

# Alcoa of Australia Limited

## 2018 Tax Transparency Report



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## Message from the Chairman



Alcoa of Australia Limited (Alcoa of Australia) has been a part of the Western Australian and Victorian landscape for more than five decades.

Since the pioneering days of the 1960s, thousands of people have proudly worked for the company, enhancing the communities where they live and work and contributing to a better life for their families.

Today, we continue to be an important contributor to Australia's economy. Our operations across the aluminium value chain provide stable employment for some 4,250 people, and more than 65 per cent of our total annual revenue stays in Australia through wages, purchasing, taxes, royalties, capital investment and dividends to Australian shareholders.

Our commitment to supporting employment and economic prosperity is further evidenced by our strong local procurement practices and decades-long employment and training programs.

Integral to Alcoa of Australia's longstanding business success is our dedication to the highest standards of corporate governance and our open approach to business conduct. This includes our well-regarded commitment to working with the Australian Tax Office (ATO).

In 2012<sup>1</sup>, Alcoa of Australia became the first company in the nation to enter into an Annual Compliance Agreement (ACA) with the ATO on four separate taxes. In 2018 a new approach involving the Comprehensive Risk Review (CRR) and Pre-lodgement Compliance Review (PCR) processes was adopted. These processes will continue to reinforce our strong commitment to meeting our tax obligations and constructive, transparent and real-time engagement with the ATO.

This report provides insight into our tax governance procedures and details financial and tax contribution information. During the 2018 calendar year, Alcoa of Australia and its subsidiaries recorded a net profit after tax of \$2,037.6 million; our income tax expense was \$864 million, resulting in an Effective Tax Rate of 29.78 per cent (referenced Table 4). As Alcoa of Australia continues to be in a tax payable position for 2018, this income tax expense will be paid in the form of cash to the ATO.

I am immensely proud to lead an organisation committed to excellence in governance, sustainability and innovation. We remain focused on ensuring our operations are internationally competitive so that we can continue to contribute to the Australian economy for many years to come.

**Michael Gollschewski**  
Chairman  
Alcoa of Australia Limited

<sup>1</sup> Note: all reference to years relate to calendar years ending 31 December

## About Alcoa of Australia

Alcoa of Australia is an Australian entity with operations that represent one of the world’s largest integrated bauxite mining, alumina refining and aluminium smelting systems.

Alcoa Australian Holdings Pty Ltd holds 60 per cent of the shares in Alcoa of Australia and Alumina Limited holds 40 per cent. Alcoa Australian Holdings Pty Ltd is ultimately 100 per cent held by Alcoa Corporation\*, a company resident in the United States of America and listed on the New York Stock Exchange. Alumina Limited is an Australian company listed on the Australian Securities Exchange.

Our principal operations include:

- Two bauxite mines in Western Australia (Huntly and Willowdale)
- Three alumina refineries in Western Australia (Kwinana, Pinjarra, Wagerup)
- One aluminium smelter in Victoria (Portland)\*\*
- Two dedicated port facilities in Western Australia (Kwinana and Bunbury)



Alcoa of Australia mines approximately 34 million metric tonnes of bauxite, refines approximately nine million tonnes of alumina and produces some 300,000 tonnes of aluminium per annum.

We produce almost 45 per cent of Australia’s alumina and approximately 19 per cent of Australia’s aluminium. Our alumina production in Western Australia accounts for approximately seven per cent of total world production. In 2018, annual exports were valued at \$6 billion.

### 2018 Contribution

Alcoa has a proud history in Australia, having contributed to the nation’s economy since 1963. Our activities add value to local, state and national economies at every stage of the aluminium production process.

In 2018, we proudly:

- Invested more than 75 per cent of our annual \$2.5 billion expenditure with 1,550 Australian suppliers.
- Employed 4,250 employees, predominantly in regional Australia, with \$668 million paid in wages and benefits.
- Invested \$4 million in community investment programs.

And through our world-class mine site rehabilitation and environmental programs, we are committed to the highest standards of environmental management including the re-establishment of a self-sustaining jarrah forest ecosystem.

