



2019 Tax Transparency Report

Alcoa of Australia Limited



Contents

About this report	3
Message from the Chairman	4
About Alcoa in Australia	5
2019 value creation	6
Approach to tax governance	7
Approach to engagement with the Australian Taxation Office	8
Tax contribution	9
Australian corporate tax transparency disclosures made by the Australian Tax Office	9
International related party dealings	10
Reconciliations of Australian accounting profit to tax expense and income tax payable	11
Basis of preparation	13
Glossary of terms	14

We acknowledge the Traditional Custodians of the lands where we operate, the Noongar, Wadawurrung and Gunditjmara Peoples and pay our respects to their Elders, past, present and emerging.



About this report

The purpose of the Tax Transparency Report (Report) is to provide an overview of the 2019 tax contribution made by Alcoa of Australia Limited (Alcoa Australia).

It provides information in relation to our tax governance framework, policies and processes and our international related party dealings. It also provides reconciliations of income tax expense, income tax payable and the effective tax rate to further explain Alcoa Australia's tax contribution.

The Report has been prepared with consideration to the disclosure requirements of the Board of Taxation's Tax Transparency Code (TTC) for large businesses. Adoption of the TTC is voluntary for taxpayers. Alcoa Australia welcomes transparency on its tax payments and disclosures and has been a signatory to the TTC since 2016.

Information regarding the approach taken to compile the data presented in the Report can be found in the 'Basis of preparation' section. A description of technical terms used in this Report has been included in the 'Glossary of terms'.



Message from the Chairman



For nearly six decades Alcoa Australia has been synonymous with operational excellence as we have developed our bauxite, alumina and aluminium businesses in Western Australian and Victoria.

Thousands of people have been integral to our success through their commitment, drive and ingenuity in the workplace. Proudly, their efforts and the company's achievements have benefitted not only our employees, but their families and the communities in which they live.

In 2019, we continued to be an important contributor to Australia's economy. More than 85 per cent of our total annual revenue stayed in Australia through wages, purchasing, taxes, royalties, capital investment and dividends to our Australian shareholder Alumina Limited.

Our commitment to employment and economic prosperity is highlighted by our strong local procurement practices. In 2019, more than \$2 billion, or 83 per cent of our expenditure, directly supported 1,425 Australian businesses.

Integral to Alcoa Australia's longstanding success is our commitment to the highest standards of corporate governance and our open approach to business conduct. This report provides insight into our tax governance procedures and details financial and tax contribution information.

During the 2019 calendar year, Alcoa Australia and its subsidiaries recorded a net profit after tax of \$1,231.2 million; our income tax expense was \$528.1 million, resulting in an Effective Tax Rate of 30.02 per cent (referenced Table 2), in line with Australia's corporate tax rate of 30 per cent. As Alcoa Australia continued to be in a tax payable position for 2019, the current tax expense has been paid in full to the Australian Taxation Office (ATO).

As we look ahead, and guided by our three strategic priorities, reduce complexity, drive returns and advance sustainably, we remain focused on ensuring our operations can continue to be internationally competitive so we can continue contributing to Australia and Australians for years to come.

A handwritten signature in black ink, appearing to read 'Michael Gollschewski'. The signature is written in a cursive, flowing style.

Michael Gollschewski
Chairman, Alcoa Australia Limited

About Alcoa in Australia

Alcoa Australia's operations 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 Australia and Alumina Limited holds 40 per cent. Alcoa Australian Holdings Pty Ltd is ultimately 100 per cent held by Alcoa Australia 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 and Wagerup)

One aluminium smelter in Victoria (Portland)*

Two dedicated port facilities in Western Australia (Kwinana and Bunbury)

*Alcoa Australia owns 55% of Portland Aluminium Smelter; reference to smelter production represents 100% of smelter output.



Alcoa Australia:

Mines approximately
37 million tonnes of bauxite per annum

Refines approximately
9 million tonnes of alumina per annum

Produces some
300,000 tonnes of aluminium per annum

Produces almost
45% of Australia's alumina

Produces approximately
19% of Australia's aluminium

Our alumina production in Western Australia accounts for approximately
7% of total world production

2019 value creation

Alcoa Australia 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.

2019 contribution to Australia

86% of revenue stayed in Australia

via wages, local purchasing, taxes, royalties and shareholder dividends to our Australian shareholder Alumina Limited

83% local content

\$2.1 billion invested with 1425 Australian suppliers

+\$12 billion

invested over 57 years

\$1.1 billion

paid to federal, state and local governments

\$5 billion

in exports

\$4.7 million

community investment

World class rehabilitation

and environmental management

4250 employees,

predominately in regional Australia

\$681 million

paid in wages and benefits

+2000

apprentices, trainees and graduates developed over 57 years



Approach to tax governance

Alcoa Australia's approach to taxation is to meet all our tax obligations in full compliance with the law and ensure all cash payments are accurate and timely. We achieve this through the following practices, processes and commitments:

