans and overdrafts and on other loans repayable within five years | 8.0 | 10.9 |
| On other loans repayable partly or wholly after five years | 4.0 | 2.2 |
| On loans from fellow-subidiaries | 2.6 | 3.9 |
| Interest capitalised | (0.7) | (0.1) |
| Short term interest received | (0.1) | (0.1) |
| | 13.8 | 16.8 |

The above includes £0.1 million (1986: £0.3 million) in respect of financing lease charges.

6. TAXATION (£ million)

| | 1987 | 1986 |
|------------------------------|------|------|
| Current - UK corporation tax | — | 0.1 |
| - related companies | 0.1 | 0.2 |
| - foreign | 1.0 | 1.4 |
| Charge for the year | 1.1 | 1.7 |

UK corporation tax has been provided, where applicable, at a rate of 35 per cent (1986: 36.25 per cent)

7. TANGIBLE ASSETS (£ million)

| | GROUP | | | COMPANY | | |
|-----------------------------|------------------|------------------------------|-------|------------------|------------------------------|-------|
| | Land & buildings | Plant, machinery & equipment | Total | Land & buildings | Plant, machinery & equipment | Total |
| COST OR VALUATION | | | | | | |
| At 31 December 1986 | 125.1 | 286.2 | 411.3 | 87.0 | 272.3 | 359.3 |
| Additions | 3.4 | 45.4 | 48.8 | 3.2 | 44.5 | 47.7 |
| Disposals | (0.2) | (4.8) | (5.0) | (0.3) | (4.6) | (4.9) |
| Exchange adjustment | (0.8) | (1.9) | (2.7) | — | — | — |
| At 31 December 1987 | 127.5 | 324.9 | 452.4 | 89.9 | 312.2 | 402.1 |
| DEPRECIATION | | | | | | |
| At 31 December 1986 | 23.5 | 136.2 | 159.7 | 18.9 | 131.9 | 150.8 |
| Charge for year | 3.8 | 18.1 | 21.9 | 2.8 | 17.4 | 20.2 |
| Disposals | — | (3.0) | (3.0) | — | (2.9) | (2.9) |
| Exchange adjustment | (0.2) | (0.8) | (1.0) | — | — | — |
| At 31 December 1987 | 27.1 | 150.5 | 177.6 | 21.7 | 146.4 | 168.1 |
| NET BOOK AMOUNT 1987 | 100.4 | 174.4 | 274.8 | 68.2 | 165.8 | 234.0 |
| NET BOOK AMOUNT 1986 | 101.6 | 150.0 | 251.6 | 68.1 | 140.4 | 208.5 |

NOTES TO THE ACCOUNTS (continued)

LAND & BUILDINGS - GROUP

| | Freehold | | Long Leasehold | | Short Leasehold | | Total | |
|--|----------|-------|----------------|------|-----------------|------|-------|-------|
| | 1987 | 1986 | 1987 | 1986 | 1987 | 1986 | 1987 | 1986 |
| Cost | 91.0 | 88.5 | 2.2 | 2.2 | 0.9 | 0.8 | 94.1 | 91.5 |
| Professional Valuation 1976 | 33.4 | 33.6 | — | — | — | — | 33.4 | 33.6 |
| Original cost = £17.6 million (1986 £17.8 million) | | | | | | | | |
| | 124.4 | 122.1 | 2.2 | 2.2 | 0.9 | 0.8 | 127.5 | 125.1 |
| Accumulated Depreciation | | | | | | | | |
| On cost | 18.9 | 16.1 | 0.6 | 0.5 | 0.2 | 0.2 | 19.7 | 16.8 |
| On professional valuation 1976 | 7.4 | 6.7 | — | — | — | — | 7.4 | 6.7 |
| Based on original cost = £10.0 million (1986 £9.8 million) | | | | | | | | |
| | 26.3 | 22.8 | 0.6 | 0.5 | 0.2 | 0.2 | 27.1 | 23.5 |

LAND & BUILDINGS - COMPANY

| | Freehold | | Long Leasehold | | Short Leasehold | | Total | |
|--|----------|------|----------------|------|-----------------|------|-------|------|
| | 1987 | 1986 | 1987 | 1986 | 1987 | 1986 | 1987 | 1986 |
| Cost | 53.4 | 50.4 | 2.2 | 2.2 | 0.9 | 0.8 | 56.5 | 53.4 |
| Professional Valuation 1976 | 33.4 | 33.6 | — | — | — | — | 33.4 | 33.6 |
| Original cost = £17.6 million (1986 £17.8 million) | | | | | | | | |
| | 86.8 | 84.0 | 2.2 | 2.2 | 0.9 | 0.8 | 89.9 | 87.0 |
| Accumulated Depreciation | | | | | | | | |
| On cost | 13.5 | 11.5 | 0.6 | 0.5 | 0.2 | 0.2 | 14.3 | 12.2 |
| On professional valuation 1976 | 7.4 | 6.7 | — | — | — | — | 7.4 | 6.7 |
| Based on original cost = £10.0 million (1986 £9.8 million) | | | | | | | | |
| | 20.9 | 18.2 | 0.6 | 0.5 | 0.2 | 0.2 | 21.7 | 18.9 |

Cost of plant and machinery in both Group and Company includes £3.5 million at 31 December 1987 (1986 £3.3 million) in respect of capitalised interest.

