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

FORM 10-K

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997
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. [X]

As of March 6, 1998 there were 168,134,011 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 $12,001 million.

Documents incorporated by reference.

Parts I and II of this Form 10-K incorporate by reference certain information from the registrant's 1997 Annual Report to Shareholders. Part III of this Form 10-K incorporates by reference the registrant's Proxy Statement dated March 11, 1998, except for the performance graph and Compensation Committee Report.

ALUMINUM COMPANY OF AMERICA

Aluminum Company of America, with headquarters in Pittsburgh, Pennsylvania, was formed in 1888 under the laws of the Commonwealth of Pennsylvania. In this report, unless the context otherwise requires, Alcoa or the Company means Aluminum Company of America and all subsidiaries consolidated for the purposes of its financial statements.

PART I

Item 1. Business.

Overview

Alcoa is the world's largest aluminum company. It is also the world's largest alumina producer, with close proximity of bauxite mines to its refineries in Australia, Jamaica and Suriname, and high quality bauxite in Brazil. Alumina, a white powdery material, is an intermediate product in the production of aluminum from bauxite and is also a valuable chemical. As a growing, worldwide company, Alcoa now has over 180 operating locations in 28 countries, serving a broad range of markets in developing and industrialized economies.

Alcoa's products are used in and on beverage containers, airplanes and automobiles, commercial and residential buildings, chemicals and a wide array of consumer and industrial

applications. These products are sold directly to industrial customers and other end-users or through independent distributors in the U.S., Brazil, Europe and Asia.

The Company is organized into 21 independently-managed business units. Business unit leaders are assigned clear performance responsibilities that concentrate authority closer to customers-where most of Alcoa's value creation takes place.

The U.S. remains the largest market for aluminum. However, the Pacific region, Latin America, Asia and Europe all present opportunities for substantial growth in aluminum use. To take advantage of these growth opportunities, Alcoa has made acquisitions or formed joint ventures and strategic alliances in key regional markets.

Recent Announcement

On March 9, 1998, Alcoa and Alumax Inc. announced that they have entered into a definitive agreement under which Alcoa will acquire all outstanding shares of Alumax for a combination of cash and stock. Alcoa will commence the transaction with a cash tender offer for one-half the outstanding Alumax shares at $50.00 per share. The second step will be a merger in which each remaining outstanding Alumax share will be converted into 0.6975 of a share of Alcoa common stock.

The transaction is valued at approximately $3.8 billion, including the assumption of debt. It is conditioned upon approval by Alumax's shareholders of the merger as well as expiration of antitrust waiting periods and other customary conditions, and is expected to be completed in the second quarter of 1998.

Market and Geographic Area Information

Alcoa serves a variety of customers in a number of markets. Consolidated revenues from these markets during the past three years were:

	(dollars in millions)		
	1997	1996	1995
Packaging	$3,201	$3,326	$3,797
Transportation	3,119	2,655	2,232
Distributor and Other	2,151	2,154	1,988
Alumina and Chemicals	1,961	1,940	1,705
Aluminum Ingot	1,521	1,449	1,247
Building and Construction	1,366	1,537	1,531
Total	$13,319	$13,061	$12,500

Close to one-half of Alcoa's consolidated sales now is derived from geographic regions other than the U.S., reflecting the Company's growing global presence.

	(dollars in millions)		
	1997	1996	1995
U.S.	$7,189	$7,246	$7,043
Pacific	2,222	2,248	1,986
Europe	2,090	1,841	1,691
Other Americas	1,818	1,726	1,780
Total	$13,319	$13,061	$12,500

Major Operations

U.S. - The Company has six aluminum smelters with a combined annual rated capacity of 1.285 million metric tons (mt) that mostly support its internal primary aluminum requirements. It has three large rolling plants, including two facilities for can sheet, and a number of aluminum fabricating facilities that serve the aerospace, automobile, truck, building and construction, packaging and other markets. A substantial majority of 1997 consolidated revenues generated in the U.S. was derived from these major operations.

Alcoa Fujikura Ltd. (AFL), a 51%-owned subsidiary, designs, produces and markets automotive electrical distribution systems. AFL also produces fiber optic products and systems for electric utilities, telecommunications, cable television and datacom markets. AFL's 1997 revenues were 13% of Alcoa's consolidated revenues. AFL also has operations in Europe, Mexico and South America.

Australia - Alcoa of Australia Limited (AofA) is 60%-owned by Alcoa and is the Company's largest subsidiary. AofA's aluminum operations include bauxite mining facilities, three alumina refineries, two aluminum smelters and two alumina-based chemicals plants. AofA is the world's largest, and one of the lowest-cost, producers of alumina. An AofA subsidiary also mines gold in Western Australia. AofA's 1997 revenues were 14% of Alcoa's consolidated revenues. Kaal Australia Pty. Ltd., 50%-owned by Alcoa, produces can sheet at its two rolling mills.

Brazil - Alcoa Aluminio S.A. (Aluminio) is owned 59% by Alcoa. Aluminio operates bauxite mining facilities and two alumina refineries that principally serve its two aluminum smelters. It has several alumina-based chemicals, aluminum fabricating and extrusion plants, plastic closures and container operations, packaging equipment and building and automotive product facilities. Aluminio's revenues in 1997 were 9% of Alcoa's consolidated revenues.

Alcoa's Financial Reporting Segments

Alcoa's operations consist of three segments: Alumina and Chemicals, Aluminum Processing and Nonaluminum Products. See Notes A and P to the Financial Statements for segment and related geographic area financial information.

Alumina and Chemicals Segment

The Alumina and Chemicals segment includes the production and sale of bauxite, alumina and alumina-based chemicals used principally in industrial applications, and transportation services for bauxite and alumina. The segment consists of a group of companies and assets referred to as Alcoa World Alumina and Chemicals (AWAC). Alcoa provides operating management for AWAC, which is owned 60% by Alcoa and 40% by WMC Limited (WMC).

Bauxite

Bauxite, aluminum's principal raw material, is refined into alumina through a chemical process. Most of the bauxite mined and alumina produced by the Company, except by AofA, is further processed by Alcoa into aluminum. All of the Company's active bauxite interests are part of AWAC, except for Aluminio's mines in Pocos de Caldas, Brazil and its 8.6% interest in Mineracao Rio do Norte S.A. (MRN), a joint venture described under "Alumina" below.

AofA's bauxite mineral leases expire in 2003. Renewal options allow AofA to extend the leases until 2045.

Suriname Aluminum Company, L.L.C. (Suralco) mines bauxite in Suriname under rights that expire in 2032. Suralco also holds a 24% minority interest in a bauxite mining joint venture managed by the majority owner, an affiliate of Gencor Limited of South Africa. Bauxite from both mining operations serves Suralco's share of a refinery in Suriname. Current mine reserves at both operations are expected to be depleted in the period 2005-2010.

Alcoa has long-term contracts to purchase bauxite mined by a partially-owned entity in the Republic of Guinea in Western Africa. The bauxite services most of the requirements of the Point Comfort, Texas and San Ciprian, Spain alumina refineries. The contracts expire after 2011.

Bauxite mining rights in Jamaica expire after the year 2020. These rights are owned by a joint venture with the Government of Jamaica.

Alumina

Alcoa is the world's leading supplier of alumina. Alumina is sold principally from operations in Australia, Jamaica and Suriname. About 65% of the Company's alumina production in 1997 was sold under supply contracts to third parties worldwide. Most alumina supply contracts are negotiated on the basis of agreed volumes over multi-year periods to assure a continuous supply to the smelters. Prices are negotiated periodically or are based on formulas related to aluminum ingot market prices or to alumina production costs.

Australia. AofA's three alumina refineries, located in Kwinana, Pinjarra and Wagerup, in Western Australia, have an aggregate annual rated capacity of 6.7 million metric tons (mt). AofA has begun a 440,000 mt per year expansion of the Wagerup refinery with construction expected to be completed by mid-1999. This US$193 million expansion will increase Wagerup's operating capacity from 1.75 million mt per year to 2.19 million mt per year. This is the first stage of a planned expansion to 3.30 million mt per year at Wagerup, for which AofA has obtained environmental approval.

The natural gas requirements of the refineries are supplied primarily under a contract with parties comprising the North West Shelf Gas Joint Venture. The prior contract expired in 2005 and

imposed minimum purchase requirements. In December 1997, these arrangements were extended through a renegotiation of the prior contract and the signing of a new contract running from 2005 through 2020. These new arrangements now are under review by the Australian competition authorities.

AWAC entities and Sino Mining Alumina Limited (SMAL), a subsidiary of China National Nonferrous Metals Industry Corporation (CNNC), have a long-term agreement for the purchase of alumina for the CNNC smelter system. The arrangements entitle a subsidiary of SMAL to purchase a minimum of 400,000 mt of alumina per year for 30 years. It also has the option to increase its alumina purchases as CNNC's needs grow. CNNC is a Chinese state-owned enterprise, which operates and controls the state-owned nonferrous industry in China.

Suriname. Suralco owns 55% of a 1.7 million mt per year alumina refinery in Paranam, Suriname and operates the plant. An affiliate of Gencor holds the remaining 45% interest.

Jamaica. An Alcoa subsidiary and a corporation owned by the Government of Jamaica are equal participants in an alumina refinery in Clarendon Parish, Jamaica. The Alcoa subsidiary manages the joint venture. The refinery's annual capacity is expected to increase from 800,000 to about 1 million mt by 1999.

Brazil. Aluminio manages the operation of the Alumar Consortium (Alumar), a cost-sharing and production-sharing venture that owns a large refining and smelting project near Sao Luis, in the northeastern state of Maranhao. In late 1996, the Alumar refinery was expanded by 260,000 mt per year, bringing total annual capacity to 1.3 million mt. It is owned 35.1% by Aluminio, 36% by an affiliate of Gencor, 18.9% by Abalco S.A. (owned 60% by Alcoa and 40% by WMC) and 10% by an affiliate of Alcan Aluminium Limited (Alcan). Most of this alumina production is consumed at the smelter.

Aluminio holds an 8.6% interest and Abalco S.A. holds a 4.6% interest in MRN, a mining company that is jointly owned by affiliates of Alcan, Companhia Brasileira de Aluminio, Companhia Vale do Rio Doce, Gencor, Norsk Hydro and Reynolds Metals Company. Aluminio and Abalco S.A. purchase bauxite from MRN under long-term supply contracts.

At Pocos de Caldas, Aluminio mines bauxite and operates a refinery. The refinery has an annual capacity of 270,000 mt and primarily supplies Aluminio's nearby smelter.

Spain. In February 1998, Alcoa acquired from the Spanish State Entity for Industrial Participations the stock of the main sectors of the aluminum business of Industria Espanola del Aluminio, S.A. (Inespal), Spain's state-owned aluminum producer headquartered in Madrid. Inespal had 1997 revenues of $1.1 billion. The acquisition includes a 1.1 million mt per year alumina refinery at San Ciprian, as well as three aluminum smelters, three aluminum rolling facilities, two extrusion plants and an administrative center. Alcoa and a WMC affiliate will hold a 60% and 40% interest, respectively, in the refinery.

U.S. Alcoa Alumina & Chemicals, L.L.C., through a majority-owned entity, St. Croix Alumina, L.L.C., owns a 600,000 mt per year alumina refinery located on St. Croix, U.S. Virgin Islands. In February 1998, AWAC restarted the refinery to fill customer orders because AWAC's worldwide demand for alumina, including the material it will produce at St. Croix, is sold out for 1998. The refinery had been inactive due to world alumina market conditions.

Alcoa Alumina & Chemicals, L.L.C. owns an alumina refinery at Point Comfort, Texas. A 365,000 mt per year expansion was completed during 1997 and brought annual capacity to 2.3 million mt.

Industrial Chemicals

Alcoa sells industrial chemicals to customers in a broad spectrum of markets for use in refractories, ceramics, abrasives, chemicals processing and other specialty applications.

Industrial chemicals, principally alumina-based chemicals, are produced or processed at the locations that follow. Except for the plants located in Brazil, all of these facilities are part of AWAC.

United States	Outside the United States
Mobile, Alabama	Kwinana and Rockingham, Australia
Bauxite, Arkansas	Pocos de Caldas and Salto, Brazil
Ft. Meade, Florida	Ludwigshafen, Germany
Dalton, Georgia	Falta, India (joint venture)
Lake Charles, Port Allen and Vidalia, Louisiana	Iwakuni and Naoetsu, Japan
Leetsdale, Pennsylvania	Moerdijk and Rotterdam, The Netherlands
Nashville, Tennessee	Singapore, Singapore
Point Comfort, Texas	

Aluminum fluoride, used in aluminum smelting, is produced from fluorspar at Point Comfort and from hydrofluosilicic acid at Ft. Meade.

In late 1998, AWAC will begin construction of a facility in China to process tabular alumina and other alumina-based materials for sale to the Chinese refractory market.

Aluminum Processing Segment

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.

Revenues and shipments for the principal classes of products in the Aluminum Processing segment follow.

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

Aluminum Ingot

The Company smelts primary aluminum from alumina obtained principally from its alumina refineries. Alcoa's consolidated primary aluminum capacity is rated at approximately 2.1 million mt per year. When operating at capacity, Alcoa's smelters more than satisfy the primary aluminum requirements of its fabricating operations. Most of the Company's primary aluminum production in 1997 was delivered to other Alcoa operations for alloying and/or further fabricating. Purchases of aluminum scrap, principally used beverage cans, supplemented by purchases of ingot when necessary, satisfy additional aluminum requirements.

Since 1994, Alcoa has had 450,000 mt of its worldwide smelting capacity idle because of an oversupply of ingot on world markets.

Aluminum is produced from alumina by an electrolytic process requiring large amounts of electric power. Electric power accounts for about 25% of the Company's primary aluminum costs. Alcoa generates approximately 40% of the power used at its smelters worldwide. Most purchase contracts for firm power tie prices to aluminum prices or to prices based on various indices.

Australia. AofA is a participant in a joint venture smelter at Portland, State of Victoria, with an annual rated capacity of 320,000 mt. The venture is owned 45% by AofA, 25% by the State of Victoria and 10% each by the First National Resources Trust, the China International Trust and Investment Corporation and Marubeni Aluminium Australia Pty., Ltd. A subsidiary of AofA operates the smelter. Each participant in this smelter is required to contribute to the cost of operations and construction in proportion to its interest in the venture and is entitled to its proportionate share of the output. Alumina is supplied by AofA. The Portland site can accommodate additional smelting capacity.

Currently, approximately 40% of the power for the 180,000 mt Point Henry smelter is generated by AofA using its extensive brown coal deposits. The balance of the power for this smelter and power for the Portland smelter are provided under contracts with the State Electricity Commission of Victoria (SECV). Power prices are tied by formula to aluminum prices. During 1997, AofA concluded contractual discussions with SECV, resulting in an agreement on a supplemental power arrangement through 2002 that meets the full supply requirements of the smelters. Discussions continue with SECV to clarify various commercial aspects of power supplies to the smelters, including the value of "interruptibility" to the power supply at both plants.

Brazil. The Alumar smelter at Sao Luis, Brazil has an

annual rated capacity of 362,000 mt. Aluminio receives about 54% of the production from this smelter. Electric power is purchased from the government-controlled power grid in Brazil at a small discount from the applicable industrial tariff price and is protected by a cap based on the London Metal Exchange (LME) price of aluminum.

Aluminio contracted with Central Eletricas de Minas Gerais S.A. (CEMIG), the government-controlled electric utility, to supply power to Aluminio's 90,000 mt Pocos de Caldas smelter for a 30-month period that began in October 1996. Aluminio purchased the plant's anticipated full power requirements for this 30-month period through a single payment based on the price of energy on the date of the agreement. At the end of this period, Aluminio may be subject to increased power prices for the plant and may decide to negotiate another purchase of power from CEMIG or from another utility.

In 1996, Aluminio participated in a consortium that won a bidding process to build the new Machadinho hydroelectric power plant in Southern Brazil. If all environmental and other approvals that are necessary for the construction of the dam and related facilities are received, Aluminio would be entitled to a share of the output beginning in 2002. Aluminio's share is expected to be sufficient to supply approximately one-half of the power requirements for the Pocos de Caldas smelter. In addition, Aluminio intends to participate in an auction process that could result in its purchase of the regional Rio Pardo hydroelectric utility.

Europe. In 1996, Alcoa acquired the principal operating assets of Alumix S.p.A. (Alumix), Italy's state-owned aluminum producer. Aluminum smelters at Portovesme and Fusina, with combined annual capacity of 187,000 mt, were among the assets purchased. Alumina is supplied under an evergreen agreement with the owners of the Eurallumina refinery, located on Sardinia adjacent to the Portovesme smelter. Power for these smelters is supplied by ENEL, Italy's state-owned utility.

The acquisition of Inespal mentioned earlier included the purchase of aluminum smelters at San Ciprian, La Coruna and Aviles, with a combined annual capacity of 365,000 mt. Alumina is supplied from Inespal's San Ciprian refinery. Electric power currently is purchased from the government-controlled power grid at the lowest applicable industrial tariff rate.

U.S. Approximately 55% of the power requirements for Alcoa's six U.S. smelters is generated by the Company; the remainder is purchased under long-term contracts. Approximately 12% of the self-generated power is obtained from Alcoa's entitlement to a fixed percentage of the output from Chelan County Public Utility District's Rocky Reach hydroelectric power facility located in the State of Washington.

The Company has generated substantially all of the power used at its Warrick, Indiana smelter using nearby coal reserves. A 1996 coal supply contract satisfies 50% of the smelter's fuel requirement through 2006. Existing low-sulfur coal contracts satisfy an additional 35% of the requirement through 1999.

Lignite is used to generate power for the Rockdale, Texas smelter. Company-owned generating units supply about half of the total requirements, and the balance is purchased through a long-term power contract expiring in 2013 with Texas Utilities.

Two subsidiaries of the Company own and operate hydroelectric facilities under Federal Energy Regulatory Commission licenses. They provide electric power for the aluminum smelters at Alcoa, Tennessee and Badin, North Carolina. The Tennessee plant also purchases firm and interruptible power from the Tennessee Valley Authority under a contract that recently was extended to 2010. At the Badin plant, additional power is purchased from Duke Power under an evergreen contract providing for specified periods of notice before termination by either party.

The purchased power (primarily hydroelectric) contract for the Massena, New York smelter expires not earlier than 2003, but may be terminated by Alcoa with one year's notice.

In addition to the power output entitlement contract for its Wenatchee, Washington smelter referred to earlier, Alcoa has a contract with the Bonneville Power Administration (BPA). Several contractual provisions allow restrictions when power is in short supply. Beginning in 1995, a portion of the power supplied under the BPA contract was replaced by power purchased from a local public utility district. Additional power subsequently has been purchased from the district, and currently no BPA power is utilized at Wenatchee Works.

Suriname. Suralco owns and operates a 30,000 mt per year smelter in Paranam, Suriname. Suralco also operates the Afobaka hydro project, which supplies power to the smelter.

Norway. Although not included in the revenues and shipment tables above, the Company reports equity earnings from its interest in two smelters in Norway. Elkem Aluminium ANS, 50%-owned by an Alcoa subsidiary, Norsk Alcoa A/S, is a partnership

that owns and operates the smelters.

Canada. On February 25, 1998, Alcoa and the government of British Columbia, Canada signed a memorandum of understanding to proceed with a feasibility study for the construction of a 250,000 mt per year primary aluminum smelter. The study will be completed no later than December 31, 1998. If

the study produces a favorable result, construction could start in 1999 and would represent an investment of approximately $850 million.

Flat-Rolled Products

Alcoa's flat-rolled products serve three principal markets: light gauge sheet products mainly serve the packaging market, and sheet and plate products serve the transportation and building and construction markets. Alcoa employs its own sales force for most products sold in the packaging market.

Rigid Container Sheet (RCS). Most of the 1997 revenues in the packaging market were derived from RCS which is sold to can companies for production of beverage and food cans and can ends.

The number of RCS customers in the U.S. is relatively small. Use of aluminum beverage cans continues to increase 3% annually worldwide-particularly in Asia, Europe and South America, where per capita consumption remains relatively low.

Aluminum's diverse characteristics, particularly its light weight, recyclability and flexiblity for package designs, are significant factors in packaging markets where alternatives such as steel, plastic and glass are competitive materials. Leadership in the packaging markets is maintained by improving processes and facilities, as well as by providing marketing, research and technical support to customers. RCS is produced at the following locations:

RCS Facilities	
Warrick, Indiana	Yennora, Australia*
Alcoa, Tennessee	Moka, Japan*
Point Henry, Australia*	Swansea, Wales

*Joint venture

Kaal Australia Pty. Ltd., 50%-owned by Alcoa, owns and operates the former AofA rolling mill at Point Henry and the former Comalco Limited rolling mill at Yennora. These mills produce RCS for the Australian and Asian markets. AofA continues to supply Kaal Australia with aluminum ingot.

A subsidiary of Alcoa participates in a 50/50 joint venture with Kobe Steel, Ltd. to serve RCS markets in Japan and other Asian countries. In connection with this venture, Alcoa has a long-term contract to supply metal to Kobe Steel.

Used aluminum beverage cans are an important source of metal for RCS. Recycling aluminum conserves raw materials, reduces litter and saves energy -- about 95% of the energy needed to produce aluminum from bauxite. In addition, recycling capacity costs much less than new primary aluminum capacity. Can recycling or remelt facilities are located at or near Alcoa's Warrick, Indiana; Alcoa, Tennessee; and Yennora, Australia plants.

In April 1997, Alcoa announced that it had signed a Letter of Intent with Reynolds Metals Company to acquire Reynolds' rolling mill in Muscle Shoals, Alabama, two nearby can reclamation plants and a coil coating facility in Sheffield, Alabama. In late December 1997, Alcoa announced that it was ending its acquisition plans with respect to those operations in light of U.S. Department of Justice opposition.

Foil. Industrial foil, laminated foil and brazing sheet for the automotive, packaging and building and construction markets are produced at Alcoa's Lebanon, Pennsylvania facility. Continuous casting facilities in Hawesville, Kentucky and Badin, North Carolina produce reroll stock in support of the Lebanon facility. Light gauge sheet, foil products and laminated evaporator panels are manufactured by

Aluminio near Recife, Brazil. Light gauge sheet also is produced at Yennora, Australia. Foil products are produced at Inespal's facilities at Alicante and Sabinanigo, Spain.

Alcoa and Shanghai Aluminum Fabrication Plant (SAFP) have a joint venture, owned 60% by Alcoa and 40% by SAFP, that operates the former SAFP aluminum foil and foil laminate production facility in Shanghai, China. The joint venture facility currently produces approximately 13,000 mt of aluminum foil per year. Through the use of technology and the addition of a second caster, annual output is expected to increase to about 18,000 mt within two years.

Sheet and Plate. Sheet and plate products serve the

aerospace, auto and truck, lithographic, railroad, ship-building, building and construction, defense and other industrial and consumer markets. The Company maintains its own sales forces for most of these products.

Differentiation of material properties, price and service are significant competitive factors. Aluminum's diverse characteristics are important in these markets where competitive materials include steel and plastics for automotive and building applications; magnesium, titanium, composites and plastics for aerospace and defense applications; and wood and vinyl in building and construction applications. Alcoa continues to develop alloys and products for aerospace and defense applications, such as those developed for the Boeing 777, Lockheed F-16, Canadair aircraft and the Advanced Amphibious Assault Vehicle.

Alcoa's largest sheet and plate plant is located at Davenport, Iowa. It produces products requiring special alloying, heat-treating and other processing, some of which are unique or proprietary. In 1996, Alcoa announced an increase in the Davenport, Iowa plant's heat-treating capacity for sheet and plate as part of a $75 million investment to meet aerospace and automotive demand. Alcoa also commissioned the largest vertical heat-treat furnace in North America, thus tripling the plant's capacity for wide-width fuselage sheet. A horizontal plate heat-treating furnace that will increase capacity by 30% began production in the 1997 second quarter.

The Company continues to produce cast aluminum plate at its Vernon, California plant after closing its hard alloy extrusion, tube and forgings facilities there in 1994. Alcoa has invested approximately $10 million in new machinery and equipment for the plant's cast aluminum plate operation since the restructuring.

Alcoa and Kobe Steel have a joint venture in the U.S. and one in Japan to serve the transportation industry. Initial emphasis of these ventures is focused on expanding the use of aluminum sheet products in passenger cars and light trucks.

The Company's Hungarian subsidiary, Alcoa-Kofem Kft, produces common alloy flat and coiled sheet as well as soft alloy extrusions and end products for the building, construction, food and agricultural markets in central and western Europe. In 1996, Alcoa acquired the remaining 49.9% interest in Kofem from the Hungarian government.

Kofem began delivering aluminum truck bodies to major beverage companies in Russia and Poland in 1996. Kofem delivered additional truck bodies to customers in central and eastern European countries in 1997.

The Company's Alcoa Italia S.p.A. subsidiary, part of the 1996 Alumix acquisition, produces industrial plate and common alloy flat and coiled sheet for the building and construction, transportation and other industrial markets in Europe at its Fusina, Italy rolling mill.

Alcoa has a 165,000 square-feet plant in Hutchinson, Kansas for further processing and just-in-time stocking of aluminum sheet products for the U.S. aerospace market. Alcoa serves European sheet and plate markets through a distribution center in Paal, Belgium.

Alcoa has completed construction of a 165,000 square-feet plant in Danville, Illinois for further processing and just-in-time stocking of aluminum sheet products for the North American automotive market. The Company expects this facility to begin production in the 1998 first quarter.

The Inespal acquisition mentioned earlier also included the purchase of rolling mills at Amorebieta, Alicante and Sabinanigo, Spain which produce industrial plate and common alloy flat and coiled sheet for the building and construction, transportation and other industrial markets in Europe.

Engineered Products

Engineered products include extrusions used in the transportation and construction markets; aluminum forgings and castings; aluminum wheels; wire, rod and bar; and automotive components.

Extrusions. Aluminum extrusions and tube are produced principally at five U.S. locations:

- the Chandler, Arizona plant produces hard alloy extrusions, tube and forge stock;
- the Lafayette, Indiana plant produces a broad range of hard alloy extrusions and tube;
- the Baltimore, Maryland plant produces large press extrusions; and
- the Tifton, Georgia and Delhi, Louisiana plants produce common alloy extrusions.

Aluminum extruded products are manufactured by a subsidiary in Argentina and by Aluminio at several locations in Brazil. In

1996, Aluminio acquired the extrusion assets of an Alcan affiliate in Brazil. The assets included four plants and eight extrusion presses. The transaction has been submitted to Brazilian antitrust authorities for review and approval, and that approval is pending.

Alcoa Extrusions Hannover GmbH & Co. KG produces and markets high-strength aluminum extrusions and rod and bar to serve European transportation and defense markets. In January 1997, Alcoa acquired the remaining 40% interest and now owns 100% of this company.

The subsidiaries of Alcoa Nederland Holding B.V. produce extrusions, common alloy sheet products and a variety of finished products for the building industry, such as aluminum windows, doors and aluminum ceiling systems. These companies also manufacture products for the agricultural industry such as automated greenhouse systems.

Aluminum East ZAO, through its Building Systems International branch, assembled and sold aluminum windows and doors in Russia. This business is being discontinued.

The Alumix acquisition mentioned earlier also included the purchase of extrusion plants in Bolzano, Fossanova, Feltre and Iglesias, Italy and an extrusion die shop in Mori, Italy.

The Inespal acquisition also included the purchase of extrusion plants at Noblejas and La Coruna, Spain.

Alcoa also has extrusion plants in Valls, Spain, Hungary and the United Kingdom.

Mechanical-grade redraw rod, wire and cold-finished rod and bar are produced at Massena, New York and are sold to distributors and customers for applications in the building and transportation markets.

Forgings/Castings. Aluminum forgings, sold principally in the aerospace, automotive, commercial transportation and defense markets, are produced at Cleveland, Ohio and Szekesfehervar, Hungary.

In 1997 Alcoa completed construction of a multi-phase facility to increase wheel production at its Cleveland operations. This represented a $42 million investment to increase production of forged aluminum wheels to meet market demand for U.S. light trucks.

Alcoa and Superior Industries International Inc. have formed a company to produce cast aluminum wheels for commercial trucks and buses. The wheels will be marketed through Alcoa's existing wheel sales organization. The initial manufacturing operations are located at Superior's Van Nuys, California facility. The parties expect to reach commercial production levels by mid-1999.

Alcoa's plant in Szekesfehervar, Hungary manufactures forged aluminum truck wheels for the European market. The plant also manufactures wheels for export to Asian, South American and other geographic markets where European-style wheels are used. The plant began production in mid-1997.

Alcoa has a 50% interest in a partnership, A-CMI, with a subsidiary of CMI International, Inc. to produce cast and forged aluminum automotive parts. A-CMI's first European manufacturing plant in Lista, Norway develops and produces cast aluminum chassis, suspension, brake and powertrain components and systems. The plant represents a total investment of approximately $40 million. It is located near the 50%-owned Elkem Aluminium ANS smelter, which delivers molten aluminum to the plant. Production began in late 1997.

A-CMI's Kentucky Casting Center in Hawesville, Kentucky, its second North American facility, produces aluminum chassis and suspension structural components for the automotive market.

Alcoa also designs and builds specialized die-casting machines through a subsidiary in Montreal, Canada.

Automotive Body Structures. Alcoa Automotive Structures GmbH produces aluminum components and sub-assemblies for aluminum automotive spaceframes. Aluminum spaceframes represent a significant departure from the traditional method and material used to manufacture primary auto body structures.

