UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

/ x / ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996
OR
/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-3610

ALUMINUM COMPANY OF AMERICA
(Exact name of registrant as specified in its charter)

Pennsylvania	25-0317820
(State of incorporation)	(I.R.S. Employer Identification No.)

425 Sixth Avenue, Alcoa Building, Pittsburgh, Pennsylvania 15219-1850
(Address of principal executive offices) (Zip code)

Registrant's telephone number--area code 412

Investor Relations------------553-3042
Office of the Secretary------553-4707

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of March 3, 1997 there were 172,803,703 shares of common stock, par value $1.00, of the registrant outstanding. The aggregate market value of such shares, other than shares held by persons who may be deemed affiliates of the registrant, was approximately $12,485 million.

Documents incorporated by reference.

Parts I and II of this Form 10-K incorporate by reference certain information from the registrant's 1996 Annual Report to Shareholders. Part III of this Form 10-K incorporates by reference the registrant's Proxy Statement dated March 12, 1997, except for the performance graph and Compensation Committee Report.

This Amendment to Form 10-K is being filed to amend Exhibit 13 thereto. The full text of Exhibit 13 is set forth in this Amendment to Form 10-K.

PART IV

(3) Exhibits

Exhibit Number	Description *
3(a).	Articles of the Registrant as amended, incorporated by reference to exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993.
3(b).	By-Laws of the Registrant, incorporated by reference to exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1991.
10(a).	Long Term Stock Incentive Plan (restated) effective January 1, 1997 (filed herewith).
10(b).	Employees' Excess Benefit Plan, Plan A, incorporated by reference to exhibit 10(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1980.

10(c). Incentive Compensation Plan, as amended effective January 1, 1993, incorporated by reference to exhibit 10(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.

10(d). Employees' Excess Benefit Plan, Plan C, as amended and restated in 1994, effective January 1, 1989, incorporated by reference to exhibit 10(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 1994.

10(e). Employees' Excess Benefit Plan, Plan D, as amended effective October 30, 1992, incorporated by reference to exhibit 10(e) to the Company's Annual Report on Form 10-K for the year ended December 31, 1992 and exhibit 10(e)(1) the Company's Annual Report on Form 10-K for the year ended December 31, 1994.

10(f). Employment Agreement of Paul H. O'Neill, as amended through February 25, 1993, incorporated by reference to exhibit 10(h) to the Company's Annual Report on Form 10-K for the year ended December 31, 1987, exhibit 10(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 and exhibit 10(f)(2) to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.

10(g). Deferred Fee Plan for Directors, as amended effective November 10, 1995, incorporated by reference to exhibit 10(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

10(h). Restricted Stock Plan for Non-Employee Directors, as amended effective March 10, 1995, incorporated by reference to exhibit 10(h) to the Company's Annual Report on Form 10-K for the year ended December 31, 1994.

10(h)(1). Amendment to Restricted Stock Plan for Non-Employee Directors, effective November 10, 1995, incorporated by reference to exhibit 10(h)(1) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

10(i). Fee Continuation Plan for Non-Employee Directors, incorporated by reference to exhibit 10(k) to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.

10(i)(1). Amendment to Fee Continuation Plan for Non-Employee Directors, effective November 10, 1995, incorporated by reference to exhibit 10(i)(1) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

10(j). Deferred Compensation Plan, as amended effective October 30, 1992, incorporated by reference to exhibit 10(k) to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.

10(j)(1). Amendments to Deferred Compensation Plan, effective January 1, 1993, February 1, 1994 and January 1, 1995, incorporated by reference to exhibit 10(j)(1) to the Company's Annual Report on Form 10-K for the year ended December 31, 1994.

10(j)(2). Amendment to Deferred Compensation Plan, effective June 1, 1995, incorporated by reference to exhibit 10(j)(2) to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

10(k). Summary of the Executive Split Dollar Life Insurance Plan, dated November 1990, incorporated by reference to exhibit 10(m) to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.

10(l). Dividend Equivalent Compensation Plan, effective February 3, 1997 (filed herewith).

10(m). Form of Indemnity Agreement between the Company and individual directors or officers, incorporated by reference to exhibit 10(j) to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.

11. Computation of Earnings per Common Share.

12. Computation of Ratio of Earnings to Fixed Charges.

13. Portions of Alcoa's 1996 Annual Report to Shareholders.

21. Subsidiaries and Equity Entities of the Registrant.

23. Consent of Independent Certified Public Accountants.

24. Power of Attorney for certain directors.

27. Financial data schedule.

*Exhibit Nos. 10(a) through 10(l) are management contracts or compensatory plans required to be filed as Exhibits to this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALUMINUM COMPANY OF AMERICA

July , 1997 By /s/ Richard B. Kelson

Richard B. Kelson
Executive Vice
President and Chief
Financial Officer
(Principal Financial
Officer)

EXHIBIT 13

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

	1996	1995	1994	1993	1992
Sales and operating revenues	$ 13,061.0	$ 12,499.7	$ 9,904.3	$ 9,055.9	$ 9,491.5
Income before extraordinary loss and accounting changes*	514.9	790.5	443.1	4.8	22.4
Extraordinary loss and accounting changes	--	--	(67.9)	--	(1,161.6)
Net income (loss)*	514.9	790.5	375.2	4.8	(1,139.2)
Per common share Before extraordinary loss and accounting changes	2.94	4.43	2.48	.02	.12
Net income (loss)	2.94	4.43	2.10	.02	(6.70)
Alcoa's average realized price per pound for aluminum ingot	.73	.81	.64	.56	.59
Average U.S. market price per pound for aluminum ingot (Metals Week)	.71	.86	.71	.53	.58
Cash dividends paid per common share	1.33	.90	.80	.80	.80
Total assets	13,449.9	13,643.4	12,353.2	11,596.9	11,023.1
Long-term debt (noncurrent)	1,689.8	1,215.5	1,029.8	1,432.5	855.3

* Includes net charges of $122.3, or 70 cents per common share, in 1996; $10.1, or six cents, in 1995; $50.0, or 28 cents, in 1994; $74.5, or 43 cents, in 1993; and $173.9, or $1.02, in 1992. Also included in 1994 is a gain of $300.2, or $1.69 per share.

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

EARNINGS SUMMARY

Alcoa's 1996 net income was $514.9 compared with $790.5 in 1995 and $375.2 in 1994.

Income before unusual items in 1996 was $637.2 compared with $800.6 in 1995 and $192.9 in 1994. Revenues were a record $13,061, an increase of 4% over 1995. Most of the increase came from an acquisition by Alcoa Fujikura (AFL), Alcoa's automotive electrical components business. Alumina revenues rose on the strength of higher prices. Aluminum revenues were unchanged, with higher shipments offsetting lower prices.

The drop in earnings from 1995 was primarily due to a 6% decline in Alcoa's realized price per pound for aluminum products, partially offset by higher alumina prices. The company's aluminum smelters operated at 81% of rated capacity during 1996 in response to high levels of aluminum inventories worldwide.

Before unusual items, return on shareholders' equity for 1996 was 14.4% compared with 18.8% in 1995 and 5.2% in 1994.

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

	1996	1995	1994
Net income	$ 514.9	$ 790.5	$ 375.2
Unusual items: Special items, net	122.3	10.1	50.0
Gain from Alcoa/WMC transaction	--	--	(300.2)
Extraordinary loss	--	--	67.9
Adjusted net income	$ 637.2	$ 800.6	$ 192.9

GEOGRAPHIC AND SEGMENT INFORMATION

Operating profit before unusual items in 1996 was $1,350 compared with $1,435 in 1995 and $513 in 1994. 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 unusual items. See Note R to the financial statements for additional information.

OPERATIONS BY GEOGRAPHIC AREA

USA -- Revenues of $7,246 were up 3% from 1995, due mostly to higher shipments of nonaluminum products, reflecting the AFL acquisition. These gains were partially offset by lower shipments of fabricated aluminum products and by the shutdown of the company's electronic packaging operations (AEP). Revenues in 1995 were $7,043, up $1,469 from 1994, reflecting higher prices for fabricated aluminum products and ingot.

Operating profit in 1996 was $640 compared with $594 in 1995 and a loss of $65 in 1994. Improved profits in 1996 for building

products, automotive electrical components and alumina operations were partially offset by lower earnings in aluminum operations and the plastic closures business, and by the AEP shutdown.