PLANT & MACHINERY includes the following amounts for leased plant:

| | GROUP | | COMPANY | |
|---|-------|------|---------|------|
| | 1987 | 1986 | 1987 | 1986 |
| Cost | 27.8 | 27.9 | 27.8 | 27.9 |
| Accumulated depreciation | 10.7 | 8.9 | 10.7 | 8.9 |
| Net book amount | 17.1 | 19.0 | 17.1 | 19.0 |
| FUTURE CAPITAL EXPENDITURE | | | | |
| | GROUP | | COMPANY | |
| | 1987 | 1986 | 1987 | 1986 |
| Contracted for but not provided for in accounts | 11.0 | 10.0 | 10.9 | 10.0 |
| Authorised by directors but not contracted for | 46.7 | 37.5 | 43.9 | 36.1 |
| | 57.7 | 47.5 | 54.8 | 46.1 |

Government grants of £1.9 million (1986 £3.4 million) may be receivable in respect of the total expenditure authorised.

DEPRECIATION CHARGE

| | GROUP | |
|---|-------|-------|
| | 1987 | 1986 |
| The depreciation charge for the year is as follows. | | |
| Freehold properties | 3.6 | 3.6 |
| Long leasehold properties | 0.1 | 0.1 |
| Short leasehold properties | 0.1 | 0.1 |
| Plant and machinery owned | 16.3 | 15.2 |
| leased | 1.8 | 2.0 |
| | 21.9 | 21.0 |
| Transfer from Government grants account (note 14) | (1.4) | (1.5) |
| Charge to profit and loss account | 20.5 | 19.5 |

NOTES TO THE ACCOUNTS (continued)

8. INVESTMENTS (£ million)

| | GROUP | | | |
|--|-----------------------------------|----------------------------------|----------------------|------------|
| | Shares in related companies | Loans to related companies | Trade Investments | Total |
| Cost, market value or amount under equity accounting | | | | |
| At 31 December 1986 | 5.4 | 0.3 | 1.1 | 6.8 |
| Additions | 0.6 | — | — | 0.6 |
| Disposals | (0.4) | — | — | (0.4) |
| Increase in Group share of post acquisition retained profits of related companies | 0.3 | — | — | 0.3 |
| At 31 December 1987 | <u>5.9</u> | <u>0.3</u> | <u>1.1</u> | <u>7.3</u> |

Group shares in related companies at 31 December include:

| | 1987 | 1986 |
|---|------------|------------|
| Shares at cost | 1.8 | 1.5 |
| Group share of: Post acquisition retained profits | 4.0 | 3.8 |
| Revaluations by related companies of their underlying assets | 0.1 | 0.1 |
| Group share of net assets | <u>5.9</u> | <u>5.4</u> |

Trade investments include shares at £1.1 million (subsequently converted into UK listed shares with a market value at 31 December 1987 of £3.3 million (1986 £3.3 million))

The total amount of income credited to the Group accounts from trade investments was £0.1 million (1986 £0.1 million)

The total of dividends from related companies included in these accounts was £0.1 million (1986 £0.2 million)

| | COMPANY | | | | | |
|---------------------|---------------------------------|---------------------------------------|-----------------------------------|----------------------------------|----------------------|------------|
| | Shares in Group companies | Loans (from) Group companies | Shares in related companies | Loans to related companies | Trade Investments | Total |
| Cost | | | | | | |
| At 31 December 1986 | 34.4 | (32.7) | 0.2 | 0.3 | 1.1 | 3.3 |
| Additions | — | — | 0.6 | — | — | 0.6 |
| Disposals | (0.3) | — | (0.2) | — | — | (0.5) |
| Loan movements | 0.3 | — | — | — | — | 0.3 |
| At 31 December 1987 | <u>34.4</u> | <u>(32.7)</u> | <u>0.6</u> | <u>0.3</u> | <u>1.1</u> | <u>3.7</u> |

The amounts at which shares in and loans from Group companies are stated are both after deducting certain loans payable to dormant subsidiaries of £66.6 million (net) (1986 £66.9 million)

9. STOCKS (£ million)

| | GROUP | | COMPANY | |
|--------------------------|--------------|--------------|--------------|--------------|
| | 1987 | 1986 | 1987 | 1986 |
| Raw materials and stores | 46.5 | 42.6 | 42.8 | 38.4 |
| Work in process | 67.7 | 67.7 | 65.7 | 65.0 |
| Finished goods | 39.4 | 38.1 | 37.3 | 35.4 |
| | <u>153.6</u> | <u>148.4</u> | <u>146.3</u> | <u>138.8</u> |

The replacement cost of stock at the Balance Sheet date was:

| | 1987 | 1986 | 1987 | 1986 |
|--------------------------|--------------|--------------|--------------|--------------|
| Raw materials and stores | 49.2 | 45.3 | 45.4 | 41.1 |
| Work in process | 69.2 | 69.6 | 67.2 | 66.9 |
| Finished goods | 40.3 | 39.6 | 38.7 | 36.9 |
| | <u>158.7</u> | <u>154.5</u> | <u>151.3</u> | <u>144.9</u> |