In 1993, Alcoa began operating a unique multi-million dollar plant in Soest, Germany to supply aluminum components and subassemblies to its first customer, Audi AG. In 1994, Audi began marketing its A8 luxury sedan in Europe-the first production automobile to utilize a complete aluminum spaceframe body structure. The aluminum spaceframe of the A8 is a result of a cooperative effort between Alcoa and Audi that began in 1981 and is constructed from these components and sub-assemblies produced by Alcoa. The 1997 A8 debuted in U.S. showrooms in the fall of 1996. The Soest plant also produces the front end module for the new Mercedes-Benz A Class car.

Alcoa also operates design and engineering offices in Esslingen (Stuttgart), Germany; Detroit, Michigan and at Alcoa Technical Center, near Pittsburgh, Pennsylvania, where it designs aluminum auto body structures for a variety of European car manufacturers.

Alcoa is working with several other automobile manufacturers in North America and Japan to develop new automotive applications for aluminum products. For example, Chrysler Corporation's Plymouth Prowler, a new roadster, entered initial, low-volume production in 1997. Carrying 900 pounds of aluminum (or approximately one-third of its weight), the Prowler is constructed of an all-aluminum frame and body as well as aluminum for brake rotors and suspension components. Alcoa and Chrysler designed the car's spaceframe and Alcoa provides aluminum sheet stock to be stamped into body panels and bumper assemblies. Alcoa's plant in Northwood, Ohio manufactures the Prowler frame and a variety of aluminum structural assemblies for the U.S. automotive industry including the Corvette windshield surround.

Other Aluminum Products. Aluminio produces aluminum truck and van bodies and aluminum casting products in Sao Paulo, Brazil and aluminum electrical cable at its Pocos de Caldas plant. Aluminio is negotiating for the sale of the assets of its aluminum truck body division.

In December 1997, Aluminio and Phelps Dodge Corporation signed a joint venture agreement to produce aluminum electric cable and copper wiring and cables in Brazil. The venture, Phelps Dodge & Alcoa Fios e Cabos Eletricos S.A., is owned 60% by Phelps Dodge and 40% by Aluminio. Production takes place at the venture's plant in Pocos de Caldas. The transaction has been submitted to Brazilian antitrust authorities for review and approval.

Alcoa Building Products, Inc. manufactures and markets residential aluminum siding and other aluminum building products. These products are sold principally to wholesale distributors.

Alcoa Closure Systems International, Inc. produces aluminum closures for bottles at Worms, Germany; Nogi and Ichikawa, Japan; and Barcelona, Spain. In April 1997, Alcoa sold the assets of its Richmond, Indiana works to Silgan Holdings Inc.

Alcoa and Sinter Metals, Inc. of Cleveland, Ohio, have formed a strategic alliance to develop and expand the market for aluminum parts produced by powder metallurgy techniques, especially for the automotive, business machine, appliance, lawn care and leisure equipment markets.

Alcoa produces and markets aluminum paste, particles, flakes and atomized powder. It also produces high-purity aluminum.

Nonaluminum Products Segment

The Nonaluminum Products segment includes the production and sale of electrical, plastic and composite materials products, manufacturing and packaging equipment, gold, magnesium products and steel and titanium forgings.

Alcoa Fujikura Ltd. (AFL)

AFL produces and markets electronic and electrical distribution systems (EDS) for the automotive industry, as well as fiber optic products and systems for selected electric utilities, telecommunications, cable television and datacom markets. AFL supplies EDS to Ford, Subaru, Kenworth, Peterbilt, Mack and Navistar.

In 1995, AFL acquired the operations of Electro-Wire Products, Inc. Electro-Wire manufactured EDS for autos, trucks and farm equipment. Combining these two businesses created a worldwide enterprise that is the largest supplier of EDS to Ford Motor Company's worldwide operations. The combined enterprise also is the largest supplier of EDS to the heavy truck industry.

AFL owns Michels GmbH & Co. K.G. (Michels), a manufacturer of EDS for automobiles, appliances and farm equipment, with two plants in Germany and five plants in Hungary. In mid-1997, AFL acquired the remaining 10% interest in Michels from its founder. The Stribel group of companies, European manufacturers of electromechanical and electronic components for the European automotive market, also are owned by AFL.

AFL and Aluminio have a joint venture, AFL do Brasil Ltda., that manufactures and sells EDS in Brazil. During 1997, AFL established an EDS manufacturing facility in Venezuela.

Significant competitive factors in the EDS markets include price, quality and full service supplier capability. Automakers increasingly require support from their selected suppliers on a global basis.

In mid-1997, AFL's telecommunications division acquired the assets of Six "R" Communications Inc., a Monroe, North Carolina-based provider of EF&I services (engineer, furnish and install)

to the telecom, CATV and electric utility industries. Six "R" Communications, L.L.C., a majority-owned entity, now operates this business.

Packaging and Closures

Alcoa Closure Systems International, Inc. (ACSI) is the world's largest producer of plastic closures for beverage containers. Its business is coordinated from Indianapolis, Indiana. The use of plastic closures has surpassed that of aluminum closures for beverage containers in the U.S. and is gaining momentum in other countries. Alcoa has plastic closure, PET (polyethylene terephthalate) plastic bottles or packaging equipment design and assembly facilities at the following locations:

Packaging and Closures Facilities

Crawfordsville, Indiana
Santiago, Chile
Ichikawa and Nogi, Japan
Olive Branch, Mississippi
Tianjin, China
Saltillo, Mexico
Buenos Aires, Argentina
Bogota, Colombia
Lima, Peru
Manama, Bahrain
Szekesfehervar, Hungary
Lyubuchany, Russia
Barueri, Itapissuma, Lages and Queimados, Brazil
Barcelona, Spain

In September 1997, ACSI began production of plastic closures at Lyubuchany, Russia, south of Moscow. The unit is known as Alcoa CSI Vostok.

The Alcoa Packaging Equipment business unit (APE) designs, manufactures and services bodymakers, decoration equipment, registered embossers, end conversion presses and a variety of testing equipment for the can making industry, along with plastic and aluminum closure handling, orientation, inspection and capping equipment for the food and beverage industry. Alcoa Advanced Technologies, a division of APE, supplies advanced material products to the semiconductor equipment industry.

Other Nonaluminum Products

The former Stolle Corporation was comprised of four divisions -- Alcoa Building Products (whose principal products for building and construction markets are vinyl siding and accessories, plastic injected molded shutters and architectural accessories and coated aluminum trim and rain carrying products); Dayton Technologies (which produced extruded profiles for the vinyl window and patio door markets); Norcold (which produced refrigerator units) and Caradco (which manufactured vinyl and wood windows and patio doors).

In February 1997, Alcoa sold the assets of Dayton Technologies to Deceuninck Plastics Industries, N.V., a Belgian building materials company, and the assets of Norcold and a related Alcoa subsidiary, Arctek Corporation, to The Dyson-Kissner-Moran Corporation. In April 1997, Alcoa sold the assets of Caradco to JELD-WEN inc., a privately-held building products and millwork manufacturer. The Stolle Corporation was renamed Alcoa Building Products, Inc.

Northwest Alloys, Inc., in Addy, Washington, produces magnesium from minerals in the area owned by the Company. The magnesium is used by Alcoa for certain aluminum alloys and also is sold to third parties.

Aluminio and Alcatel Cable Ameriques (ACA), a subsidiary of Alcatel of France, have formed a joint venture to manufacture, in Brazil, and sell telecommunication cables and related accessories in South America. The venture, called Alcatel Cabos Brazil, is owned 40% by Aluminio and 60% by ACA

and affiliates. The transaction has been submitted to the Brazilian antitrust authorities for review and approval.

Aluminio formerly owned and operated a chain of retail construction materials outlets in Brazil. Aluminio disposed of its interest in these outlets in September 1997.

In January 1997, Alcoa sold the assets of Composite Structures, in Monrovia, California (which was the last operating division of Alcoa Composites, Inc.), to an investment group. ACI has been conducting a transition and/or liquidation of its remaining assets and liabilities. ACI principally designed and manufactured composite parts and structures for aerospace and transportation applications.

An AofA subsidiary, Hedges Gold Pty. Ltd., mines gold in Western Australia under leases that expire in 2009 subject to renewal options. Gold production has been declining since 1990.

Large press steel, titanium and special super-alloy forgings are produced at Cleveland, Ohio. These products are sold principally in aerospace and commercial markets.

Alcoa owns a 36% interest in American Trim, L.L.C., a joint venture that manufactures primarily auto parts and appliance control panels.

Competition

The markets for most aluminum products are highly competitive. Price, quality and service are the principal competitive factors in most of these markets. Where aluminum products compete with other materials, the diverse characteristics of aluminum are also a significant factor, particularly its light weight and recyclability. The competitive conditions are discussed earlier for each of the Company's major product classes.

The Company continues to examine all aspects of its operations and activities and redesign them where necessary to enhance effectiveness and achieve cost reductions. Alcoa believes that its competitive position is enhanced by its improved processes, extensive facilities and willingness and ability to commit capital where necessary to meet growth in important markets, and by the capability of its employees. This includes implementation of Alcoa Business System and the Alcoa Production System. Research and development has led to improved product quality and production techniques, new product development and cost control.

Other Risk Factors

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

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

Commodity Price Risks

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

The aluminum industry is highly cyclical and the Company's results of operations are influenced by LME-based prices of primary aluminum. This price sensitivity impacts a portion of the Company's

alumina sales and many of the Company's aluminum products, with less impact on the more specialized and value-added products.

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

In the normal course of business, Alcoa enters into long-term contracts with a number of its fabricated products customers. At December 31, 1997 and 1996, such contracts approximated 2.093 million mt and 2.369 million mt, respectively. Alcoa may enter into similar arrangements in the future.

In order to hedge the risk of higher prices for the anticipated metal purchases required to fulfill these long-term customer contracts, Alcoa enters into long positions, principally using futures and options. Alcoa follows a stable pattern of purchasing metal; therefore, it is highly likely that anticipated metal requirements will be met. At December 31, 1997 and 1996, these contracts totaled approximately 1,084,000 mt and 872,000 mt, respectively.

A hypothetical 10% change from the 1997 year-end, three-month LME aluminum ingot price of $1,552 per mt would result in a pre-tax gain or loss to future earnings of $170 million related to these contracts. However, it should be noted that any change in the value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the cost of purchased metal. Earnings were selected as the measure of sensitivity due to the historical relationship between aluminum ingot prices and Alcoa's earnings. The hypothetical change of 10% was calculated using a parallel shift in the existing December 31, 1997 forward price curve for aluminum ingot. The price curve takes into account the time value of money, as well as future expectations regarding the price of aluminum ingot. The model also assumes there will be no aluminum smelter capacity

restarted by Alcoa.

The futures and options contracts noted above are with 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. Deferred gains of $113 million on the hedging contracts at December 31, 1997 are expected to offset the increase in the price of the purchased metal.

The expiration dates of the options and the delivery dates of the futures contracts do not always coincide exactly with the dates on which Alcoa is required to purchase metal to meet its contractual commitments with customers. Accordingly, some of the futures and options positions will be rolled forward. This may result in significant cash inflows if the hedging contracts are "in-the-money" at the time they are rolled forward. Conversely, there could be significant cash outflows if metal prices fall below the price of contracts being rolled forward.

In addition to the above-noted aluminum positions, Alcoa also had 259,000 mt and 205,000 mt of futures and options contracts outstanding at year-end 1997 and 1996, respectively, that cover long-term, fixed-price commitments to supply customers with metal from internal sources. Accounting convention requires that these contracts be marked-to-market, which resulted in after-tax charges to earnings of $13 million in 1997 and $57 million in 1996.

A hypothetical 10% change in aluminum ingot prices from the year-end 1997 level of $1,552 per mt would result in a pre-tax gain or loss of $30 million related to these positions. The hypothetical gain or loss was calculated using the same model and assumptions noted earlier.

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

Foreign Exchange Risks

Alcoa is subject to significant exposure from fluctuations in foreign currencies. As a matter of company policy, foreign currency exchange contracts, including forwards and options, are used to limit transactional exposure to changes in currency exchange rates. The forward contracts principally cover existing exposures and firm commitments, while options are generally used to hedge anticipated transactions.

A hypothetical 10% change in applicable 1997 year-end forward rates would result in a pre-tax gain or loss of approximately $80 million related to these positions. However, it should be noted that any change in value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged items. The model assumes a parallel shift in the forward curve for the applicable currencies. See Note Q to the Financial Statements for information related to the notional and fair market values of Alcoa's foreign exchange contracts at December 31, 1997 and 1996.

Interest Rate Risks

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

At December 31, 1997 and 1996, Alcoa had $1,952 million and $2,075 million of debt outstanding at effective interest rates of 7.00% and 6.71% after the impact of interest rate swaps and caps is taken into account. A hypothetical change of 10% in Alcoa's effective interest rate from year-end 1997 levels would increase or decrease interest expense by $14 million. For more information related to Alcoa's use of interest rate instruments, see Notes A and Q to the Financial Statements.

Risk Management

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

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

Material Limitations

The disclosures with respect to aluminum prices and foreign exchange risk do not take into account the underlying anticipated purchase obligations and the underlying transactional foreign exchange exposures. If the underlying items were included in the analysis, the gains or losses on the

futures and options contracts may be offset. Actual results will be determined by a number of factors that are not under Alcoa's control and could vary significantly from those disclosed.

Year 2000 Issue

Alcoa, assisted by outside consultants, has conducted a detailed review of its administrative and process control computer systems to identify areas that are affected by the "Year 2000" issue. The Year 2000 issue is the result of computer programs being written using two digits (rather than four) to define the applicable year. This could result in computational errors as dates are compared across the century boundary. The vast majority of the Company's products do not contain microprocessors or other electronic components and thus are not susceptible to Year 2000 issues in their operation.

The Company's evaluation of the Year 2000 readiness of process control systems includes monitoring and control devices for plants and other operating locations. Plans detailing the tasks and resources required to ensure Year 2000 readiness for process control are expected to be in place by mid-year. The total cost associated with any required modifications for the Company's critical process control systems is not expected to be material to the Company's financial position.

An unexpected failure to have corrected a Year 2000 problem could result in an interruption in certain normal business activities or operations. However, the Company believes that, with the completion of its Year 2000 project, significant interruptions will not be encountered. See also Year 2000 Issue on page 35 in the Annual Report to Shareholders.

Employees

Alcoa had 81,600 employees worldwide at year-end 1997. About one-third of the employees are located in the U.S.

New six-year labor agreements covering the majority of Alcoa's U.S. production workers were ratified in mid-1996. As part of the agreements, Alcoa and the unions agreed to an unprecedented partnership mandating that they work cooperatively on customer requirements, business objectives and shareholder and union interests. The agreements set broad, new goals for employee safety, job security, influence, control and accountability for the work environment. Other major provisions include: wage increases over the first five years; enhanced pension benefits; increases in sickness and accident insurance, life insurance and dental benefits and the amount of income a spouse may earn before sharing medical benefit costs. The new agreements have five years of defined provisions. At the end of the fifth year, the entire contract will be reopened. If agreement cannot be reached, the economic provisions will be submitted to arbitration.

In 1996, a new five-year labor agreement covering about 1,100 employees at Alcoa's Forged Products business unit in Cleveland, Ohio was ratified. A three-week strike followed the expiration of the previous three-year pact.

Wages for AofA employees are covered by agreements that are negotiated under guidelines established by a national industrial relations authority.

Wages for both hourly and salaried employees of Aluminio are negotiated annually in compliance with government guidelines. Each Aluminio location, however, has a separate compensation package for its employees.

Research and Development

Alcoa, a technology leader in the aluminum industry, engages in research and development programs which include basic and applied research, and process and product development. These

activities are conducted principally at Alcoa Technical Center. Several business units conduct their own R&D programs.

Expenditures for R&D activities were $143 million in 1997, $166 million in 1996 and $141 million in 1995. Substantially all R&D is funded by the Company.

Environmental

Alcoa's Environment, Health and Safety Policy confirms its commitment to operate worldwide in a manner which protects the environment and the health and safety of employees and of the citizens of the communities where the Company operates.

Alcoa continues its efforts to develop and implement modern technology, and standards and procedures, to meet its Environment, Health and Safety Policy. Approximately $94 million was spent during 1997 for new or expanded facilities for environmental control. Capital expenditures for such facilities will approximate $102 million in 1998. The costs of operating these facilities are not included in these figures. Remediation expenses are continuing at many of the Company's facilities. See Environmental Matters on page 33 in the Annual Report to Shareholders and "Item 3 - Legal Proceedings" below.

Alcoa's operations worldwide, like those of others in manufacturing industries, have in recent years become subject to increasingly stringent legislation and regulations intended to protect human health and safety and the environment. This trend is expected to continue. Compliance with new laws, regulations or policies could require substantial expenditures by the Company in addition to those referenced above.

Alcoa supports the use of sound scientific research and realistic risk criteria to analyze environmental and human health and safety effects and to develop effective laws and regulations in all countries where it operates. The Company also relies on internal standards that are applied worldwide to ensure that its facilities operate with minimal adverse environmental, health and safety impacts, even where no regulatory requirements exist. Alcoa recognizes that recycling and pollution prevention offer real solutions to many environmental problems, and it continues vigorously to pursue efforts in these areas.

Item 2. Properties.

See "Item 1 - Business." Alcoa believes that its facilities, substantially all of which are owned, are suitable and adequate for its operations.

Item 3. Legal Proceedings.

In the ordinary course of its business, Alcoa is involved in a number of lawsuits and claims, both actual and potential, including some which it has asserted against others. While the amounts claimed may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. It is possible that results of operations or liquidity in a particular period could be materially affected by certain contingencies. Management believes, however, that the disposition of matters that are pending or asserted will not have a material adverse effect on the financial position of the Company.

Environmental Matters

Alcoa is involved in proceedings under the Superfund or analogous state provisions regarding the usage, disposal, storage or treatment of hazardous substances at a number of sites in the U.S. The Company has committed to participate, or is engaged in negotiations with Federal or state authorities relative to its alleged liability for participation, in clean-up efforts at several such sites.

In response to a unilateral order issued under Section 106 of the Comprehensive Environmental Compensation and Liability Act of 1980 (CERCLA) by the U.S. Environmental Protection Agency (EPA) Region II regarding releases of hazardous substances, including polychlorinated biphenyls (PCBs), into the Grasse River near its Massena, New York facility, Alcoa conducted during 1995 certain remedial activities in the Grasse River for the removal and appropriate disposal of certain river sediments. During 1996, the Company submitted an Analysis of Alternatives Report, which is being reviewed by the EPA.

Representatives of various Federal and state agencies and a Native American tribe, acting in their capacities as trustees for natural resources, have asserted that Alcoa may be liable for loss or damage to such resources under Federal and state law based on Alcoa's operations at its Massena, New York facility. While formal proceedings have not been instituted, the Company is actively investigating these claims.

The New York State Department of Environmental Conservation (DEC), in a letter dated October 10, 1997, notified Alcoa that its Massena, New York facility allegedly is in violation of certain air pollution control requirements. The allegations included operation of certain emission sources without permits, non-compliance with permitting and control standards for sulfur

dioxide, carbon monoxide and carbonyl sulfide and violation of requirements related to the deposition of fluoride on vegetation. In early March 1998, the Company agreed to an Order on Consent with the DEC. Resolution includes a civil penalty of $57,500. The settlement is expected to be effective by the end of the first quarter of 1998.

In March 1994, Alcoa and Region VI of the EPA entered into an administrative order on consent, EPA Docket No. 6-11-94, concerning the Alcoa (Point Comfort)/Lavaca Bay National Priorities List site which includes portions of Alcoa's Point Comfort, Texas bauxite refining operations and portions of Lavaca Bay, Texas, adjacent to the Company's plant. The administrative order requires the Company to conduct a remedial investigation and feasibility study at the site overseen by the EPA. Work under the administrative order is proceeding. The Company and certain Federal and state natural resource trustees, who previously served Alcoa with notice of their intent to file suit to recover damages for alleged loss or injury of natural resources in Lavaca Bay, entered into several agreements during 1996 to cooperatively identify restoration alternatives and approaches for Lavaca Bay. Efforts under those agreements are ongoing.

In March 1997, Alcoa Italia received an order from Italian governmental authorities relating to several environmental deficiencies at its Fusina Plant. Alcoa Italia and the governmental authorities commenced discussions that resulted in a plan for sampling certain emission points. The plan is expected to be implemented in the near future and will confirm compliance of these sources with legal requirements.

Other Matters

Alcoa was named as one of several defendants in a number of lawsuits filed as a result of the Sioux City, Iowa DC-10 plane crash in 1989. The plaintiffs claim that Alcoa fabricated the titanium fan disk involved in the alleged engine failure of the plane from a titanium forging supplied by a third party. All of the 117 cases originally filed have been resolved.

In August 1994, the U.S. Department of Justice (DOJ) issued a Civil Investigative Demand (CID) to Alcoa regarding activities undertaken by Alcoa in response to a multinational Memorandum of Understanding negotiated by the U.S. government and other sovereign nations. In the second quarter of 1997, Alcoa received a letter from the DOJ closing the investigation.

On June 13, 1995, the Company was served with a class action complaint in the matter of John P. Cooper, et al. v. Aluminum Company of America, Case Number 3-95-CV-10074, pending in the United States District Court for the Southern District of Iowa. The named plaintiffs alleged violation of Federal and state civil rights laws prohibiting discrimination on the basis of race and gender. In June

1997, the court approved a settlement agreement which provides for complete settlement of all class-wide claims for injunctive relief in consideration for $212,000 and implementation of certain structural changes. The settlement also provides for mediation of certain remaining individual claims for damages due to a hostile work environment or wrongful termination. All other claims were released under the terms of the agreement. The mediation process is ongoing.

Alcoa initiated a lawsuit in King County, Washington in December 1992 against nearly one hundred insurance companies that provided insurance coverage for environmental property damage at Alcoa plant sites between the years 1956 and 1985. The trial for the first three sites concluded in October 1996 with a jury verdict partially in Alcoa's favor and an award of damages to Alcoa. In its post-trial decisions, the trial court substantially reduced the amount that Alcoa will be able to recover from its insurers on the three test sites. Alcoa has appealed these rulings to the Washington Court of Appeals and expects briefing and argument on the appeal to be completed in 1998.

In March 1996, a class action complaint was filed in Los Angeles County (California) Superior Court against U.S. producers of primary aluminum, including Alcoa, claiming conspiracy and collusive action in violation of state antitrust laws. The suit alleged that the defendants colluded to raise prices of aluminum products by cutting production. The defendants removed the case to Federal court in April 1996. On July 1, 1996, the U.S. District Court for the Central District of California granted the defendants' motion for summary judgment and the complaint was dismissed. Plaintiff filed a notice of appeal with the Ninth Circuit Court of Appeals. In December 1997, plaintiff's appeal of the dismissal of this action was denied.

In March 1996, Alcoa received a subpoena from the U.S. Department of Commerce in connection with the export of potassium fluoride by a subsidiary for use at its alumina refineries in Jamaica and Suriname. Following a review of records provided by the Company, the Department of Commerce has charged that the Company made shipments without export licenses, which had been

required since 1991 as a result of a regulatory change.

In December 1996, JMB Realty Corporation (JMB) filed a complaint for declaratory relief and damages against Alcoa and two subsidiaries, Alcoa Properties, Inc. and Alcoa Securities Corporation, in the Circuit Court of Cook County, Illinois. JMB claims that it is entitled to a rebate of approximately $78 million (including interest through 1997) from Alcoa Properties, Inc., arising from a stock transaction that occurred in 1986 in which a subsidiary of JMB purchased the outstanding stock of substantially all of Alcoa Properties, Inc.'s real estate holding subsidiaries. JMB also is seeking an order canceling three promissory notes that it made and delivered to Alcoa Securities Corporation. JMB owes Alcoa Securities Corporation approximately $58 million on the notes (including interest through 1997). In response to JMB's suit, Alcoa and Alcoa Properties, Inc. have denied that any rebate is owed to JMB, and Alcoa Securities Corporation has counterclaimed for collection of the outstanding balance due on the notes.

In April 1997, German customs authorities conducted a search of the offices of Alcoa VAW Hannover Presswerk GmbH & Co. KG (Alcoa VAW) in Hannover, Germany, seeking materials relating to export transactions dating from 1992. In November 1997, German customs authorities reported 53 documentary customs violations, and in January 1998, the local district attorney opened legal proceedings on the matter. Discussions between Alcoa VAW and German customs authorities continue.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 1997.

Item 4A. Executive Officers of the Registrant.

The names, ages, positions and areas of responsibility of the executive officers of the Registrant as of March 1, 1998 are listed below.

Paul H. O'Neill, 62, Chairman of the Board and Chief Executive Officer. Mr. O'Neill was elected a director of Alcoa in 1986 and became Chairman of the Board and Chief Executive Officer in June 1987. Before joining Alcoa, Mr. O'Neill had been an officer since 1977 and President and a director since 1985 of International Paper Company.

Alain J. P. Belda, 54, President and Chief Operating Officer. Mr. Belda was elected President and Chief Operating Officer in January 1997. He was President of Alcoa Aluminio S.A. in Brazil from 1979 to March 1994. Mr. Belda was elected Vice President of Alcoa in 1982 and, in 1989, was given responsibility for all of Alcoa's interests in Latin America (other than Suriname). In August 1991 he was named President - Latin America for the Company. Mr. Belda was elected Executive Vice President in 1994 and Vice Chairman in 1995.

George E. Bergeron, 56, Executive Vice President. Mr. Bergeron was named President - Alcoa Closure Systems International in 1982 and was elected Vice President and General Manager - Rigid Packaging Division in July 1990. He was appointed President - Rigid Packaging Division in 1991. Mr. Bergeron was elected Executive Vice President of Alcoa in January 1998 and is responsible for corporate growth initiatives.

Michael Coleman, 47, Vice President and President - Alcoa Rigid Packaging Division. Mr. Coleman joined Alcoa in January 1998. He had been Vice President - Operations of North Star Steel from 1993 to 1994, Executive Vice President - Operations from 1994 to 1996 and President from 1996 through 1997. Mr. Coleman joined North Star Steel in 1982.

Richard L. Fischer, 61, Executive Vice President - Chairman's Counsel. Mr. Fischer was elected Vice President and General Counsel in 1983 and became Senior Vice President in 1984. He was given the additional responsibility for Corporate Development in 1986 and in 1991 named to his present position. In his current assignment, Mr. Fischer is responsible for Corporate Development and the expansion and integration of Alcoa's international business activities.

L. Patrick Hassey, 52, Vice President and President - Alcoa Europe. Mr. Hassey joined Alcoa in 1967 and was named Davenport Works Manager in 1985. In 1991, he was elected a Vice President of Alcoa and appointed President - Aerospace/Commercial Rolled Products Division. Mr. Hassey was appointed President - Alcoa Europe in November 1997.

Patricia L. Higgins, 48, Vice President and Chief Information Officer. Ms. Higgins joined Alcoa in January 1997 and is responsible for the integration and implementation of the Company's computer initiatives. She began her career at American Telephone & Telegraph Co. in 1977 and was Vice President of International Sales Operations in Network Systems before joining Nynex Corporation in 1991 as Group Vice President, Manhattan Market Area. In 1995, Ms. Higgins moved to Unisys Corporation

where she was President, Communications Market Sector Group.

Richard B. Kelson, 51, Executive Vice President and Chief Financial Officer. Mr. Kelson was appointed Assistant Secretary and Managing General Attorney in 1984 and Assistant General Counsel in 1989. He was elected Senior Vice President - Environment, Health and Safety in 1991 and Executive Vice President and General Counsel in May 1994. Mr. Kelson was named to his current position in May 1997.

Frank L. Lederman, 48, Vice President and Chief Technical Officer. Mr. Lederman was Senior Vice President and Chief Technical Officer for Noranda, Inc., a company he joined in 1988.

Mr. Lederman joined Alcoa as a Vice President in May 1995 and became Chief Technical Officer in December 1995. In his current position Mr. Lederman directs operations of the Alcoa Technical Center.

G. John Pizzey, 52, Vice President and President, Alcoa World Alumina. Mr. Pizzey joined Alcoa of Australia Limited in 1970 and was appointed to the board of Alcoa of Australia as Executive Director - Victoria Operations and Managing Director of Portland Smelter Services in 1986. He was named President - Bauxite and Alumina Division of Alcoa in 1994 and President - Primary Metals Division of Alcoa in 1995. Mr. Pizzey was elected a Vice President of Alcoa in 1996 and was appointed President - Alcoa World Alumina in November 1997.

Lawrence R. Purtell, 50, Executive Vice President - Environment, Health and Safety and General Counsel. Mr. Purtell joined Alcoa in November 1997. He had been Corporate Secretary and Associate General Counsel of United Technologies Corporation from 1989 to 1992 and Vice President and General Counsel of Carrier Corporation from 1992 to 1993. Mr. Purtell was Senior Vice President and General Counsel and Corporate Secretary of McDermott International, Inc. from 1993 to 1996. In 1996, he joined Koch Industries, Inc. as Senior Vice President, General Counsel and Corporate Secretary.

Robert F. Slagle, 57, Executive Vice President, Human Resources and Communications. Mr. Slagle was elected Treasurer in 1982 and Vice President in 1984. In 1986, he was named Vice President - Industrial Chemicals and, in 1987, was named Vice President - Industrial Chemicals and U.S. Alumina Operations. Mr. Slagle was named Vice President - Raw Materials, Alumina and Industrial Chemicals in 1989, and Vice President of Alcoa and Managing Director - Alcoa of Australia Limited in 1991. He was named President - Alcoa World Alumina in 1996 and was elected to his current position in November 1997.