<b>+\$12bn</b> INVESTED OVER 56 YEARS	<b>\$2.5bn</b> <b>+75%</b> ANNUAL EXPENDITURE LOCAL CONTENT
<b>+\$690m</b> PAID TO FEDERAL, STATE AND LOCAL GOVERNMENTS IN 2018	<b>1550</b> AUSTRALIAN BUSINESSES DIRECTLY SUPPORTED
<b>4250</b> EMPLOYEES	<b>+65%</b> ANNUAL REVENUE
<b>\$668m</b> WAGES & BENEFITS IN 2018	<b>\$6bn</b> ANNUAL EXPORTS
<b>+2000</b> APPRENTICES, TRAINEES AND GRADUATES TRAINED AND DEVELOPED	<b>\$4m</b> ANNUAL COMMUNITY INVESTMENT
<b>WORLD CLASS</b> REHABILITATION AND ENVIRONMENTAL MANAGEMENT	

Data represents 100% of Alcoa of Australia and Portland Aluminium Smelter's impacts.

\* Alcoa Corporation became an independent, publicly traded company on 1 November 2016 when it completed the separation from its parent company Alcoa Inc. (now named Arconic Inc.). For further information please visit <http://investors.alcoa.com/investor-story>.

\*\* Alcoa of Australia has a 55 per cent interest in the Portland Aluminium Smelter. Figures related to aluminium production represent 100 per cent of smelter output.

## Approach to tax governance

Alcoa of Australia's approach to taxation is to meet all our tax obligations in full compliance with the law. Our corporate tax processes closely follow our financial and ethical policies and guidelines. In addition, our finance and code of conduct policies provide robust guidelines for our tax professionals to follow.

The Alcoa of Australia board of directors are responsible for ensuring that a sound system of internal controls exist for tax governance purposes. The board receives assurances from Alcoa of Australia's Chairman (also President Alcoa Australia) regarding the operation and effectiveness of the company's internal controls in relation to tax, including its tax management framework.

We are working with the ATO to ensure the company's tax management framework is aligned with the ATO's Tax Risk Management and Governance Review Guide. This framework includes the following key attributes:

- Adherence to all applicable laws, regulations, disclosure requirements, accurate payment of taxes and timely lodgement of all compliance related requirements.
- Maintaining a constructive and open relationship with the ATO through transparency, co-operation and provision of supporting documentation for tax positions taken.
- A fully resourced Australian tax function.
- A formal self-assessment testing program for taxation in relation to roles, responsibilities, processes and systems, with external review by its auditors and reporting of test results to the board.
- Use of external tax advisers to review tax returns and provide advice on material transactions.
- Participation in the ATO's regular compliance review processes.

Our tax professionals provide proactive, efficient tax services to satisfy all income tax reporting and filing obligations in accordance with laws and regulations and to mitigate tax risk through engagement in relevant transparent audit programs.

Tax reviews are conducted in a conservative manner consistent with legislative requirements, using ATO guidance where available.

## Approach to engagement with the ATO

In line with Alcoa's values, we are open and transparent in our dealings with the ATO.

In 2012, Alcoa of Australia became the first company in Australia to voluntarily enter into an ACA with the ATO that covered all four taxes: income tax, Goods and Services Tax, Fringe Benefits Tax and excise. For 2018 Alcoa of Australia is moving to the CRR assurance process, and from 2019 it will be under the PCR assurance process. In addition, Alcoa of Australia is currently engaging with the ATO in relation to the pricing of certain historic third-party alumina sales. Alcoa of Australia is and remains committed to open engagement with the ATO, and to ensuring it reaches the right tax outcomes, and discloses material tax matters and uncertain tax positions.

Our aim under the CRR and PCR, as it was under the ACA, is to achieve these outcomes through early, tailored and transparent engagement with the ATO. In particular, the PCR approach adopted for future years provides the opportunity to engage in real-time reviews of any tax risks or disagreements, making it more likely that these will be identified and dealt with before we lodge our relevant tax returns. By combining this process with other tools, such as private binding rulings, Alcoa of Australia expects to achieve a high level of certainty that it complies with all its tax obligations.

## Tax contribution

During 2018, Alcoa of Australia paid \$678.7 million in Australian federal and state taxes.

**Table 1. Australian federal and state taxes paid during the income year ended 31 December 2018**

Corporate income tax	\$567.9 million
Employer taxes*	\$36.9 million
Royalties	\$73.9 million
<b>Total</b>	<b>\$678.7 million</b>

*\*Includes Fringe Benefits Tax and state-based Payroll Tax*

The amounts above exclude taxes collected by Alcoa of Australia and passed on to the ATO and state revenue offices, such as GST and Pay As You Go withholding on payments made to employees and contractors.