Exports from the U.S. in 1996 were $1,015 compared with $1,206 in 1995 and $988 in 1994.

Pacific -- Revenues totaled $2,248 in 1996 versus $1,986 in 1995 and $1,670 in 1994. Operating profit was $505 in 1996, $415 in 1995 and $291 in 1994. The principal operations in this region are those of Alcoa of Australia (AofA). The 22% increase in operating profit from 1995 was due to a 13% rise in alumina prices while costs increased at a much lower rate. Alumina volumes were even with those in 1995. Operating profit in 1995 rose 43% from 1994, as prices of alumina, ingot and fabricated products increased substantially. Shipments of alumina fell 3%, while shipments of ingot and fabricated products were about even with 1994.

Other Americas -- Revenues in 1996 were $1,726 compared with $1,780 in 1995 and $1,362 in 1994. Operating profit was $151 in 1996, $333 in 1995 and $239 in 1994. The decrease in operating profit from 1995 relates principally to higher costs and lower metal prices at Alcoa Aluminio's aluminum operations in Brazil. Lower earnings from Aluminio's packaging business, along with lower sales of rigid container sheet (RCS) by an international selling company, also negatively affected operating profit. Most of the 39% increase in operating profit in 1995 from 1994 was related to Aluminio's nonaluminum operations.

Europe -- Revenues were $1,841 in 1996 compared with $1,691 in 1995 and $1,298 in 1994. Operating profit was $55 in 1996, $92 in 1995 and $48 in 1994. Most Alcoa locations in this region were hurt by weak economic conditions in Europe in 1996. The lower operating profit in 1996 was mitigated slightly by earnings from the acquisition in Italy. Aluminum operations in Great Britain and Hungary, and chemical operations in the Netherlands, were the major contributors to the higher operating profit in 1995 versus 1994.

OPERATIONS BY SEGMENT

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

I. ALUMINA AND CHEMICALS SEGMENT

	1996	1995	1994
Revenues	$ 1,940	$ 1,758	$ 1,508
Operating profit	459	307	277

Approximately two-thirds of the revenues from this segment are derived from sales of alumina. Revenues from alumina in 1996 rose 13% from 1995 with a similar increase in 1995 from 1994. Price was the driving factor, rising 13% in 1996 after a 16% increase in 1995 from 1994. Shipments in 1996 remained unchanged from 1995, while 1995 shipments were slightly lower than those in 1994.

Revenues from alumina-based chemical products rose 3% in 1996 on higher volumes, as a strengthening U.S. market more than offset weaker sales in Europe. Revenues in 1995 were up 24% from 1994, reflecting strong European demand.

Operating profit in 1996 for this segment was $459, up 50% from 1995. The increase came from alumina operations, which benefited from higher prices and good cost control. In 1995, operating profit of $307 was up 11% from 1994. That increase was due to higher prices for alumina, partially offset by lower chemicals margins.

In November 1996, Alcoa World Alumina and Chemicals (AWAC) entered into a long-term alumina supply agreement with China National Nonferrous Metals Industry Corporation (CNNC). The agreement entitles Sino Mining Alumina Ltd. (SMAL), a wholly-owned subsidiary of CNNC, to 400,000 metric tons (mt) of alumina per year for 30 years. SMAL has the option to increase its alumina purchases as CNNC's needs grow. As part of the agreement, SMAL will make an advance lump-sum payment of $240 to AWAC in 1997. The payment will be deferred and amortized to income over the life of the contract. Per-ton payments will also be made as shipments occur.

II. ALUMINUM PROCESSING SEGMENT

	1996	1995	1994
Total aluminum shipments (000 mt)	2,841	2,582	2,551
Revenues	$ 7,976	$ 8,034	$ 6,477
Operating profit	774	1,015	145

Total aluminum shipments increased 10% from 1995, aided by the acquisitions of Alumix in Italy and Alcan's extrusion operations in Brazil. Revenues fell 1%, reflecting lower prices for ingot and most fabricated products. Revenues in 1995 for this segment rose 24% from 1994, reflecting higher prices for most products while shipments were relatively stable.

Operating profit of $774 in 1996 was $241 lower than in 1995. In addition to lower prices, other factors contributing to the decline in operating profit included a lower-value product mix and higher raw material costs that were partially offset by better cost performance. Operating profit in 1995 increased $870 over 1994, primarily due to higher prices, a higher-value product mix and cost reductions, partially offset by higher purchased metal and raw material costs. The major contributors to the 1995 increase were the packaging, aerospace products and aluminum ingot operations.

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

	1996	1995	1994
Shipments (000 mt) Flat-rolled products	1,357	1,380	1,381
Engineered products	495	454	433
Aluminum ingot	901	673	655
Other aluminum products	88	75	82
Total shipments	2,841	2,582	2,551
Revenues Flat-rolled products	$ 3,920	$ 4,177	$ 3,201
Engineered products	2,269	2,303	1,882
Aluminum ingot	1,449	1,197	920

Other aluminum products	338	357	474
Total revenues	$ 7,976	$ 8,034	$ 6,477

Flat-Rolled Products -- More than half of the shipments and revenues in this product class are derived from the sale of RCS. Revenues from RCS in 1996 declined 16% from 1995 as prices fell 6% and shipments dropped 10%. Weaker U.S. export sales and the sale of AofA's rolled products division to Kaal Australia, an unconsolidated 50%-owned affiliate, were the primary reasons for the lower shipments. The Kaal sale had the effect of reducing AofA's RCS shipments, while at the same time increasing its ingot shipments. Revenues in 1995 from RCS increased 40% from 1994 on the strength of higher prices as shipments fell 2%.

Alumix, an Italian government-owned subsidiary that was acquired by Alcoa Italia in the 1996 first quarter, contributed $153 in revenues from flat-rolled products on shipments of 76,000 mt.

Revenues from sheet and plate, serving principally the aerospace and commercial products markets, increased 4% from 1995. Shipments of sheet products were unchanged from 1995 while plate shipments fell 10%. Prices for both sheet and plate rose a combined 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 9% from 1995 but revenues fell 2%. Compared with 1994, shipments in 1995 were up 5% and revenues increased 22%.

Revenues from extruded products, which serve several markets, were up 15% from 1995 as shipments rose 26%, reflecting the Italian and Brazilian acquisitions. Extruded products revenues in 1995 were up 29% from 1994 on the strength of higher prices.

Revenues from forged wheels fell for the first time since 1991 due to an 18% decline in shipments. Lower worldwide production of heavy-duty trucks, the end of the Ford F-150 wheel program, and a strike at one of Alcoa's wheel production facilities contributed to the decline. Revenues in 1995 were up 20% from 1994, reflecting a 13% increase in shipments.

Aluminum Ingot -- Alcoa's smelters operated at approximately 81% of worldwide rated capacity during 1996. Since early 1994, 450,000 mt of capacity has been idle, due to the high levels of worldwide aluminum inventories. Shipments of ingot were 34% higher than those in 1995, generating a 21% increase in revenues. The sale of AofA's rolled products division to Kaal accounted for the majority of the increase. AofA now sells ingot to Kaal instead of fabricating the ingot into RCS. Also, Aluminio had higher third-party ingot sales due to lower internal demand. Alcoa's average realized price for ingot in 1996 was 73 cents per pound compared with 81 cents in 1995 and 64 cents in 1994.

Other Aluminum Products -- Shipments of these products, consisting primarily of scrap and aluminum closures, were up 17% from 1995. Scrap shipments were up 38%, resulting in an 18% increase in revenues. Shipments of aluminum closures rose 7% but prices declined 19%. In 1995, shipments of other aluminum products were down 8% from 1994 and prices fell 18%.

III. NONALUMINUM PRODUCTS SEGMENT

	1996	1995	1994
Revenues	$ 3,146	$ 2,708	$ 1,919
Operating profit	117	113	91

Revenues from this segment were up 16% from 1995. The majority of the increase was due to the inclusion of a full year's results for Electro-Wire Products (EWP), acquired by AFL in July 1995. This was partially offset by the closing of AEP in 1996. Sales of plastic closures were essentially unchanged from 1995 levels. Revenues from this segment in 1995 were up 41% from 1994 as both the automotive electrical components and plastic closures businesses expanded.

Operating profit was up 4% from 1995. Increased profits by AFL were partially offset by a 43% price-related reduction in earnings for magnesium products, strong competition in the closures business and the shutdown of AEP. Operating profit in 1995 rose 24% from 1994 as higher earnings from magnesium products were partially offset by higher costs to launch expansions, competition in the closures business and a sluggish building products market.