G. Keith Turnbull, 62, Executive Vice President - Alcoa Business System. Dr. Turnbull was appointed Assistant Director of Alcoa Laboratories in 1980. He was named Director - Technology Planning in 1982, Vice President - Technology Planning in 1986 and Executive Vice President - Strategic Analysis/Planning and Information in 1991. In January 1997 he was named to his current position, with responsibility for company-wide implementation of Alcoa Business System.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

Dividend per share data, high and low prices per share and the principal exchanges on which the Company's common stock is traded are set forth on pages 60 through 61 of the 1997 Annual Report to Shareholders (the Annual Report) and are incorporated herein by reference.

At February 9, 1998 (the record date for the Company's 1998 annual shareholders meeting), there were approximately 95,800 Alcoa shareholders, including both record holders and an estimate of the number of individual participants in security position listings.

Item 6. Selected Financial Data.

The comparative columnar table showing selected financial data for the Company is set forth on page 27 of the Annual Report and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Management's review and comments on the consolidated financial statements are set forth on pages 28 through 35 of the Annual Report and are incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information regarding quantitative and qualitative disclosures about market risk is set forth on pages 32 through 33 of the 1997 Annual Report to Shareholders and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

The Company's consolidated financial statements, the notes thereto and the report of the independent public accountants are set forth on pages 37 through 49 of the Annual Report and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information regarding Directors is contained under the caption "The Board of Directors" on pages 7 through 13 of the Registrant's definitive Proxy Statement dated March 11, 1998 (the Proxy Statement) and is incorporated herein by reference.

The information regarding executive officers is set forth in Part I, Item 4A under "Executive Officers of the Registrant."

Item 11. Executive Compensation.

This information is contained under the caption "Compensation of Executive Officers" on pages 13 through 20 of the Proxy Statement and is incorporated herein by reference. The performance graph and Report of the Compensation Committee shall not be deemed to be "filed."

Item 12. Security Ownership of Certain Beneficial Owners and Management.

This information is contained under the caption "Alcoa Common Stock Ownership" on page 6 of the Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

This information is contained under the caption "Transactions with Directors' Companies" on page 12 of the Proxy Statement and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedule and Reports on Form 8-K.

(a) The consolidated financial statements, financial statement schedule and exhibits listed below are filed as part of this report.

(1) The Company's consolidated financial statements, the notes thereto and the report of the independent public accountants are set forth on pages 37 through 49 of the Annual Report and are incorporated herein by reference.

(2) The following report and schedule should be read in conjunction with the Company's consolidated financial statements in the Annual Report:

Independent Accountant's Report of Coopers & Lybrand L.L.P. dated January 8, 1998, except for Note V, for which the date is February 6, 1998, on the Company's financial statement schedule filed as a part hereof for the fiscal years ended December 31, 1997, 1996 and 1995.

Schedule II - Valuation and Qualifying Accounts - for the fiscal years ended December 31, 1997, 1996 and 1995.

(3) Exhibits

Exhibit Number	Description *
2.	Agreement and Plan of Merger among the Company, AMX Acquisition Corp. and Alumax Inc. dated as of March 8, 1998 (filed herewith). The Registrant will furnish supplementally a copy of all omitted Schedules to Exhibit 2 upon the request of the Securities and Exchange Commission.
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, as amended January 1, 1998 (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, incorporated by reference to exhibit 10(l) to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

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.

12. Computation of Ratio of Earnings to Fixed Charges.

13. Portions of Alcoa's 1997 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.

Amendments and modifications to other Exhibits previously filed have been omitted when in the opinion of the Registrant such Exhibits as amended or modified are no longer material or, in certain instances, are no longer required to be filed as Exhibits.

No other instruments defining the rights of holders of long-term debt of the Registrant or its subsidiaries have been filed as Exhibits because no such instruments met the threshold materiality requirements under Regulation S-K. The Registrant agrees, however, to furnish a copy of any such instruments to the Commission upon request.

(b) Reports on Form 8-K. None was filed in the fourth quarter of 1997.

Independent Accountant's Report

To the Shareholders and Board of Directors
Aluminum Company of America

Our report on the consolidated financial statements of Aluminum Company of America has been incorporated by reference in this Form 10-K from page 36 of the 1997 Annual Report to Shareholders of Aluminum Company of America. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed under Item 14 of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

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

600 Grant Street
Pittsburgh, Pennsylvania
January 8, 1998, except
for Note V, for which the
date is February 6, 1998

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31
(in millions)

Col. A	Col. B	Col. C		Col. D	Col. E
		Additions			
Description	Balance at beginning of period	Charged to costs and expenses (A)	Charged to other accounts (B)	Deductions	Balance at end of period
Allowance for doubtful accounts:					
1997	$ 48.4	$ 5.8	$(4.0)(A)	$13.6(B)	$ 36.6
1996	$ 45.8	$24.0	$ 1.5(A)	$22.9(B)	$ 48.4
1995	$ 37.4	$17.4	$(1.8)(A)	$ 7.2(B)	$ 45.8
Income tax valuation allowance:					
1997	$110.0	$11.9	$(13.2)(A)	$5.2(C)	$103.5
1996	$112.1	$23.9	-	$26.0(C)	$110.0

1995	$170.0	$16.2	-	$74.1(C)	$112.1

Notes: (A) Collections on accounts previously written off, acquisition/divestiture of subsidiaries and foreign currency translation adjustments.
(B) Uncollectible accounts written off
(C) Related primarily to reductions in the valuation reserve based on a change in circumstances.

SIGNATURE

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

March 11, 1998 By /s/Earnest J. Edwards

Earnest J. Edwards
Senior Vice President and Controller
(Also signing as Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/Paul H. O'Neill Paul H. O'Neill	Chairman of the Board and Chief Executive Officer (Principal Executive Officer and Director)	March 11, 1998
/s/Richard B. Kelson Richard B. Kelson	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 11, 1998

Kenneth W. Dam, Joseph T. Gorman, Judith M. Gueron, Sir Ronald Hampel, John P. Mulroney, Sir Arvi Parbo, Henry B. Schacht, Forrest N. Shumway, Franklin A. Thomas and Marina v.N. Whitman, each as a Director, on March 11, 1998, by Denis A. Demblowski, their Attorney-in-Fact.*

*By /s/Denis A. Demblowski
Denis A. Demblowski
Attorney-in-Fact

EXHIBIT 2

CONFORMED COPY

==========

AGREEMENT AND PLAN OF MERGER

among

ALUMINUM COMPANY OF AMERICA,

AMX ACQUISITION CORP.

and

ALUMAX INC.

Dated as of March 8, 1998

==========

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Annex A -- Conditions to the Offer

Exhibit A -- Form of Affiliate Letter for Affiliates of Alumax Inc.

AGREEMENT AND PLAN OF MERGER, dated as of March 8, 1998 (the "Agreement"), among ALUMINUM COMPANY OF AMERICA, a Pennsylvania corporation (the "Parent"), AMX ACQUISITION CORP., a Delaware corporation (the "Purchaser"), and ALUMAX INC., a Delaware corporation (the "Company").

WHEREAS, the Boards of Directors of the Parent, the Purchaser and the Company deem it advisable and in the best interests of their respective stockholders that the Parent acquire the Company upon the terms and subject to the conditions provided for in this Agreement;

WHEREAS, in furtherance thereof it is proposed that the acquisition be accomplished by the Purchaser commencing a cash tender offer (as it may be amended from time to time as permitted by this Agreement, the "Offer") to acquire 27,000,000 shares of common stock, par value $0.01 per share, of the Company (the "Company Common Stock," and together with the rights issued pursuant to the Rights Agreement (as hereinafter defined) associated with such shares, the "Shares"), or such other number of Shares as represents an absolute majority of the excess of (i) all shares of Company Common Stock outstanding on the Expiration Date on a fully-diluted basis, minus (ii) the total number of Shares issuable upon exercise of all outstanding employee stock options, for $50.00 per Share (such amount or any greater amount per Share paid pursuant to the Offer being hereinafter referred to as the "Per Share Cash Amount"), subject to applicable withholding taxes, net to the seller in cash, to be followed by a merger of the Company with and into the Purchaser (the "Merger") pursuant to which outstanding shares of Company Common Stock will be converted into the right to receive shares of common stock, par value $1.00 per share, of the Parent (the "Parent Common Stock"), and cash under certain circumstances, in each case upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, the Board of Directors of the Company has unanimously approved the making of the Offer and the Merger and resolved and agreed to recommend that holders of Shares tender their Shares pursuant to the Offer and approve and adopt this Agreement and the Merger;

WHEREAS, for U.S. federal income tax purposes, it is intended that the Merger contemplated hereby qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and that this Agreement shall be, and is hereby, adopted as a plan of reorganization for purposes of Section 368 of the Code; and

WHEREAS, the Boards of Directors of the Parent (on its own behalf and as the sole stockholder of the Purchaser), the Purchaser and the Company have each approved this Agreement and the Merger in accordance with the General Corporation Law of the State of Delaware (the "DGCL") and upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound hereby, the Parent, the Purchaser and the Company agree as follows:

ARTICLE I

Section 1.1. The Offer.

(a) Provided that this Agreement shall not have been terminated in accordance with Section 7.1 and none of the events set forth in Annex A hereto shall have occurred or be existing (and shall not have been waived by the Purchaser), the Purchaser shall commence the Offer as promptly as reasonably practicable after the date hereof, but in no event later than five business days after the public announcement of the execution of this Agreement. The Purchaser shall, on the terms of and subject to the prior satisfaction or waiver of the conditions of the Offer, accept for payment and pay for up to 27,000,000 Shares validly tendered and not withdrawn pursuant to the Offer (or such other number of Shares as represents an absolute majority of the excess of (i) all shares of Company Common Stock outstanding on the Expiration Date on a fully-diluted basis, minus (ii) the total number of Shares issuable upon exercise of all outstanding employee stock options, with 27,000,000 Shares or such other number being herein referred to as the "50% Share Number") as soon as practicable after the later of the satisfaction of the conditions of the Offer and the expiration of the Offer; provided, however, that no such payment shall be made until after the calculation of the applicable proration factor in the Offer. The obligation of the Purchaser to purchase and pay for shares tendered pursuant to the Offer shall be subject to the conditions set forth in Annex A hereto. The Company agrees that no Shares held by the Company or any of its Subsidiaries will be tendered to the Purchaser pursuant to the Offer. The Purchaser expressly reserves the right to waive any of such conditions, to increase the price per Share payable in the Offer and to make any other changes in the terms and conditions of the Offer; provided, however, that no change may be made which decreases the price per Share payable in the Offer, reduces the number of Shares to be purchased in the Offer, changes the form of

consideration to be paid in the Offer, modifies any of the conditions set forth in Annex A hereto in any manner adverse to the holders of Shares or, except as provided in the next two sentences, extends the Offer. Notwithstanding the foregoing, the Purchaser may, without the consent of the Company, (i) extend the Offer beyond the scheduled expiration date, which shall be 20 business days following the date of commencement of the Offer, if, at the scheduled expiration of the Offer, any of the conditions to the Purchaser's obligation to accept for payment and to pay for the Shares shall not be satisfied or waived, or (ii) extend the Offer for any period required by any rule, regulation or interpretation of the Securities and Exchange Commission (the "SEC") or the staff thereof applicable to the Offer. So long as this Agreement is in effect and the condition to the Offer set forth in clause (i) of the first paragraph of Annex A has not been satisfied or waived, the Purchaser shall extend the Offer from time to time for a period or successive periods not to exceed 10 business days each after the previously scheduled expiration date of the Offer. The Per Share Cash Amount shall, subject to applicable withholding of taxes, be net to the seller in cash, upon the terms and subject to the conditions of the Offer.

(b) As promptly as practicable on the date of commencement of the Offer, the Purchaser shall file with the SEC a Tender Offer Statement on Schedule 14D-1 (together with all amendments and supplements thereto, the "Schedule 14D-1") with respect to the Offer. The Schedule 14D-1 shall contain or incorporate by reference an offer to purchase (the "Offer to Purchase") and forms of the related letter of transmittal and all other ancillary Offer documents (collectively, together with all amendments and supplements thereto, the "Offer Documents"). The Parent and the Purchaser shall cause the Offer Documents to be disseminated to the holders of the Shares as and to the extent required by applicable federal securities laws. The Parent and the Purchaser, on the one hand, and the Company, on the other hand, will promptly correct any information provided by it for use in the Offer Documents if and to the extent that it shall have become false or misleading in any material respect, and the Purchaser will cause the Offer Documents as so corrected to be filed with the SEC and to be disseminated to holders of the Shares, in each case as and to the extent required by applicable federal securities laws. The Company and its counsel shall be given a reasonable opportunity to review and comment upon the Schedule 14D-1 before it is filed with the SEC.

Section 1.2. Company Actions.

(a) The Company hereby approves of and consents to the Offer and represents and warrants that the Company's Board of Directors, at a meeting duly called and held, has (i) unanimously (with one director absent) determined that the terms of the Offer and the Merger are fair to and in the best interests of the stockholders of the Company, (ii) approved this Agreement and approved the transactions contemplated hereby and thereby, including the Offer and the Merger and (iii) resolved to recommend that the stockholders of the Company accept the Offer, tender their Shares to the Purchaser thereunder and approve and adopt this Agreement and the Merger. The Company hereby consents to the inclusion in the Offer Documents of the recommendation of the Board described in the immediately preceding sentence.

(b) As promptly as practicable on the date of commencement of the Offer, the Company shall file with the SEC a Solicitation/Recommendation Statement on Schedule 14D-9 (together with all amendments and supplements thereto, the "Schedule 14D-9") which shall contain the recommendation referred to in clause (iii) of Section 1.2(a) hereof. The Company further agrees to take all steps necessary to cause the Schedule 14D-9 to be disseminated to holders of the Shares as and to the extent required by applicable federal securities laws. The Company, on the one hand, and each of the Parent and the Purchaser, on the other hand, will promptly correct any information provided by it for use in the Schedule 14D-9 if and to the extent that it shall have become false or misleading in any material respect, and the Company will cause the Schedule 14D-9 as so corrected to be filed with the SEC and to be disseminated to holders of the Shares, in each case as and to the extent required by applicable federal securities laws. The Parent and its counsel shall be given a reasonable opportunity to review and comment upon the Schedule 14D-9 before it is filed with the SEC. In addition, the Company agrees to provide the Parent, the Purchaser and their counsel with any comments, whether written or oral, that the Company or its counsel may receive from time to time from the SEC or its staff with respect to the Schedule 14D-9 promptly after the receipt of such comments.

(c) The Company shall promptly furnish the Purchaser with mailing labels containing the names and addresses of all record holders of Shares and with security position listings of Shares held in stock depositories, each as of a recent date, together with all other available listings and computer files containing names, addresses and security position listings of record holders and beneficial owners of Shares. The Company shall furnish the Purchaser with such additional information,

including, without limitation, updated listings and computer files of stockholders, mailing labels and security position listings, and such other assistance as the Parent, the Purchaser or their agents may reasonably request. Subject to the requirements of applicable law, and except for such steps as are necessary to disseminate the Offer Documents and any other documents necessary to consummate the Offer or the Merger, the Parent and the Purchaser shall hold in confidence the information contained in such labels, listings and files, shall use such information solely in connection with the Offer and the Merger, and, if this Agreement is terminated in accordance with Section 7.1 or if the Offer is otherwise terminated, shall promptly deliver or cause to be delivered to the Company all copies of such information, labels, listings and files then in their possession or in the possession of their agents or representatives.

Section 1.3. Directors of the Company.

(a) Promptly upon the purchase of and payment for any Shares by the Purchaser or any of its affiliates pursuant to the Offer, the Parent shall be entitled to designate such number of directors, rounded up to the next whole number, on the Board of Directors of the Company as is equal to the product obtained by multiplying the total number of directors on such Board (giving effect to the directors designated by the Parent pursuant to this sentence) by the percentage that the number of Shares so accepted for payment bears to the total number of Shares then outstanding. In furtherance thereof, the Company shall, upon request of the Purchaser, promptly increase the size of its Board of Directors or exercise its best efforts to secure the resignations of such number of directors, or both, as is necessary to enable the Parent's designees to be so elected to the Company's Board and shall cause the Parent's designees to be so elected. At such time, the Company shall, if requested by the Parent, also cause directors designated by the Parent to constitute at least the same percentage (rounded up to the next whole number) as is on the Company's Board of Directors of (i) each committee of the Company's Board of Directors, (ii) each board of directors (or similar body) of each Significant Subsidiary (as hereinafter defined) of the Company, and (iii) each committee (or similar body) of each such board. Notwithstanding the foregoing, if Shares are purchased pursuant to the Offer, there shall be until the Effective Time at least one member of the Company's Board of Directors who is a director on the date hereof and is not an employee of the Company.

(b) The Company shall promptly take all actions required pursuant to Section 14(f) of the Securities Exchange Act of 1934, as amended (the "Exchange

Act") and Rule 14f-1 promulgated thereunder in order to fulfill its obligations under Section 1.3(a), including mailing to stockholders together with the Schedule 14D-9 the information required by such Section 14(f) and Rule 14f-1 as is necessary to enable the Parent's designees to be elected to the Company's Board of Directors. The Parent and the Purchaser will supply the Company and be solely responsible for any information with respect to them and their nominees, officers, directors and affiliates required by such Section 14(f) and Rule 14f-1. The provisions of this Section 1.3 are in addition to and shall not limit any rights which the Purchaser, the Parent or any of their affiliates may have as a holder or beneficial owner of Shares as a matter of law with respect to the election of directors or otherwise.

(c) Following the election of the Parent's designees to the Company's Board of Directors pursuant to this Section 1.3, prior to the Effective Time (as hereinafter defined) (i) any amendment or termination of this Agreement by the Company, (ii) any extension or waiver by the Company of the time for the performance of any of the obligations or other acts of the Parent or the Purchaser, or (iii) any waiver of any of the Company's rights hereunder shall, in any such case, require the concurrence of a majority of the directors of the Company then in office who neither were designated by the Purchaser nor are employees of the Company (the "Independent Director Approval").

ARTICLE II

The Merger

Section 2.1. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the DGCL, the Company shall merge with and into the Purchaser (the "Merger"), and the separate corporate existence of the Company shall thereupon cease, and the Purchaser shall be the surviving corporation in the Merger (the "Surviving Corporation"). The Surviving Corporation shall possess all the rights, privileges, powers and franchises as well of a public as of a private nature and shall be subject to all of the restrictions, disabilities, duties, debts and obligations of the Company and the Purchaser, all as provided in the DGCL.

Section 2.2. Closing. The closing of the Merger (the "Closing") will take place at 10:00 a.m. on a date to be specified by the parties (the "Closing Date"), which shall be no later than the second business day after satisfaction of the conditions set forth in Article VI, unless another time or date is agreed to in writing by the parties hereto. The Closing will be held at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, 919 Third Avenue, New York, New York, unless another place is agreed to in writing by the parties hereto.

Section 2.3. Effective Time. Subject to the provisions of this Agreement, on the Closing Date the parties shall file with the Secretary of State of the State of Delaware a certificate of merger (the "Certificate of Merger") executed in accordance with the relevant provisions of the DGCL and shall make all other filings or recordings required under the DGCL in order to effect the Merger. The Merger shall become effective upon the filing of the Certificate of Merger or at such other time as is specified in the Certificate of Merger (the time at which the Merger becomes fully effective being hereinafter referred to as the "Effective Time").

Section 2.4. Effects of the Merger. The Merger shall have the effects set forth in Section 259 of the DGCL.

Section 2.5. Certificate of Incorporation; By-laws.

(a) At the Effective Time, the Certificate of Incorporation of the Purchaser, as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation; provided, however, that Article FIRST of the Certificate of Incorporation of the Surviving Corporation shall be amended to read in its entirety as follows: "FIRST: The name of the corporation is Alumax Inc." and, as so amended shall be the Certificate of Incorporation of the Surviving Corporation until thereafter amended as provided by the DGCL and such Certificate of Incorporation.

(b) At the Effective Time, the By-laws of the Purchaser, as in effect immediately prior to the Effective Time, shall be the By-laws of the Surviving Corporation until thereafter amended as provided by the DGCL, the Certificate of Incorporation of the Surviving Corporation and such By-laws.

Section 2.6. Directors; Officers of Surviving Corporation.

(a) The directors of the Purchaser at the Effective Time shall be the directors of the Surviving Corporation until their respective successors are duly elected and qualified or their earlier death, resignation or removal in accordance with the Certificate of Incorporation and By-laws of the Surviving Corporation.

(b) The officers of the Purchaser at the Effective Time shall be the officers of the Surviving Corporation until their respective successors are duly elected and qualified or their earlier death, resignation or removal in accordance with the Certificate of Incorporation and By-laws of the Surviving Corporation.

Section 2.7. Conversion of Securities. At the Effective Time, by virtue of the Merger and without any action on the part of the holders of any securities of the Purchaser or the Company:

(a) Each Share that is owned by the Parent, the Purchaser, any of their respective Subsidiaries, the Company or any Subsidiary of the Company shall automatically be cancelled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor.

(b) Each issued and outstanding Share, other than Excluded Shares and Dissenting Shares, shall be converted into, and become exchangeable for the right to receive:

(A) 0.6975 (the "Exchange Ratio") of a share of Parent Common Stock; provided that the Purchaser shall have purchased no fewer than the 50% Share Number of Shares in the Offer; or

(B) that fraction of a share of Parent Common Stock equal to the Adjusted Exchange Ratio, plus an amount in cash equal to the Merger Cash Prorate Amount, if the Purchaser shall have purchased fewer than the 50% Number of Shares in the Offer.

As used herein: (i) the term "Excluded Shares" shall mean that number of Shares owned by the Parent and its Subsidiaries immediately prior to the Effective Time (excluding Shares held by the Company and its Subsidiaries); (ii) the term "Adjusted Exchange Ratio" shall mean that quotient (rounded to the nearest cent) determined by dividing (1) the product of the 50% Share Number times 0.6975 by (2) the Final

Outstanding Number; (iii) the term "Merger Cash Prorate Amount" shall mean that U.S. dollar cash amount (rounded to the nearest cent) equal to the quotient determined by dividing (3) the product of the Per Share Cash Amount times the excess of (a) the 50% Share Number over (b) the Purchased Share Number by (4) the Final Outstanding Number; (iv) the term "Final Outstanding Number" shall mean that number of Shares equal to the total number of Shares outstanding immediately prior to the Effective Time minus the Excluded Shares; and (v) the term "Purchased Share Number" shall mean that number of Shares actually purchased by the Purchaser in the Offer. The per Share consideration referred to in clause (A) or clause (B) of this Section 2.7(b), as the case may be, is referred to herein as the "Merger Consideration." All such Shares, when so converted, shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and the certificates representing such Shares shall thereafter represent only the right to receive (i) Merger Consideration, (ii) certain dividends and other distributions in accordance with Section 2.8(g), and (iii) cash in lieu of fractional shares of Parent Common Stock in accordance with Section 2.8(h), without interest.

(c) Each issued and outstanding share of common stock, par value $.01 per share, of the Purchaser shall be converted into one validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation.

Section 2.8. Exchange of Certificates.

(a) Exchange Agent. The Parent shall designate a bank or trust company reasonably acceptable to the Company to act as agent for the holders of the Shares (other than Excluded Shares) in connection with the Merger (the "Exchange Agent") to receive in trust from the Parent as of the Effective Time for the benefit of such holders (i) certificates ("Parent Certificates") representing the number of whole shares of Parent Common Stock and (ii) the aggregate amount of cash (if any) issuable pursuant to Section 2.7(b) in exchange for outstanding Shares (such shares of Parent Common Stock and cash (if any), together with any dividends or distributions with respect thereto with a record date after the Effective Time and any cash payable in lieu of any fractional shares of Parent Common Stock being hereinafter referred to as the "Exchange Fund").

(b) Exchange Procedures. As soon as reasonably practicable after the Effective Time, the Exchange Agent shall mail to each holder of record, as of the Effective Time, of a certificate or certificates, which immediately prior to the Effective Time represented outstanding Shares (the "Certificates"), whose Shares were

converted pursuant to Section 2.7(b) into the right to receive the Merger Consideration, a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Exchange Agent and shall be in such form and have such other provisions as the Parent may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for the Merger Consideration. Upon surrender of a Certificate for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by the Parent, together with such letter of transmittal, properly completed and duly executed in accordance with the instructions thereto, the holder of such Certificate shall be entitled to receive in exchange therefor (i) a Parent Certificate representing that number of whole shares of Parent Common Stock which such holder has the right to receive pursuant to Section 2.7(b), (ii) any cash included in the Merger Consideration, (iii) certain dividends or other distributions in accordance with Section 2.8(g) and (iv) cash in lieu of any fractional share in accordance with Section 2.8(h) for each Share formerly represented by such Certificate, and the Certificate so surrendered shall forthwith be cancelled. No interest will be paid or accrued on the cash payable upon the surrender of the Certificates. If the issuance of the Merger Consideration is to be made to a Person (as hereinafter defined) other than the Person in whose name the surrendered Certificate is registered, it shall be a condition of exchange that the Certificate so surrendered shall be properly endorsed or shall be otherwise in proper form for transfer and that the Person requesting such exchange shall have paid all transfer and other Taxes (as hereinafter defined) required by reason of the issuance to a Person other than the registered holder of the Certificate surrendered or shall have established to the satisfaction of the Surviving Corporation that such Tax either has been paid or is not applicable.

(c) Transfer Books; No Further Ownership Rights in the Shares. At the Effective Time, the stock transfer books of the Company shall be closed, and thereafter there shall be no further registration of transfers of the Shares on the records of the Company. From and after the Effective Time, the holders of Certificates evidencing ownership of the Shares outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such Shares, except as otherwise provided for herein or by applicable law. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be cancelled and exchanged as provided in this Article II.

(d) Termination of Fund; No Liability. At any time following six months after the Effective Time, the Surviving Corporation shall be entitled to require

the Exchange Agent to deliver to it any funds (including any interest received with respect thereto) which had been made available to the Paying Agent, and holders shall be entitled to look to the Surviving Corporation (subject to abandoned property, escheat or other similar laws) only as general creditors thereof with respect to the Merger Consideration payable upon due surrender of their Certificates, without any interest thereon. Notwithstanding the foregoing, neither the Surviving Corporation nor the Exchange Agent shall be liable to any holder of a Certificate for Merger Consideration delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(e) Lost, Stolen or Destroyed Certificates. In the event any Certificates for Shares shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate(s) to be lost, stolen or destroyed and, if required by the Parent, the posting by such Person of a bond in such sum as the Parent may reasonably direct as indemnity against any claim that may be made against it or the Surviving Corporation with respect to such Certificate(s), the Exchange Agent will issue the Merger Consideration pursuant to Section 2.8(b) deliverable in respect of the Shares represented by such lost, stolen or destroyed Certificates.

(f) Withholding Taxes. The Parent and the Purchaser shall be entitled to deduct and withhold, or cause the Exchange Agent to deduct and withhold from the Per Share Cash Amount or the Merger Consideration payable to a holder of Shares pursuant to the Offer or the Merger any stock transfer Taxes and such amounts as are required under the Code, or any applicable provision of state, local or foreign Tax law, as specified in the Offer Documents. To the extent that amounts are so withheld by the Parent or the Purchaser, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the Shares in respect of which such deduction and withholding was made by the Parent or the Purchaser, in the circumstances described in the Offer Documents.

(g) Dividends; Distributions. No dividends or other distributions with respect to Parent Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Parent Common Stock represented thereby, and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to Section 2.8(h), and all such dividends, other distributions and cash in lieu of fractional shares of Parent Common Stock shall be paid by Parent to the Exchange Agent and shall be included in the Exchange Fund, in each case until the surrender of such Certificate in accordance with

this Article II. Subject to the effect of applicable escheat or similar laws, following surrender of any such Certificate there shall be paid to the holder of the Parent Certificate representing whole shares of Parent Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Common Stock and the amount of any cash payable in lieu of a fractional share of Parent Common Stock to which such holder is entitled pursuant to Section 2.8(h) and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and with a payment date subsequent to such surrender payable with respect to such whole shares of Parent Common Stock. The Parent shall make available to the Exchange Agent cash for these purposes.

(h) No Fractional Shares. No Parent Certificates or scrip representing fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of Certificates, no dividend or distribution of Parent shall relate to such fractional share interests and such fractional share interests will not entitle the owner thereof to vote or to any rights of a stockholder of Parent. In lieu of any such fractional shares, each holder of a Certificate who would otherwise have been entitled to receive a fractional share interest in exchange for such Certificate pursuant to this Section shall receive from the Exchange Agent an amount in cash equal to the product obtained by multiplying (A) the fractional share interest to which such holder (after taking into account all Shares held at the Effective Time by such holder) would otherwise be entitled by (B) the closing price for a share of Parent Common Stock as reported on the New York Stock Exchange (the "NYSE") Composite Transactions Tape (as reported in The Wall Street Journal, or, if not reported thereby, any other authoritative source) on the Closing Date.

(i) Investment of Exchange Fund. The Exchange Agent shall invest any cash included in the Exchange Fund, as directed by the Parent, on a daily basis. Any interest and other income resulting from such investments shall be paid to the Parent.