10. DEBTORS (£ million)

| | GROUP | | COMPANY | |
|-----------------------------------|--------------|--------------|--------------|--------------|
| | 1987 | 1986 | 1987 | 1986 |
| Trade debtors | 102.7 | 104.3 | 97.9 | 97.9 |
| Other debtors | 11.1 | 13.0 | 10.1 | 12.2 |
| Prepayments and accrued income | 5.3 | 5.3 | 4.6 | 4.9 |
| Amounts owed by related companies | 2.6 | 1.6 | 2.6 | 1.6 |
| subsidiaries | — | — | 1.2 | 3.5 |
| fellow subsidiaries | 14.3 | 6.2 | 14.2 | 6.0 |
| | <u>136.0</u> | <u>130.4</u> | <u>130.6</u> | <u>126.1</u> |

There are no amounts falling due after more than one year

NOTES TO THE ACCOUNTS (continued)

11. LOANS (£ million)

| | On demand or within one year | REPAYABLE Between one and two years | Between two and five years | After five years | Total 1987 | Total 1986 |
|---|------------------------------------|--|----------------------------------|------------------------|---------------|---------------|
| COMPANY | | | | | | |
| LONG TERM LOANS (repayable wholly or partly after five years) | | | | | | |
| 10¾% Debenture Stock 2011 (note (a)) | — | — | — | 30.0 | 30.0 | 30.0 |
| 10½% Debenture Stock 1989/94 (note (b)) | — | 0.2 | 0.6 | 5.4 | 6.2 | 6.5 |
| European Investment Bank 1987/96 (note (c)) | 0.7 | 0.9 | 3.3 | 2.3 | 7.2 | 7.4 |
| Bank loans | — | — | 14.0 | 21.0 | 35.0 | 25.0 |
| BANK LOANS AND OVERDRAFTS | 26.6 | — | — | — | 26.6 | 36.1 |
| FINANCING LEASES (note (d)) | 2.7 | 0.8 | 2.1 | 1.3 | 6.9 | 9.6 |
| COMPANY BALANCES AT 31 DECEMBER 1987 | 30.0 | 1.9 | 20.0 | 60.0 | 111.9 | 114.6 |
| Less: Amounts classified as short term loans (note (f)) | | | | | 8.0 | 2.1 |
| | | | | | 103.9 | 112.5 |
| GROUP | | | | | | |
| Company balances as above | 30.0 | 1.9 | 20.0 | 60.0 | 111.9 | 114.6 |
| SUBSIDIARIES | | | | | | |
| MEDIUM TERM LOANS (repayable within five years) | | | | | | |
| European Investment Bank 1982/90 (note (e)) | 2.4 | 2.7 | 2.8 | — | 7.9 | 10.1 |
| BANK LOANS AND OVERDRAFTS | 2.6 | — | — | — | 2.6 | 3.4 |
| GROUP BALANCES AT 31 DECEMBER 1987 | 35.0 | 4.6 | 22.8 | 60.0 | 122.4 | |
| GROUP BALANCES AT 31 DECEMBER 1986 | 44.7 | 6.0 | 21.5 | 55.9 | | 128.1 |
| Less: Amounts classified as short term loans (note (f)) | | | | | 11.0 | 5.5 |
| | | | | | 111.4 | 122.6 |

NOTES

(a) The Debenture Stock 2011 is secured by a floating charge on the assets of the company (see also note (b) below).

(b) The Debenture Stock 1989/94 ranks *pari passu* with the Debenture Stock 2011 (see note (a) above).

(c) These three loans from the European Investment Bank are repayable in half-yearly instalments. They bore interest in 1987 at fixed rates of 9.4 per cent as to £2.2 million, 9.9 per cent as to £1.6 million and 7.9 per cent as to £3.4 million.

(d) The Group has commitments of £8.6 million (1986 £11.9 million) payable under financing leases of which £1.7 million (1986 £2.3 million) relates to finance charges due in future years.

(e) This loan from the European Investment Bank is repayable in quarterly instalments. The loan bore interest in 1987 at an effective fixed rate of 11.4 per cent (1986 11.4 per cent).

(f) These amounts have been classified as short term in accordance with the Group's accounting policy as set out on page 14.

12. CREDITORS—OTHER (£ million)

| | GROUP | | COMPANY | |
|--|-------|-------|---------|-------|
| | 1987 | 1986 | 1987 | 1986 |
| Amounts falling due within one year | | | | |
| Trade creditors | 63.0 | 55.1 | 61.2 | 53.1 |
| Other creditors | 0.6 | 1.8 | 0.8 | 1.8 |
| PAYE, VAT and social security | 14.4 | 10.6 | 14.2 | 10.2 |
| Taxation | 1.5 | 4.0 | 0.5 | 0.6 |
| Accruals and deferred income | 27.8 | 31.5 | 26.7 | 30.0 |
| Amounts owed to related companies | 0.2 | — | 0.2 | — |
| subsidiaries | — | — | 32.4 | 36.4 |
| fellow subsidiaries | 23.2 | 12.3 | 22.8 | 11.2 |
| | 130.7 | 115.3 | 158.8 | 143.3 |
| Amounts falling due after more than one year | | | | |
| Accruals and deferred income | 0.7 | 2.0 | 0.7 | 2.0 |

NOTES TO THE ACCOUNTS (continued)

13. SUBORDINATED LOANS

These loans, totalling £20.0 million, are from a fellow subsidiary, Alcan Finances (UK), and are subordinated to the claims of all other creditors of the Company. Repayments totalling £4.0 million were made during the year

The balance of £20.0 million is repayable in three equal instalments on 31 December 1991, 1992 and 1993. Interest is charged at a fixed rate of 12.9%.