UNUSUAL AND EXTRAORDINARY ITEMS

Special Items -- Included in 1996 income from operations was a charge of $198.9 ($122.3 after tax and minority interests) consisting of several items. Incentive costs for employees who voluntarily left the company and permanent layoff costs resulted in a charge of $95.5, net of pension and other postemployment benefits (OPEB) curtailment credits of $75.0. This charge was part of Alcoa's initiative to reduce administrative expenses by $300 annually and affected 2,900 salaried employees. Cash payments in 1996 for these incentive and layoff costs totaled approximately $31. 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.

Special items of $79.7 ($50.0 after tax) in 1994 related to the closing of the forgings and extrusion operations in Vernon, California. The charge reflected provisions of $46.9, mostly for severance costs, and $32.8 for asset writeoffs.

Gain from Alcoa/WMC Transaction -- In December 1994, Alcoa recorded a gain of $400.2 ($300.2 after tax) from the acquisition by WMC Limited of a 40% interest in Alcoa's worldwide bauxite, alumina and inorganic chemicals businesses (AWAC). As part of the agreement, Alcoa acquired an additional 9% interest in AofA, bringing its total interest in that company to 60%. See Note C for additional information about this transaction.

Extraordinary Loss -- The extraordinary loss in 1994 of $67.9 relates to the early retirement of 7% discount debentures that carried an effective interest rate through maturity in 2011 of 14.7%. The loss was the unamortized portion of the original discount that would have been paid at the time the debt matured.

COSTS AND OTHER INCOME

Cost of Goods Sold -- Cost of goods rose 6% to $9,966 in 1996, following a 19% increase in 1995 from 1994. Contributing to the 1996 increase was $450 of operating costs related to new companies and higher volume of $350. These increases were partially offset by a lower-cost product mix and cost improvements. Cost of goods sold in 1995 was $1,514 higher than in 1994. Higher purchased metal and raw material costs of $660, higher volume of $550 and operating costs related to new companies of $300 were partially offset by better operating performance and efficiencies.

New six-year labor agreements covering the majority of Alcoa's U.S. production workers were ratified during 1996.

The parties agreed to an unprecedented partnership providing that Alcoa and the unions work cooperatively on customer requirements, business objectives and shareholder and union interests. Broad new goals were set for employee safety, job security and accountability for the work environment.

Selling and General Administrative Expenses -- These expenses totaled $709 in 1996, unchanged from 1995. New companies in 1996 added over $36 in new costs that were offset by lower administrative expenses. Expenses in 1995 were up $75 from 1994 due to higher compensation costs.

Research and Development Expenses -- R&D expenses rose 17% to $166 in 1996, with higher activity in casting technology and in closures, automotive and environmental research.

Interest Expense -- Interest expense was up $14 from 1995, mostly due to the higher level of debt carried by AFL related to its EWP acquisition and Aluminio's debt refinancing in the 1996 fourth quarter.

Income Taxes -- Alcoa's effective tax rate in 1996 was 33.3%. This rate differed from the statutory rate of 35%, primarily because of 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.
For 1994, Alcoa's effective tax rate was 26.7%. The difference from the statutory rate was mostly because a portion of the gain on the Alcoa/WMC transaction was nontaxable.

Other Income/Foreign Currency -- Other income fell $88 or 57% in 1996. The decline was principally due to increased losses from marking-to-market aluminum commodity contracts and lower equity and interest income, partially offset by a swing in translation adjustments. Other income in 1995 was $155 compared with $87 in 1994. The increase primarily reflects higher equity earnings and interest income, partially offset by losses from marking-to-market metal contracts.

Translation and exchange gains (losses) included in other income were $3.1 in 1996, $(16.5) in 1995 and $(10.3) in 1994. The effect on net income, after taxes and minority interests, was $(0.3) in 1996, $(10.2) in 1995 and $(9.6) in 1994.

RISK FACTORS

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

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

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. Forward purchase and sales activity within these three regions has not been material.

In the U.S., and for export, Alcoa enters into long-term contracts with a number of its fabricated products customers. At December 31, 1996 and 1995, such contracts approximated 2,369,000 mt and 2,483,000 mt, respectively. Alcoa may enter into similar arrangements in the future.

As a hedge against the risk of higher prices for anticipated metal purchases to fulfill long-term customer contracts, Alcoa entered into long positions, principally using futures and options. At December 31, 1996 and 1995, these contracts totaled approximately 872,000 mt and 1,210,000 mt, respectively. Alcoa follows a stable pattern of purchasing metal; therefore, it is highly likely that anticipated metal requirements will be met.

The futures and options contracts limit the unfavorable effect of price increases on metal purchases and likewise limit the favorable effect from price declines. The contracts are with creditworthy counterparties and are further supported by cash, treasury bills or irrevocable letters of credit issued by carefully chosen banks.

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. The deferred gains on the hedging contracts of $224 at December 31, 1996 are expected to offset the increase in the price of the purchased metal.

The expiration dates of the call options and the delivery dates of the futures contracts do not always coincide exactly with the dates on which Alcoa is required to purchase metal 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, as was the case in 1996, if metal prices fall below the price of contracts being rolled forward.

In addition, Alcoa had 205,000 mt of futures and options contracts outstanding at year-end 1996 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 $57 in 1996 and $38 in 1995.

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 S.

Financial Risk -- 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 manage transactional exposure to changes in currency exchange rates. The forward contracts principally cover firm commitments. Options are generally used to hedge anticipated transactions.

Alcoa also 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.

Risk Management -- All of the aluminum and other commodity contracts, as well as the various types of financial instruments, are straightforward. 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 derivatives activities.

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 1996 was $271 and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. About 27% of this balance relates to Alcoa's Massena, N.Y. plant site and 14% relates to Alcoa's Pt. Comfort, Texas plant site. Remediation expenses charged to the reserve were $72 in 1996, $62 in 1995 and $79 in 1994. 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 was $1,279 in 1996 compared with $1,713 in 1995. Contributing to the decline from 1995 were lower earnings in 1996, a reduction in deferred hedging gains and a drop in noncurrent liabilities resulting from a $179 payment to fund Alcoa's pension plans. These factors were partially offset by lower working capital requirements. Working capital in 1996 required net cash outlays of $64, mostly to fund reductions in accounts payable and accrued expenses, partially offset by lower inventories and accounts receivable. Working capital components in the cash flow statement were adjusted for assets and liabilities related to acquisitions.

Cash outlays for 1996 special items related to severance costs were approximately $31. These costs consist of salary continuation payments for up to two years and pension supplements and medical costs to be paid over the lives of the employees. The latter represents about 45% of total severance costs.

FINANCING ACTIVITIES

Financing activities during 1996 resulted in cash outflows of $535 compared with $199 in 1995. Alcoa had net long-term borrowings of $289 in 1996. Of this amount, $400 relates to secured export notes issued by Aluminio. The proceeds were used to prepay Aluminio's 1995 secured export notes and for its general corporate purposes. Alcoa paid $175 on its 4.625% notes that came due in 1996. U.S. commercial paper borrowings reached $174 by year-end 1996. There were no such borrowings outstanding at year-end 1995 or 1994. Short-term borrowings decreased by $141.

Debt as a percentage of invested capital was 21.8% at the end of 1996 compared with 16.7% for 1995 and 15.3% for 1994.

Alcoa used $317 in 1996 to repurchase 5,402,500 shares of its common stock at an average price of $58.72 a share. In May 1996, the board of directors authorized the purchase of up to 20 million shares of Alcoa common stock, replenishing a similar authorization issued in July 1989. More than 15 million shares were purchased under the 1989 authorization. In 1995, 4,575,400 shares were purchased at an average price of $49.14 a share. Alcoa used $200 in 1995 and $50 in 1994 to redeem all of the preferred stock of its subsidiary, Alcoa International Holdings Company.

Dividends paid to shareholders were $234 in 1996 compared with $163 in 1995. The increase is due to Alcoa's bonus dividend program. The plan provides for the distribution of 30% of Alcoa's annual earnings in excess of $3.00 per share in the following year. Based on 1995 earnings, a bonus dividend of 43 cents per share was paid in 1996. Shareholders will not receive a bonus dividend in 1997 since 1996 earnings did not exceed $3.00 per share.