Section 2.9. Appraisal Rights. Notwithstanding anything in this Agreement to the contrary, if by reason of the composition of the Merger Consideration Section 262 of the DGCL affords appraisal rights in the Merger, then Shares (the "Dissenting Shares") that are issued and outstanding immediately prior to the Effective Time and which are held by stockholders who did not vote in favor of the Merger and who comply with all of the relevant provisions of Section 262 of the DGCL (the

"Dissenting Stockholders") shall not be converted into or be exchangeable for the right to receive the Merger Consideration, unless and until such holders shall have failed to perfect or shall have effectively withdrawn or lost their rights to appraisal under the DGCL. If any Dissenting Stockholder shall have failed to perfect or shall have effectively withdrawn or lost such right, such holder's Shares shall thereupon be converted into and become exchangeable for the right to receive, as of the Effective Time, the Merger Consideration without any interest thereon. The Company shall give the Parent (i) prompt notice of any written demands for appraisal of any Shares, attempted withdrawals of such demands and any other instruments served pursuant to the DGCL and received by the Company relating to stockholders' rights of appraisal, and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for appraisal under the DGCL. Neither the Company nor the Surviving Corporation shall, except with the prior written consent of the Parent, voluntarily make any payment with respect to, or settle or offer to settle, any such demand for payment. If any Dissenting Stockholder shall fail to perfect or shall have effectively withdrawn or lost the right to dissent, the Shares held by such Dissenting Stockholder shall thereupon be treated as though such Shares had been converted into the right to receive the Merger Consideration pursuant to Section 2.7(b).

Section 2.10. Adjustments to Prevent Dilution. In the event that
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the Parent changes the number of shares of Parent Common Stock or securities convertible or exchangeable into or exercisable for shares of Parent Common Stock, issued and outstanding prior to the Effective Time as a result of a reclassification, stock split (including a reverse split), stock dividend or distribution, recapitalization, merger, subdivision, issuer tender or exchange offer, or other similar transaction, the Merger Consideration shall be equitably adjusted.

ARTICLE III

Representations and Warranties of the Company

Except as set forth on the schedule delivered by the Company to the Parent simultaneously and in connection with the execution and delivery of this Agreement (the "Company Disclosure Schedule") or disclosed in the Company SEC Reports, the Company represents and warrants to the Parent and the Purchaser as set forth below:

Section 3.1. Organization, Qualification, Etc. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, has the corporate power and authority and all governmental approvals required for it to own its properties and assets and to carry on its business as it is now being conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the ownership of its properties or the conduct of its business requires such qualification, except for jurisdictions in which the failure to be so organized, existing and in good standing or to have such power, authority and governmental approvals would not, individually or in the aggregate, have a Material Adverse Effect (as hereinafter defined) on the Company or delay consummation of the transactions contemplated by this Agreement or otherwise prevent the Company from performing its obligations hereunder. As used in this Agreement, any reference to any state of facts, event, change or effect having a "Material Adverse Effect" on or with respect to the Company or the Parent, as the case may be, means such state of facts, event, change or effect that has had, or would reasonably be expected to have, a material adverse effect on the business, results of operations, assets, liabilities or financial condition of the Company and its Subsidiaries, taken as a whole, or the Parent and its Subsidiaries, taken as a whole, as the case may be. The Company has delivered or made available to the Parent copies of the certificate of incorporation and by-laws or other similar organizational documents for the Company and each of its Significant Subsidiaries. Such certificates of incorporation and by-laws or other organizational documents are complete and correct and in full force and effect, and neither the Company nor any of its Significant Subsidiaries is in violation of any of the provisions of their respective certificates of incorporation, by-laws or similar organizational documents. Each of the Company's Significant Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has the corporate power and authority and all governmental approvals required for it to own its properties and assets and to carry on its business as it is now being conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the ownership of its properties or the conduct of its business requires such qualification, except for jurisdictions in which the failure to be so organized, existing and in good standing or to have such power, authority and governmental approvals would not, individually or in the aggregate, have a Material Adverse Effect on the Company. All the outstanding shares of capital stock of, or other ownership interests in, the Company's Subsidiaries are duly authorized, validly issued, fully paid and non-assessable and are owned by the Company, directly or indirectly, free and clear of all liens, claims, mortgages, encumbrances, pledges, security interests, equities or charges of any kind (each, a "Lien"). Other than the Subsidiaries, there are no other Persons in which the

Company owns, of record or beneficially, any direct or indirect equity or similar interest or any right (contingent or otherwise) to acquire the same.

Section 3.2. Capital Stock. The authorized capital stock of the Company consists of 200,000,000 shares of Company Common Stock and 50,000,000 shares of preferred stock, par value $1.00 per share ("Company Preferred Stock"). As of March 8, 1998, (i) 53,458,062 shares of Company Common Stock are issued and outstanding; (ii) 3,161,525 shares of Company Common Stock are subject to outstanding options issued and 319,610 shares of Company Common Stock are subject to other stock-based awards, including 113,580 awarded on March 5, 1998, pursuant to The Alumax Inc. 1993 Long Term Incentive Plan (the "1993 Plan"), and 4,784,929 shares of Company Common Stock are reserved for issuance under the 1993 Plan; (iii) 571,475 shares of Company Common Stock are subject to outstanding options, and an additional 190,564 shares are issuable if the holder retains the shares acquired for two years after the date of exercise, issued pursuant to The Alumax Inc. 1995 Employee Equity Ownership Plan (the "1995 Plan"), and 997,000 shares of Company Common Stock are reserved for issuance under the 1995 Plan; (iv) 80,000 shares of Company Common Stock are subject to outstanding options, 20,750 deferred shares of Company Common Stock and 730,301 shares of Company Common Stock are reserved for issuance under The Alumax Inc. Non-Employee Directors' Stock Compensation Plan and 74,148 shares are deferred and 192,009 shares of Company Common Stock are reserved for issuance under The Alumax Inc. Non-Employee Directors' Deferred Compensation Plan; (v) 794,624 shares of Company Common Stock are reserved for issuance under the Alumax Inc. Thrift Plan for Salaried Employees, Alumax Inc. Thrift Plan for Hourly Employees, and Alumax Inc. Thrift Plan for Collectively Bargained Employees; (vi) 695,567 shares of Company Common Stock are reserved for issuance pursuant to employee deferred compensation arrangements, of which 623,350 shares of Company Common Stock are subject to outstanding options and 26,603 shares of Company Common Stock are subject to deferred stock units; (vii) 112 shares of Company Common Stock are reserved for conversion of the Company's Series A Preferred Stock; (viii) 1,812,900 shares of Company Common Stock are issued and held in the treasury of the Company; and (ix) no shares of Company Preferred Stock are issued, outstanding or reserved for issuance. Section 3.2 of the Company Disclosure Schedule sets forth a complete and correct list of all holders of options to acquire Shares, including such person's name, the number of options (vested, unvested and total) held by such person and the exercise price for each such option. All the outstanding Shares are and the exercise of outstanding options described in the second sentence of this Section 3.2 will be, when issued in accordance with the terms thereof, duly authorized, validly issued,

fully paid and non-assessable. Except as set forth above, except for the Company's obligations under the Rights Agreement, dated as of February 22, 1996 (the "Rights Agreement"), between the Company and Chemical Mellon Shareholder Services, L.L.C., as rights agent, and except for the transactions contemplated by this Agreement, (1) there are no shares of capital stock of the Company authorized, issued or outstanding, (2) there are no authorized or outstanding options, warrants, calls, preemptive rights, subscriptions or other rights, agreements, arrangements or commitments of any character relating to the issued or unissued capital stock of the Company or any of its Subsidiaries, obligating the Company or any of its Subsidiaries to issue, transfer or sell or cause to be issued, transferred or sold any shares of capital stock or other equity interest in the Company or any of its Subsidiaries or securities convertible into or exchangeable for such shares or equity interests, or obligating the Company or any of its Subsidiaries to grant, extend or enter into any such option, warrant, call, subscription or other right, agreement, arrangement or commitment, or (3) there are no outstanding contractual obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any Shares or other capital stock of the Company or any Subsidiary or to provide funds to make any investment (in the form of a loan, capital contribution or otherwise) in any Subsidiary or any other entity other than loans to Subsidiaries in the ordinary course of business.

Section 3.3. Corporate Authority Relative to this Agreement; No Violation.

(a) The Company has the corporate power and authority to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by the Board of Directors of the Company and, except for obtaining the Company Stockholder Approval (as hereinafter defined) as contemplated by Section 5.3 hereof and the filing of the Certificate of Merger, no other corporate proceedings on the part of the Company are necessary to authorize the consummation of the transactions contemplated hereby. The Board of Directors of the Company has taken all appropriate action so that neither the Parent nor the Purchaser will be an "interested stockholder" within the meaning of Section 203 of the DGCL by virtue of the Parent, the Purchaser and the Company entering into this Agreement and consummating the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Company and, assuming this Agreement constitutes a valid and binding agreement of the Parent and the Purchaser, constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.

(b) Except for the filings, permits, authorizations, consents and approvals set forth in Section 3.3(b) of the Company Disclosure Schedule or as may be required under, and other applicable requirements of, the Securities Act of 1933, as amended (the "Securities Act"), the Exchange Act, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), state securities or blue sky laws, and the DGCL (the "Company Required Approvals"), none of the execution, delivery or performance of this Agreement by the Company, the consummation by the Company of the transactions contemplated hereby or compliance by the Company with any of the provisions hereof will (i) conflict with or result in any breach of any provision of the certificate of incorporation, by-laws or similar organizational documents of the Company or any of its Significant Subsidiaries, (ii) require any filing with, or permit, authorization, consent or approval of, any federal, regional, state or local court, arbitrator, tribunal, administrative agency or commission or other governmental or other regulatory authority or agency, whether U.S. or foreign (a "Governmental Entity"), (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which the Company or any of its Subsidiaries is a party or by which any of them or any of their properties or assets may be bound (the "Company Agreements"), or (iv) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Company, any of its Subsidiaries or any of their properties or assets, excluding from the foregoing clauses (ii), (iii) and (iv) such violations, breaches or defaults which would not, individually or in the aggregate, have a Material Adverse Effect on the Company or prevent or substantially delay the consummation of the transactions contemplated hereby. Section 3.3(b) of the Company Disclosure Schedule sets forth a list of all third party consents and approvals required to be obtained under the Company Agreements prior to the consummation of the transactions contemplated by this Agreement the failure of which to obtain would have, individually or in the aggregate, a Material Adverse Effect on the Company.

Section 3.4. Reports and Financial Statements. The Company has previously furnished or otherwise made available to the Parent true and complete copies of:

(a) the Company's Annual Reports on Form 10-K filed with the SEC for each of the years ended December 31, 1996 and 1997;

(b) the Company's Quarterly Report on Form 10-Q filed with the SEC for the quarters ended March 31, 1997, June 30, 1997 and September 30, 1997;

(c) each definitive proxy statement filed by the Company with the SEC since December 31, 1996;

(d) each final prospectus filed by the Company with the SEC since December 31, 1996, except any final prospectus on Form S-8; and

(e) all Current Reports on Form 8-K filed by the Company with the SEC since January 1, 1997.

As of their respective dates, such reports, proxy statements and prospectuses (collectively with any amendments, supplements and exhibits thereto, the "Company SEC Reports") (i) complied as to form in all material respects with the applicable requirements of the Securities Act, the Exchange Act and the rules and regulations promulgated thereunder, and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. Except to the extent that information contained in any Company SEC Report was amended or was superseded by a later filed Company SEC Report, none of the Company SEC Reports contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. None of the Company's Subsidiaries is required to file any forms, reports or other documents with the SEC. The audited consolidated financial statements and unaudited consolidated interim financial statements included in the Company SEC Reports (including any related notes and schedules) fairly present the financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the results of operations and cash flows for the periods or as of the dates then ended (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments), in each case in accordance with past practice and generally accepted accounting principles in the United States ("GAAP") consistently applied during the periods involved (except as otherwise disclosed in the notes thereto). Since January 1, 1996, the Company has timely filed all reports, registration statements and other filings required to be filed by it with the SEC under the rules and regulations of the SEC.

Section 3.5. No Undisclosed Liabilities. Neither the Company nor any of its Subsidiaries has any liabilities or obligations of any nature, whether or not accrued, contingent or otherwise, and there is no existing condition, situation or set of circumstances which could reasonably be expected to result in such a liability or obligation, except (a) liabilities or obligations reflected in the Company SEC Reports and (b) liabilities or obligations which would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

Section 3.6. No Violation of Law. The businesses of the Company and its Subsidiaries are not being conducted in violation of any law, ordinance or regulation of any Governmental Entity (provided that no representation or warranty is made in this Section 3.6 with respect to Environmental Laws (as hereinafter defined)) except (a) as described in the Company SEC Reports filed prior to the date hereof and (b) for violations or possible violations which would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

Section 3.7. Environmental Matters.

(a) Each of the Company and its Subsidiaries has obtained all licenses, permits, authorizations, approvals and consents from Governmental Entities which are required under any applicable Environmental Law in respect of its business or operations ("Environmental Permits"), except for such failures to have Environmental Permits which, individually or in the aggregate, are not reasonably expected to have a Material Adverse Effect on the Company. Each of such Environmental Permits is in full force and effect, and each of the Company and its Subsidiaries is in compliance with the terms and conditions of all such Environmental Permits and with all applicable Environmental Laws, except for such exceptions as would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

(b) There is no Environmental Claim (as hereinafter defined) pending, or to the best knowledge of the Company threatened, against the Company or any of its Subsidiaries, or to the best knowledge of the Company against any Person whose liability for such Environmental Claim the Company or any of its Subsidiaries has or may have retained or assumed either contractually or by operation of law, that would, individually or in the aggregate, have a Material Adverse Effect on the Company.

(c) Except as set forth in Section 3.7(c) of the Company Disclosure Schedule, to the best knowledge of the Company, there are no past or present actions,

activities, circumstances, conditions, events or incidents, including, without limitation, the release, threatened release or presence of any Hazardous Material (as hereinafter defined), that have resulted in any Environmental Claim against the Company or any of its Subsidiaries, or to the best knowledge of the Company against any Person whose liability for any Environmental Claim the Company or any of its Subsidiaries has or may have retained or assumed either contractually or by operation of law, except for such liabilities which would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

(d) To the best knowledge of the Company, no site or facility now or previously owned, operated or leased by the Company or any of its Subsidiaries is listed or proposed for listing on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, and the rules and regulations thereunder ("CERCLA").

(e) No Liens have arisen under or pursuant to any Environmental Law on any site or facility owned, operated or leased by the Company or any of its Subsidiaries, except for such Liens which would not, individually or in the aggregate, have a Material Adverse Effect on the Company, and no action of any Governmental Entity has been taken or, to the best knowledge of the Company, is in process which could subject any of such properties to such Liens except for any such action which would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

(f) As used in this Agreement:

(i) "Environmental Claim" means any claim, action, cause of action, investigation or notice (written or oral) by any Person alleging potential liability (including, without limitation, potential liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, or penalties) arising out of, based on or resulting from (a) the presence, or release or threatened release, of any Hazardous Materials at any location, whether or not owned or operated by the Company or any of its Subsidiaries or Parent or any of its Subsidiaries, as the case may be, or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

(ii) "Environmental Law" means any law or order of any Governmental Entity relating to the regulation or protection of human health

or safety as it relates to Hazardous Materials or the environment or to emissions, discharges, releases or threatened releases of Hazardous Material, pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes into the environment.

(iii) "Hazardous Materials" means (A) any petroleum or petroleum products, flammable materials, radioactive materials, friable asbestos, urea formaldehyde foam insulation and transformers or other equipment that contain dielectric fluid containing regulated levels of polychlorinated biphenyls; (B) any chemicals or other materials or substances which are become defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants" or words of similar import under any Environmental Law; and (C) any other chemical or other material or substance, exposure to which is prohibited, limited or regulated by any Governmental Entity under any Environmental Law.

Section 3.8. Employee Benefit Plans; ERISA.

(a) Except as described in the Company SEC Reports or as would not have a Material Adverse Effect on the Company, (i) all Company Employee Benefit Plans (as hereinafter defined) are in compliance with all applicable requirements of law, including ERISA (as hereinafter defined) and the Code, and (ii) neither the Company nor any of its Subsidiaries nor any ERISA Affiliate (as hereinafter defined) has any liabilities or obligations with respect to any such Company Employee Benefit Plans, whether accrued, contingent or otherwise, nor to the best knowledge of the Company, are any such liabilities or obligations expected to be incurred. Except as described in the Company SEC Reports or as set forth in Section 3.8(a) of the Company Disclosure Schedule, the execution of, and performance of the transactions contemplated in, this Agreement will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Company Employee Benefit Plan that will or may result in any payment or any continuation benefit under COBRA (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any employee. The only severance agreements or severance policies applicable to the Company or any of its Subsidiaries are the agreements and policies specifically described in Section 3.8(a) of the Company Disclosure Schedule.

(b) With respect to each of its Plans (as hereinafter defined), the Company has heretofore delivered to the Parent complete and correct copies of each of the following documents, as applicable: (i) a copy of the Plan; (ii) a copy of the most recent annual report; (iii) a copy of the most recent actuarial report; (iv) a copy of the most recent Summary Plan Description and all material modifications; (v) a copy of the trust or other funding agreement; and (vi) the most recent determination letter received from the Internal Revenue Service (the "IRS") with respect to each Plan that is intended to be qualified under Section 401 of the Code and all notices of reportable events received following receipt of such letter.

(c) Section 3.8(c) of the Company Disclosure Schedule sets forth a list of each employee of the Company (or any Subsidiary) who is a party to any agreement (whether written or oral) with respect to such person's employment by the Company or a Subsidiary, other than offer letters which do not have guaranteed periods of employment and statutory employment agreements under foreign laws, and which provide for annual compensation in excess of $100,000. The Company has provided to the Parent a complete and correct copy of each such written employment agreement and a complete and correct summary of each such oral agreement.

(d) No liability under Title IV of ERISA has been incurred by the Company or any ERISA Affiliate within the past twelve years that has not been satisfied in full. To the best knowledge of the Company, no condition exists that presents a material risk to the Company, any of its Subsidiaries or any ERISA Affiliate of incurring a liability under such Title. The Pension Benefit Guaranty Corporation established under ERISA ("PBGC") has not instituted proceedings to terminate any of the Plans, and no condition exists that presents a material risk that such proceedings will be instituted. With respect to each of the Plans that is subject to Title IV of ERISA, the present value of accrued benefits under such Plan, based upon the actuarial assumptions used for funding purposes in the most recent actuarial report prepared by such Plan's actuary with respect to such Plan, did not, as of its latest valuation date, exceed the then current value of the assets of such Plan allocable to such accrued benefits, and there have been no changes since such latest valuation date which would cause the present value of such accrued benefits to exceed the current value of such assets. None of the Plans or any trust established thereunder has incurred any "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, as of the last day of the most recent fiscal year of each of the Plans ended prior to the date of this Agreement. None of the Plans is a "multiemployer plan," as such term is defined in Section 3(37) of ERISA. Each of the Plans that is intended to be "qualified" within the meaning of

Section 401(a) of the Code is so qualified and the trusts maintained thereunder are exempt from taxation under Section 501(a) of the Code. Except as set forth in Section 3.8(d) of the Company Disclosure Schedule, no Plan provides benefits, including without limitation death or medical benefits (whether or not insured), with respect to current or former employees after retirement or other termination of service (other than coverage mandated by applicable law or benefits, the full cost of which is borne by the current or former employee). There are no pending or threatened claims by or on behalf of any Plan, by any employee or beneficiary covered under any such Plan, or otherwise involving any such Plan (other than routine claims for benefits).

(e) As used in this Agreement:

(i) "Company Employee Benefit Plan" means any Plan entered into, established, maintained, sponsored, contributed to or required to be contributed to by the Company, any of its Subsidiaries or ERISA Affiliates for the benefit of the current or former employees or directors of the Company or any of its Subsidiaries and existing on the date of this Agreement or at any time subsequent thereto and on or prior to the Effective Time and, in the case of a Plan which is subject to the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations thereunder ("ERISA"), Section 412 of the Code or Title IV of ERISA, at any time during the twelve-year period preceding the date of this Agreement;

(ii) "Plan" means any employment, bonus, incentive compensation, deferred compensation, pension, profit sharing, retirement, stock purchase, stock option, stock ownership, stock appreciation rights, phantom stock, leave of absence, layoff, vacation, day or dependent care, legal services, cafeteria, life, health, medical, accident, disability, worker's compensation or other insurance, severance, separation, termination, change of control or other benefit plan, agreement, practice, policy, program or arrangement of any kind, whether written or oral, including, but not limited to any "employee benefit plan" within the meaning of Section 3(3) of ERISA; and

(iii) "ERISA Affiliate" means, with respect to any Person, any Person in the same controlled group as such Person (within the meaning of Sections 414(b) and (c) of the Code).

Section 3.9. Absence of Certain Changes or Events. Except as disclosed in the Company SEC Reports, (a) since December 31, 1997 the businesses of the Company and its Subsidiaries have been conducted in the ordinary course consistent with past practice, and (b) there has not been any event, occurrence, development or state of circumstances or facts that has had, individually or in the aggregate, a Material Adverse Effect on the Company.

Section 3.10. Litigation. Except as disclosed in the Company SEC Reports, there are no actions, suits or proceedings pending (or, to the best knowledge of the Company, threatened) against or affecting the Company or its Subsidiaries, or any of their respective properties at law or in equity, by or before any Governmental Entity which, individually or in the aggregate, have a Material Adverse Effect on the Company or would prevent or substantially delay any of the transactions contemplated by this Agreement or otherwise prevent the Company from performing its obligations hereunder.

Section 3.11. Schedule 14D-9; Offer Documents; Registration Statement and Proxy Statement. Neither the Schedule 14D-9 nor any information supplied by the Company for inclusion in the Offer Documents shall, at the respective times the Schedule 14D-9, the Offer Documents or any amendments or supplements thereto are filed with the SEC or are first published, sent or given to stockholders of the Company, as the case may be, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading. The Proxy Statement (as hereinafter defined) will not, on the date the Proxy Statement (or any amendment or supplement thereto) is first mailed to stockholders of the Company, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading or shall, at the time of the Special Meeting (as hereinafter defined) or at the Effective Time, omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the Special Meeting which shall have become false or misleading in any material respect. None of the information supplied by the Company for inclusion or incorporation by reference in the Registration Statement will, at the date it becomes effective and at the time of the Special Meeting (as hereinafter defined) contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Schedule 14D-9 and the Proxy Statement

will, when filed by the Company with the SEC, comply as to form in all material respects with the applicable provisions of the Exchange Act and the rules and regulations thereunder. Notwithstanding the foregoing, the Company makes no representation or warranty with respect to the statements made in any of the foregoing documents based on and in conformity with information supplied by or on behalf of the Parent or the Purchaser specifically for inclusion therein.

Section 3.12. Intellectual Property.

(a) The Company and its Subsidiaries own or have valid rights to use all items of Intellectual Property (as hereinafter defined) utilized in the conduct of the business of the Company and its Subsidiaries as presently conducted, free and clear of all Liens with such exceptions as would not have, individually or in the aggregate, a Material Adverse Effect on the Company.

(b) To the best knowledge of the Company, (i) neither the Company nor any Subsidiary is in default (or with the giving of notice or lapse of time or both, would be in default) under any license to use such Intellectual Property, (ii) the Intellectual Property is not being infringed by any third party, (iii) neither the Company nor any Subsidiary is infringing any Intellectual Property of any third party with such exceptions as would not have, individually or in the aggregate, a Material Adverse Effect on the Company and (iv) in the last three years neither the Company nor any Subsidiary has received any claim or notice of infringement by any third party.

(c) As used in this Agreement, "Intellectual Property" means all of the following: (i) U.S. and foreign registered and unregistered trademarks and pending trademark applications, trade dress, service marks, logos, trade names, corporate names, assumed names, business names and logos and all registrations and applications to register the same (the "Trademarks"), (ii) issued U.S. and foreign patents and pending patent applications, invention disclosures, and any and all divisions, continuations, continuations-in-part, reissues, continuing patent applications, reexaminations, and extensions thereof, any counterparts claiming priority therefrom, utility models, patents of importation/confirmation, certificates of invention, certificates of registration and like statutory rights (the "Patents"), (iii) U.S. and foreign registered and unregistered copyrights (including, but not limited to, those in computer software and databases), rights of publicity and all registrations and applications to register the same (the "Copyrights"), (iv) all categories of trade secrets as defined in the Uniform Trade Secrets Act and under corresponding foreign

statutory and common law, including, but not limited to, business, technical and know-how information, (v) all licenses and agreements pursuant to which the Company or any Subsidiary has acquired rights in or to any Trademarks, Patents, trade secrets, technology, know-how, Computer Software (as defined below), rights of publicity or Copyrights, or licenses and agreements pursuant to which the Company has licensed or transferred the right to use any of the foregoing ("Licenses"), and (vi) all computer software, data files, source and object codes, user interfaces, manuals and other specifications and documentation and all know-how relating thereto (collectively, "Computer Software").

Section 3.13. Tax Matters.

(a) All federal, state, local and foreign Tax Returns (as hereinafter defined) required to be filed by or on behalf of the Company, each of its Subsidiaries, and each affiliated, combined, consolidated or unitary group of which the Company or any of its Subsidiaries (i) is a member (a "Current Company Group") or (ii) was a member during any years not closed with the IRS for U.S. federal income Tax purposes but is not currently a member, but only insofar as any such Tax Return relates to a taxable period or portion thereof ending on a date within the last six years during which the Company or such Subsidiary was a member of such affiliated, combined, consolidated or unitary group for purposes of the relevant Tax (a "Past Company Group," and together with Current Company Groups, a "Company Affiliated Group") have been timely filed or requests for extensions have been timely filed and any such extension has been granted and has not expired, and all such filed Tax Returns are complete and accurate except to the extent any failure to file or any inaccuracies in filed Tax Returns would not, individually or in the aggregate, have a Material Adverse Effect on the Company (it being understood that the representations made in this Section 3.13, to the extent that they relate to Past Company Groups, are made to the best knowledge of the Company and only with respect to taxable periods or portions thereof ending on a date within the last six years during which the Company or any of its Subsidiaries was a member of such affiliated, combined, consolidated or unitary group for purposes of the relevant Tax). All Taxes due and owing by the Company, any Subsidiary of the Company or any Company Affiliated Group have been paid, or adequately reserved for, except to the extent any failure to pay or reserve would not, individually or in the aggregate, have a Material Adverse Effect on the Company. There is no audit, examination, deficiency, refund litigation, proposed adjustment or matter in controversy with respect to any Taxes due and owing by the Company, any Subsidiary of the Company or any Company Affiliated Group which if determined adversely would have a Material Adverse Effect on the

Company. All assessments for Taxes due and owing by the Company, any Subsidiary of the Company or any Company Affiliated Group with respect to completed and settled examinations or concluded litigation have been paid. Section 3.13(a) of the Company Disclosure Schedule sets forth (i) the taxable years of the Company for which the statutes of limitations with respect to U.S. federal income Taxes have not expired and (ii) with respect to federal income Taxes for such years, those years for which examinations have been completed, those years for which examinations are presently being conducted, and those years for which examinations have not yet been initiated. Neither the Company nor any of its Subsidiaries has any liability under Treasury Regulation Section 1.1502-6 for U.S. federal income Taxes of any Person other than the Company and its Subsidiaries. The Company and each of its Subsidiaries have complied in all material respects with all rules and regulations relating to the withholding of Taxes, except to the extent any such failure to comply would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

(b) Neither the Company nor any Subsidiary of the Company has (i) entered into a closing agreement or other similar agreement with a taxing authority relating to Taxes of the Company or any Subsidiary of the Company with respect to a taxable period for which the statute of limitations is still open, or (ii) with respect to U.S. federal income Taxes, granted any waiver of any statute of limitations with respect to, or any extension of a period for the assessment of, any income Tax, in either case, that is still outstanding. There are no Liens relating to Taxes upon the assets of the Company or any Subsidiary other than Liens relating to Taxes not yet due. Neither the Company nor any Subsidiary is a party to any agreement relating to allocating or sharing of Taxes which has not been disclosed in its Tax Returns. No consent under Section 341(f) of the Code has been filed with respect to the Company or any Subsidiary.

(c) Any amount or other entitlement that could be received (whether in cash or property or the vesting of property) as a result of any of the transactions contemplated by this Agreement by any employee, officer or director of the Company or any of its affiliates who is a "disqualified individual" (as such term is defined in proposed Treasury Regulation Section 1.280G-1) under any Plan currently in effect would not be characterized as an "excess parachute payment" (as such term is defined in Section 280G(b)(1) of the Code).

(d) For purposes of this Agreement: (i) "Taxes" means any and all federal, state, local, foreign or other taxes of any kind (together with any and all

interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any taxing authority, including, without limitation, taxes or other charges on or with respect to income, franchises, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers' compensation, unemployment compensation or net worth, and taxes or other charges in the nature of excise, withholding, ad valorem or value added, and (ii) "Tax Return" means any return, report or similar statement (including the attached schedules) required to be filed with respect to any Tax, including, without limitation, any information return, claim for refund, amended return or declaration of estimated Tax.

Section 3.14. Opinion of Financial Advisor. The Board of Directors of the Company has received the opinion of BT Wolfensohn, dated the date of this Agreement, substantially to the effect that each of the Per Share Cash Amount and the Merger Consideration, taken as a whole, to be received by the stockholders of the Company in the Offer and the Merger is fair to such holders from a financial point of view.

Section 3.15. Required Vote of the Company Stockholders. The affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock (the "Company Stockholder Approval") is the only vote of the holders of any class or series of the Company's capital stock which is necessary to approve this Agreement and the transactions contemplated hereby.

Section 3.16. Employment Matters. Neither the Company nor any of its Subsidiaries has experienced any work stoppages, strikes, collective labor grievances, other collective bargaining disputes or claims of unfair labor practices in the last five years which would, individually or in the aggregate, have a Material Adverse Effect on the Company. To the best knowledge of the Company, there is no organizational effort presently being made or threatened by or on behalf of any labor union with respect to employees of the Company or any of its Subsidiaries.