14. PROVISIONS FOR LIABILITIES AND CHARGES (£ million)

| | GROUP | COMPANY |
|---|-------|---------|
| Government Grants Account | | |
| Balance at 31 December 1986 | 12.0 | 11.8 |
| Additions in year | 3.9 | 3.9 |
| Reduction in the profit and loss account charge for depreciation (note 7) | (1.4) | (1.4) |
| Balance at 31 December 1987 | 14.5 | 14.3 |

15. MINORITY INTERESTS (£ million)

| | |
|--|-------|
| At 31 December 1986 | 0.1 |
| Minority shareholding acquired during year | (0.1) |
| At 31 December 1987 | — |

16. SHARE CAPITAL (£ million)

| | 1987 | 1986 |
|---|------|------|
| AUTHORISED | | |
| Ordinary shares of £1 each | 50.0 | 50.0 |
| Non-participating Redeemable Preference shares of £1 each | 20.0 | 20.0 |
| | 70.0 | 70.0 |
| ISSUED AND FULLY PAID | | |
| Ordinary shares of £1 each | 45.8 | 45.8 |
| Non-participating Redeemable Preference shares of £1 each | — | 3.8 |
| | 45.8 | 49.6 |

17. RESERVES (£ million)

| GROUP | Revaluation Reserve | Other Reserves | | Total | Profit and Loss Account |
|---|---------------------|---------------------------------|-------|-------|-------------------------|
| | | Capital Redemption Reserve Fund | Other | | |
| At 31 December 1986 | 10.7 | 8.0 | 50.1 | 58.1 | 140.8 |
| Profit for the year | — | — | — | — | 37.0 |
| Amounts relating to redemption of preference shares | — | 3.8 | — | 3.8 | (3.8) |
| Amounts relating to capital and revaluation reserves passed through the profit and loss account | (0.5) | — | (3.1) | (3.1) | 3.6 |
| Exchange translation adjustment | — | — | (2.8) | (2.8) | — |
| At 31 December 1987 | 10.2 | 11.8 | 44.2 | 56.0 | 177.6 |
| COMPANY | | | | | |
| At 31 December 1986 | 10.6 | 8.0 | — | 8.0 | 115.7 |
| Profit for the year | — | — | — | — | 34.8 |
| Amounts relating to redemption of preference shares | — | 3.8 | — | 3.8 | (3.8) |
| Amounts relating to revaluation reserve passed through the profit and loss account | (0.5) | — | — | — | 0.5 |
| At 31 December 1987 | 10.1 | 11.8 | — | 11.8 | 147.2 |

NOTE

The Revaluation, Capital Redemption and Other Reserves are not distributable.

NOTES TO THE ACCOUNTS (continued)

18. DEFERRED TAXATION

At 31 December 1987 the Group had a potential liability to deferred taxation of £18.8 million (1986 £5.2 million) for which provision has not been made as the liability is not expected to crystallise. There was a potential liability of £40.0 million (1986 £39.0 million) relating to accelerated capital allowances before deduction of a potential credit of £5.5 million (1986 £18.0 million) arising from unused tax losses and other timing differences, in addition to £15.7 million (1986 £15.8 million) Advance Corporation Tax available for offset against tax on future profits.

In addition to the above, there is a potential liability for capital gains tax estimated at £6 million (1986 £8 million) on the ultimate disposal of certain assets at their balance sheet value.

19. OPERATING LEASE RENTAL COMMITMENTS (£ million)

Rental commitments under operating leases for 1988 are:

| | 1988 | 1987 |
|---|------------|------------|
| On leases expiring within 1988 (1987) | 0.6 | 0.6 |
| On leases expiring during 1989-1992 (1988-1991) | 3.4 | 2.9 |
| On leases expiring after 1992 (1991) | 1.3 | 0.9 |
| | <u>5.3</u> | <u>4.4</u> |

20. EMPLOYEE STATISTICS

The average number of persons employed by the Group during the year was:

| | 1987 | 1986 |
|--------------------------|---------------|---------------|
| United Kingdom | 10,420 | 10,620 |
| United States of America | 346 | 334 |
| Rest of the world | 48 | 43 |
| | <u>10,814</u> | <u>10,997</u> |

21. CONTINGENT LIABILITIES (£ million)

| | GROUP | | COMPANY | |
|------------|------------|------------|------------|------------|
| | 1987 | 1986 | 1987 | 1986 |
| Guarantees | 1.3 | 1.7 | 0.9 | 0.4 |
| Other | 1.7 | 0.7 | 1.7 | 0.7 |
| | <u>3.0</u> | <u>2.4</u> | <u>2.6</u> | <u>1.1</u> |

22. PENSION COMMITMENTS

All eligible UK employees may join The British Alcan Retirement Income and Life Assurance Plan which showed an actuarial surplus at its last valuation in April 1986.

23. HOLDING COMPANY

The Company's ultimate holding company is Alcan Aluminium Limited, incorporated in Canada, which on 31 December 1987 through its subsidiary Alcan Aluminium Holdings Limited held 100 per cent (1986 100 per cent directly) of the Ordinary share capital.

24. SUBSIDIARIES AND RELATED COMPANIES

The principal subsidiaries and related companies of the Group are given on pages 26 and 27.