Dividends paid to minority interests in 1996 were $173 and included $158 paid by AofA. In 1995, such dividends were $122, including $101 paid by AofA.

During the 1996 second quarter, Alcoa entered into a $1.3 billion, five-year revolving-credit facility. The new facility will be used as a backup for Alcoa's and AofA's commercial paper programs and for general corporate purposes.

INVESTING ACTIVITIES

Cash used for investing activities during 1996 totaled $1,208 compared with $1,072 in 1995 and $375 in 1994. Capital expenditures for 1996 were $996 compared with $887 in 1995 and $612 during 1994. Of the total expenditures in 1996, 41% relate to capacity expansion, including alumina and chemicals production in the U.S., Australia and Brazil; automotive parts production in the U.S., Brazil and Europe; and sheet and plate production at the Davenport, Iowa plant. Also included are costs of new and expanded facilities for environmental control in ongoing operations totaling $68 in 1996, $54 in 1995 and $45 in 1994.

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-Kofem in Hungary.

In 1996, Alcoa received $83 from the sale of AofA's rolled products division to Kaal. In 1995, Alcoa received $367 from WMC related to WMC's acquisition of 40% of Alcoa's alumina and chemicals businesses. Alcoa, in turn, loaned $122 to WMC, which was repaid in 1996.

ACCOUNTING RULE CHANGE

A new AICPA Statement of Position related to environmental liabilities was issued in October 1996. Management estimates that implementation, which will occur in 1997, will not have a material effect on its financial statements.

SUBSEQUENT EVENT

Alcoa and SEPI, the Spanish State Entity for Industrial Participations, jointly announced in late February that they signed a Letter of Intent for Alcoa to acquire the main sectors of the aluminum businesses of Inespal, S.A. of Madrid.

Inespal is an integrated aluminum producer with 1996 revenues of $1.1 billion. The sale includes an alumina refinery, three aluminum smelters, aluminum rolling, foil and extrusion businesses and related facilities.

The acquisition is expected to be final before the end of 1997.

MANAGEMENT'S REPORT TO ALCOA SHAREHOLDERS

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

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

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

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

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

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors, which is composed of six independent directors, met eight times in 1996.

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 Director of Internal Audit and the independent accountants the overall scope and specific plans for their respective audits. The committee reviewed with management Alcoa's annual and quarterly reporting process, and the adequacy of the company's internal controls. Without management present, the committee met separately with the Director of Internal Audit and the independent accountants to review the results of their examinations, their evaluations of the company's internal controls, and the overall quality of Alcoa's financial reporting.

Franklin A. Thomas
Chairman, Audit Committee

INDEPENDENT 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, 1996 and 1995, 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, 1996. 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, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

/s/Coopers & Lybrand L.L.P.
Coopers & Lybrand L.L.P.

600 Grant St., Pittsburgh, Pa.
January 8, 1997

STATEMENT OF CONSOLIDATED INCOME   Alcoa and subsidiaries
(in millions, except per-share amounts)

For the year ended December 31	1996	1995	1994
REVENUES			
Sales and operating revenues (R)	$ 13,061.0	$ 12,499.7	$ 9,904.3
Gain from Alcoa/WMC transaction (C)	--	--	400.2
Other income, principally interest	67.4	155.2	87.0
	13,128.4	12,654.9	10,391.5
COSTS AND EXPENSES			
Cost of goods sold and operating expenses	9,966.0	9,360.1	7,845.7
Selling, general administrative and other expenses	708.8	707.6	632.7
Research and development expenses	165.5	141.3	125.8
Provision for depreciation, depletion and amortization	747.2	712.9	671.3
Interest expense (Q)	133.7	119.8	106.7
Taxes other than payroll and severance taxes	126.6	126.8	107.1
Special items (D)	198.9	16.2	79.7
	12,046.7	11,184.7	9,569.0
EARNINGS			
Income before taxes on income	1,081.7	1,470.2	822.5

Provision for taxes on income (V)	360.7	445.9	219.2
Income from operations	721.0	1,024.3	603.3
Minority interests	(206.1)	(233.8)	(160.2)
Income before extraordinary loss	514.9	790.5	443.1
Extraordinary loss on debt prepayments, net of tax benefit of $40.5 (D)	--	--	(67.9)
NET INCOME	$ 514.9	$ 790.5	$ 375.2
EARNINGS PER COMMON SHARE: (B and N) Before extraordinary loss	$ 2.94	$ 4.43	$ 2.48
Extraordinary loss	--	--	(.38)
EARNINGS PER COMMON SHARE	$ 2.94	$ 4.43	$ 2.10

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

CONSOLIDATED BALANCE SHEET Alcoa and subsidiaries
(in millions)

December 31	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents (includes cash of $93.4 in 1996 and $120.5 in 1995) (S)	$ 598.1	$ 1,055.6
Short-term investments (S)	18.5	6.8
Receivables from customers, less allowances: 1996-$48.4; 1995-$45.8	1,674.7	1,546.3
Other receivables	154.2	297.0
Inventories (E)	1,461.4	1,418.4
Deferred income taxes	159.9	244.8
Prepaid expenses and other current assets	214.4	172.8
Total current assets	4,281.2	4,741.7
Properties, plants and equipment (F)	7,077.5	6,929.7
Other assets (G and S)	2,091.2	1,972.0
TOTAL ASSETS	$ 13,449.9	$ 13,643.4
LIABILITIES		
Current liabilities:		
Short-term borrowings (weighted average rate of 6.5% in 1996 and 7.6% in 1995) (S)	$ 206.5	$ 345.0
Accounts payable, trade	799.2	861.7
Accrued compensation and retirement costs	404.3	384.3
Taxes, including taxes on income	407.9	304.7
Provision for layoffs and impairments (D)	89.6	63.9
Other current liabilities	287.4	344.4
Long-term debt due within one year (I and S)	178.5	348.2
Total current liabilities	2,373.4	2,652.2
Long-term debt, less amount due within one year (I and S)	1,689.8	1,215.5
Accrued postretirement benefits (U)	1,791.2	1,827.3
Other noncurrent liabilities and deferred credits (H)	1,205.5	1,585.7

Deferred income taxes	317.1	308.6
Total liabilities	7,377.0	7,589.3
MINORITY INTERESTS (A, C and J)	1,610.5	1,609.4
Contingent liabilities (O)	--	--
SHAREHOLDERS' EQUITY		
Preferred stock (K)	55.8	55.8
Common stock (B and K)	178.9	178.9
Additional capital	591.9	637.1
Translation adjustment (A)	(93.1)	(79.0)
Retained earnings	4,082.6	3,800.1
Net unrealized gains--securities available for sale (S)	23.4	--
Unfunded pension obligation	(5.8)	(9.3)
Treasury stock, at cost	(371.3)	(138.9)
Total shareholders' equity	4,462.4	4,444.7
TOTAL LIABILITIES AND EQUITY	$ 13,449.9	$ 13,643.4

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	1996	1995	1994
CASH FROM OPERATIONS			
Net income	$ 514.9	$ 790.5	$ 375.2
Adjustments to reconcile net income to cash from operations:			
Depreciation, depletion and amortization	764.2	730.3	688.8
Gain from Alcoa/WMC transaction	--	--	(400.2)
Change in deferred income taxes	120.3	(36.2)	(55.6)
Equity earnings before additional taxes, net of dividends	(6.6)	(25.6)	5.1
Gains from investing activities	--	--	(10.3)
Special items--net of payments	168.3	16.2	79.7
Book value of asset disposals	61.8	44.6	47.4
Extraordinary loss	--	--	67.9
Minority interests	206.1	233.8	160.2
Other	(8.5)	(1.9)	(1.9)
(Increase) reduction in receivables	42.7	(50.6)	(155.0)
(Increase) reduction in inventories	87.8	(225.3)	115.8
(Increase) reduction in prepaid expenses and other current assets	(40.3)	(13.4)	129.4
Increase (reduction) in accounts payable and accrued expenses	(181.1)	(40.3)	50.2
Increase (reduction) in taxes, including taxes on income	27.4	(95.1)	(6.8)
Payment of amortized			