ARTICLE IV

Representations and Warranties of the Parent and the Purchaser

Except as set forth on the schedule delivered by the Parent to the Company simultaneously and in connection with the execution of this Agreement (the "Parent Disclosure Schedule," and together with the Company Disclosure Schedule, the "Disclosure Schedule") or disclosed in the Parent SEC Reports, the Parent and the Purchaser represent and warrant to the Company as set forth below:

Section 4.1. Organization, Qualification, Etc. Each of the Parent and the Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority and all governmental approvals required for it to own its properties and assets and to carry on its business as it is now being conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the ownership of its properties or the conduct of its business requires such qualification, except for jurisdictions in which the failure to be so organized, existing and in good standing or to have such power, authority and governmental approvals would not, individually or in the aggregate, have a Material Adverse Effect on the Parent or delay consummation of the transactions contemplated by this Agreement or otherwise prevent the Parent or the Purchaser from performing its obligations hereunder. The Parent has delivered or made available to the Company copies of the articles of incorporation and by-laws for the Parent and the certificate of incorporation and by-laws for the Purchaser. Such organizational documents are complete and correct and in full force and effect, and neither the Parent nor the Purchaser is in violation of any of the provisions of their respective certificates of incorporation or by-laws. Each of the Parent's Significant Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has the corporate power and authority and all governmental approvals required for it to own its properties and assets and to carry on its business as it is now being conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the ownership of its properties or the conduct of its business requires such qualification, except for jurisdictions in which the failure to be so organized, existing and in good standing or to have such power, authority and governmental approvals would not, individually or in the aggregate, have a Material Adverse Effect on the Parent.

Section 4.2. Capital Stock. The authorized capital stock of the Parent consists of 300,000,000 shares of Parent Common Stock, 557,740 shares of serial preferred stock, par value $100.00 per share ("Parent Serial Preferred Stock") and 10,000,000 shares of Class B serial preferred stock, par value $1.00 per share ("Parent Class B Serial Preferred Stock"). As of February 28, 1998, (i) 168,125,229 shares of Parent Common Stock were issued and outstanding; (ii) 14,050,000 shares of Parent Common Stock were subject to outstanding options issued pursuant to Parent's long term stock incentive plan (the "Long Term Incentive Plan"), and 19,300,152 shares of Parent Common Stock were reserved for issuance under the Long Term Incentive Plan; (iii) 4,097,532 shares of Parent Common Stock were reserved for issuance under the Parent's employees savings plans; (iv) 169,228 shares of Parent Common Stock were reserved for issuance under the Parent's incentive compensation plan; (v) 10,797,354 shares of Parent Common Stock were issued and held in the treasury of the Parent; (vi) 557,649 shares of Parent Serial Preferred Stock were issued and outstanding; and (vii) no shares of Parent Class B Serial Preferred Stock are issued and outstanding. All the outstanding shares of Parent Common Stock and Parent Serial Preferred Stock are, and all shares to be issued as part of the Merger Consideration will be, when issued in accordance with the terms hereof, duly authorized, validly issued, fully paid and non-assessable. Except as set forth above, and except for the transactions contemplated by this Agreement, (1) there are no shares of capital stock of the Parent authorized, issued or outstanding, (2) there are no authorized or outstanding options, warrants, calls, preemptive rights, subscriptions or other rights, agreements, arrangements or commitments of any character relating to the issued or unissued capital stock of the Parent, obligating the Parent to issue, transfer or sell or cause to be issued, transferred or sold any shares of capital stock or other equity interest in the Parent or securities convertible into or exchangeable for such shares or equity interests, or obligating the Parent to grant, extend or enter into any such option, warrant, call, subscription or other right, agreement, arrangement or commitment, (3) there are no outstanding contractual obligations of the Parent to repurchase, redeem or otherwise acquire any capital stock of the Parent.

Section 4.3. Corporate Authority Relative to this Agreement; No Violation.

(a) Each of the Parent and the Purchaser has the corporate power and authority to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by the Boards of Directors of the Parent and the Purchaser and by the Parent as the sole stockholder

of the Purchaser, and other than the filing of the Certificate of Merger no other corporate proceedings on the part of the Parent or the Purchaser are necessary to authorize the consummation of the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Parent and the Purchaser and, assuming this Agreement constitutes a valid and binding agreement of the Company, constitutes a valid and binding agreement of each of the Parent and the Purchaser, enforceable against each of the Parent and the Purchaser in accordance with its terms.

(b) Except for the filings, permits, authorizations, consents and approvals set forth in Section 4.3(b) of the Parent Disclosure Schedule or as may be required under, and other applicable requirements of, the NYSE, the Securities Act, the Exchange Act, the HSR Act, state securities or blue sky laws, and the DGCL (the "Parent Required Approvals"), none of the execution, delivery or performance of this Agreement by the Parent or the Purchaser, the consummation by the Parent or the Purchaser of the transactions contemplated hereby or compliance by the Parent or the Purchaser with any of the provisions hereof or thereof will (i) conflict with or result in any breach of any provision of the articles or by-laws of the Parent or the certificate of incorporation or by-laws of the Purchaser, (ii) require any filing with, or permit, authorization, consent or approval of, any Governmental Entity, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which the Parent, any of its Subsidiaries or the Purchaser is a party or by which either of them or any of their respective properties or assets may be bound (the "Parent and Purchaser Agreements") or (iv) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Parent, any of its Subsidiaries or any of their respective properties or assets, excluding from the foregoing clauses (ii), (iii) and (iv) such violations, breaches or defaults which would not, individually or in the aggregate have a Material Adverse Effect on the Parent or prevent or substantially delay the consummation of the transactions contemplated hereby. Section 4.3(b) of the Parent Disclosure Schedule sets forth a list of all third party consents and approvals required to be obtained under the Parent and Purchaser Agreements prior to the consummation of the transactions contemplated by this Agreement the failure of which to obtain would have, individually or in the aggregate, a Material Adverse Effect on the Parent.

Section 4.4. Reports and Financial Statements. The Parent has previously furnished or otherwise made available to the Company true and complete copies of:

(a) the Parent's Annual Reports on Form 10-K filed with the SEC for each of the years ended December 31, 1996 and 1997;

(b) the Parent's Quarterly Report on Form 10-Q filed with the SEC for the quarters ended March 31, 1997, June 30, 1997 and September 30, 1997;

(c) each definitive proxy statement filed by the Parent with the SEC since December 31, 1996;

(d) each final prospectus filed by the Parent with the SEC since December 31, 1996, except any final prospectus on Form S-8; and

(e) all Current Reports on Form 8-K filed by the Parent with the SEC since January 1, 1997.

As of their respective dates, such reports, proxy statements and prospectuses (collectively with any amendments, supplements and exhibits thereto, the "Parent SEC Reports") (i) complied as to form in all material respects with the applicable requirements of the Securities Act, the Exchange Act and the rules and regulations promulgated thereunder, and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. Except to the extent that information contained in any Parent SEC Report was amended or was superseded by a later filed Parent SEC Report, none of the Parent SEC Reports contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. None of the Parent's Subsidiaries is required to file any forms, reports or other documents with the SEC. The audited consolidated financial statements and unaudited consolidated interim financial statements included in the Parent SEC Reports (including any related notes and schedules) fairly present the financial position of the Parent and its consolidated Subsidiaries as of the dates thereof and the results of operations and cash flows for the periods or as of the dates then ended (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments), in each case in accordance with

past practice and GAAP consistently applied during the periods involved (except as otherwise disclosed in the notes thereto). Since January 1, 1996, the Parent has timely filed all reports, registration statements and other filings required to be filed by it with the SEC under the rules and regulations of the SEC.

Section 4.5. No Undisclosed Liabilities. Neither the Parent nor any of its Subsidiaries has any liabilities or obligations of any nature, whether or not accrued, contingent or otherwise, and there is no existing condition, situation or set of circumstances which could reasonably be expected to result in such a liability or obligation, except (a) liabilities or obligations reflected in the Parent SEC Reports and (b) liabilities or obligations which would not, individually or in the aggregate, have a Material Adverse Effect on the Parent.

Section 4.6. No Violation of Law. The businesses of the Parent and its Subsidiaries are not being conducted in violation of any law, ordinance or regulation of any Governmental Entity (provided that no representation or warranty is made in this Section 4.6 with respect to Environmental Laws) except (a) as described in the Parent SEC Reports filed prior to the date hereof and (b) for violations or possible violations which would not, individually or in the aggregate, have a Material Adverse Effect on the Parent.

Section 4.7. Environmental Matters.

(a) Each of the Parent and its Subsidiaries has obtained all Environmental Permits, except for such failures to have Environmental Permits which, individually or in the aggregate, are not reasonably expected to have a Material Adverse Effect on the Parent. Each of such Environmental Permits is in full force and effect, and each of the Parent and its Subsidiaries is in compliance with the terms and conditions of all such Environmental Permits and with all applicable Environmental Laws, except for such exceptions as would not, individually or in the aggregate, have a Material Adverse Effect on the Parent.

(b) There is no Environmental Claim pending, or to the best knowledge of the Parent threatened, against the Parent or any of its Subsidiaries, or to the best knowledge of the Parent against any Person whose liability for such Environmental Claim the Parent or any of its Subsidiaries has or may have retained or assumed either contractually or by operation of law, that would, individually or in the aggregate, have a Material Adverse Effect on the Parent.

(c) Except as set forth in Section 4.7(c) of the Parent Disclosure Schedule, to the best knowledge of the Parent, there are no past or present actions, activities, circumstances, conditions, events or incidents, including, without limitation, the release, threatened release or presence of any Hazardous Material, that have resulted in any Environmental Claim against the Parent or any of its Subsidiaries, or to the best knowledge of the Parent against any Person whose liability for any Environmental Claim the Parent or any of its Subsidiaries has or may have retained or assumed either contractually or by operation of law, except for such liabilities which would not, individually or in the aggregate, have a Material Adverse Effect on the Parent.

(d) To the best knowledge of the Parent, no site or facility now or previously owned, operated or leased by the Parent or any of its Subsidiaries is listed or proposed for listing on the National Priorities List promulgated pursuant to CERCLA.

(e) No Liens have arisen under or pursuant to any Environmental Law on any site or facility owned, operated or leased by the Parent or any of its Subsidiaries, except for such Liens which would not, individually or in the aggregate, have a Material Adverse Effect on the Parent, and no action of any Governmental Entity has been taken or, to the best knowledge of the Parent, is in process which could subject any of such properties to such Liens except for any such action which would not, individually or in the aggregate, have a Material Adverse Effect on the Parent.

Section 4.8. Employee Benefit Plans; ERISA.

(a) Except as described in the Parent SEC Reports or as would not have a Material Adverse Effect on the Parent, (i) all Parent Employee Benefit Plans (as hereinafter defined) are in compliance with all applicable requirements of law, including ERISA (as hereinafter defined) and the Code, and (ii) neither the Parent nor any of its Subsidiaries nor any ERISA Affiliate has any liabilities or obligations with respect to any such Parent Employee Benefit Plans, whether accrued, contingent or otherwise, nor to the best knowledge of the Parent, are any such liabilities or obligations expected to be incurred. Except as described in the Parent SEC Reports or as set forth in Section 4.8(a) of the Parent Disclosure Schedule, the execution of, and performance of the transactions contemplated in, this Agreement will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Parent Employee Benefit Plan that will or may result in any payment

or any continuation benefit under COBRA (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any employee. The only severance policies applicable to the Parent or any of its Subsidiaries are the policies specifically described in Section 4.8(a) of the Parent Disclosure Schedule.

(b) With respect to each of its Plans, the Parent has heretofore delivered or otherwise made available to the Company complete and correct copies of each of the following documents, as applicable: (i) a copy of the Plan; (ii) a copy of the most recent annual report; (iii) a copy of the most recent actuarial report; (iv) a copy of the most recent Summary Plan Description and all material modifications; (v) a copy of the trust or other funding agreement; and (vi) the most recent determination letter received from the IRS with respect to each Plan that is intended to be qualified under Section 401 of the Code and all notices of reportable events received following receipt of such letter.

(c) No liability under Title IV of ERISA has been incurred by the Parent or any ERISA Affiliate within the past twelve years that has not been satisfied in full. To the best knowledge of the Parent, no condition exists that presents a material risk to the Parent, any of its Subsidiaries or any ERISA Affiliate of incurring a liability under such Title. The PBGC has not instituted proceedings to terminate any of the Plans, and no condition exists that presents a material risk that such proceedings will be instituted. Except as otherwise disclosed in the documents delivered or otherwise made available pursuant to Section 4.8(b), with respect to each of the Plans that is subject to Title IV of ERISA, the present value of accrued benefits under such Plan, based upon the actuarial assumptions used for funding purposes in the most recent actuarial report prepared by such Plan's actuary with respect to such Plan, did not, as of its latest valuation date, exceed the then current value of the assets of such Plan allocable to such accrued benefits, and there have been no changes since such latest valuation date which would cause the present value of such accrued benefits to exceed the current value of such assets. None of the Plans or any trust established thereunder has incurred any "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, as of the last day of the most recent fiscal year of each of the Plans ended prior to the date of this Agreement. None of the Plans is a "multiemployer plan," as such term is defined in Section 3(37) of ERISA. Each of the Plans that is intended to be "qualified" within the meaning of Section 401(a) of the Code is so qualified and the trusts maintained thereunder are exempt from taxation under Section 501(a) of the Code. Except as set forth in Section 4.8(c) of the Parent Disclosure Schedule, no

Plan provides benefits, including without limitation death or medical benefits (whether or not insured), with respect to current or former employees after retirement or other termination of service (other than coverage mandated by applicable law or benefits, the full cost of which is borne by the current or former employee). Except as set forth in Section 4.8(c) of the Parent Disclosure Schedule, there are no pending or threatened claims by or on behalf of any Plan, by any employee or beneficiary covered under any such Plan, or otherwise involving any such Plan (other than routine claims for benefits).

(d) As used in this Agreement: "Parent Employee Benefit Plan" means any Plan entered into, established, maintained, sponsored, contributed to or required to be contributed to by the Parent, any of its Subsidiaries or ERISA Affiliates for the benefit of the current or former employees or directors of the Parent or any of its Subsidiaries and existing on the date of this Agreement or at any time subsequent thereto and on or prior to the Effective Time and, in the case of a Plan which is subject to ERISA, Section 412 of the Code or Title IV of ERISA, at any time during the twelve-year period preceding the date of this Agreement.

Section 4.9. Absence of Certain Changes or Events. Except as disclosed in the Parent SEC Reports, (a) since December 31, 1997 the businesses of the Parent and its Subsidiaries have been conducted in the ordinary course consistent with past practice, and (b) there has not been any event, occurrence, development or state of circumstances or facts that has had, or is reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on the Parent.

Section 4.10. Litigation. Except as disclosed in the Parent SEC Reports, there are no actions, suits or proceedings pending (or, to the best knowledge of the Parent, threatened) against or affecting the Parent or its Subsidiaries, or any of their respective properties at law or in equity, by or before any Governmental Entity which, individually or in the aggregate, have a Material Adverse Effect on the Parent or would prevent or substantially delay any of the transactions contemplated by this Agreement or otherwise prevent the Parent from performing its obligations hereunder.

Section 4.11. Proxy Statement/Prospectus; Registration Statement. The Registration Statement and Form S-4 to be filed with the SEC by the Parent in connection with the issuance of the Parent Common Stock pursuant to the Merger, as amended or supplemented from time to time (as so amended and supplemented, the "Registration Statement"), and any other documents to be filed by the Parent with the SEC or any other Government Entity in connection with the Merger and the other

transactions contemplated hereby will (in the case of the Registration Statement and any such other documents filed with the SEC under the Securities Act or the Exchange Act) comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act, respectively, and will not, on the date of filing with the SEC or, in the case of the Registration Statement, at the time it becomes effective under the Securities Act, on the date the Proxy Statement is first mailed to stockholders of the Company, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading or shall, at the time of the Special Meeting or at the Effective Time, omit to state any material fact necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the Special Meeting which shall have become false or misleading in any material respect. Notwithstanding the foregoing, neither the Parent nor the Purchaser makes any representation or warranty with respect to the statements made in any of the foregoing documents based on and in conformity with information supplied by or on behalf of the Company specifically for inclusion therein.

Section 4.12. Intellectual Property.

(a) The Parent and its Subsidiaries own or have valid rights to use all items of Intellectual Property utilized in the conduct of the business of the Parent and its Subsidiaries as presently conducted, free and clear of all Liens with such exceptions as would not have, individually or in the aggregate, a Material Adverse Effect on the Parent.

(b) To the best knowledge of the Parent, (i) neither the Parent nor any Subsidiary is in default (or with the giving of notice or lapse of time or both, would be in default) under any license to use such Intellectual Property, (ii) the Intellectual Property is not being infringed by any third party, (iii) neither the Parent nor any Subsidiary is infringing any Intellectual Property of any third party with such exceptions as would not have, individually or in the aggregate, a Material Adverse Effect on the Parent, and (iv) within the last three years neither the Parent nor any Subsidiary has received any claim or notice of infringement by any third party except as would not, individually or in the aggregate, have a Material Adverse Effect on the Parent.

Section 4.13. Tax Matters.

(a) All federal, state, local and foreign Tax Returns required to be filed by or on behalf of the Parent, each of its Subsidiaries, and each affiliated, combined, consolidated or unitary group of which the Parent or any of its Subsidiaries (i) is a member (a "Current Parent Group") or (ii) was a member during any years not closed with the IRS for U.S. federal income Tax purposes but is not currently a member, but only insofar as any such Tax Return relates to a taxable period or portion thereof ending on a date within the last six years during which the Parent or such Subsidiary was a member of such affiliated, combined, consolidated or unitary group for purposes of the relevant Tax (a "Past Parent Group," and together with Current Parent Groups, a "Parent Affiliated Group") have been timely filed or requests for extensions have been timely filed and any such extension has been granted and has not expired, and all such filed Tax Returns are complete and accurate except to the extent any failure to file or any inaccuracies in filed Tax Returns would not, individually or in the aggregate, have a Material Adverse Effect on the Company (it being understood that the representations made in this Section 4.13, to the extent that they relate to Past Parent Groups, are made to the best knowledge of the Parent and only with respect to taxable periods or portions thereof ending on a date within the last six years during which the Parent or any of its Subsidiaries was a member of such affiliated, combined, consolidated or unitary group for purposes of the relevant Tax). All Taxes due and owing by the Parent, any Subsidiary of the Parent or any Parent Affiliated Group have been paid, or adequately reserved for, except to the extent any failure to pay or reserve would not, individually or in the aggregate, have a Material Adverse Effect on the Parent. There is no audit, examination, deficiency, refund litigation, proposed adjustment or matter in controversy with respect to any Taxes due and owing by the Parent, any Subsidiary of the Parent or any Parent Affiliated Group which if determined adversely would have a Material Adverse Effect on the Parent. All assessments for Taxes due and owing by the Parent, any Subsidiary of the Parent or any Parent Affiliated Group with respect to completed and settled examinations or concluded litigation have been paid. Section 4.13(a) of the Parent Disclosure Schedule sets forth (i) the taxable years of the Parent for which the statutes of limitations with respect to U.S. federal income Taxes have not expired and (ii) with respect to federal income Taxes for such years, those years for which examinations have been completed, those years for which examinations are presently being conducted, and those years for which examinations have not yet been initiated. Neither the Parent nor any of its Subsidiaries has any liability under Treasury Regulation Section 1.1502-6 for U.S. federal income Taxes of any Person other than the Parent and its Subsidiaries. The Parent and each of its Subsidiaries have complied

in all material respects with all rules and regulations relating to the withholding of Taxes, except to the extent any such failure to comply would not, individually or in the aggregate, have a Material Adverse Effect on the Parent.

(b) Neither the Parent nor any Subsidiary of the Parent has (i) entered into a closing agreement or other similar agreement with a taxing authority relating to Taxes of the Parent or any Subsidiary of the Parent with respect to a taxable period for which the statute of limitations is still open, or (ii) with respect to U.S. federal income Taxes, granted any waiver of any statute of limitations with respect to, or any extension of a period for the assessment of, any income Tax, in either case, that is still outstanding. There are no Liens relating to Taxes upon the assets of the Parent or any Subsidiary of the Parent other than Liens relating to Taxes not yet due. Neither the Parent nor any Subsidiary of the Parent is a party to any agreement relating to allocating or sharing of Taxes which has not been disclosed in its Tax Returns. No consent under Section 341(f) of the Code has been filed with respect to the Parent or any Subsidiary of the Parent.

Section 4.14. Opinion of Financial Advisor. The Board of Directors of the Parent has received the opinion of Credit Suisse First Boston Corporation, dated the date of this Agreement, substantially to the effect that the consideration to be offered by the Parent in the Offer and the Merger, taken together, is fair to the Parent from a financial point of view.

Section 4.15. Employment Matters. Neither the Parent nor any of its Subsidiaries has experienced any work stoppages, strikes, collective labor grievances, other collective bargaining disputes or claims of unfair labor practices in the last five years which would, individually or in the aggregate, have a Material Adverse Effect on the Parent. To the best knowledge of the Parent, there is no organizational effort presently being made or threatened by or on behalf of any labor union with respect to employees of the Parent or any of its Subsidiaries.

Section 4.16. Ownership of Shares. As of the date hereof, neither the Parent nor the Purchaser is an "interested stockholder" of the Company, as such term is defined in Section 203 of the DGCL.

ARTICLE V

Covenants and Agreements

Section 5.1. Conduct of Business by the Company. The Company agrees that, from and after the date hereof and prior to the Effective Time or the date, if any, on which this Agreement is earlier terminated pursuant to Section 7.1 (the "Termination Date"), and except as may be agreed in writing by the other parties hereto or as may be expressly permitted pursuant to this Agreement, the Company:

(i) shall, and shall cause each of its Subsidiaries to, conduct its operations according to their ordinary and usual course of business in substantially the same manner as heretofore conducted;

(ii) shall use its reasonable best efforts, and cause each of its Subsidiaries to use its reasonable best efforts, to preserve intact its business organization and goodwill, keep available the services of its current officers and other key employees and preserve its relationships with those persons having business dealings with the Company and its Subsidiaries;

(iii) shall confer at such times as the Parent may reasonably request with one or more representatives of the Parent to report material operational matters and the general status of ongoing operations;

(iv) shall notify the Parent of any emergency or other change in the normal course of its or its Subsidiaries' respective businesses or in the operation of its or its Subsidiaries' respective properties and of any complaints or hearings (or communications indicating that the same may be contemplated) of any Governmental Entity if such emergency, change, complaint, investigation or hearing would have a Material Adverse Effect on the Company;

(v) shall not, and shall not permit any of its Subsidiaries that is not wholly owned to, authorize or pay any dividends on or make any distribution with respect to its outstanding shares of stock;

(vi) shall not, and shall not permit any of its Subsidiaries to, except as otherwise provided in this Agreement, establish, enter into or amend any Plan or increase the compensation payable or to become payable or the

benefits provided to its officers or employees, subject to such exceptions as are set forth in Section 5.1(vi) of the Company Disclosure Schedule;

(vii) except as set forth in Section 5.1(vii) of the Company Disclosure Schedule, shall not, and shall not permit any of its Subsidiaries to, authorize, propose or announce an intention to authorize or propose, or enter into an agreement with respect to, any merger, consolidation or business combination (other than the Merger), any acquisition of a material amount of assets or securities, any disposition of a material amount of assets or securities, except (x) for the sale of goods and products manufactured by the Company and held for sale in the ordinary course (for purposes of this Section 5.1(vii) "material" shall mean any amount in excess of $1 million) and (y) as provided in the Profit and Capital Plan of 1998 previously provided to the Parent and not in excess of $150 million in the aggregate;

(viii) shall not, and shall not permit any of its Subsidiaries to, propose or adopt any amendments to its certificate of incorporation or by-laws (or other similar organizational documents);

(ix) shall not, and shall not permit any of its Subsidiaries to, issue or authorize the issuance of, or agree to issue or sell any shares of capital stock of any class (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise), except for the issuance of (1) not more than 3,161,525 Shares upon the exercise of employee stock options granted under, and 319,610 Shares issuable pursuant to, the 1993 Plan referred to in clause (ii) of Section 3.2, (2) not more than 571,475 Shares upon the exercise of employee stock options granted under, and 190,564 Shares issuable pursuant to, the 1995 Plan referred to in clause (iii) of Section 3.2, (3) not more than 80,000 Shares upon the exercise of stock options granted under, and 20,750 Shares issuable pursuant to, The Alumax Inc. Non-Employee Directors' Stock Compensation Plan referred to in clause (iv) of Section 3.2, (4) not more than 74,148 Shares issuable pursuant to The Alumax Inc. Non-Employee Directors' Compensation Plan referred to in clause (iv) of Section 3.2, (5) not more than 623,350 Shares upon the exercise of options granted under, and 26,603 Shares issuable pursuant to, employee deferred compensation arrangements referred to in clause (vi) of Section 3.2, and (6) not more than 180,000 Shares issuable in connection with regularly scheduled matching contributions to the Alumax Inc. Thrift Plans referred to in clause (v) of Section 3.2;

(x) shall not, and shall not permit any of its Subsidiaries to, reclassify, combine, split, purchase or redeem any shares of its capital stock or purchase or redeem any rights, warrants or options to acquire any such shares;

(xi) other than in the ordinary course of business consistent with past practice, shall not, and shall not permit any of its Subsidiaries to, (a) incur, assume or prepay any indebtedness or any other material liabilities or issue any debt securities, or (b) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person, other than guarantees of obligations of wholly owned Subsidiaries of the Company in the ordinary course of business;

(xii) shall not, and shall not permit any of its Subsidiaries to, (a) sell, lease, license, mortgage or otherwise encumber or subject to any Lien or otherwise dispose of any of its properties or assets (including securitizations), other than in the ordinary course of business consistent with past practice; (b) modify, amend or terminate any of its material contracts or waive, release or assign any material rights (contract or other); or (c) permit any insurance policy naming it as a beneficiary or a loss payable payee to lapse, be cancelled for reasons within the Company's control or expire unless a new policy with substantially identical coverage is in effect as of the date of lapse, cancellation or expiration;

(xiii) shall not, and shall not permit any of its Subsidiaries to, (a) make any material Tax election or settle or compromise any material Tax liability or (b) change any of the accounting methods used by it unless required by GAAP; and

(xiv) shall not, and shall not permit any of its Subsidiaries to, agree, in writing or otherwise, to take any of the foregoing actions or knowingly take any action which would (y) make any representation or warranty in Article III hereof untrue or incorrect in any material respect or (z) result in any of the conditions to the Offer set forth in Annex A hereto or any of the conditions to the Merger set forth in Article VI hereof not being satisfied.

Section 5.2. Access; Confidentiality.

(a) Except for competitively sensitive information as to which access, use and treatment is covered by Section 5.2(c), the Company shall (and shall cause each of its Subsidiaries to) afford to the officers, employees, accountants, counsel and other authorized representatives of the Parent reasonable access on reasonable prior notice during normal business hours, throughout the period prior to the earlier of the Effective Time or the Termination Date, to all of its properties, offices, employees, contracts, commitments, books and records (including but not limited to Tax Returns) and any report, schedule or other document filed or received by it pursuant to the requirements of federal or state securities laws and shall (and shall cause each of its Subsidiaries to) furnish promptly to the Parent such additional financial and operating data and other information as to its and its Subsidiaries' respective businesses and properties as the Parent may from time to time reasonably request. The Parent and the Purchaser will make all reasonable efforts to minimize any disruption to the businesses of the Company and its Subsidiaries which may result from the requests for data and information hereunder. No investigation pursuant to this Section 5.2(a) shall affect any representation or warranty in this Agreement of any party hereto or any condition to the obligations of the parties hereto.

(b) Except for competitively sensitive information as to which access, use and treatment is covered by Section 5.2(c), the Parent shall (and shall cause each of its Subsidiaries to) afford to the officers, employees, accountants, counsel and other authorized representatives of the Company reasonable access on reasonable prior notice during normal business hours, throughout the period prior to the earlier of the Effective Time or the Termination Date, to all of its properties, offices, employees, contracts, commitments, books and records (including but not limited to Tax Returns) and any report, schedule or other document filed or received by it pursuant to the requirements of federal or state securities laws and shall (and shall cause each of its Subsidiaries to) furnish promptly to the Company such additional financial and operating data and other information as to its and its Subsidiaries' respective businesses and properties as the Company may from time to time reasonably request. The Company will make all reasonable efforts to minimize any disruption to the businesses of the Parent and its Subsidiaries which may result from the requests for data and information hereunder. No investigation pursuant to this Section 5.2(b) shall affect any representation or warranty in this Agreement of any party hereto or any condition to the obligations of the parties hereto.

(c) As promptly as possible following the date hereof the parties intend to establish an appropriate protocol which shall remain in place until the expiration of the applicable waiting periods under the HSR Act pursuant to which each party may disclose to a limited number of representatives of the other party confidential information which is competitively sensitive in nature.

(d) The Parent and the Company will not, and will cause their respective officers, employees, accountants, counsel and representatives not to, use any information obtained pursuant to this Section 5.2 for any purpose unrelated to the consummation of the transactions contemplated by this Agreement. Subject to the requirements of law, pending consummation of the transactions herein contemplated, each of the Parent and the Company will keep confidential, and will cause their respective officers, employees, accountants, counsel and representatives to keep confidential, all information and documents obtained pursuant to this Section 5.2 unless such information (i) was already known to it, (ii) becomes available to it from other sources not known by it to be bound by a confidentiality obligation, (iii) is independently acquired by it as a result of work carried out by any of its employees or representatives to whom no disclosure of such information has been made, (iv) is disclosed with the prior written approval of the other party or (v) is or becomes readily ascertainable from published information or trade sources. Upon any termination of this Agreement, each party will collect and deliver to the other party all documents obtained by it or any of its officers, employees, accountants, counsel and representatives then in their possession and any copies thereof.