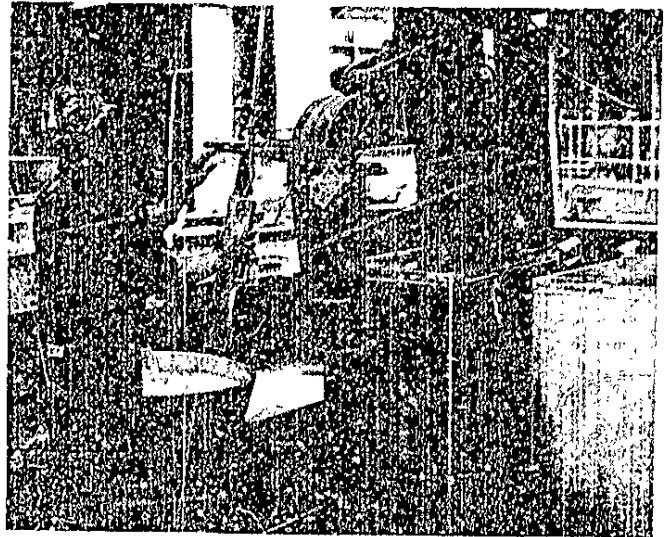
PUTTING INVESTMENT TO WORK - 2

The Rolled Products facilities, featured in the front section of Putting Investment to Work, represent only part of the current investment programme. New plant is now regularly being commissioned throughout British Alcan.

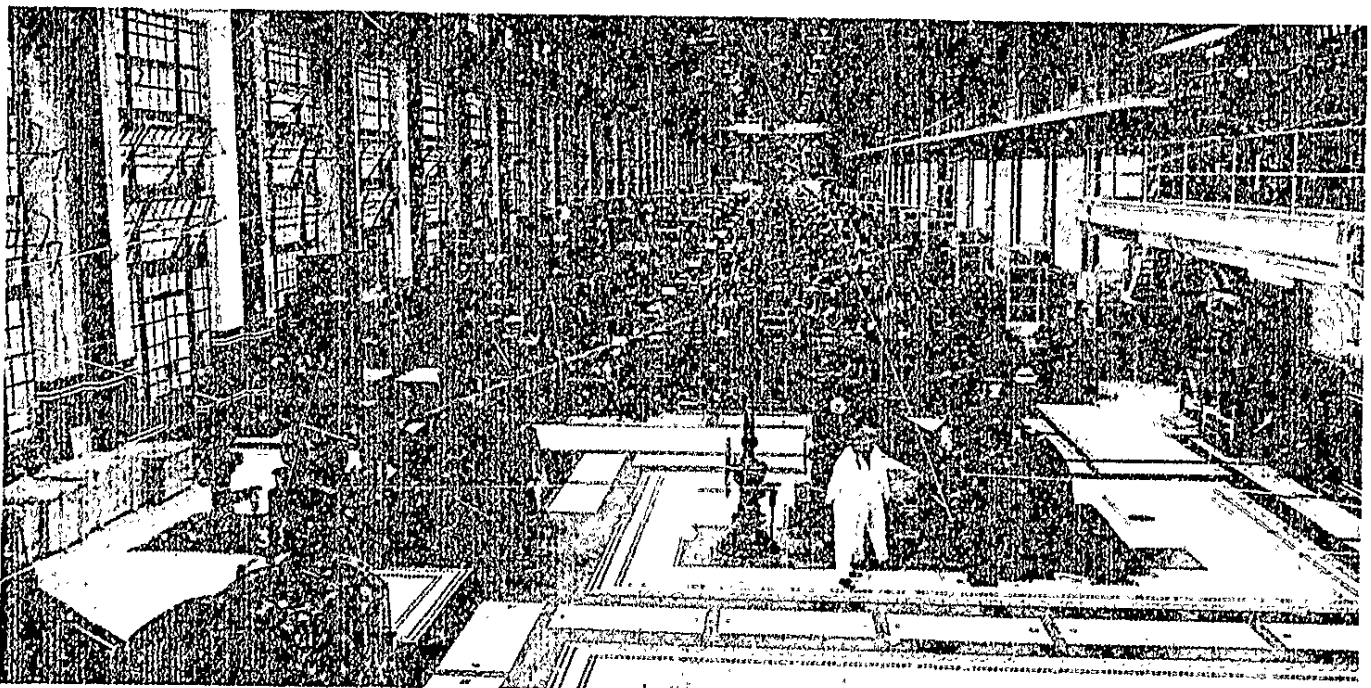
The following examples and illustrations, together with those in the front section, are typical of some 75 major projects completed or under installation during 1987. Involving 23 locations, the seven largest projects have incurred costs ranging from £1 million to £5 million during the year.

In the aluminium smelting operations, much has been achieved. The main potrooms at Lochaber were entirely replaced with new high technology cells in the early '80s. Equipment has now been installed to cast larger sheet ingot products, greatly increasing the smelter's product range and improving ingot supply flexibility.

Also at Lochaber the magnificent hydro-electric generating station, originally constructed in the 1920s, has been continually refurbished. The result is increased plant reliability and a continuing source of economic power for aluminium smelting purposes.