interest on deep discount debt	--	--	(8.6)
Increase (reduction) in deferred hedging gains	(264.5)	365.5	286.4
Net change in noncurrent assets and liabilities	(213.6)	20.0	25.9
CASH FROM OPERATIONS	1,278.9	1,712.5	1,393.6
FINANCING ACTIVITIES			
Net additions (reduction) to short-term borrowings	(140.7)	83.3	(104.9)
Common stock issued and treasury stock sold	41.4	58.1	61.7
Repurchase of common stock	(317.2)	(224.9)	--
Dividends paid to shareholders	(234.2)	(162.5)	(144.4)
Dividends paid to minority interests	(173.2)	(121.9)	(148.1)
Additions to long-term debt	916.2	612.1	494.9
Payments on long-term debt	(627.1)	(243.4)	(934.4)
Redemption of subsidiary preferred stock	--	(200.0)	(50.0)
CASH USED FOR FINANCING ACTIVITIES	(534.8)	(199.2)	(825.2)
INVESTING ACTIVITIES			
Capital expenditures	(995.7)	(887.1)	(611.7)
Acquisitions, net of cash acquired	(302.3)	(426.1)	(9.6)
Additions to investments	(58.8)	(15.2)	(21.2)
Sale of assets	82.8	--	--
Changes in minority interests	(34.2)	30.9	(44.7)
Proceeds from Alcoa/WMC transaction	--	366.9	67.8
Repayment from/(loan to) WMC	121.8	(121.8)	--
Changes in short-term investments	(11.7)	(1.3)	250.8
Other receipts	.2	3.8	14.9
Other payments	(10.2)	(21.6)	(21.2)
CASH USED FOR INVESTING ACTIVITIES	(1,208.1)	(1,071.5)	(374.9)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	6.5	(5.4)	14.0
Net change in cash and cash equivalents	(457.5)	436.4	207.5
Cash and cash equivalents at beginning of year	1,055.6	619.2	411.7
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 598.1	$ 1,055.6	$ 619.2

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	Preferred stock	Common stock	Additional capital	Translation adjustment	Retained earnings	Net unrealized gains	Unfunded pension obligation	Treasury stock	Share-holders' equity
BALANCE AT END OF 1993	$ 55.8	$ 88.8	$ 715.9	$ (188.5)	$ 2,946.1	--	$ (7.0)	$ (27.3)	$ 3,583.8

Net income--1994					375.2				375.2
Cash dividends: Preferred @ $3.75 per share					(2.1)				(2.1)
Common @ $.80 per share					(142.3)				(142.3)
Two-for-one stock split (B)		89.3	(89.3)						--
Stock issued: compensation plans		.6	36.9		(3.0)			27.2	61.7
Minimum pension liability adjustments							3.0		3.0
Translation adjustments				119.9					119.9
BALANCE AT END OF 1994	55.8	178.7	663.5	(68.6)	3,173.9	--	(4.0)	(.1)	3,999.2
Net income--1995					790.5				790.5
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
Minimum pension liability adjustments							(5.3)		(5.3)
Translation adjustments				(10.4)					(10.4)
BALANCE AT END OF 1995	55.8	178.9	637.1	(79.0)	3,800.1	--	(9.3)	(138.9)	4,444.7
Net income--1996					514.9				514.9
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
Change in market value of securities available for sale						$23.4			23.4
Minimum pension liability adjustments							3.5		3.5
Translation adjustments				(14.1)					(14.1)
BALANCE AT END OF 1996	$ 55.8	$ 178.9	$ 591.9	$ (93.1)	$ 4,082.6	$ 23.4	$ (5.8)	$ (371.3)	$ 4,462.4

SHARE ACTIVITY (B)
(number of shares)

		Common stock		
	Preferred stock	Issued	Treasury	Net outstanding

BALANCE AT END OF 1993	557,649	177,608,440	(885,884)	176,722,556
Stock issued: compensation plans		1,106,538	883,382	1,989,920
BALANCE AT END OF 1994	557,649	178,714,978	(2,502)	178,712,476
Treasury shares purchased			(4,575,400)	(4,575,400)
Stock issued: compensation plans		207,605	1,969,349	2,176,954
BALANCE AT END OF 1995	557,649	178,922,583	(2,608,553)	176,314,030
Treasury shares purchased			(5,402,500)	(5,402,500)
Stock issued: compensation plans			1,598,109	1,598,109
BALANCE AT END OF 1996	557,649	178,922,583	(6,412,944)	172,509,639

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. Also are included are undivided interests in joint ventures. 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, Depletion and Amortization. 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.

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.

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.

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.

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.

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

Reclassification. Certain amounts in previously issued financial statements were reclassified to conform to 1996 presentations.

B. COMMON STOCK SPLIT

On November 11, 1994, the board of directors declared a two-for-one common stock split that was distributed on February 25, 1995 to shareholders of record at the close of business on February 3, 1995. In this report, all per-share amounts and numbers of shares have been restated to reflect the stock split.

C. GAIN FROM ALCOA/WMC Transaction

In December 1994, Alcoa recorded a gain of $400.2 ($300.2 after tax) from the acquisition by WMC Limited, located in Melbourne, Australia, of a 40% interest in Alcoa's worldwide bauxite, alumina and inorganic chemicals businesses. As part of the agreement, Alcoa acquired an additional 9% interest in Alcoa of Australia, bringing its total interest in that company to 60%. An additional cash payment may be made by WMC in the year 2000 if certain financial performance targets of the chemicals businesses are met. Alcoa has indemnified WMC for certain preformation environmental and other liabilities. If this transaction had occurred at the beginning of 1994, net income for the year would not have been materially different.

D. SPECIAL AND EXTRAORDINARY ITEMS

Special items in 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. Alcoa's initiative to reduce administrative expenses by $300 annually was the driving force for the reductions, which affected 2,900 salaried employees. Approximately 25% of these employees were no longer with the company at year-end 1996. Cash payments in 1996 for these incentive and layoff costs totaled approximately $31. 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.

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

The extraordinary loss in 1994 was from early redemption of

7% debentures due 2011 that carried an effective interest rate of 14.7%.

E. INVENTORIES

December 31	1996	1995
Finished goods	$ 403.1	$ 323.1
Work in process	421.1	483.9
Bauxite and alumina	283.1	241.4
Purchased raw materials	235.5	254.5
Operating supplies	118.6	115.5
	$ 1,461.4	$ 1,418.4

Approximately 53% of total inventories at December 31, 1996 were valued on a LIFO basis. If valued on an average cost basis, total inventories would have been $753.7 and $802.1 higher at the end of 1996 and 1995, respectively.

F. PROPERTIES, PLANTS AND EQUIPMENT, AT COST

December 31	1996	1995
Land and land rights, including mines	$ 237.0	$ 231.3
Structures	4,028.0	3,941.7
Machinery and equipment	10,742.5	10,452.1
	15,007.5	14,625.1
Less: accumulated depreciation and depletion	8,652.4	8,285.1
	6,355.1	6,340.0
Construction work in progress	722.4	589.7
	$ 7,077.5	$ 6,929.7

G. OTHER ASSETS

December 31	1996	1995
Investments, principally equity investments	$ 497.7	$ 397.3
Intangibles, net of accumulated amortization of $310.7 in 1996 and $253.3 in 1995	571.1	600.0
Noncurrent receivables	75.5	94.5
Deferred income taxes	478.4	493.6
Deferred charges and other	468.5	386.6
	$ 2,091.2	$ 1,972.0

H. OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS

December 31	1996	1995
Deferred hedging gains	$ 218.9	$ 466.3
On-site environmental remediation	216.9	264.4
Deferred credits	181.0	191.8
Other noncurrent liabilities	588.7	663.2

	$ 1,205.5	$ 1,585.7

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

I. LONG-TERM DEBT

December 31	1996	1995
U.S. 5.75% Notes payable, due 2001	$ 248.4	$ 248.0
4.625% Notes payable, due 1996	--	175.0
Commercial paper, variable rate, (5.4% average rate)	173.6	--
Bank loans, 7.5 billion yen, due 1999, (4.4% fixed rate)	78.0	72.9
Tax-exempt revenue bonds ranging from 3.5% to 6.6%, due 2000-2012	131.1	132.0
Alcoa Fujikura Ltd.--variable-rate term loan, due 1996-2002 (6.1% average rate)	262.5	300.0
Alcoa Aluminio 7.5% Fixed-rate note, due 2008	400.0	--
Variable-rate notes, due 1996-2001 (7.3% and 7.2% average rates)	208.2	386.4
Alcoa of Australia Euro-commercial paper, variable rate, (5.5% and 5.6% average rates)	131.0	127.0
Other subsidiaries	235.5	122.4
	1,868.3	1,563.7
Less, amount due within one year	178.5	348.2
	$ 1,689.8	$ 1,215.5

The amount of long-term debt maturing in each of the next five years is $178.5 in 1997, $136.9 in 1998, $232.2 in 1999, $83.3 in 2000 and $650.4 in 2001.