Section 5.3. Special Meeting, Proxy Statement, Registration Statement.

(a) As promptly as practicable following the date of this Agreement, the Company, acting through its Board of Directors, shall, in accordance with applicable law duly call, give notice of, convene and hold a special meeting of its stockholders (the "Special Meeting") for the purposes of considering and taking action upon the approval of the Merger and the approval and adoption of this Agreement;

(b) As promptly as practicable following the date of this Agreement, the Company shall:

(i) prepare and file with the SEC a preliminary proxy or information statement relating to the Merger and this Agreement and (x) obtain and furnish the information required to be included by the SEC in the

Proxy Statement (as hereinafter defined) and, after consultation with the Parent, respond promptly to any comments made by the SEC with respect to the preliminary proxy or information statement and cause a definitive proxy or information statement, including any amendment or supplement thereto (the "Proxy Statement") to be mailed to its stockholders at the earliest practicable date after the Registration Statement is declared effective by the SEC, provided that no amendment or supplement to the Proxy Statement will be made by the Company without consultation with Parent and its counsel and (y) use its reasonable best efforts to obtain the necessary approvals of the Merger and this Agreement by its stockholders; and

(ii) unless this Agreement has been terminated in accordance with Article VII, include in the Proxy Statement the recommendation of the Board that stockholders of the Company vote in favor of the approval of the Merger and the approval and adoption of this Agreement; provided, however, that if the Board of Directors of the Company, based on the advice of outside legal counsel, determines in good faith that the amendment or withdrawal of its recommendation is necessary for the Board of Directors of the Company to avoid breaching its fiduciary duties to the Company's stockholders under applicable law, then any such amendment or withdrawal shall not constitute a breach of this Agreement.

(c) As promptly as practicable following the date of this Agreement, the Parent shall prepare and file with the SEC the Registration Statement, in which the Proxy Statement shall be included as a prospectus, and shall use its reasonable best efforts to have the Registration Statement declared effective by the SEC as promptly as practicable. The Parent shall obtain and furnish the information required to be included by the SEC in the Registration Statement and, after consultation with the Company, respond promptly to any comments made by the SEC with respect to the Registration Statement and cause the prospectus included therein, including any amendment or supplement thereto, to be mailed to the Company's stockholders at the earliest practicable date after the Registration Statement is declared effective by the SEC. The Parent shall also take any action required to be taken under state blue sky or other securities laws in connection with the issuance of Parent Common Stock in the Merger.

(d) The Parent shall vote, or cause to be voted, all of the Shares then owned by it, the Purchaser or any of its other Subsidiaries in favor of the approval and adoption of this Agreement.

Section 5.4. Reasonable Best Efforts; Further Assurances.

(a) Subject to the terms and conditions of this Agreement and applicable law, each of the parties shall act in good faith and use reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement as soon as practicable. Without limiting the foregoing, the parties shall (and shall cause their respective subsidiaries, and use reasonable best efforts to cause their respective affiliates, directors, officers, employees, agents, attorneys, accountants and representatives, to) consult and fully cooperate with and provide assistance to each other in (i) the preparation and filing with the SEC of the Offer Documents, the Schedule 14D-9, the preliminary Proxy Statement, the Proxy Statement and the Registration Statement and all necessary amendments or supplements thereto; (ii) obtain all necessary consents, approvals, waivers, licenses, permits, authorizations, registrations, qualifications or other permissions or actions by, and give all necessary notices to and make all necessary filings with and applications and submissions to, any Governmental Entity or other Person as soon as reasonably practicable after filing; and (iii) provide all such information concerning such party, its Subsidiaries and its officers, directors, employees, partners and affiliates as may be necessary or reasonably requested in connection with any of the foregoing. Prior to making any application to or filing with a Governmental Entity or other entity in connection with this Agreement (other than filing under the HSR Act), each party shall provide the other party with drafts thereof and afford the other party a reasonable opportunity to comment on such drafts.

(b) In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and directors of each of the parties to this Agreement shall use their reasonable best efforts to take all such action.

(c) Notwithstanding the foregoing, neither the Parent nor the Purchaser shall be obligated to enter into any "hold-separate" agreement or other agreement with respect to the disposition of any assets or businesses of the Parent or any of its Subsidiaries or the Company or any of its Subsidiaries in order to obtain clearance from the Federal Trade Commission or the Antitrust Division of the Department of Justice or any state antitrust or competition authorities to proceed with the consummation of the transactions contemplated by this Agreement.

(d) The Company, the Parent and the Purchaser each shall keep the other apprised of the status of matters relating to completion of the transactions contemplated hereby, including promptly furnishing the other with copies of notices or other communications received by the Parent, the Purchaser or the Company, as the case may be, or any of their respective Subsidiaries (other than in any such case with respect to Acquisition Proposals), from any third party and/or any Governmental Entity with respect to the transactions contemplated by this Agreement.

(e) The Company, the Parent and the Purchaser shall each use their reasonable best efforts to reduce or eliminate any amounts specified in Section 3.14(c) of the Company Disclosure Schedule, it being understood that the foregoing shall not require the Company or any of its Subsidiaries to amend any Plan, terminate or retire any employee or to otherwise adversely affect the rights of any employee.

Section 5.5. Employee Stock Options and Other Employee Benefits.

(a) Simultaneously with the Merger, (i) each outstanding option (the "Company Stock Options") to purchase or acquire a share of Company Common Stock under employee incentive or benefit plans, programs or arrangements and non-employee director plans presently maintained by the Company (the "Company Option Plans") shall be converted into an option to purchase the number of shares of Parent Common Stock equal to the product of (x) the Exchange Ratio multiplied by (y) the number of shares of Company Common Stock which could have been issued prior to the Effective Time upon the exercise of such option, at an exercise price per share (rounded upward to the nearest cent) equal to the exercise price for each share of Company Common Stock subject to such option divided by the Exchange Ratio, and all references in each such option to the Company shall be deemed to refer to the Parent, where appropriate, provided, however, that with respect to any Option which is an "incentive stock option", within the meaning of Section 422 of the Code, the adjustments provided in this Section shall, if applicable, be modified in a manner so that the adjustments are consistent with requirements of Section 424(a) of the Code, and (ii) the Parent shall assume the obligations of the Company under the Company Option Plans. The other terms of each such option, and the plans under which they were issued, shall continue to apply in accordance with their terms, including any provisions providing for acceleration. At or prior to the Effective Time, the Parent shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Parent Common Stock for delivery upon exercise of Company Stock Options assumed by it in accordance with this Section. As soon as practicable after the Effective Time, if necessary, the Parent shall file a registration statement on Form

S-8 (or any successor or other appropriate forms), or another appropriate form with respect to the Parent Common Stock subject to such Company Stock Options, and shall use its best efforts to maintain the effectiveness of such registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as the Company Stock Options remain outstanding.

(b) For the period through and including December 31, 1999, the Parent shall, or shall cause the Surviving Corporation to, maintain employee benefit plans, programs and arrangements which are, in the aggregate, for the employees who were active full-time employees of the Company or any Subsidiary immediately prior to the Effective Time and continue to be active full-time employees of the Purchaser, the Surviving Corporation, any Subsidiary or any other affiliate of the Purchaser, no less favorable than those provided by the Company and any Subsidiary immediately prior to the Effective Time. From and after the Effective Time, for purposes of determining eligibility, vesting and entitlement to vacation and severance and other benefits for employees actively employed full-time by the Company or any Subsidiary immediately prior to the Effective Time under any compensation, severance, welfare, pension, benefit, savings or other Plan of the Parent or any of its Subsidiaries in which active full-time employees of the Company and any Subsidiary become eligible to participate (whether pursuant to this Section 5.5(b) or otherwise), service with the Company or any Subsidiary (whether before or after the Effective Time) shall be credited as if such service had been rendered to the Parent or such Subsidiary. Parent will, and will cause the Surviving Corporation to, observe all employee benefit obligations to current and former employees under the Company Employee Benefit Plans existing as of the Effective Time and all employment or severance agreements, plans or policies of the Company and its Subsidiaries, copies of which have been made available to Parent pursuant to Section 3.8, in accordance with their terms.

Section 5.6. Takeover Statute. If any "fair price," "moratorium," "control share acquisition" or other form of anti-takeover statute or regulation shall become applicable to the transactions contemplated hereby, each of the Company, the Parent and the Purchaser and the members of their respective Boards of Directors shall grant such approvals and take such actions as are reasonably necessary so that the transactions contemplated hereby may be consummated as promptly as practicable on the terms contemplated hereby and otherwise act to eliminate or minimize the effects of such statute or regulation on the transactions contemplated hereby.

Section 5.7. Solicitation by the Company.

(a) Nothing contained in this Agreement shall prohibit the Board of Directors of the Company from furnishing information to, or entering into discussions with, any Person that makes a bona fide Acquisition Proposal. The term "Acquisition Proposal" as used herein means any tender or exchange offer involving the capital stock of the Company or any of its Subsidiaries, any proposal or offer to acquire in any manner a substantial equity interest in, or a substantial portion of the business or assets of, the Company or any of its Subsidiaries, any proposal or offer with respect to any merger, consolidation, business combination, recapitalization, liquidation, dissolution or restructuring of or involving the Company or any of its Subsidiaries, or any proposal or offer with respect to any other transaction similar to any of the foregoing with respect to the Company or any of its Subsidiaries, other than the transactions contemplated by this Agreement. Except for the transactions contemplated by this Agreement, as of the date of this Agreement, neither the Company nor any of its officers, directors, employees, financial advisors, attorneys or other representatives, is engaged in, or is a party to, any discussions or negotiations, or is currently furnishing any information with respect to the Company, relating to, or which could be reasonably expected to lead to, an Acquisition Proposal.

(b) Nothing contained in this Agreement shall prohibit the Company from taking and disclosing to its stockholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or from making any disclosure to the Company's stockholders if the Board of Directors of the Company determined in good faith, after consultation with outside legal counsel, that it is necessary to do so in order to avoid breaching its fiduciary duties under applicable law; provided, however, that neither the Company nor its Board of Directors nor any committee thereof shall withdraw or modify, or propose publicly to withdraw or modify, its position with respect to this Agreement, the Offer or the Merger, or approve or recommend, or propose publicly to approve or recommend, an Acquisition Proposal, except if, and only to the extent that, the Board of Directors of the Company, based on the advice of outside legal counsel, determines in good faith that such Acquisition Proposal is a Superior Proposal (as hereinafter defined) and that such action is necessary for the Board of Directors of the Company to avoid breaching its fiduciary duties to the Company's stockholders under applicable law. Nothing herein shall require the Board of Directors of the Company to violate applicable laws.

Section 5.8. Public Announcements. The Parent and the Company agree that neither one of them will issue any press release or otherwise make any public statement or respond to any press inquiry with respect to this Agreement or the transactions contemplated hereby or thereby without the prior approval of the other party (which approval will not be unreasonably withheld), except as may be required by applicable law or the rules of the New York Stock Exchange, Inc. (the "NYSE").

Section 5.9. Indemnification and Insurance.

From and after the Effective Time, the Parent will indemnify and hold harmless each present and former director and officer of the Company and its subsidiaries (the "Indemnified Parties"), against any costs or expenses (including attorneys' fees), judgments, fines, losses, claims, damages or liabilities (collectively, "Costs") incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to matters existing or occurring at or prior to the Effective Time, to the fullest extent that the Company or such subsidiary would have been permitted under applicable law and the Certificate of Incorporation or Bylaws of the Company or such subsidiary in effect on the date hereof to indemnify such person (and the Parent shall also advance expenses as incurred to the fullest extent permitted under applicable law provided the Person to whom expenses are advanced provides an undertaking to repay such advances if it is ultimately determined that such Person is not entitled to indemnification).

Section 5.10. Additional Reports and Information.

(a) The Company shall furnish to the Parent copies of all reports of the type referred to in Section 3.4 which it files with the SEC on or after the date hereof, and the Company represents and warrants that as of the respective dates thereof, such reports will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and the unaudited consolidated interim financial statements included in such reports (including any related notes and schedules) will fairly present the financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the results of operations and cash flows or other information included therein for the periods or as of the date then ended (subject, in the case of the interim financial statements, to normal, year-end adjustments and the absence of footnotes), in each case in accordance with past

practice and GAAP consistently applied during the periods involved (except as otherwise disclosed in the notes thereto).

(b) The Parent shall furnish to the Company copies of all reports of the type referred to in Section 4.4 which it files with the SEC on or after the date hereof, and the Parent represents and warrants that as of the respective dates thereof, such reports will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and the unaudited consolidated interim financial statements included in such reports (including any related notes and schedules) will fairly present the financial position of the Parent and its consolidated Subsidiaries as of the dates thereof and the results of operations and cash flows or other information included therein for the periods or as of the date then ended (subject, in the case of the interim financial statements, to normal, year-end adjustments and the absence of footnotes), in each case in accordance with past practice and GAAP consistently applied during the periods involved (except as otherwise disclosed in the notes thereto).

Section 5.11. Affiliates. At the time the Proxy Statement is mailed to stockholders of the Company, the Company shall deliver to the Parent a list identifying, to the best of the Company's knowledge, all persons who are, at the time of the Company Stockholder Approval, deemed to be "affiliates" of the Company for purposes of Rule 145 under the Securities Act. The Company shall advise the Parent of any additions or deletions to or from such list from time to time thereafter. The Company shall use its reasonable best efforts to cause each such person to deliver to the Parent at least 30 days prior to the Closing Date a written agreement substantially in the form of Exhibit A to this Agreement.

Section 5.12. NYSE Listing. The Parent shall use its best efforts to cause the shares of Parent Common Stock to be issued in the Merger to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Closing Date.

Section 5.13. Tax-Free Reorganization. The parties intend that the transactions contemplated hereby qualify as a reorganization under Sections 368(a)(1)(A) and 368(a)(2)(D) of the Code; each party and its affiliates shall use all reasonable efforts to cause such transactions to so qualify; neither party nor any affiliate shall take any action that would cause such transactions not to qualify as a

reorganization under such Sections; and the parties will take the position for all purposes that the transactions qualify as a reorganization under such Sections.

Section 5.14. The Company Rights Plan. On the date of the commencement of the Offer, (i) the Company will take all necessary action to redeem all the preferred stock purchase rights outstanding under the Rights Agreement, and (ii) shall provide the Parent with prompt notice that such action has been taken.

ARTICLE VI

Conditions to the Merger

Section 6.1. Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following conditions:

(a) The Company Stockholder Approval shall have been obtained.

(b) No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or enforced by any Governmental Entity which prohibits the consummation of the Merger substantially on the terms contemplated hereby or has the effect of making the acquisition of Shares by the Parent or the Purchaser or any affiliate of either of them illegal.

(c) The Parent or the Purchaser or any affiliate of either of them shall have purchased Shares pursuant to the Offer, except that this condition shall not apply if the Parent, the Purchaser or such affiliate shall have failed to purchase Shares pursuant to the Offer in breach of their obligations under this Agreement.

(d) The applicable waiting period under the HSR Act shall have expired or been terminated.

(e) The shares of Parent Common Stock to be issued in the Merger shall have been approved for listing on the NYSE, subject to official notice of issuance.

(f) The Registration Statement shall have become effective in accordance with the provisions of the Securities Act.

Section 6.2. Conditions to Obligation of the Parent and the Purchaser to Effect the Merger. The obligation of the Parent and the Purchaser to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following additional condition, unless waived in writing by the Parent:

(a) Tax Opinion. The Parent shall have received an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, tax counsel to the Parent, dated as of the Effective Time, to the effect that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. The issuance of such opinion shall be conditioned upon the receipt by such tax counsel of customary representation letters from each of the Parent, the Purchaser and the Company, in each case, in form and substance reasonably satisfactory to such tax counsel. Each such representation letter shall be dated on or before the date of such opinion and shall not have been withdrawn or modified in any material respect.

Section 6.3. Conditions to Obligation of the Company to Effect the Merger. The obligation of the Company to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following additional condition, unless waived in writing by the Company:

(a) Tax Opinion. The Company shall have received an opinion of Sullivan & Cromwell, tax counsel to the Company, dated as of the Effective Time, to the effect that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. The issuance of such opinion shall be conditioned upon the receipt by such tax counsel of customary representation letters from each of the Parent, the Purchaser and the Company, in each case, in form and substance reasonably satisfactory to such tax counsel. Each such representation letter shall be dated on or before the date of such opinion and shall not have been withdrawn or modified in any material respect.

Section 6.4. Additional Conditions to the Obligations of the Parent and the Purchaser to Effect the Merger. In the event that the Purchaser purchases a number of Shares in the Offer which is less than the 50% Share Number, the obligation of the Parent and the Purchaser to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following conditions, unless waived in writing by the Parent or unless the Company Stockholder Approval is obtained prior thereto, in which event such conditions shall thereupon be deemed fulfilled:

(a) The representations and warranties of the Company set forth in this Agreement shall be true and correct, ignoring for this purpose any qualification as to materiality or Material Adverse Effect, as if such representations or warranties were made as of the Effective Time, except for such inaccuracies as, individually or in the aggregate, would not have a Material Adverse Effect on the Company.

(b) The Company shall have performed and complied in all material respects with all agreements, obligations and conditions required by this Agreement to be performed and complied with by it on or prior to the Closing Date.

(c) The Company shall have furnished a certificate of an officer to evidence compliance with the conditions set forth in Sections 6.4(a) and (b) of this Agreement.

Section 6.5. Additional Conditions to the Obligations of the Company to Effect the Merger. In the event that the Purchaser purchases a number of Shares in the Offer which is less than the 50% Share Number, the obligation of the Company to effect the Merger shall be subject to the fulfillment at or prior to the Effective Time of the following conditions, unless waived in writing by the Company or unless the Company Stockholder Approval is obtained prior thereto, in which event such conditions shall thereupon be deemed fulfilled:

(a) The representations and warranties of the Parent and the Purchaser set forth in this Agreement shall be true and correct, ignoring for this purpose any qualification as to materiality or Material Adverse Effect, as if such representations or warranties were made as of the Effective Time, except for such inaccuracies as, individually or in the aggregate, would not have a Material Adverse Effect on the Parent.

(b) The Parent and the Purchaser shall have performed and complied in all material respects with all agreements, obligations and conditions required by this Agreement to be performed and complied with by them on or prior to the Closing Date.

(c) The Parent and the Purchaser shall have furnished a certificate of their respective officers to evidence compliance with the conditions set forth in Section 6.5(a) and (b) of this Agreement.

ARTICLE VII

Termination

Section 7.1. Termination. This Agreement may be terminated and the other transactions contemplated herein abandoned at any time prior to the Effective Time, whether before or after obtaining the Company Stockholder Approval:

(a) by the mutual written consent of the Company, the Parent and the Purchaser;

(b) by either the Parent or the Company if (i) (1) the Offer shall have expired without any Shares being purchased pursuant thereto, or (2) the Offer has not been consummated on or before September 30, 1998 (the "Termination Date"); provided, however, that the right to terminate this Agreement pursuant to this Section 7.1(b)(i) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Shares to have been purchased pursuant to the Offer; (ii) a statute, rule, regulation or executive order shall have been enacted, entered or promulgated prohibiting the consummation of the Offer or the Merger substantially on the terms contemplated hereby; or (iii) an order, decree, ruling or injunction shall have been entered permanently restraining, enjoining or otherwise prohibiting the consummation of the Offer or the Merger substantially on the terms contemplated hereby and such order, decree, ruling or injunction shall have become final and non-appealable; provided further that the Termination Date shall be extended by one business day for each business day which elapses from March 16, 1998, until the date upon which the applicable filings under the HSR Act are made by the Company with the appropriate Governmental Entity;

(c) by the Parent, (i) if due to an occurrence or circumstance, other than as a result of a breach by the Parent or the Purchaser of its obligations hereunder, resulting in a failure to satisfy any condition set forth in Annex A hereto, the Purchaser shall have (1) failed to commence the Offer within 30 days following the date of this Agreement, or (2) terminated the Offer without having accepted any Shares for payment thereunder; or (ii) if either the Parent or the Purchaser is entitled to terminate the Offer as a result of the occurrence of any event set forth in paragraph (e) of Annex A hereto;

(d) by the Company, upon approval of its Board of Directors, if due to an occurrence or circumstance, other than as a result of a breach by the Company of its obligations hereunder, that would result in a failure to satisfy any of the conditions set forth in Annex A hereto, the Purchaser shall have terminated the Offer without having accepted any Shares for payment thereunder;

(e) by the Company, if the Company receives a Superior Proposal and the Board of Directors of the Company, based on the advice of outside legal counsel, determines in good faith that such action is necessary for the Board of Directors to avoid breaching its fiduciary duties to the Company's stockholders under applicable law. The term "Superior Proposal" as used herein means any bona fide Acquisition Proposal made by a third party to acquire, directly or indirectly, 20% or more of the outstanding Shares on a fully diluted basis or all or substantially all the assets of the Company and its Subsidiaries and otherwise on terms and conditions which the Board of Directors of the Company determines in good faith, after consultation with and based upon the written opinion of its financial advisor, to be a superior financial alternative to the stockholders of the Company than the Offer and the Merger; or

(f) by the Parent or the Company, if after the Company convenes and holds the special Meeting and certifies the vote with respect to the Merger the Company's stockholders have voted against granting the Company Stockholder Approval.

Section 7.2. Effect of Termination. In the event of termination of this Agreement pursuant to Section 7.1, written notice thereof shall forthwith be given to the other party or parties specifying the provision hereof pursuant to which such termination is made, and this Agreement shall terminate and be of no further force and effect (except for the provisions of Sections 5.2 and 8.2), and there shall be no other liability on the part of the Parent, the Purchaser or the Company except liability arising out of a breach of this Agreement. In the event of termination of this Agreement pursuant to Section 7.1 prior to the expiration of the Offer, the Parent and the Purchaser will promptly terminate the Offer upon such termination of this Agreement.

ARTICLE VIII

Miscellaneous

Section 8.1. No Survival of Representations and Warranties. None of the representations or warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time.

Section 8.2. Expenses. Except as expressly contemplated by this Agreement, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses.

Section 8.3. Counterparts; Effectiveness. This Agreement may be executed in two or more separate counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement. This Agreement shall become effective when each party hereto shall have received counterparts hereof signed by each of the other parties hereto.

Section 8.4. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to the principles of conflicts of laws thereof.

Section 8.5. Notices. All notices and other communications hereunder shall be in writing (including telecopy or similar writing) and shall be effective (a) if given by telecopy, when such telecopy is transmitted to the telecopy number specified in this Section 8.5 and the appropriate telecopy confirmation is received or (b) if given by any other means, when delivered at the address specified in this Section 8.5:

To the Parent or the Purchaser:

Aluminum Company of America
425 Sixth Avenue
Pittsburgh, Pennsylvania 15219
Attention: Lawrence R. Purtell, Esq.
Executive Vice President and
General Counsel
Telecopy: (412) 553-3113

copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
919 Third Avenue
New York, New York 10022
Attention: J. Michael Schell, Esq.
Telecopy: (212) 735-2000

To the Company:

Alumax Inc.
3424 Peachtree Road, N.E.
Suite 2100
Atlanta, Georgia 30326
Attention: Robert P. Wolf, Esq.
Senior Vice President
and General Counsel
Telecopy: (404) 846-4769

copy to:

Sullivan & Cromwell
125 Broad Street
New York, New York 10004
Attention: John Evangelakos, Esq.
Telecopy: (212) 558-3588

Section 8.6. Assignment; Binding Effect. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties, except that the Purchaser may assign, in its sole discretion, all or any of its rights and interests hereunder to the Parent or to any direct or indirect wholly owned Subsidiary of the Parent and in the event of any such assignment, the Parent hereby unconditionally guarantees the performance by the assignee of all obligations assigned thereunder in accordance with the terms of this Agreement. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. Any assignment not permitted under this Section 8.6 shall be null and void.

Section 8.7. Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

Section 8.8. Enforcement of Agreement. The parties hereto agree that money damages or other remedy at law would not be sufficient or adequate remedy for any breach or violation of, or a default under, this Agreement by them and that in addition to all other remedies available to them, each of them shall be entitled to the fullest extent permitted by law to an injunction restraining such breach, violation or default or threatened breach, violation or default and to any other equitable relief, including, without limitation, specific performance, without bond or other security being required.

Section 8.9. Entire Agreement; No Third-Party Beneficiaries. This Agreement constitute the entire agreement, and supersede all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof and thereof and except for the provisions of Section 5.9 hereof, is not intended to and shall not confer upon any Person other than the parties hereto any rights or remedies hereunder.

Section 8.10. Headings. Headings of the Articles and Sections of this Agreement are for convenience of the parties only, and shall be given no substantive or interpretive effect whatsoever.

Section 8.11. Definitions. References in this Agreement to (a) "Subsidiaries" of the Company or the Parent shall mean any corporation or other form of legal entity of which more than 50% of the outstanding voting securities are on the date hereof directly or indirectly owned by the Company or the Parent or in which the Company or the Parent has the right to elect a majority of the members of the board of directors or other similar governing body; (b) "Significant Subsidiaries" shall mean Subsidiaries which constitute "significant subsidiaries" under Rule 405 promulgated by the SEC under the Securities Act; (c) (except as otherwise specifically defined) "affiliates" shall mean, as to any Person, any other Person which, directly or indirectly, controls, or is controlled by, or is under common control with, such Person; and (d) "Person" shall mean an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including, without limitation,

a Governmental Entity. As used in the definition of "affiliates," "control" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean the possession, directly or indirectly, of the power to direct or cause the direction of management or policies of a Person, whether through the ownership of securities or partnership of other ownership interests, by contract or otherwise.

Section 8.12. Finders or Brokers. Except for BT Wolfensohn with respect to the Company, a copy of whose engagement agreement has been or will be provided to the Parent, and Credit Suisse First Boston Corporation with respect to the Parent, neither the Company nor the Parent nor any of their respective Subsidiaries has employed any investment banker, broker, finder or intermediary in connection with the transactions contemplated hereby who might be entitled to any fee or any commission in connection with or upon consummation of the Offer and the Merger.

Section 8.13. Amendment or Supplement. At any time prior to the Effective Time, this Agreement may be amended or supplemented in any and all respects, whether before or after the Company Stockholder Approval, by written agreement of the parties hereto, by action taken by their respective Boards of Directors (which in the case of the Company shall include the Independent Director Approval contemplated in Section 1.3(c)), with respect to any of the terms contained in this Agreement; provided, however that following the Company Stockholder Approval there shall be no amendment or change to the provisions hereof which would reduce the amount or change the type of consideration into which each Share shall be converted upon consummation of the Merger without further approval by the stockholders of the Company.

Section 8.14. Extension of Time, Waiver, Etc. At any time prior to the Effective Time, any party may (a) extend the time for the performance of any of the obligations or acts of any other party hereto; (b) waive any inaccuracies in the representations and warranties of any other party hereto contained herein or in any document delivered pursuant hereto; or (c) subject to the proviso of Section 8.13 waive compliance with any of the agreements or conditions of any other party hereto contained herein; provided, however, in the case of the Company following the acceptance of Shares for payment in the Merger, the Independent Director Approval contemplated in Section 1.3(c) is obtained. Notwithstanding the foregoing no failure or delay by the Company, the Parent or the Purchaser in exercising any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right hereunder. Any agreement on the part of a party hereto to any such extension

or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date first above written.

ALUMINUM COMPANY OF AMERICA

By: /s/ Paul H. O'Neill

Name: Paul H. O'Neill
Title: Chairman and Chief Executive Officer

AMX ACQUISITION CORP.

By: /s/ Richard B. Kelson

Name: Richard B. Kelson
Title: Vice President and Treasurer

ALUMAX INC.

By: /s/ Allen Born

Name: Allen Born
Title: Chairman and Chief Executive Officer

Conditions to the Offer

Notwithstanding any other provision of the Offer and subject to the terms of this Agreement, the Purchaser shall not be required to accept for payment any Shares tendered pursuant to the Offer, and may terminate the Offer and may postpone the acceptance for payment of and payment for Shares tendered, if (i) any applicable waiting period under the HSR Act shall not have expired or been terminated prior to the expiration of the Offer, or (ii) immediately prior to the acceptance for payment of Shares, any of the following conditions shall be reasonably determined by the Parent to be existing:

(a) there shall have been entered, enforced, promulgated or issued by any court or governmental, administrative or regulatory authority or agency of competent jurisdiction, domestic or foreign, any judgment, order, injunction or decree, (i) which makes illegal or prohibits or makes materially more costly the making of the Offer, the acceptance for payment of, or payment for, any Shares by the Parent, the Purchaser or any other affiliate of the Parent, or the consummation of any other transaction contemplated by this Agreement, or imposes material damages in connection with any transaction contemplated by this Agreement; (ii) which prohibits the ownership or operation by the Company or any of its Subsidiaries or, as a result of the transactions contemplated by this Agreement, the Parent and its Subsidiaries, of all or any material portion of the business or assets of the Company, the Parent or any of their Subsidiaries as a whole, or compels the Company, the Parent or any of their Subsidiaries to dispose of or hold separate all or any material portion of the business or assets of the Company, the Parent or any of their Subsidiaries as a whole; (iii) which imposes or confirms limitations on the ability of the Parent, the Purchaser or any other affiliate of the Parent to exercise effectively full rights of ownership of any Shares, including, without limitation, the right to vote any Shares acquired by the Purchaser pursuant to the Offer or otherwise on all matters properly presented to the Company's stockholders, including, without limitation, the approval and adoption of this Agreement and the transactions contemplated by this Agreement; (iv) requires divestiture by the Parent, the Purchaser or any other affiliate of the Parent of any Shares; or (v) which otherwise would have a

Material Adverse Effect on the Company or, as a result of the transactions contemplated by this Agreement, the Parent and its Subsidiaries;

(b) there shall have been any action taken, or any statute, rule, regulation, legislation or interpretation enacted, entered, enforced, promulgated, amended, issued or deemed applicable to (i) the Company or any Subsidiary of the Company or, as a result of the transactions contemplated by this Agreement, the Parent or any Subsidiary or affiliate of the Parent, or (ii) any transaction contemplated by this Agreement, by any legislative body, court, government or governmental, administrative or regulatory authority or agency, domestic or foreign, other than the routine application of the waiting period provisions of the HSR Act to the Offer or the Merger, which is reasonably likely to result, directly or indirectly, in any of the consequences referred to in clauses (i) through (v) of paragraph (a) above;

(c) there shall have occurred and be continuing, (i) any general suspension of, or limitation on prices for, trading in securities on the NYSE other than a shortening of trading hours or any coordinated trading halt triggered solely as a result of a specified increase or decrease in a market index, (ii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, (iii) the commencement of a war, material armed hostilities or any other material international or national calamity involving the United States, or (iv) in the case of any of the foregoing existing at the time of the commencement of the Offer, a material acceleration or worsening thereof;

(d) the representations or warranties of the Company set forth in the Agreement shall not be true and correct, ignoring for this purpose any qualification as to materiality or Material Adverse Effect, as if such representations or warranties were made as of such time on or after the date of this Agreement, except where the failure to be so true and correct, individually and in the aggregate would not have a Material Adverse Effect;

(e) the Company shall have failed to perform in any material respect any obligation or to comply in any material respect with any agreement or covenant of the Company to be performed or complied with by it under the Agreement;

(f) the Agreement shall have been terminated in accordance with its terms; or

(g) the Purchaser and the Company shall have agreed that the Purchaser shall terminate the Offer or postpone the acceptance for payment of or payment for Shares thereunder;

which, in the reasonable good faith judgment of the Purchaser in any such case, and regardless of the circumstances (including any action or inaction by the Parent or any of its affiliates) giving rise to any such condition, makes it inadvisable to proceed with such acceptance for payment or payment.