Sheet ingot Casting - Lochaber



The Lochaber power station

PUTTING INVESTMENT TO WORK - 2 -

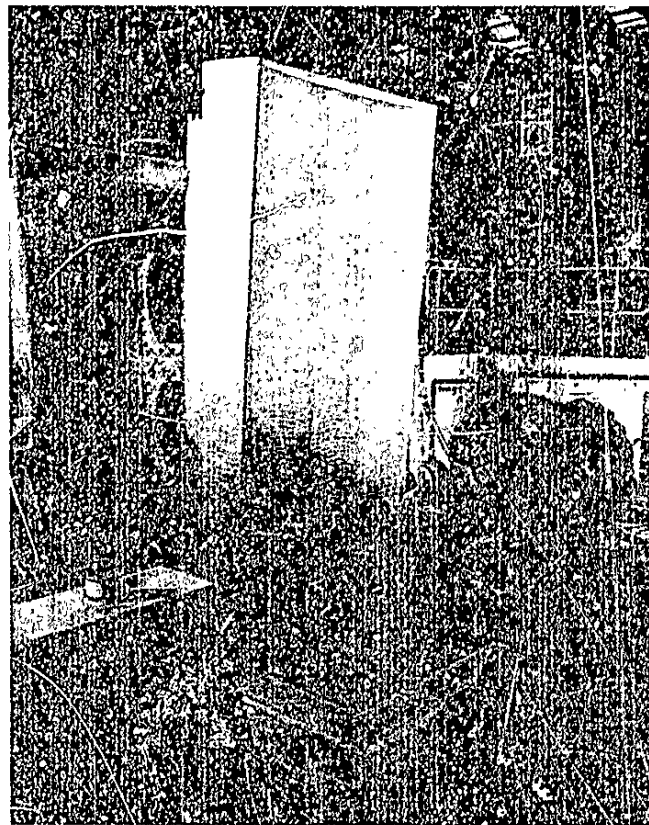
Investments have been made at British Aluminium Alloys Warrington plant to allow this wider range of material, much of it coated with lacquer or paint, to be processed in an environmentally acceptable way.

A modern fume treatment plant has been installed to bring the environmental control at Warrington up to the most modern standards. A new furnace specifically designed for handling can makers' scrap and other coated products has been commissioned together with modern sheet ingot casting equipment.

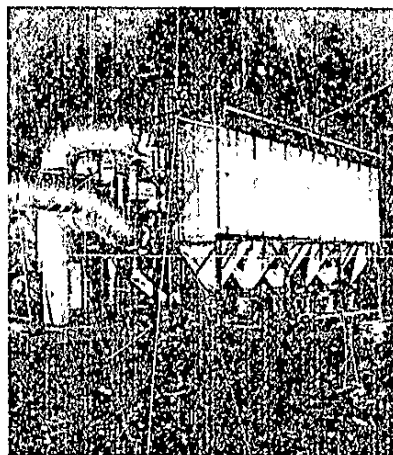
These investments, coupled with the installation of cross treatment equipment, have largely eliminated pollution, and are typical of the company's concern for the environment.

The successful introduction of the new aluminium lithium alloys to the aerospace industry worldwide has featured in previous Annual Reports. The continuing increase in demand for these materials made it necessary to double the casting capacity at the specialist installation of Alcan Plate at Kitts Green, Birmingham.

British Alcan Tubes at Redditch commissioned the first fully automatic draw centre for large diameter tubes. This forms a further stage in the major refurbishment and modernisation programme, which also includes the installation of a new press for the extrusion of tube bloom, and other ancillary equipment at a total cost in excess of £9 million.

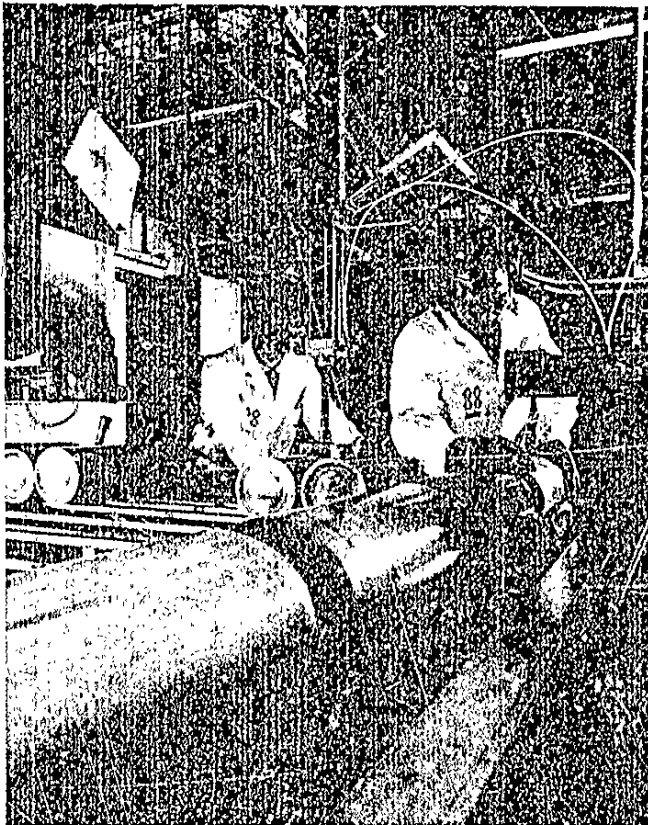


Sheet ingot casting - Warrington



Fume treatment plant - Warrington

• PUTTING INVESTMENT TO WORK - 2 •



Cylinder pressure testing - Nottingham

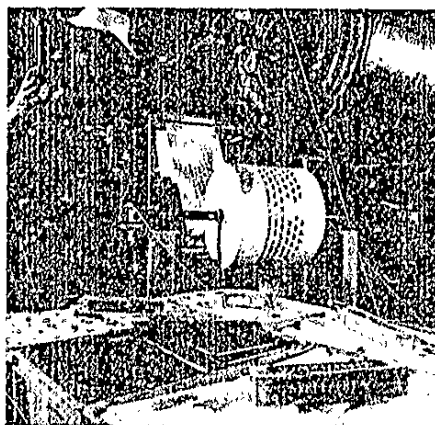
Additional equipment has been installed in the Worcester (England), and Riverside (California) plants of Superform Metals, to produce structural superplastically formed components, including aluminium lithium.