In 1996, Alcoa Aluminio issued $400 of secured export notes. The proceeds from the notes were used to prepay the 1995 secured export notes and for general corporate purposes. The agreement requires Aluminio to maintain certain financial ratios.

Alcoa entered into a new $1.3 billion revolving-credit facility with a group of international banks in 1996. Under the agreement, which expires in July 2001, certain levels of consolidated net worth and working capital must be maintained while commercial paper balances are outstanding.

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

J. MINORITY INTERESTS

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

December 31	1996	1995
Alcoa of Australia	$ 572.7	$ 564.3
Alcoa Aluminio	362.5	357.6
Alcoa Alumina and Chemicals	376.7	344.0
Alcoa Fujikura	128.6	99.9
Other majority-owned companies	170.0	243.6
	$ 1,610.5	$ 1,609.4

K. 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, 1996, shares of common stock reserved for issuance were:

	Number of shares
Long-term stock incentive plan	14,689,877
Employees' savings plans	4,097,532
Incentive compensation plan	169,228
	18,956,637

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 has elected to continue to account for stock-based compensation arrangements under the provisions of APB Opinion No. 25 rather than FAS No. 123. Accordingly, compensation cost is not required to be recognized. If compensation cost had been determined based on the fair value at the grant dates according to FAS No. 123, Alcoa's net income and earnings per share would have been reduced to the pro forma amounts shown below.

	1996	1995
Net income: As reported	$ 514.9	$ 790.5
Pro forma	472.2	756.9
Earnings per share: As reported	2.94	4.43
Pro forma	2.70	4.24

The weighted average fair value of options granted was $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:

	1996	1995
Average risk-free interest rate	5.7%	6.7%
Expected dividend yield	2.2	1.8
Expected volatility	25.0	25.0
Expected life (years): Stock options that are not reloaded	3	3
Stock options that are reloaded	1	1

The transactions for shares under options were:

	1996	1995	1994
Outstanding, beginning of year: Number	8,549,643	7,900,090	8,032,852
Weighted average exercise price	$43.84	$35.55	$32.73
Granted: Number	8,700,677	7,945,977	5,050,798
Weighted average exercise price	$56.30	$47.86	$38.88

Exercised: Number	(7,161,003)	(7,212,081)	(5,125,962)
Weighted average exercise price	$47.90	$44.39	$34.42
Expired or forfeited: Number	(55,375)	(84,343)	(57,598)
Weighted average exercise price	$51.42	$41.62	$35.76
Outstanding, end of year: Number	10,033,942	8,549,643	7,900,090
Weighted average exercise price	$51.73	$43.84	$35.55
Exercisable, end of year: Number	4,346,793	3,063,335	4,242,636
Weighted average exercise price	$46.59	$34.14	$32.66
Shares reserved for future options	4,655,935	7,738,143	1,758,950

The following tables summarize certain stock option information at December 31, 1996:

Options outstanding:

Range of exercise price	Number	Weighted average remaining life	Weighted average exercise price
$ 0.50	173,714	employment career	$ 0.50
26.28-39.41	1,276,489	4.6	34.15
39.42-59.12	5,217,190	7.9	50.71
59.13-65.94	3,366,549	5.7	62.62
	10,033,942	6.6	51.73

Options exercisable:

Range of exercise price	Number	Weighted average exercisable price
$ 0.50	173,714	$ 0.50
26.28-39.41	1,276,489	34.15
39.42-59.12	1,698,635	49.69
59.13-63.75	1,197,955	62.13
	4,346,793	46.59

L. CASH FLOW INFORMATION

Cash payments for interest and income taxes follow.

	1996	1995	1994
Interest*	$ 136.4	$ 123.4	$ 107.3
Income taxes	265.8	508.3	238.4

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

The details of cash payments related to acquisitions follow.

	1996	1995	1994
Fair value of assets	$ 365.2	$ 509.5	$ 38.8
Liabilities	62.4	79.8	29.2
Cash paid	302.8	429.7	9.6
Less: cash acquired	.5	3.6	--
Net cash paid for acquisitions	$ 302.3	$ 426.1	$ 9.6

M. ACQUISITIONS

The company 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, the company made various acquisitions totaling $426, which resulted in goodwill of approximately $250.

All of the acquisitions have been accounted for by the purchase method. Accordingly, the purchase prices have been 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.

N. EARNINGS PER COMMON SHARE

Primary earnings per common share are computed by subtracting annual preferred dividend requirements from net income, and dividing that amount by the weighted average number of common shares outstanding during each year. The average number of shares used to compute primary earnings per common share was 174,333,524 in 1996, 178,018,083 in 1995 and 177,881,428 in 1994. Fully diluted earnings per common share are not stated, since the dilution is not material.

O. 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.

P. LEASE EXPENSE

Certain equipment, warehousing and office space and oceangoing vessels are under operating lease agreements. Total expense for all leases was $95.4 in 1996, $71.9 in 1995 and $71.6 in 1994. Under long-term operating leases, minimum annual rentals are $58.0 in 1997, $47.8 in 1998, $37.0 in 1999, $26.0 in 2000, $19.5 in 2001 and a total of $42.2 for 2002 and thereafter.

Q. INTEREST COST COMPONENTS

	1996	1995	1994
Amount charged to expense	$ 133.7	$ 119.8	$ 106.7
Amount capitalized	5.3	1.9	1.5
	$ 139.0	$ 121.7	$ 108.2

R. SEGMENT AND GEOGRAPHIC AREA INFORMATION

Alcoa is primarily an integrated producer of aluminum 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.

Alcoa's products are used primarily by packaging, transportation (including aerospace, automotive, rail and shipping), building and industrial customers worldwide.
Total exports from the U.S. in 1996 were $1,015 compared with $1,206 in 1995 and $988 in 1994.

SEGMENT INFORMATION	1996	1995	1994
Sales to customers: Alumina and chemicals	$ 1,939.6	$ 1,757.8	$ 1,508.4
Aluminum processing	7,975.7	8,034.3	6,476.5
Nonaluminum products	3,145.7	2,707.6	1,919.4
Intersegment sales: (1) Alumina and chemicals	617.1	540.1	496.0
Aluminum processing	.4	3.7	3.0
Nonaluminum products	81.8	97.6	74.8
Eliminations	(699.3)	(641.4)	(573.8)
Total sales and operating revenues	$ 13,061.0	$ 12,499.7	$ 9,904.3
Operating profit before special items: Alumina and chemicals	$ 459.3	$ 306.9	$ 277.3
Aluminum processing	774.1	1,014.7	144.7
Nonaluminum products	116.6	112.9	91.2
Total	$ 1,350.0	$ 1,434.5	$ 513.2
Operating profit after special items: Alumina and chemicals	$ 431.1	$ 309.9	$ 277.3
Aluminum processing	711.8	1,001.4	65.0
Nonaluminum products	8.2	107.0	91.2
Total operating profit	1,151.1	1,418.3	433.5
Gain from Alcoa/WMC transaction	--	--	400.2
Other income	67.4	155.2	87.0
Translation (gain) loss in operating profit	(3.1)	16.5	8.5
Interest expense	(133.7)	(119.8)	(106.7)
Income before taxes on income	$ 1,081.7	$ 1,470.2	$ 822.5
Identifiable assets: Alumina and chemicals	$ 3,316.3	$ 3,101.9	$ 2,860.2
Aluminum processing	6,691.0	6,621.6	6,579.5
Nonaluminum products	2,328.3	2,335.0	1,566.0
Total identifiable assets	12,335.6	12,058.5	11,005.7
Investments	497.7	397.3	355.9
Corporate assets (2)	616.6	1,187.6	991.6
Total assets	$ 13,449.9	$ 13,643.4	$ 12,353.2
Depreciation and depletion: Alumina and chemicals	$ 165.2	$ 153.8	$ 139.1
Aluminum processing	443.9	442.1	455.3
Nonaluminum products	155.1	134.4	94.0
Total depreciation and depletion (3)	$ 764.2	$ 730.3	$ 688.4
Capital expenditures: Alumina and chemicals	$ 314.6	$ 246.8	$ 159.2
Aluminum processing	472.9	399.2	323.2