The foregoing conditions are for the sole benefit of the Purchaser and the Parent and may be asserted by the Purchaser or the Parent regardless of the circumstances giving rise to any such condition or may be waived by the Purchaser or the Parent in whole or in part at any time and from time to time in their sole discretion. The failure by the Parent or the Purchaser at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right; the waiver of any such right with respect to particular facts and other circumstances shall not be deemed a waiver with respect to any other facts and circumstances; and each such right shall be deemed an ongoing right that may be asserted at any time and from time to time.

EXHIBIT A

FORM OF
AFFILIATE LETTER FOR AFFILIATES OF ALUMAX INC.

Aluminum Company of America
425 Sixth Avenue
Pittsburgh, Pennsylvania 15219

Alumax Inc.
3424 Peachtree Road, NE
Atlanta, Georgia 30326

AMX Acquisition Corp.
425 Sixth Avenue
Pittsburgh, Pennsylvania 15219

Ladies and Gentlemen:

I have been advised that as of the date of this letter I may be deemed to be an "affiliate" of Alumax, Inc., a Delaware corporation (the "Company"), as the term "affiliate" is (i) defined for purposes of paragraphs (c) and (d) of Rule 145 of the rules and regulation (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"). Pursuant to the terms of the Agreement and Plan of Merger, dated as of March 8, 1998 (the "Merger Agreement"), among Aluminum Company of America, a Pennsylvania corporation (the "Parent"), AMX Acquisition Corp., a Delaware corporation (the "Purchaser") and the Company pursuant to which the Company will be merged with and into the Purchaser with the Purchaser continuing as the surviving corporation (the "Merger"). Capitalized terms used in this letter without definition shall have the meanings assigned to them in the Merger Agreement.

As a result of the Merger, I may receive shares of common stock, par value $1.00 per share, of the Parent (the "Parent Common Stock"). I would receive such Parent Common Stock in exchange for shares (or upon exercise of options for

shares) owned by me of common stock, par value $.01 per share, of the Company (the "Company Common Stock").

1. I hereby represent, warrant and covenant to the Parent, the Purchaser and the Company that in the event I receive any shares of Parent Common Stock as a result of the Merger:

A. I shall not make any offer, sale, pledge, transfer or other disposition of the shares of Parent Common Stock in violation of the Act or the Rules and Regulations.

B. I have carefully read this letter and the Merger Agreement and discussed the requirements of such documents and other applicable limitations upon my ability to sell, transfer or otherwise dispose of the shares of Parent Common Stock, to the extent I felt necessary, with my counsel or counsel for the Company.

C. I have been advised that the issuance of the shares of Parent Common Stock to me pursuant to the Merger has been registered with the Commission under the Act on a Registration Statement on Form S-4. However, I have also been advised that, because at the time the Merger is submitted for a vote of the stockholders of the Company (a) I may be deemed to be an affiliate of the Company and (b) the distribution by me of the shares of Parent Common Stock has not been registered under the Act, I may not sell, transfer or otherwise dispose of the shares of Parent Common Stock issued to me in the Merger unless (i) such sale, transfer or other disposition is made in conformity with the volume and other limitations of Rule 145 promulgated by the Commission under the Act, (ii) such sale, transfer or other disposition has been registered under the Act or (iii) in the opinion of counsel reasonably acceptable to the Parent, or a "no action" letter obtained by the undersigned from the staff of the Commission such sale, transfer or other disposition is otherwise exempt from registration under the Act.

D. I understand that the Parent is under no obligation to register the sale, transfer or other disposition of the Parent Common Stock by me or on my behalf under the Act or except as provided in paragraph 2(A) below, to take any other action necessary in order to make compliance with an exemption from such registration available.

E. I also understand that stop transfer instructions will be given to the Companys' transfer agent with respect to the shares of Company Common Stock currently held and to Parent's transfer agent with respect to the shares of Parent

Common Stock issued to me in the Merger, and there will be placed on the certificates for such shares of Parent Common Stock, a legend stating in substance:

"THE SHARES REPRESENTED BY THIS CERTIFICATE WERE ISSUED IN A TRANSACTION TO WHICH RULE 145 PROMULGATED UNDER THE SECURITIES ACT OF 1933 APPLIES. THE SHARES REPRESENTED BY THIS CERTIFICATE MAY ONLY BE TRANSFERRED IN ACCORDANCE WITH THE TERMS OF AN AGREEMENT DATED [ ], 1998 BETWEEN THE REGISTERED HOLDER HEREOF, ALUMINUM COMPANY OF AMERICA, ALUMAX INC., AND AMX ACQUISITION CORP., A COPY OF WHICH AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICES OF ALUMINUM COMPANY OF AMERICA."

F. I also understand that unless a sale or transfer is made in conformity with the provisions of Rule 145, or pursuant to a registration statement, Parent reserves the right to put the following legend on the certificates issued to my transferee:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND WERE ACQUIRED FROM A PERSON WHO RECEIVED SUCH SHARES IN A TRANSACTION TO WHICH RULE 145 PROMULGATED UNDER THE SECURITIES ACT OF 1933 APPLIES. THE SHARES HAVE BEEN ACQUIRED BY THE HOLDER NOT WITH A VIEW TO, OR FOR RESALE IN CONNECTION WITH, ANY DISTRIBUTION THEREOF WITHIN THE MEANING OF THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933."

G. Execution of this letter should not be considered an admission on my part that I am an "affiliate" of the Company as described in the first paragraph of this letter, nor as a waiver of any rights I may have to object to any claim that I am such an affiliate on or after the date of this letter.

2. By Parent's acceptance of this letter, Parent hereby agrees with me as follows:

A. For so long as and to the extent necessary to permit me to sell the shares of Parent Common Stock pursuant to Rule 145 and, to the extent applicable, Rule 144

under the Act, Parent shall (a) use its reasonable best efforts to (i) file, on a timely basis, all reports and data required to be filed with the Commission by it pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, and (ii) furnish to me upon request a written statement as to whether Parent has complied with such reporting requirements during the 12 months preceding any proposed sale of the shares of Parent Common Stock by me under Rule 145, and (b) otherwise use its reasonable efforts to permit such sales pursuant to Rule 145 and Rule 144.

B. It is understood and agreed that certificates with the legends set forth in paragraphs E and F above will be substituted by delivery of certificates without such legend if (i) one year shall have elapsed from the date the undersigned acquired the Parent Common Stock received in the Merger and the provisions of Rule 145(d)(2) are then available to the undersigned, (ii) two years shall have elapsed from the date the undersigned acquired the shares of Parent Common Stock received in the Merger and the provisions of Rule 145(s)(3) are then applicable to the undersigned, or (iii) Parent received either an opinion of counsel, which opinion and counsel shall be reasonably satisfactory to the Parent, or a "no-action" letter obtained by the undersigned from the staff of the Commission, to the effect that the restrictions imposed by Rule 144 and Rule 145 under the Act no longer apply to the undersigned.

Very truly yours,

Name:

Agreed and accepted this day of
,1998, by

ALUMINUM COMPANY OF AMERICA

By: _____
Name:
Title:

ALUMAX INC.

By: _____
Name:
Title:

AMX ACQUISITION CORP.

By: _____
Name:
Title:

Exhibit 10(a)

LONG TERM STOCK INCENTIVE PLAN

OF

ALUMINUM COMPANY OF AMERICA

(Revised, Effective January 1, 1997; Amended January 1, 1998)

ARTICLE I
DEFINITIONS

The following words as used herein shall have the following meanings unless the context otherwise requires.

PLAN means the Long Term Stock Incentive Plan of Aluminum Company of America, as amended from time to time, which is a continuation of the Employees' Stock Option Plan.

COMPANY means Aluminum Company of America.

SUBSIDIARY means any corporation in which the Company owns, directly or indirectly, stock possessing 50% or more of the total combined voting power of all classes of stock in such other corporation, and any corporation, partnership, joint venture or other business entity as to which the company possesses a direct or indirect ownership interest where either (a) such interest equals 50% or more or (b) the Company directly or indirectly has power to exercise management control.

BOARD means the Board of Directors of the Company and includes any duly authorized Committee when acting in lieu thereof.

EMPLOYEE means any employee of the Company or a Subsidiary.

AWARD means any stock option award granted or delivered under the Plan.

OPTIONEE means any person who has been granted a stock option under the Plan.

COMMITTEE means the Committee established under Section 1 of Article V to administer the Plan.

COMPANY STOCK means common stock of the Company and such other stock and securities, described in Section 2 of Article IV, as shall be substituted therefor.

FAIR MARKET VALUE means, with respect to Company Stock, (1) the mean of the high and low sales prices of such stock (a) as reported on the composite tape (or other appropriate reporting vehicle as determined by the Committee) for a specified date or, if no such report of such price shall be available for such date, as reported for the New York Stock Exchange for such date or (b) if the New York Stock Exchange is closed on such date, the mean of the high and low sales prices of such stock as reported in accordance with (a) above for the next preceding day on which such stock was traded on the New York Stock Exchange, or (2) at the option of and as determined by the Committee, the average of the mean of the high and low sales prices of such stock as reported in accordance with (1) above for a period of up to ten consecutive business days.

OPTION PERIOD means the period of time provided pursuant to Section 4 of Article III within which a stock option may be exercised, without regard to the limitations on exercise imposed pursuant to Section 5 of Article III.

ARTICLE II
PARTICIPATION

SECTION 1. Purpose. The purposes of the Plan are to motivate key employees, to permit them to share in the long-term growth and financial success of the Company and its Subsidiaries while giving them an increased incentive to promote the well-being of those companies, and to link the interests of key employees to the long-term interests of the Company's shareholders.

SECTION 2. Eligibility. Employees who, in the sole opinion of the Committee, play a key role in the management, operation, growth or protection of some part or all of the business of the Company and its Subsidiaries (including officers and employees who are members of the Board) shall be eligible to be granted Awards under the Plan. The Committee shall select from time to time the Employees to whom Awards shall be granted. No Employee shall have any right whatsoever to receive any Award unless selected therefor by the Committee.

SECTION 3. Limitation on Optioned Shares. In no event may any stock option be granted to any Employee who owns stock possessing more than five percent of the total combined voting power or value of all classes of stock of the Company. The maximum number of shares subject to options awarded to any one individual in any calendar year may not exceed one million shares.

SECTION 4. No Employment Rights. The Plan shall not be construed as conferring any rights upon any person for a

continuation of employment, nor shall it interfere with the rights of the Company or any Subsidiary to terminate the employment of any person and/or take any personnel action affecting such person without regard to the effect which such action might have upon such person as an Optionee or prospective Optionee.

ARTICLE III
TERMS OF OPTIONS

SECTION 1. General. The Committee from time to time shall select the Employees to whom stock options shall be granted, the type of stock options and the number of shares of Company Stock to be included in each such option. Each option granted under the Plan shall be subject to the terms and conditions required by this Article III, and such other terms and conditions not inconsistent therewith as the Committee may deem appropriate in each case.

SECTION 2. Option Price. The price at which each share of Company Stock covered by an option may be purchased shall be determined by the Committee. In no event shall such price be less than one hundred percent of the Fair Market Value of Company Stock either on the date the option is granted or over a period of up to ten business days as specified by the Committee. The option price of each share purchased pursuant to an option shall be paid in full at the time of such purchase. The purchase price of an option shall be paid in cash, provided however that, to the extent permitted by and subject to any limitations contained in any stock option agreement or in rules adopted by the Committee, such option purchase price may be paid by the delivery to the Company of shares of Company Stock having an aggregate Fair Market Value on the date of exercise which, together with any cash payment by the Optionee, equals or exceeds such option purchase price. The Committee shall determine whether and if so the extent to which actual delivery of share certificates to the Company shall be required. The foregoing provisions relating to the delivery of Company Stock in lieu of payment of cash upon exercise of an option apply to all outstanding options.

SECTION 3. Types of Options. The Committee shall have the authority, in its sole discretion, to grant to Employees from time to time non-qualified stock options and such other types of options as are permitted by law or the provisions of the Plan.

SECTION 4. Period for Exercise. The Committee shall determine the period or periods of time within which the option may be exercised by the Optionee, in whole or in part, provided that the Option Period shall not exceed ten years from the date the option is granted.

SECTION 5. Special Limitations. Notwithstanding the Option Period provided in Section 4 of this Article III, a stock option (other than a reload stock option) shall not be exercisable until one year after the date the option is granted.

SECTION 6. Termination of Employment.

(a) Subject to the provisions of Section 4 and 5 of this Article III, the Committee shall specify in administrative rules or otherwise, the rules that shall apply to stock options with respect to the exercise of any stock options upon termination of the Optionee's employment.

(b) Following the Optionee's death, the option may be exercised by the Optionee's legal representative or representatives, or by the person or persons entitled to do so under the Optionee's last will and testament, or, if the Optionee shall fail to make testamentary disposition of the option or shall die intestate, by the person or persons entitled to receive said option under the intestate laws.

(c) The Committee in its sole discretion may shorten the period of exercise of any such stock option in the event that the Optionee takes any action which in the judgment of the Committee is not in the best interests of the Company and its Subsidiaries.

SECTION 7. Transferability; Beneficiaries; Etc. Each stock option shall be nontransferable by the Optionee except by last will and testament or the laws of descent and distribution and is exercisable during the Optionee's lifetime only by the Optionee or a legal representative. Notwithstanding the foregoing and the preceding Section 6, at the discretion of the Committee,

(a) some or all Optionees may be permitted to transfer some or all of their options to one or more immediate family members, and/or

(b) some or all Optionees may be permitted to designate one or more beneficiaries to receive some or all of their Awards and stock appreciation rights in the event of death prior to exercise thereof, in which event a permitted beneficiary or beneficiaries shall then have the right to exercise or receive payment for each affected Award or stock appreciation right in accordance with its other terms and conditions.

SECTION 8. Employment Obligation. In consideration for the granting of each stock option, except options delivered under Section 11 of this Article III, the Optionee shall agree to

remain in the employment of the Company or one or more of its Subsidiaries, at the pleasure of the Company or such Subsidiary, for a continuous period of at least one year after the date of grant of such stock option or until retirement, on a date which is at least six months after the date of such grant, under any retirement plan of the Company or a Subsidiary, whichever may be earlier, at the salary rate in effect on the grant date or at such changed rate as may be fixed from time to time by the Company or such Subsidiary. At the discretion of the Committee, this obligation may be deemed to have been fulfilled under specified circumstances, such as if the Optionee enters government service.

SECTION 9. Date Option Granted. For the purposes of the Plan, a stock option shall be considered as having been granted on the date on which the Committee authorized the grant of such stock option, except where the Committee has designated a later date, in which event such designated date shall constitute the date of grant of such stock option, provided, however, that in either case notice of the grant of the option shall be given to the Employee within a reasonable time.

SECTION 10. Alternative Settlement Methods. Where local law may interfere with the normal exercise of an option, the Committee in its discretion may approve stock appreciation rights or other alternative methods of settlement for stock options.

SECTION 11. Reload Stock Options. The Committee shall have the authority to specify, either at the time of grant of a stock option or at a later date, that upon exercise of all or a portion of that stock option (except an option referred to in the next section, Section 12) a reload stock option shall be granted under specified conditions. A reload stock option may entitle the Optionee to purchase shares (i) which are covered by the exercised option or portion thereof at the time of exercise of such option or portion but are not issued upon such exercise, or (ii) whose value (on the date of grant) equals the purchase price of the exercised option or portion thereof and any related tax withholdings. The exercise price of the reload stock option shall be the Fair Market Value at the time of grant, determined in accordance with Section 2 of this Article III. The duration of a reload stock option shall not extend beyond the expiration date of the option it replaces. The specific terms and conditions applicable for reload stock options shall be determined by the Committee and shall be set forth in rules adopted by the Committee and/or in agreements or other documentation evidencing reload stock options.

SECTION 12. Dividend Equivalents. Stock options delivered in payment of contingent awards of performance shares (effective January 1993, these types of awards are no longer granted) may provide the Optionee with dividend equivalents payable in cash, shares, additional discount options or other consideration prior to exercise.

ARTICLE IV
COMPANY STOCK

SECTION 1. Number of Shares. The shares of Company Stock that may be issued under the Plan, out of authorized but heretofore unissued Company Stock, or out of Company Stock held as treasury stock, or partly out of each, shall not exceed 8.6 million shares plus (i) an additional number of shares equal to the number of shares which at January 1, 1997 were reserved for issuance under the Plan as then in effect and (ii) the number of shares purchased or acquired by the Company with an aggregate price no greater than the cash proceeds received by the Company after January 1, 1998 from the exercise of stock options granted under the Plan. Except as otherwise determined by the Committee, the number of shares of Company Stock so reserved shall be reduced by the number of shares issued upon an Option exercise, less (i) the shares, if any, used to pay withholding taxes and/or (ii) the shares, if any, delivered by the Optionee in full or partial payment of the option purchase price. Unless the Committee otherwise determines, shares not purchased under any option granted under the Plan which are no longer available for purchase thereunder by virtue of the total or partial expiration, termination or voluntary surrender of the option and which were not issued upon exercise of a related stock appreciation right and shares referred to in clauses (i) or (ii) of the preceding sentence shall continue to be otherwise available for the purposes of the Plan. Payments for Awards in cash shall reduce the number of shares available for issuance by such number of shares as has a Fair Market Value at the time of such payment equal to such cash.

SECTION 2. Adjustments in Stock.

(a) Stock Dividends. If a dividend shall be declared upon Company Stock payable in shares of said stock, (i) the number of shares of Company Stock subject to outstanding Awards and (ii) the number of shares reserved for issuance pursuant to the Plan shall be adjusted by adding to each such share the number of shares which would be distributable thereon if such share had been outstanding on the date fixed for determining the shareholders entitled to receive such stock dividend.

(b) Reorganization, Etc. In the event that the outstanding

shares of Company Stock shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, or otherwise, then there shall be substituted for each share of Company Stock subject to outstanding Awards and for each share of Company Stock reserved for issuance pursuant to the Plan, the number and kind of shares of stock or other securities which would have been substituted therefor if such share had been outstanding on the date fixed for determining the shareholders entitled to receive such substituted stock or other securities.

(c) Other Changes in Stock. In the event there shall be any change, other than as specified in subsections (a) and (b) of this Section 2, in the number or kind of outstanding shares of Company Stock or of any stock or other securities into which such Company Stock shall be changed or for which it shall have been exchanged, then and if the Committee shall at its discretion determine that such change equitably requires an adjustment in the number or kind of shares subject to outstanding Awards or which have been reserved for issuance pursuant to the Plan, such adjustments shall be made by the Committee and shall be effective and binding for all purposes of the Plan and each outstanding stock option and other Award.

(d) General Adjustment Rules. No adjustment or substitution provided for in this Section 2 shall require the Company to sell or deliver a fractional share under any stock option or other Award and the total substitution or adjustment with respect to each Award shall be handled in the discretion of the Committee either by deleting any fractional shares or by appropriate rounding up to the next whole share. In the case of any such substitution or adjustment, the option price per share for each stock option shall be equitably adjusted by the Committee to reflect the greater or lesser number of shares of stock or other securities into which the stock subject to the option may have been changed.

ARTICLE V
GENERAL MATTERS

SECTION 1. Administration. The Plan shall be administered by a Committee of not less than three Directors appointed by the Board, none of whom shall have been eligible to receive an Award under the Plan within the twelve months preceding their appointment.

SECTION 2. Authority of Committee. Subject to the provisions of the Plan, the Committee shall have full and final authority to determine the Employees to whom Awards shall be granted, the type of Awards to be granted, the number of shares to be included in each Award, and the other terms and conditions of the Awards. Nothing contained in this Plan shall be construed to give any Employee the right to be granted an Award or, if granted, to any terms and conditions therein except such as may be authorized by the Committee. The Committee is empowered, in its discretion, to (i) modify, amend, extend or renew any Award theretofore granted, subject to the limitations set forth in Article III and with the proviso that no modification or amendment shall impair without the Optionees' consent any option theretofore granted under the Plan, (ii) adopt such rules and regulations and take such other action as it shall deem necessary or proper for the administration of the Plan and (iii) delegate any or all of its authority (including the authority to select eligible employees and to grant stock options) to one or more senior officers of the Company, except with respect to Awards for officers or any performance share awards, and except in the event that any such delegation would cause this Plan not to comply with Securities and Exchange Commission Rule 16b-3 (or any successor rule). The Committee shall have full power and authority to construe, interpret and administer the Plan, and the decisions of the Committee shall be final and binding upon all parties.

SECTION 3. Withholding. The Company or any Subsidiary shall have the right to deduct from all amounts paid in cash under this Plan any taxes required by law to be withheld therefrom. In the case of payments of Awards in the form of Company Stock, at the Committee's discretion, (a) the Optionee may be required to pay over the amount of any withholding taxes, (b) the Optionee may be permitted to deliver to the Company the number of shares of Company Stock whose Fair Market Value is equal to or less than the withholding taxes due or (c) the Company may retain the number of shares calculated under (b) above.

SECTION 4. Nonalienation. No Award shall be assignable or transferable, except by will or the laws of descent and distribution, and except that in its discretion the Committee may authorize exercise by or payment to a beneficiary designated by an Optionee. No right or interest of any Optionee in any Award shall be subject to any lien, obligation or liability.

SECTION 5. General Restriction. Each Award shall be subject to the requirement that if at any time the Board or the Committee shall determine in its discretion that the listing, registration or qualification of shares upon any securities exchange or under any state or Federal law, rule, regulation or decision, or the consent or approval of any government regulatory body, is

necessary or desirable as a condition of, or in connection with, the granting of such Award or the issue, purchase or delivery of shares or payment thereunder, such Award may not be exercised in whole or in part and no payment therefor shall be delivered unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board or Committee.

SECTION 6. Effective Date and Duration of Plan. The Plan initially became effective May 1, 1965. The Plan as amended herein shall become effective January 1, 1997. No Awards shall be granted under the Plan after January 1, 2002 although shares thereafter may be delivered in payment of Awards granted prior thereto.

SECTION 7. Amendments. The Board may from time to time amend, modify, suspend or terminate the Plan, provided, however, that no such action shall (a) impair without an Optionee's consent any option theretofore granted under the Plan or deprive any Awardee of any shares of Company Stock which that person may have acquired through or as a result of the Plan or (b) be made without the approval of the shareholders of the Company where such change would materially increase the benefits accruing to Optionees, materially increase the maximum number of shares which may be issued under the Plan or materially modify the Plan's eligibility requirements.

SECTION 8. Construction. The Plan shall be interpreted and administered under the laws of the Commonwealth of Pennsylvania without application of its rules on conflict of laws.

ARTICLE VI
[DELETED, Effective January 1997]

Exhibit 12

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
FOR THE YEAR ENDED DECEMBER 31
(in millions, except ratios)

	1997	1996	1995	1994	1993
Earnings:					
Income before taxes on income, and before extraordinary loss	$1,601.7	$1,081.7	$1470.2	$822.5	$191.1
Minority interests' share of earnings of majority-owned subsidiaries without fixed charges	3.0	4.1	2.0	-	(5.9)
Less equity (earnings) losses	(42.4)	(29.6)	(59.5)	(.3)	13.0
Fixed charges added to net income	181.6	170.7	150.7	138.4	110.1
Proportionate share of income (loss) of 50% owned persons	35.1	25.3	58.2	1.9	(11.5)
Distributed income of less than 50% owned persons	-	-	-	-	-
Amortization of capitalized interest:					
Consolidated	20.2	21.9	23.1	25.5	20.6
Proportionate share of 50% owned persons	.9	1.2	.8	1.2	.8
Total earnings	$1,800.1	$1,275.3	$1645.5	$989.2	$318.2
Fixed Charges:					
Interest expense:					
Consolidated	$140.9	$133.7	$119.8	$106.7	$87.8
Proportionate share of 50% owned persons	3.3	4.9	6.7	7.4	5.5
	144.2	138.6	126.5	114.1	93.3
Amount representative of the interest factor in rents:					
Consolidated	37.0	31.8	24.0	23.9	16.4
Proportionate share of 50% owned persons	.4	.3	.2	.4	.4
	37.4	32.1	24.2	24.3	16.8
Fixed charges added to earnings	181.6	170.7	150.7	138.4	110.1
Interest capitalized:					
Consolidated	9.0	5.3	1.9	1.5	3.5
Proportionate share of 50% owned persons	-	-	-	-	-
	9.0	5.3	1.9	1.5	3.5
Preferred stock dividend requirements of majority-owned subsidiaries	-	-	4.9	13.1	29.6
Total fixed charges	$190.6	$176.0	$157.5	$153.0	$143.2
Ratio of earnings to fixed charges charges	9.44	7.25	10.45	6.47	2.22

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

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

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

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

EARNINGS SUMMARY

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

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

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

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

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

GEOGRAPHIC AND SEGMENT INFORMATION

Operating profit before special items was $1,475 in 1997 compared with $1,350 in 1996 and $1,435 in 1995. Operating profit, for geographic and segment purposes, consists of sales and operating revenues less operating expenses. It excludes interest expense, nonoperating income, income

taxes, minority interests and special items. See Note P to the financial statements for additional information.

OPERATIONS BY GEOGRAPHIC AREA

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

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

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

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

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

OPERATIONS BY SEGMENT

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

I. ALUMINA AND CHEMICALS SEGMENT

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

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

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

Operating profit in 1997 for this segment was $415, down 10% from 1996. The decrease was the result of lower operating profit at AofA, partially offset by volume-driven improvements in Suriname and the U.S. In 1996, operating profit of $459 was up 50% from 1995, as the alumina business benefited from higher prices and good cost control.

In the 1997 second quarter, Alcoa World Alumina and Chemicals

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

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

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

II. ALUMINUM PROCESSING SEGMENT

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

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

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

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

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

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

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

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

for commercial products. Sheet and plate revenues in 1996 rose 4% from 1995 as prices climbed 7%.

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

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

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

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

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

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

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

III. NONALUMINUM PRODUCTS SEGMENT

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

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

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

SPECIAL ITEMS

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

Included in 1996 income from operations was a charge of $198.9 ($122.3 after tax and minority interests) consisting of several items. A net severance charge of $95.5, which included pension and OPEB curtailment credits of $75.0, relates to incentive costs for employees who voluntarily

left the company and for permanent layoff costs. In addition, the shutdown of AEP resulted in a charge of $65.4, related primarily to asset writedowns. Impairments at various manufacturing locations added another $38.0 to special items in 1996.

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

COSTS AND OTHER INCOME

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

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

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

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

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

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

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

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

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

RISK FACTORS

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

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

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

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

In the normal course of business, Alcoa enters into long-term contracts with a number of its fabricated products customers. At December 31, 1997 and 1996, such contracts approximated 2,093,000 mt and 2,369,000 mt, respectively.

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

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

The futures and options contracts noted above are with 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. Deferred gains of $113 on the hedging contracts at December 31, 1997 are expected to offset the increase in the price of the purchased metal.

The expiration dates of the options and the delivery dates of the futures contracts do not always coincide exactly with the dates on which Alcoa is required to purchase metal to meet its contractual commitments with customers. Accordingly, some of the futures and options positions will be rolled forward. This may result in significant cash inflows if the hedging contracts are "in-the-money" at the time they are rolled forward. Conversely, there could be significant cash outflows if metal prices fall below the price of contracts being rolled forward.

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

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

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

Interest Rate Risks -- Alcoa attempts to maintain a reasonable balance between fixed- and floating-rate debt and uses interest rate swaps and caps to keep financing costs as low as possible. At December 31, 1997 and 1996, Alcoa had $1,952 and $2,075 of debt outstanding at effective interest rates of 7.00% and 6.71%, after the impact of interest rate swaps and caps is taken into account. A hypothetical change of 10% in Alcoa's effective interest

rate from year-end 1997 levels would increase or decrease interest expense by $14. For more information related to Alcoa's use of interest rate instruments, see Notes A and Q.