Corporate income tax paid during the year included 11 instalments paid on 2018 profits, one final instalment paid on 2017 profits and remaining taxes due in respect of the lodged 2017 income tax return.

## Disclosure to be made by Australian Tax Office

Each year the ATO discloses certain limited tax information for Alcoa of Australia. The disclosure for 2017 was made in December 2019. The disclosure is outlined in Table 2 below. Tax payable is taxable income multiplied by 30 per cent, reduced by research and development and foreign income tax offsets. This amount is different to the tax contribution in Table 1 because the 2017 tax payable was paid partly in 2017 and partly in 2018 under normal payment rules.

**Table 2. ATO disclosure for the income year ended 31 December 2017**

Gross income	\$4,606.1 million
Taxable income	\$1,474.3 million
Tax payable	\$438.8 million
ABN	93 004 879 298

### International related party dealings

Alcoa of Australia's total revenue from the sale of goods was \$6,140.4 million and included alumina sales of \$2,199.1 million to Alcoa Corporation's subsidiaries. Alcoa Corporation's subsidiaries acquire alumina from many locations for processing into aluminium at its smelters globally or to market to third party customers.

There were also purchases and sales of other goods and services from and to Alcoa Corporation's subsidiaries as outlined in Table 3.

**Table 3. Purchases and sales of goods and services from and to Alcoa Corporation's subsidiaries during the income year ended 31 December 2018**

	\$ million	Nature of main product/service
Purchase of product	46.2	Raw materials
Purchase of services	93.6	Insurances, technical and management services, IT / transactional services, stock option recharges relating to shares issued to Alcoa of Australia employees
Services provided	46.6	Logistics, technical services

These purchases and sales were made on an arm's length basis in accordance with the ATO and Organisation for Economic Co-operation and Development Guidelines, reflecting normal market pricing and commercial terms.

During the year there were no loans from related parties.

In line with Alcoa of Australia's commitment to tax transparency, details of purchases and sales with related parties are made available to the ATO as part of our ongoing review arrangements with the ATO. Business conducted between Alcoa of Australia and its shareholders is also governed by the Charter of the Alcoa World Alumina and Chemicals Strategic Council, which requires that such business be conducted on an arm's length basis.

## Reconciliations of Australian accounting profit to tax expense and income tax payable

Income tax expense, reported on a company's income statement, is calculated by multiplying accounting profit for the year, adjusted for non-temporary differences, by the relevant Australian corporate tax rate, being 30 per cent.

Below is a reconciliation of Alcoa of Australia's accounting profit to current income tax paid or payable.

Income tax paid/payable is calculated by multiplying accounting profit for the year, adjusted for both temporary and non-temporary differences, by the 30 per cent Australian corporate tax rate. Current income tax paid/payable represents the estimated income tax paid/payable to the ATO.

**Table 4. Reconciliations**

	2018 \$ million
Operating profit / (loss) before tax	2,901.6
Prima facie tax expense (at 30%)	870.5
<b>Amounts not recognised in profit but included in taxable income</b>	
- Research and development concession	(1.0)
<b>Amounts recognised in profit but not included in taxable income</b>	
- Non-deductible entertainment expenditure	0.4
- Other	1.8
- Consumables, stores and spares inventory movement	(10.4)
- Difference between book and tax depreciation deductions for property, plant and equipment	7.7
- Provision for rehabilitation and closure cost movements	0.9
- Accounting for embedded derivatives	(1.6)
- Provision for employee benefit movements	3.5
- Utilisation of carried forward capital losses	0.0
- Gas transportation costs - difference in book and tax accounting values	(2.7)
Current tax expense (income taxes payable for the current year)	869.1
Deferred tax expense	1.9
Write back Deferred Tax Asset/Overprovision	(7.0)
Income tax expense (as per consolidated income statement)	864.0
<b>Income taxes payable</b>	
Income taxes payable at beginning of financial year	196.3
Tax return adjustments and other	(6.8)
Less: income tax paid during the year	(567.9)
Income taxes payable for the current year	869.1
Income taxes payable as at 31 December 2018	490.7
<b>Accounting and Tax Transparency Code effective tax rate</b>	
Income tax expense	864.0
Accounting profit before tax	2,901.6
Tax rate	29.78%