Nonaluminum products	208.2	241.1	129.3
Total capital expenditures	$ 995.7	$ 887.1	$ 611.7

GEOGRAPHIC AREA INFORMATION	1996	1995	1994
Sales to customers: USA	$ 7,245.9	$ 7,042.7	$ 5,574.0
Other Americas	1,726.0	1,780.1	1,362.4
Pacific	2,247.8	1,985.7	1,670.1
Europe	1,841.3	1,691.2	1,297.8
Transfers between geographic areas: (1) USA	790.2	959.2	765.0
Other Americas	361.5	511.4	291.4
Pacific	34.2	37.6	17.2
Europe	18.3	23.3	13.4
Eliminations	(1,204.2)	(1,531.5)	(1,087.0)
Total sales and operating revenues	$ 13,061.0	$ 12,499.7	$ 9,904.3
Operating profit (loss) before special items: USA	$ 639.5	$ 593.6	$ (65.2)
Other Americas	151.3	333.1	239.0
Pacific	504.7	415.4	291.1
Europe	54.5	92.4	48.3
Total	$ 1,350.0	$ 1,434.5	$ 513.2
Operating profit (loss) after special items: USA	$ 479.3	$ 586.4	$ (144.9)
Other Americas	140.1	330.2	239.0
Pacific	491.0	415.4	291.1
Europe	40.7	86.3	48.3
Total operating profit	$ 1,151.1	$ 1,418.3	$ 433.5
Identifiable assets: USA	$ 6,401.7	$ 6,398.7	$ 5,713.1
Other Americas	2,058.7	2,003.3	1,748.6
Pacific	2,671.0	2,603.1	2,536.3
Europe	1,204.2	1,053.4	1,007.7
Total identifiable assets	$ 12,335.6	$ 12,058.5	$ 11,005.7
Capital expenditures: USA	$ 534.4	$ 439.7	$ 272.9
Other Americas	160.9	186.1	131.4
Pacific	162.9	168.3	131.6
Europe	137.5	93.0	75.8
Total capital expenditures	$ 995.7	$ 887.1	$ 611.7

(1) Transfers between segments and geographic areas are based on generally prevailing market prices.
(2) Corporate assets include: cash and marketable securities of $616.6 in 1996, $1,062.4 in 1995 and $624.7 in 1994; and a net receivable of $125.2 in 1995 and $366.9 in 1994 related to the Alcoa/WMC transaction.
(3) Includes depreciation of $17.0 in 1996, $17.4 in 1995 and $17.1 in 1994 reported as research and development expenses in the income statement

S. FINANCIAL INSTRUMENTS

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

	1996	1995

	CARRYING VALUE	FAIR VALUE	Carrying value	Fair value
Cash and cash equivalents	$ 598.1	$ 598.1	$ 1,055.6	$ 1,055.6
Short-term investments	18.5	18.5	6.8	6.8
Noncurrent receivables	75.5	75.5	94.5	94.5
Investments available for sale	68.0	68.0	31.9	31.9
Short-term debt	385.0	385.0	693.2	693.2
Long-term debt	1,689.8	1,678.0	1,215.5	1,263.3

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. This resulted in an adjustment to shareholders' equity of $23.4, net of $12.7 in taxes, in 1996. Unrealized gains and losses in the prior year were not material.

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 on these contracts at December 31, 1996 and 1995 were $34.8 and $11.5, respectively.

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

	1996		1995	
	NOTIONAL AMOUNT	MARKET VALUE	Notional amount	Market value
Forwards	$ 2,579.5	$ 32.8	$ 2,509.2	$ 13.6
Options purchased	649.9	5.6	446.0	8.2
Options written	390.8	(2.3)	135.9	(1.7)

The notional values summarized above 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.

	1996		1995	
	BUY	SELL	Buy	Sell

Australian dollar	$ 1,858.7	$ 808.6	$ 1,565.2	$ 307.8
Dutch guilder	198.8	18.7	257.0	333.6
Japanese yen	93.7	25.2	30.9	37.1
Deutsche mark	63.5	226.0	55.0	286.2
Pound sterling	21.5	74.3	47.8	89.8
Other	45.3	248.9	38.0	73.7
	$ 2,281.5	$ 1,401.7	$ 1,993.9	$ 1,128.2

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, 1996, 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 $269 at year-end 1996.

Alcoa utilizes cross-currency interest rate swaps to take advantage of international debt markets while limiting foreign exchange risk. At year-end 1996, Alcoa had in place foreign currency forward contracts to effectively convert the principal payment due in 1999 on its Y=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 commercial paper 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 1996 or 1995.

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

For further information on Alcoa's hedging and derivatives activities, see Risk Factors on page 26 in Results of Operations of this annual report.

T. 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.

	1996	1995	1994
Benefits earned	$ 101.7	$ 78.9	$ 90.6
Interest accrued on projected benefit obligation	291.0	285.9	261.2
Net amortization	37.8	28.5	46.5
	430.5	393.3	398.3
Less: expected return on plan assets*	324.1	305.0	281.4
	$ 106.4	$ 88.3	$ 116.9

*The actual returns were higher (lower) than the expected returns by $155.5 in 1996, $254.1 in 1995 and $(282.7) in 1994, and were deferred as actuarial gains (losses).

The status of the pension plans follows.

	Assets exceed accumulated benefit obligation		Accumulated benefit obligation exceeds assets	
December 31	1996	1995	1996	1995

Plan assets, primarily stocks and bonds at market	$ 4,327.6	$ 1,959.4	$ 7.6	$ 1,937.0
Present value of obligation: Vested	3,779.2	1,604.3	134.5	1,957.4
Nonvested	292.9	131.7	7.5	155.9
Accumulated benefit obligation	4,072.1	1,736.0	142.0	2,113.3
Effect of assumed salary increases	283.5	72.1	37.3	248.3
Projected benefit obligation	$ 4,355.6	$ 1,808.1	$ 179.3	$ 2,361.6
Plan assets greater (less) than projected benefit obligation	$ (28.0)	$ 151.3	$ (171.7)	$ (424.6)
Unrecognized: Transition (assets) obligations	(.8)	(32.7)	9.2	45.3
Prior service costs	145.0	19.9	16.2	28.2
Actuarial (gains) losses, net	(272.0)	(184.9)	32.9	36.1
Minimum liability adjustment	--	--	(24.9)	(38.8)
Accrued pension cost	$ (155.8)	$ (46.4)	$ (138.3)	$ (353.8)

Assumptions used to determine plan liabilities and expenses follow.

December 31	1996	1995	1994
Settlement discount rate	7.0%	7.0%	8.25%
Long-term rate for compensation increases	5.0	5.0	5.5
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 $44.4 in 1996, $36.1 in 1995 and $32.9 in 1994.

U. 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.

	1996	1995	1994
Service cost of benefits earned	$ 19.3	$ 16.3	$ 20.2
Interest cost on liability	104.4	114.6	104.4
Net amortization	(44.1)	(49.5)	(50.0)
Return on plan assets	(5.8)	(4.8)	(4.8)
Postretirement benefit costs	$ 73.8	$ 76.6	$ 69.8

The status of the postretirement benefit plans was:

December 31	1996	1995
Retirees	$ 1,022.6	$ 1,034.0
Fully eligible active plan participants	172.6	136.7
Other active participants	364.6	330.5
Accumulated postretirement benefit obligation (APBO)	1,559.8	1,501.2
Plan assets, primarily stocks and bonds at market	75.1	64.4
APBO in excess of plan assets	1,484.7	1,436.8
Unrecognized net:		
Reduction in prior service costs	227.4	374.3
Actuarial gains	174.1	109.6
Accrued postretirement benefit liability	$ 1,886.2	$ 1,920.7

For measuring the liability and expense, an 8.5% annual rate of increase in the per capita claims cost was assumed for 1997, declining gradually to 5.25% by the year 2003 and thereafter. Other assumptions used to measure the liability and expense follow.

December 31	1996	1995	1994
Settlement discount rate	7.0%	7.0%	8.25%
Long-term rate for compensation increases	5.0	5.0	5.5
Long-term rate of return on plan assets	9.0	9.0	9.0

For 1996, a 1% increase in the trend rate for health care costs would have increased the APBO by 7% and service and interest costs by 12%.