Magnesium Elektron has progressively improved production facilities to increase output at both Clifton (Manchester), and Flemington (New Jersey) plants.

Over £1.5 million was invested at BA Chemicals, Burntisland, to increase capacity for superfine aluminas and in several environmental control projects.

At the Nottingham plant of Luxfer Gas Cylinders, an automated pressure testing facility has been introduced. The new installation has made a significant contribution to both product quality and productivity.

British Alcan Consumer Products at Amersham supply and distribute Alcan Bacofoil - almost certainly British Alcan's best known product. Whilst steadily developing their consumer wraps business Consumer Products have found a ready market for plastic products to complement their housefoil. Plastic wraps led to bags, and following a £200,000 investment in plastic bag making machinery, the company is now one of the UK's largest suppliers to the retail trade.



Plastic bag manufacture - Amersham

• DIRECTORS AS AT 31 DECEMBER 1987 •

| | |
|---|--|
| LORD PEYTON OF YEOVIL (appointed Non-executive Chairman 1 January 1987) | Aged 69. Former Minister of Transport, a Director of Alcan Aluminium Limited, Chairman of Texas Instruments (UK) Limited. Director of London & Manchester Group plc, and of various other British companies. |
| P. J. ELTON | Aged 64. Retired Chairman and Managing Director of Alcan Aluminium (UK) Limited, and a Director of Consolidated Goldfields PLC, Hill Samuel PLC and of various other British companies. |
| D. MORTON (appointed 1 January 1987) | Aged 58. President and Chief Operating Officer of Alcan Aluminium Limited and a Director of various Alcan subsidiary and affiliated companies. |
| D. M. RITCHIE (<i>Canadian</i>)* | Aged 47. Managing Director and Chief Executive Officer of British Alcan Aluminium plc, and a Director of Ryan International plc. |
| SIR ROBERT SMITH | Aged 60. Chairman of the Alliance Trust PLC and of Sidlaw Group plc and a Director of the Bank of Scotland, Standard Life Assurance Company and other British companies. |
| R. E. UTIGER | Aged 61. Chairman of TI Group PLC. Member of Council of Confederation of British Industry, and Director of Ultramar PLC. |
| R. WAGNER (<i>German</i>) *Executive Director | Aged 56. Chief Executive Officer of Alcan's operations in W. Germany and Director of other Alcan subsidiaries. |

Secretary R. H. A. Forbes, Solicitor.

Auditors Price Waterhouse, Chartered Accountants,
Southwark Towers, 32 London Bridge Street, London, SE1 9SY.

Registrars Regis Registrars Limited,
Balfour House, 390/398 High Road, Ilford, Essex, IG1 1NQ.

• NOTICE OF ANNUAL GENERAL MEETING •

Notice is hereby given that the Annual General Meeting of British Alcan Aluminium plc will be held at Chalfont Park, Gerrards Cross, Buckinghamshire on Thursday 12 May, 1988 at 10.30 a.m. (or at such other date or time as the Shareholders or their duly appointed proxies may agree) for the following purposes:-

1. To receive and consider the Directors' Report and the Accounts for the year ended 31 December 1987 together with the Auditors' Report thereon.
2. To re-elect directors.
3. To reappoint Price Waterhouse as auditors.
4. To authorise the directors to determine the auditors' remuneration.

By Order of the Board
R. H. A. FORBES
Secretary

6 April, 1988

Registered Office:
Chalfont Park,
Gerrards Cross,
Buckinghamshire.

NOTES:

1. A member entitled to attend and vote at the said meeting may appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. Proxies should be lodged at the offices of the Registrars, Regis Registrars Ltd., Balfour House, 390/398 High Road, Ilford, Essex, IG1 1NQ, not later than 48 hours before the meeting.
2. As the Company is wholly owned by Alcan Aluminium Limited, there are no disclosable directors' interests.
3. There are no contracts of service with the directors that are required to be made available for inspection.
4. This notice is sent to holders of the Company's Debenture Stocks for information only and does not entitle them to attend the meeting.

-MANAGEMENT STRUCTURE AND PRINCIPAL SUBSIDIARIES -

Including Related Companies & Trade Investments

STOCKHOLDERS

A W KILLEEN, Managing Director

The stockholders operate a network of warehouses supplying a full range of semi-fabricated products including copper, brass and stainless steel, as well as fabricating services and home improvement products.