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

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

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

ENVIRONMENTAL MATTERS

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

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

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

LIQUIDITY AND CAPITAL RESOURCES
(dollars in millions, except share amounts)

CASH FROM OPERATIONS

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

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

FINANCING ACTIVITIES

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

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

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

of $96 was made by AWAC.
  Payments on long-term debt during 1997 exceeded additions by $218. During the 1997 fourth quarter, AFL issued a $250 five-year term loan and entered into a $250 five-year, revolving-credit facility. The term loan was used to refinance existing debt, while the revolving-credit facility will be used for general corporate purposes. Higher short-term borrowings in 1997 relative to 1996 were a result of higher borrowings at Alcoa Italia.
  For 1996, Alcoa had net long-term borrowings of $289. Of this amount, $400 relates to notes issued by Aluminio. The proceeds were used to prepay Aluminio's 1995 notes and for its general corporate purposes.
  Debt as a percentage of invested capital was 19.9% at the end of 1997, compared with 21.8% for 1996 and 16.7% for 1995.

INVESTING ACTIVITIES

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

$912, compared with $996 in 1996 and $887 in 1995. Of the total expenditures in 1997, 29% related to capacity expansion, including forged wheel production in the U.S. and Europe along with automotive sheet production in the U.S. Also included are costs of new and expanded facilities for environmental control in ongoing operations totaling $94 in 1997, $68 in 1996 and $54 in 1995.
  Alcoa received $265 in 1997 from the sale of assets including its Caradco, Arctek, Alcoa Composites, Norcold, Dayton Technologies and Richmond, Indiana facilities. Also included was the sale of a majority interest in Alcoa's Brazilian cable business. In 1996, Alcoa received $83 from the sale of AofA's rolled products division to Kaal Australia.
  Acquisitions accounted for $302 of investing cash outflows during 1996 and included the purchase of Alumix in Italy and Alcan's extrusion operations in Brazil. The company also purchased the remaining 49.9% interest in Alcoa-Kofem in Hungary.

SUBSEQUENT EVENTS

In January 1998, Alcoa issued $300 of 6.75% bonds due 2028. The net proceeds were used for general corporate purposes.
  On February 6, 1998, Alcoa completed its acquisition of Inespal, S.A. of Madrid, Spain. Alcoa paid $210 in cash and assumed $200 of debt in exchange for substantially all of Inespal's businesses. Inespal is an integrated aluminum producer with 1997 revenues of $1,100. The acquisition included an alumina refinery, three aluminum smelters, three aluminum rolling facilities, two extrusion plants, an administrative center and related sales offices in Europe.
  On February 25, 1998, Alcoa and the government of British Columbia, Canada, signed a memorandum of understanding to proceed with a feasibility study for the construction of a 250,000 mt per year primary aluminum smelter. The study will be completed no later than December 31, 1998. If the study produces a favorable result, construction could start in 1999 and would represent an investment of approximately $850.

YEAR 2000 ISSUE

The company, assisted by outside consults, has conducted a detailed review of its administrative and process control computer systems to identify areas that are affected by the "Year 2000" issue. The Year 2000 issue is the result of computer programs being written using two digits (rather than four) to define the applicable year. This could result in computational errors as dates are compared across the century boundary.
  A detailed implementation plan has been developed to manage and resolve the issues identified in the review. The plan includes the modification of existing systems as well as the purchase of new software. It also requires that each system be audited after the modifications are complete to ensure compliance with Year 2000 requirements. Employees of the company as well as outside resources have been assigned to the completion of the implementation plan. The total cost of purchasing new software and altering the applicable program codes is estimated to be between $50 and $75 for 1998. The company is currently assessing the impact of the implementation plan on its 1999 operations.

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.

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

/S/ Richard B.Kelson
Richard B. Kelson
Executive Vice President and Chief Financial Officer

AUDIT COMMITTEE REPORT

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

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

/S/ Henry B. Schacht
Henry B. Schacht
Chairman, Audit Committee

INDEPENDENT ACCOUNTANT'S REPORT

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

We have audited the accompanying consolidated balance sheet of Alcoa as of December 31, 1997 and 1996, and the related statements of consolidated income, shareholders' equity and consolidated cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of Alcoa's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alcoa at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

/S/ Coopers & Lybrand L.L.P.
600 Grant St., Pittsburgh, Pa.
January 8, 1998, except for Note V,
for which the date is February 6, 1998

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

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

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

CONSOLIDATED BALANCE SHEET Alcoa and subsidiaries
(in millions)

December 31	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents (includes cash of $100.8 in 1997 and $93.4 in 1996) (Q)	$ 800.8	$ 598.1
Short-term investments (Q)	105.6	18.5
Receivables from customers, less allowances: 1997-$36.6; 1996-$48.4	1,581.2	1,674.7
Other receivables	216.4	154.2
Inventories (C)	1,312.6	1,461.4
Deferred income taxes	172.3	159.9
Prepaid expenses and other current assets	228.0	214.4
Total current assets	4,416.9	4,281.2
Properties, plants and equipment (D)	6,666.5	7,077.5
Other assets (E and Q)	1,987.2	2,091.2
TOTAL ASSETS	$ 13,070.6	$ 13,449.9
LIABILITIES		
Current liabilities:		
Short-term borrowings (weighted average rate of 6.3% in 1997 and 6.5% in 1996) (Q)	$ 347.7	$ 206.5
Accounts payable, trade	811.7	799.2
Accrued compensation and retirement costs	436.0	404.3
Taxes, including taxes on income	334.2	407.9
Other current liabilities	375.7	377.0
Long-term debt due within one year (G and Q)	147.2	178.5
Total current liabilities	2,452.5	2,373.4
Long-term debt, less amount due within one year (G and Q)	1,457.2	1,689.8
Accrued postretirement benefits (S)	1,749.6	1,791.2
Other noncurrent liabilities and deferred credits (F)	1,271.2	1,205.5
Deferred income taxes	281.0	317.1
Total liabilities	7,211.5	7,377.0
MINORITY INTERESTS (A and H)	1,439.7	1,610.5
Contingent liabilities (M)	--	--
SHAREHOLDERS' EQUITY		

Preferred stock (O)	55.8	55.8
Common stock (O)	178.9	178.9
Additional capital	578.1	591.9
Retained earnings	4,717.3	4,082.6
Treasury stock, at cost	(758.0)	(371.3)
Accumulated other comprehensive income (A and Q)	(352.7)	(75.5)
Total shareholders' equity	4,419.4	4,462.4
TOTAL LIABILITIES AND EQUITY	$ 13,070.6	$ 13,449.9

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

STATEMENT OF CONSOLIDATED CASH FLOWS Alcoa and subsidiaries
(in millions)

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

CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 800.8	$ 598.1	$ 1,055.6

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

STATEMENT OF SHAREHOLDERS' EQUITY Alcoa and subsidiaries
(in millions, except share amounts)

December 31	Comprehensive income	Preferred stock	Common stock	Additional capital	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total shareholders' equity
BALANCE AT END OF 1994		$ 55.8	$ 178.7	$ 663.5	$ 3,173.9	$ (.1)	$ (72.6)	$ 3,999.2
Comprehensive income--1995:								
Net income--1995	$790.5				790.5			790.5
Other comprehensive income, net of tax:								
Minimum pension liability, net of $2.9 tax benefit	(5.3)							
Unrealized translation adjustments	(10.1)							
Realize translation adjustments	(.3)						(15.7)	(15.7)
Comprehensive income	$774.8							
Cash dividends:								
Preferred @ $3.75 per share					(2.1)			(2.1)
Common @ $.90 per share					(160.4)			(160.4)
Treasury shares purchased						(224.9)		(224.9)
Stock issued:								
compensation plans			.2	(26.4)	(1.8)	86.1		58.1
BALANCE AT END OF 1995		55.8	178.9	637.1	3,800.1	(138.9)	(88.3)	4,444.7
Comprehensive income--1996:								
Net income--1996	$514.9				514.9			514.9
Other comprehensive income, net of tax:								
Minimum pension liability, net of $1.9 tax expense	3.5							
Unrealized translation adjustments	(8.9)							
Realized translation adjustments	(5.2)							
Unrealized gains on securities, net of $12.6 tax benefit	23.4						12.8	12.8
Comprehensive income	$527.7							
Cash dividends:								
Preferred @ $3.75 per share					(2.1)			(2.1)
Common @ $1.33 per share					(232.1)			(232.1)
Treasury shares purchased						(317.2)		(317.2)
Stock issued:								
compensation plans				(45.2)	1.8	84.8		41.4
BALANCE AT END OF 1996		55.8	178.9	591.9	4,082.6	(371.3)	(75.5)	4,462.4
Comprehensive income--1997:								
Net income--1997	$ 805.1				805.1			805.1
Other comprehensive income, net of tax:								
Minimum pension liability, net of $2.3 tax benefit	(4.2)							
Unrealized translation adjustments	(249.6)							
Unrealized gains								

on securities, net of $.7 tax expense	1.3						
Gains on securities included in net income, net of $13.3 tax benefit	(24.7)					(277.2)	(277.2)
Comprehensive income	$ 527.9						
Cash dividends:							
Preferred @ $3.75 per share				(2.1)			(2.1)
Common @ $.975 per share				(168.3)			(168.3)
Treasury shares purchased					(603.5)		(603.5)
Stock issued: compensation plans			(13.8)		216.8		203.0
BALANCE AT END OF 1997		$ 55.8	$ 178.9	$ 578.1	$ 4,717.3	$ (758.0)	$ (352.7)*	$ 4,419.4

* Comprised of unrealized translation adjustments of $(342.7) and minimum pension liability of $(10.0)

SHARE ACTIVITY (number of shares)

		Common stock		
	Preferred stock	Issued	Treasury	Net outstanding
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
Treasury shares purchased			(8,077,267)	(8,077,267)
Stock issued: compensation plans			3,843,254	3,843,254
BALANCE AT END OF 1997	557,649	178,922,583	(10,646,957)	168,275,626

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in millions, except share amounts)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Depreciation and Depletion. Depreciation is recorded principally on the straight-line method at rates based on the estimated useful lives of the assets. Profits or losses from the sale of assets are included in other income. Repairs and maintenance are charged to expense as incurred.

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

Amortization of Intangibles. The excess of purchase price over net tangible assets of businesses acquired is included in other assets in the consolidated balance sheet. Intangibles are amortized on a straight-line basis over not more than 40 years. The carrying value of intangibles is evaluated periodically in relation to the operating performance and future undiscounted cash flows of the underlying businesses.

Adjustments are made if the sum of expected future net cash flows is less than book value.

Environmental Expenditures. Expenditures for current operations are expensed or capitalized, as appropriate. Expenditures relating to existing conditions caused by past operations, and which do not contribute to future revenues, are expensed. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated. The liability may include elements of costs such as site investigations, consultant fees, feasibility studies, outside contractor expenses and monitoring expenses. Estimates are not discounted or reduced by potential claims for recovery. Claims for recovery are recognized when received. The estimates also include costs related to other potentially responsible parties to the extent that Alcoa has reason to believe such parties will not fully pay their proportionate share. The liability is periodically reviewed and adjusted to reflect current remediation progress, prospective estimates of required activity and other factors that may be relevant, including changes in technology or regulations. See Note U for additional information.

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

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

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

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

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

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

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

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

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

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

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

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

Recently Adopted Accounting Standards. Alcoa has adopted

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

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

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

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

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

B. SPECIAL ITEMS

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

Special items in 1996 consisted of a charge totaling $198.9 ($122.3 after tax and minority interests). A net severance charge of $95.5, which included pension and OPEB curtailment credits of $75.0, relates to incentive costs for employees who voluntarily left the company and for permanent layoff costs. The shutdown of Alcoa Electronic Packaging resulted in an additional charge of $65.4, related primarily to asset writedowns. Impairments at various manufacturing locations added another charge of $38.0.

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

C. INVENTORIES

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

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

D. PROPERTIES, PLANTS AND EQUIPMENT, AT COST

December 31	1997	1996
Land and land rights, including mines	$ 221.2	$ 237.0
Structures	3,898.1	4,028.0
Machinery and equipment	10,482.8	10,742.5
	14,602.1	15,007.5
Less: accumulated depreciation and depletion	8,587.5	8,652.4

	6,014.6	6,355.1
Construction work in progress	651.9	722.4
	$ 6,666.5	$ 7,077.5

E. OTHER ASSETS

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

F. OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS

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

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

G. LONG-TERM DEBT

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

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

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

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

Under Alcoa's $1.3 billion revolving-credit facility, which expires in July 2001, certain levels of consolidated net worth must be maintained while commercial paper balances are outstanding.

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

H. MINORITY INTERESTS

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

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

I. ACQUISITIONS

Alcoa made various acquisitions during 1996 totaling $302. They include the purchase of Alumix, Italy's state-owned integrated aluminum producer, and Alcan's extrusion operations in Brazil. In 1995, acquisitions totaled $426, which resulted in goodwill of approximately $250.

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

J. CASH FLOW INFORMATION

Cash payments for interest and income taxes follow.

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

The details of cash payments related to acquisitions follow.

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

K. EARNINGS PER SHARE

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

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

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

L. LEASE EXPENSE

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

M. CONTINGENT LIABILITIES

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

N. INTEREST COST COMPONENTS

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

O. PREFERRED AND COMMON STOCK

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

Common Stock. There are 300 million shares authorized at a par value of $1 per share. As of December 31, 1997, shares of common stock reserved for issuance were:

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

Stock options under the long-term stock incentive plan

have been and may be granted, generally at not less than market prices on the dates of grant, except for the 50 cents per-share options issued as a payout of earned performance share awards. The stock option program includes a reload or stock continuation ownership feature. Stock options granted have a maximum term of 10 years. Vesting occurs one year from the date of grant and six months for options granted under the reload feature.

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

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

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

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

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

The transactions for shares under options were:

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

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

Options outstanding:

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

Options exercisable:

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

P. SEGMENT AND GEOGRAPHIC AREA INFORMATION

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

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

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

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

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

SEGMENT INFORMATION	1997	1996	1995
Sales to customers:			
Alumina and chemicals	$ 1,960.8	$ 1,939.6	$ 1,757.8
Aluminum processing	8,240.5	7,975.7	8,034.3
Nonaluminum products	3,117.9	3,145.7	2,707.6
Intersegment sales: (1)			
Alumina and chemicals	634.0	617.1	540.1
Aluminum processing	14.4	.4	3.7
Nonaluminum products	90.1	81.8	97.6
Eliminations	(738.5)	(699.3)	(641.4)
Total sales and operating revenues	$ 13,319.2	$ 13,061.0	$ 12,499.7
Operating profit before special items:			
Alumina and chemicals	$ 415.1	$ 459.3	$ 306.9
Aluminum processing	862.5	774.1	1,014.7
Nonaluminum products	197.2	116.6	112.9
Total	$ 1,474.8	$ 1,350.0	$ 1,434.5
Operating profit after special items:			
Alumina and chemicals	$ 416.4	$ 431.1	$ 309.9
Aluminum processing	952.5	711.8	1,001.4
Nonaluminum products	201.4	8.2	107.0
Total operating profit	1,570.3	1,151.1	1,418.3
Other income	162.5	67.4	155.2
Translation (gain) loss in operating profit	9.8	(3.1)	16.5
Interest expense	(140.9)	(133.7)	(119.8)

Income before taxes on income	$ 1,601.7	$ 1,081.7	$ 1,470.2
Identifiable assets:			
Alumina and chemicals	$ 3,022.5	$ 3,316.3	$ 3,101.9
Aluminum processing	6,578.8	6,691.0	6,621.6
Nonaluminum products	2,098.2	2,328.3	2,335.0
Total identifiable assets	11,699.5	12,335.6	12,058.5
Investments	464.7	497.7	397.3
Corporate assets (2)	906.4	616.6	1,187.6
Total assets	$ 13,070.6	$ 13,449.9	$ 13,643.4
Depreciation and depletion:			
Alumina and chemicals	$ 166.9	$ 165.2	$ 153.8
Aluminum processing	448.3	443.9	442.1
Nonaluminum products	138.4	155.1	134.4
Total depreciation and depletion (3)	$ 753.6	$ 764.2	$ 730.3
Capital expenditures:			
Alumina and chemicals	$ 216.6	$ 314.6	$ 246.8
Aluminum processing	516.1	472.9	399.2
Nonaluminum products	179.7	208.2	241.1
Total capital expenditures	$ 912.4	$ 995.7	$ 887.1

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

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

Q. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

Alcoa holds or purchases derivative financial instruments for purposes other than trading. Details of the significant instruments follow.

Foreign Exchange Contracts. The company enters into foreign exchange contracts to hedge most of its firm and anticipated purchase and sale commitments denominated in foreign currencies for periods commensurate with its known or expected exposures. The contracts generally mature within 12 months and are principally unsecured foreign exchange contracts with carefully selected banks. The market risk exposure is essentially limited to risk related to currency rate movements. Unrealized gains (losses) on these contracts at December 31, 1997 and 1996 were $(84.9) and $34.8, respectively.

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

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

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

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

	1997		1996	
	BUY	SELL	Buy	Sell

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

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

Alcoa utilizes cross-currency interest rate swaps to take advantage of international debt markets while limiting foreign exchange risk. At year-end 1997, Alcoa had in place foreign currency forward contracts to effectively convert the principal payment due in 1999 on its 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 debt into liabilities in yen based on Japanese interest rates.

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

Credit and market risk exposures are limited to the net interest differentials. The net payments or receipts from interest rate swaps are recorded as part of interest expense and are not material. The effect of interest rate swaps on Alcoa's composite interest rate on long-term debt was not material at the end of 1997 or 1996.

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

For further information on Alcoa's hedging and derivatives activities, see Note A.

R. PENSION PLANS

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

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

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

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

The status of the pension plans follows.

	Assets exceed accumulated benefit obligation		Accumulated benefit obligation exceeds assets	
December 31	1997	1996	1997	1996
Plan assets, primarily stocks and bonds at market	$ 5,074.5	$ 4,327.6	$ 26.3	$ 7.6
Present value of obligation:				

Vested	3,963.4	3,779.2	169.2	134.5
Nonvested	268.1	292.9	9.8	7.5
Accumulated benefit obligation	4,231.5	4,072.1	179.0	142.0
Effect of assumed salary increases	257.4	283.5	32.4	37.3
Projected benefit obligation	$ 4,488.9	$ 4,355.6	$ 211.4	$ 179.3
Plan assets greater (less) than projected benefit obligation	$ 585.6	$ (28.0)	$ (185.1)	$ (171.7)
Unrecognized:				
Transition (assets) obligations	(2.4)	(.8)	6.9	9.2
Prior service costs	114.6	145.0	11.7	16.2
Actuarial (gains) losses, net	(822.6)	(272.0)	36.7	32.9
Minimum liability adjustment	--	--	(29.7)	(24.9)
Accrued pension cost	$ (124.8)	$ (155.8)	$ (159.5)	$ (138.3)

Assumptions used to determine plan liabilities and expenses follow.

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

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

S. POSTRETIREMENT BENEFITS

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

The components of postretirement benefit expense follow.

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

The status of the postretirement benefit plans was:

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

liability	$ 1,854.6 $ 1,886.2

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

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

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

T. INCOME TAXES

The components of income before taxes on income were:

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

The provision for taxes on income consisted of:

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

* Includes U.S. taxes related to foreign income

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

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

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

The components of net deferred tax assets and liabilities follow.

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

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

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

U. ENVIRONMENTAL MATTERS

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

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

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

Alcoa's remediation reserve balance at the end of 1997 and 1996 was $243 and $271, respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated. About 24% of the 1997 balance relates to Alcoa's Massena, New York plant site and 23% of the 1997 balance relates to Alcoa's Pt. Comfort, Texas plant site. Remediation expenses charged to the reserve were $64 in 1997, $72 in 1996 and $62 in 1995. They include expenditures currently mandated as well as those not required by any regulatory authority or third party.

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

V. SUBSEQUENT EVENTS

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

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

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

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

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

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

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

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

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

SUPPLEMENTAL FINANCIAL INFORMATION

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

1997	FIRST	SECOND	THIRD	FOURTH	YEAR
Sales and operating revenues	$ 3,231.1	$ 3,432.0	$ 3,357.5	$ 3,298.6	$ 13,319.2
Income from operations	220.8	276.0	286.4	289.8	1,073.0

Net income*	159.1	207.6	228.1	210.3	805.1
Earnings per share:					
Basic	.92	1.19	1.32	1.23	4.66
Diluted	.91	1.18	1.29	1.21	4.62

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

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

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

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

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

GRAPHICS APPENDIX LIST

Revenues by Segment - page 28
billions of dollars

	1993	1994	1995	1996	1997
Alumina and Chemicals	1.4	1.5	1.8	1.9	2.0
Nonaluminum Products	1.7	1.9	2.7	3.2	3.1
Aluminum Processing	6.0	6.5	8.0	8.0	8.2
	9.1	9.9	12.5	13.1	13.3

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

Alumina Production - page 28
thousands of metric tons

1993	1994	1995	1996	1997
10,129	10,195	10,578	10,644	11,048

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

Aluminum Product Shipments - page 30
thousands of metric tons

	1993	1994	1995	1996	1997
Ingot	841	655	673	901	920
Fabricated Products	1,739	1,896	1,909	1,940	2,036
Total	2,580	2,551	2,582	2,841	2,956

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

Alcoa's Realized Ingot Price - page 30
cents per pound

1993	1994	1995	1996	1997
$.56	$.64	$.81	$.73	$.75

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

Number of Employees - page 32
in thousands at year-end

	1993	1994	1995	1996	1997
Nonaluminum	14.1	17.3	26.7	33.8	39.7
Alumina and Aluminum	49.3	42.9	45.3	43.0	41.9
Total	63.4	60.2	72.0	76.8	81.6

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

U.S. Exports - page 32
(millions of dollars)

1993	1994	1995	1996	1997
896	988	1,206	1,015	1,207

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

Cash From Operations - page 34
millions of dollars

1993	1994	1995	1996	1997
535	1,394	1,713	1,279	1,888

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

Debt as a Percent of Invested Capital - page 34

1993	1994	1995	1996	1997

	22.0	15.3	16.7	21.8	19.9

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

Free Cash Flow to Debt Coverage - page 35
times covered

1993	1994	1995	1996	1997
.62	1.09	1.12	.79	1.13

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

Capital Expenditures and Depreciation - page 35
millions of dollars

	1993	1994	1995	1996	1997
Capital Expenditures	757	612	887	996	912
Depreciation	693	671	713	747	735

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

Employees by Geographic Area - page 49
1997: 81,600*

Other Americas	44
U.S.	33
Europe	15
Pacific	8

*At year-end

Market Value of Common Stock* - page 61
billions of dollars

1993	1994	1995	1996	1997
6.1	7.7	9.3	11.0	11.8

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

Dividends Paid per Common Share* - page 61

	1993	1994	1995	1996	1997
Base	.80	.80	.90	.90	.975
Bonus	-	-	-	.43	-
	.80	.80	.90	1.33	.975

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

Stock Listing - page 61

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 - page 61

	1997			1996		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$76-1/4	$64-1/4	$.225	$64-3/8	$48-1/8	$.3325
Second	79-1/4	65-1/4	.250	66-1/4	57	.3325
Third	89-5/8	75-1/8	.250	64-1/8	55-1/8	.3325
Fourth	83-15/16	66	.250	64-3/4	55-3/4	.3325
Year	$89-5/8	$64-1/4	$.975	$66-1/4	$49-1/8	$1.33

Common Share Data - page 61

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

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

Exhibit 21

SUBSIDIARIES AND EQUITY ENTITIES OF THE REGISTRANT
(As of December 31, 1997)

Name	State or country of organization
Alcoa Alumina & Chemicals, L.L.C.*	Delaware
Alcoa ACC Industrial Chemicals Ltd.	India
Alcoa Kasei Limited	Japan
Alcoa Minerals of Jamaica, Inc., L.L.C.	Delaware
Alcoa Steamship Company, Inc.	New York
Halco (Mining) Inc.	Delaware
Compagnie des Bauxites de Guinee	Delaware
Lib-Ore Steamship Company, Inc.	Liberia
Moralco Limited	Japan
St. Croix Alumina, L.L.C.	Delaware
Suriname Aluminum Company, L.L.C.	Delaware
Alcoa Brazil Holdings Company	Delaware
Alcoa Aluminio S.A.	Brazil
Alcoa Building Products, Inc.**	Ohio
Alcoa Closure Systems International, Inc.	Delaware
Alcoa Generating Corporation	Indiana
Alcoa International Holdings Company	Delaware
Alcoa Inter-America, Inc.	Delaware
Alcoa Japan Limited	Japan
Alcoa-Kofem Kft	Hungary
Alcoa Nederland Holding B.V.	Netherlands
Alcoa International, S.A.	Switzerland
Alcoa Italia S.p.A.	Italy
Alcoa Nederland B.V.	Netherlands
Norsk Alcoa A/S	Norway
Alcoa of Australia Limited	Australia
A.F.P. Pty. Limited	Australia
Hedges Gold Pty. Ltd.	Australia
Alcoa of Australia (Asia) Limited	Hong Kong
Alcoa Russia, Inc.	Delaware
Asian-American Packaging Systems Co., Ltd.	China
Kobe Alcoa Transportation Products, Ltd.	Japan
Unified Accord SDN. BHD.	Malaysia

* Registered to do business in California, Florida, Georgia, Louisiana, North Carolina, Pennsylvania and Texas under the name of Alcoa Industrial Chemicals.
**Registered to do business in Ohio under the name of Mastic.

Name	State or country of organization
Alcoa Laudel, Inc.	Delaware
Alcoa Manufacturing (G.B.) Limited	England
Alcoa Properties, Inc.	Delaware
Alcoa South Carolina, Inc.	Delaware
Alcoa Recycling Company, Inc.	Delaware
Alcoa Securities Corporation	Delaware
Alcoa Automotive Structures, Inc.	Delaware
Alcoa Brite Products, Inc.	Delaware
Alcoa Fujikura Ltd.	Delaware
Stribel GmbH	Germany
Michels GmbH	Germany
Alcoa Kobe Transportation Products, Inc.	Delaware
Alcoa Nederland Finance B.V.	Netherlands
Alcoa Automotive Structures GmbH	Germany
Alcoa Chemie GmbH	Germany
Alcoa Deutschland GmbH	Germany
Alcoa Extrusions Hannover GmbH & Co. KG	Germany
Alcoa Chemie Nederland B.V.	Netherlands
Alcoa Moerdijk B.V.	Netherlands
Alcoa Packaging Machinery, Inc.	Delaware
ASC Alumina, Inc.	Delaware
B & C Research, Inc.	Ohio
Halethorpe Extrusions, Inc.	Delaware
H-C Industries de Mexico, S.A. de C.V.	Mexico
Northwest Alloys, Inc.	Delaware
Pimalco, Inc.	Arizona
Three Rivers Insurance Company	Vermont
Tifton Aluminum Company, Inc.	Delaware
Alcoa (Shanghai) Aluminum Products Company Limited	China
Capsulas Metalicas, S.A.	Spain
Gulf Closures W.L.L.	Bahrain
Shibazaki Seisakusho Limited	Japan
Tapoco, Inc.	Tennessee
Yadkin, Inc.	North Carolina

The names of certain subsidiaries and equity entities which, considered in the aggregate, would not constitute a significant

subsidiary, have been omitted from the above list.

Exhibit 23

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Aluminum Company of America on Form S-8 (Registration Nos. 33-22346, 33-24846, 33-49109, 33-60305, 333-00033 and 333-27903) and Form S-3 (Registration Nos. 33-60045 and 33-64353) of our reports dated January 8, 1998, except for Note V, for which the date is February 6, 1998, on our audits of the consolidated financial statements and financial statement schedule of Aluminum Company of America and consolidated subsidiaries as of December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997, which reports are incorporated by reference or included in this Form 10-K.

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

600 Grant Street
Pittsburgh, Pennsylvania
March 9, 1998

Exhibit 24

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned Directors of Aluminum Company of America (the "Company") hereby constitute and appoint RICHARD B. KELSON, ROBERT G. WENNEMER, EARNEST J. EDWARDS and DENIS A. DEMBLOWSKI, or any of them, their true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which said attorneys and agents, or any of them, may deem necessary or advisable or may be required to enable the Company to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations or requirements of the Securities and Exchange Commission in respect thereof, in connection with the registration under said Act of the Company's Annual Report on Form 10-K for 1997, including specifically, but without limiting the generality of the foregoing, power and authority to sign the name of the undersigned Directors of the Company to the Company's Annual Report on Form 10-K for 1997 to be filed with the Securities and Exchange Commission and to any instruments or documents filed as part of or in connection with any such Form 10-K; and the undersigned hereby ratify and confirm all that said attorneys and agents, or any of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have subscribed these presents on the date set opposite their names below.

/s/Kenneth W. Dam Kenneth W. Dam	January 9, 1998
/s/Joesph T. Gorman Joesph T. Gorman	January 9, 1998
/s/Judith M. Gueron Judith M. Gueron	January 9, 1998
/s/Sir Ronald Hampel Sir Ronald Hampel	January 9, 1998
/s/John P. Mulroney John P. Mulroney	January 9, 1998
/s/Sir Arvi Parbo Sir Arvi Parbo	January 9, 1998
/s/Henry B. Schacht Henry B. Schacht	January 9, 1998
/s/Forrest N. Shumway Forrest N. Shumway	January 9, 1998
/s/Franklin A. Thomas Franklin A. Thomas	January 9, 1998
/s/Marina v.N. Whitman Marina v.N. Whitman	January 9, 1998

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