V. INCOME TAXES

The components of income before taxes on income were:

	1996	1995	1994
U.S.	$ 419.0	$ 556.5	$ 203.6
Foreign	662.7	913.7	618.9
	$ 1,081.7	$ 1,470.2	$ 822.5

The provision for taxes on income consisted of:

	1996	1995	1994
Current: U.S. federal*	$ 3.5	$ 246.4	$ 114.0
Foreign	217.0	204.0	151.1
State and local	19.9	31.7	9.7
	240.4	482.1	274.8
Deferred: U.S. federal*	143.1	(55.3)	(51.3)
Foreign	(34.8)	34.8	5.8

State and local	12.0	(15.7)	(10.1)
	120.3	(36.2)	(55.6)
Total	$ 360.7	$ 445.9	$ 219.2

*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.

	1996	1995	1994
U.S. federal statutory rate	35.0%	35.0%	35.0%
Taxes on foreign income	(3.0)	(5.5)	(1.1)
State taxes net of federal benefit	1.7	.6	(.1)
Tax rate changes	--	2.5	--
Adjustments to prior years' accruals	.3	(1.3)	(1.8)
Nontaxable portion of Alcoa/WMC transaction gain	--	--	(4.9)
Other	(.7)	(1.0)	(.4)
Effective tax rate	33.3%	30.3%	26.7%

The components of net deferred tax assets and liabilities follow.

	1996		1995	
December 31	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	Deferred tax assets	Deferred tax liabilities
Depreciation	--	$ 921.5	--	$ 950.6
Employee benefits	$ 780.9	--	$ 838.8	--
Loss provisions	197.1	--	212.0	--
Deferred income	176.1	120.6	244.0	56.4
Tax loss carryforwards	155.1	--	113.7	--
Tax credit carryforwards	48.2	--	38.7	--
Other	66.7	39.4	86.7	20.8
	1,424.1	1,081.5	1,533.9	1,027.8
Valuation allowance	(110.0)	--	(112.1)	--
	$ 1,314.1	$ 1,081.5	$ 1,421.8	$ 1,027.8

The valuation allowance in 1996 included a favorable adjustment of $23.1, due to the likelihood of the future realization of deferred tax assets related to operations in Suriname.

Of the total tax loss carryforwards, $27.3 expires over the next 10 years and $127.8 is unlimited. A substantial portion of the valuation allowance is for these carryforwards because the ability to utilize a portion of them is uncertain. There is no limit on utilization of the tax credit carryforwards.

The cumulative amount of Alcoa's share of undistributed earnings for which no deferred taxes have been provided was $1,115.5 at December 31, 1996. 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.

W. MAJORITY-OWNED SUBSIDIARIES

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

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

December 31	1996	1995
Cash and short-term investments	$ 269.1	$ 252.4
Other current assets	441.2	379.3
Properties, plants and equipment, net	897.5	857.2
Other assets	235.0	185.4
Total assets	1,842.8	1,674.3
Current liabilities	404.0	431.6
Long-term debt	492.5	314.5
Other liabilities	62.1	56.1
Total liabilities	958.6	802.2
Net assets	$ 884.2	$ 872.1

	1996	1995	1994
Revenues*	$ 1,188.1	$ 1,200.1	$ 915.1
Costs and expenses	(1,183.5)	(1,050.2)	(808.9)
Translation and exchange adjustments	(.3)	4.3	(3.0)
Income tax (expense) benefit	22.0	(2.3)	(19.7)
Net income	$ 26.3	$ 151.9	$ 83.5

*Revenues from Alcoa were $12.3 in 1996, $188.4 in 1995 and $54 in 1994. 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	1996	1995
Cash and short-term investments	$ 13.9	$ 61.6
Other current assets	522.4	551.6
Properties, plants and equipment, net	1,695.4	1,615.7
Other assets	108.6	101.2
Total assets	2,340.3	2,330.1
Current liabilities	341.9	380.7
Long-term debt	131.0	127.0
Other liabilities	435.7	415.5
Total liabilities	908.6	923.2
Net assets	$ 1,431.7	$ 1,406.9

	1996	1995	1994
Revenues*	$ 1,971.5	$ 1,785.0	$ 1,519.2
Costs and expenses	(1,510.3)	(1,372.3)	(1,236.5)
Translation and exchange adjustments	--	--	.6
Income tax expense	(157.7)	(164.1)	(80.7)

Net income	$ 303.5	$ 248.6	$ 202.6

*Revenues from Alcoa were $54.3 in 1996, $55.4 in 1995 and $28.5 in 1994. The terms of the transactions were established by negotiation between the parties.

SUPPLEMENTAL FINANCIAL INFORMATION

QUARTERLY DATA (UNAUDITED)
(dollars in millions, except per-share amounts)

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
Per common share	1.01	.76	.39	.78	2.94

*After special charges of $40.0, or 23 cents per share, in the second quarter; $65.5, or 38 cents per share, in the third quarter; and $16.8, or 10 cents per share, in the fourth quarter

1995	First	Second	Third	Fourth	Year
Sales and operating revenues	$ 3,009.8	$ 3,117.3	$ 3,264.8	$ 3,107.8	$ 12,499.7
Income from operations	279.0	282.4	269.5	193.4	1,024.3
Net income*	193.8	219.4	226.4	150.9	790.5
Per common share	1.08	1.23	1.27	.85	4.43

*After special charges of $5.4, or three cents per share, in the third quarter and $4.7, or three cents per share, in the fourth quarter

NUMBER OF EMPLOYEES (UNAUDITED)
(at year-end)

	1996	1995	1994
USA	28,900	31,600	29,000
Other Americas	29,800	24,300	16,800
Pacific	5,600	6,000	6,200
Europe	12,500	10,100	8,200
	76,800	72,000	60,200

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

1996	1995

Quarter	High	Low	Dividend	High	Low	Dividend
First	$64-3/8	$49-1/8	$ .3325	$44-3/4	$36-7/8	$.225
Second	66-1/4	57	.3325	50-3/8	40-3/4	.225
Third	64-1/8	55-1/8	.3325	60-1/4	49-7/8	.225
Fourth	64-3/4	55-3/4	.3325	59-1/8	48-1/4	.225
Year	$66-1/4	$49-1/8	$1.33	$60-1/4	$36-7/8	$.90

GRAPHICS APPENDIX LIST

Revenues by Segment - page 22
(billions of dollars)

	1992	1993	1994	1995	1996
Alumina and Chemicals	1.4	1.4	1.5	1.8	1.9
Nonaluminum Products	1.6	1.7	1.9	2.7	3.2
Aluminum Processing	6.5	6.0	6.5	8.0	8.0
	9.5	9.1	9.9	12.5	13.1

Alumina Production - page 22
(thousands of metric tons)

1992	1993	1994	1995	1996
9,461	10,129	10,195	10,578	10,644

Aluminum Product Shipments - page 24
(thousands of metric tons)

	1992	1993	1994	1995	1996
Fabricated Products	1,774	1,739	1,896	1,909	1,940
Ingot	1,023	841	655	673	901
Total	2,797	2,580	2,551	2,582	2,841

Alcoa's Average Realized Ingot Price - page 24
(cents per pound)

1992	1993	1994	1995	1996
$.59	$.56	$.64	$.81	$.73

Number of Employees - page 26
(at year-end)
(in thousands)

	1992	1993	1994	1995	1996
Nonaluminum	13.9	14.1	17.3	26.7	33.8
Alumina and Aluminum	49.7	49.3	42.9	45.3	43.0

Total	63.6	63.4	60.2	72.0	76.8
	=====	====	====	====	====

U.S. Exports - page 26
(millions of dollars)

1992	1993	1994	1995	1996
993	896	988	1,206	1,015

Cash From Operations - page 28
(millions of dollars)

1992	1993	1994	1995	1996
1,208	535	1,394	1,713	1,279

Debt as a Percent of Invested Capital - page 28

1992	1993	1994	1995	1996
15.0	22.0	15.3	16.7	21.8

Free Cash Flow to Debt Coverage - page 28
(times covered)

1992	1993	1994	1995	1996
.97	.62	1.09	1.12	.79

Capital Expenditures and Depreciation - page 29
(millions of dollars)

	1992	1993	1994	1995	1996
Capital Expenditures	789	757	612	887	996
Depreciation	682	693	671	713	747

Dividends Paid per Common Share - page 57
dollars

1992	1993	1994	1995	1996
.80	.80	.80	.90	1.33*

*Base dividend of .90 and bonus dividend of .43