Alcan Metal Centres (Dublin) Limited
 Alcan Metal Centres (Midlands) Limited
 Alcan Metal Centres (South) Limited
 Aluminium Supply Company Limited
 Baco Aluminium Products Limited
 Baco Leisure Products Limited
 Baco Ravensbourne Limited
 Blackburns (London) Limited
 British Alcan Stockholders (North) Limited
 British Alcan Stockholders (Scotland) Limited (Scotland)
 Coventry Metal Bars Limited
 *JE Eltherington & Son (Aluminium) Limited (33.3%)
 Ulster Aluminium Stockists Limited (N. Ireland)

CHEMICALS

J C ARMSTRONG, Managing Director

The chemical companies produce a wide range of alumina chemicals for use in fire retardants, refractories, toothpaste abrasives, ceramics, catalysts, paint and aluminium sulphate. Magnesium Elektron manufacture and market magnesium alloys for specialist aerospace and defence applications and zirconium chemicals for flame proofing, paper coating, pigments, water proofing, paint driers, anti-perspirants, ceramics and electronics.

Alcan Chemicals Limited
 The Alumina Company Limited
 BA Chemicals Limited
 Magnesium Elektron Limited
 †Magnesium Elektron Inc (USA)

SEPARATIONS

T M TRACY, Managing Director

This Division manages Alcan's participation in the separations business, supplying membrane products to the pharmaceutical, medical and electronic industries.

Anotec Separations Limited

CORPORATE STAFF

Corporate staff provide financial management, strategic analysis and the planning and development of people resources within British Alcan

FINANCE & LEGAL

S R C ALBUQUERQUE, Director of Finance

PERSONNEL

J C RAMSAY, Director of Personnel

CORPORATE SERVICES

P J H RATA, Director Corporate Services

OTHER INTERESTS

†BA Finance Limited
 †British Alcan Pension Trustees Limited
 •Ryan International PLC (6.3%)
 *Alcan Diffusion S.A. (30%) (France)

NOTES

100% owned except where otherwise indicated.
 Registered in England and Wales except where otherwise indicated
 The principal country of operation is the country of incorporation.

All the companies listed above (other than related companies and trade investments) trade as agents for British Alcan Aluminium plc with the exception of those indicated by †.

*Indicates a company treated as a related company.
 •Indicates a company treated as a trade investment

Information on principal related companies:

| | Issued share capital | Class | % held | Accounting date |
|---|----------------------|------------------------------|----------|-----------------|
| Alcan Ekco Limited | £20,200 | Ordinary | 50 | 31 October |
| Alcan Enfield Alloys Limited | £250 £250 | Ordinary 'A' Ordinary 'B' | 100 — | — |
| | £500 | | 50 | 30 November |
| JE Eltherington & Son (Aluminium) Limited | £24,600 | Ordinary | 33.3 | 31 December |
| Vigeland Metal Refinery A/S | Nkr 50 000 | Nkr 10 shares | 50 | 31 December |
| Alcan Diffusion SA | FF20,000 000 | Ordinary FF100 | 30 | 31 December |

- BRITISH ALCAN ALUMINIUM plc AND ITS SUBSIDIARIES -

- FIVE YEAR RECORD - £MILLION -

| | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|--------------|--------------|--------------|--------------|--------------|
| Turnover | 549 | 623 | 629 | 637 | 677 |
| Operating profit | 44.0 | 71.2 | 64.0 | 52.6 | 51.9 |
| Profit on ordinary activities before taxation | 22.1 | 49.8 | 43.5 | 35.8 | 38.1 |
| Profit attributable to members | 18.9 | 47.0 | 38.4 | 34.1 | 37.0 |
| Assets employed | | | | | |
| Tangible assets | 253.8 | 242.5 | 240.8 | 251.6 | 274.8 |
| Investments | 9.8 | 9.2 | 7.2 | 6.8 | 7.3 |
| Net current assets | 123.2 | 155.0 | 143.4 | 161.6 | 154.2 |
| | <u>386.8</u> | <u>406.7</u> | <u>391.4</u> | <u>420.0</u> | <u>436.3</u> |
| Financed by | | | | | |
| Shareholders' investment (note (a)) | 200.9 | 253.5 | 260.3 | 283.3 | 309.7 |
| Creditors falling due after more than one year (note (b)) | 171.9 | 141.5 | 120.5 | 124.6 | 112.1 |
| Provisions for liabilities and charges | 12.9 | 9.7 | 10.5 | 12.0 | 14.5 |
| Minority interests | 1.1 | 2.0 | 0.1 | 0.1 | — |
| | <u>386.8</u> | <u>406.7</u> | <u>391.4</u> | <u>420.0</u> | <u>436.3</u> |
| Depreciation | 19.8 | 19.7 | 18.5 | 19.5 | 20.5 |
| Capital expenditure | 6.6 | 12.8 | 21.7 | 34.2 | 48.8 |
| Funds generated by operations | 40.3 | 68.9 | 61.3 | 55.1 | 58.3 |
| External borrowings | 209.4 | 174.5 | 140.0 | 128.1 | 122.4 |
| Exports from the United Kingdom | 95.9 | 134.0 | 163.6 | 164.5 | 180.8 |
| Sales of aluminium in all forms (000s tonnes) | 268 | 272 | 269 | 282 | 301 |
| Return on average capital employed (%) | 11.2 | 16.9 | 15.4 | 13.0 | 12.3 |
| Ratio of borrowings to equity | 51:49 | 41:59 | 34:66 | 30:70 | 27:73 |

Notes(a)Including Subordinated loans of £56.0 million in 1983 and 1984, £30.7 million in 1985, £24.0 million in 1986 and £20.0 million in 1987.
(b)Excluding Subordinated loans