- We adhere to all applicable laws, regulations and disclosure requirements.
- The Alcoa Australia Board of Directors (Board) are responsible for ensuring that a sound system of internal controls exist for tax governance purposes. The Board receives assurances from Alcoa 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.
- 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.
- We have in place a whistleblower policy and procedures for the reporting of concerns about unlawful or unethical behaviour and strongly encourage the reporting of all instances of actual or suspected misconduct, including any breach of the law or **Alcoa Code of Conduct**. Various avenues allow employees, business partners and members of the public to report violations, including any misconduct in respect of tax matters. Reporting can be made through the **Integrity Line**.
- Alcoa Australia's tax controls are regularly tested through a formal self-assessment program. The results of the program are reviewed by Alcoa Australia's auditors and are reported to the Board.
- We continually work with the ATO to ensure the company's tax management framework is as closely aligned as possible with the **ATO's Tax Risk Management and Governance Review Guide**.
- A constructive and open relationship with the ATO has always been important to Alcoa Australia and is achieved through participation in the ATO's regular compliance review processes focusing on transparency, co-operation and provision of supporting documentation for material tax positions taken.
- Alcoa Australia's international related party transactions are made with consideration of the arm's length principles contained in the Organisation for Economic Co-operation and Development (OECD) guidelines and applicable tax laws.
- A fully resourced and experienced Australian tax function is maintained to allow our tax professionals to provide proactive, accurate and efficient tax services to ensure satisfaction of all income tax reporting and filing obligations and to mitigate tax risk through early ATO engagement. Adopted tax positions and reviews are conducted in a manner consistent with legislative requirements, using ATO guidance where available.
- External tax advisers are engaged to review tax returns and provide advice on material or complex transactions.
- Alcoa Australia voluntarily participates in the TTC.

Approach to engagement with the Australian Taxation Office

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

In 2012, Alcoa Australia became the first company in Australia to voluntarily enter an Annual Compliance Arrangement (ACA) with the ATO that covered all four taxes: income tax, Goods and Services Tax, Fringe Benefits Tax (FBT) and excise.

For 2019, Alcoa Australia moved from undertaking its ATO review through the Comprehensive Risk Review (CRR) assurance framework to that of the Pre-lodgement Compliance Review (PCR) assurance framework.

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

Where Alcoa Australia disagrees with the ATO on the interpretation or application of tax law, we will defend our position when we believe we have a basis (or even a strong basis) for doing so. Those bases may, or may not be, legal in nature.

Currently, Alcoa Australia is engaging with the ATO in relation to the pricing of certain historic third-party alumina sales. In July 2020, the ATO issued Notices of Assessment in respect of this matter asserting claims for additional income tax payable of approximately \$214 million and interest charges of approximately \$707 million. In September 2020, the ATO issued a position paper with its preliminary view on the imposition of administrative penalties related to this matter, which proposed that penalties of approximately \$128 million should apply.

Alcoa Australia maintains the sales subject to the ATO's review were the result of arm's length transactions by Alcoa Australia and were made at arm's length prices consistent with the prices paid by other third-party alumina customers. Alcoa Australia does not agree with the ATO's position and will continue to defend this matter and pursue all available dispute resolution methods, up to and including the filing of court proceedings. As Alcoa Australia considers it is more likely than not that its tax position will be sustained, we have not recognised any tax expense in relation to this matter.

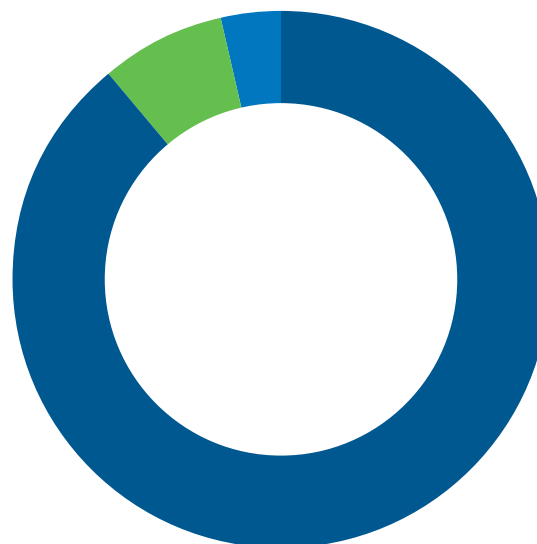
Alcoa Australia remains committed to open engagement with the ATO, and to ensuring it reaches the right tax outcomes, and discloses material tax matters and uncertain tax positions when required.

Tax contribution

Alcoa Australia’s tax contribution is significant with \$1,097 million in taxes borne (Chart 1).

CHART 1. AUSTRALIAN FEDERAL AND STATE TAXES BORNE BY ALCOA AUSTRALIA IN 2019

- Income Tax*
- Royalties
- Employer Taxes**



* Corporate income tax paid during the year included amounts that were related to the current and prior year.

** Employer taxes comprise payroll and employer taxes payable in the capacity as an employer, such as FBT and payroll tax.

Australian corporate tax transparency disclosures made by the Australian Tax Office

Each year the ATO discloses certain tax information relevant to large corporate taxpayers.

Since our 2018 Tax Transparency Report was published, the ATO has disclosed the information outlined in Table 1.

The tax payable amount is calculated from Alcoa Australia’s taxable income multiplied by 30 per cent, reduced by research and development and foreign income tax offsets.

TABLE 1. ATO DISCLOSURE FOR THE YEAR ENDED 31 DECEMBER 2018

Disclosure items	\$ Million
Gross income	\$6,205.80
Taxable income	\$2,868.90
Tax payable	\$857.50
Alcoa Australia’s ABN	93 004 879 298

International related party dealings

Alcoa Australia transacts with its international related parties both in terms of revenue and expenditure. All related party transactions were made on an arm's length basis in consideration of the ATO and OECD guidelines, reflecting normal market pricing and commercial terms.

When required, Alcoa Australia obtains independent advice from transfer pricing experts to ensure the related party transactions are compliant with Australian tax and legal requirements and are priced on an arm's length basis, with appropriate supporting documentation, as required by Australian tax law.

In line with Alcoa Australia's commitment to tax transparency, details of purchases and sales with related parties are made available to the ATO upon request as part of our ongoing annual review arrangements.

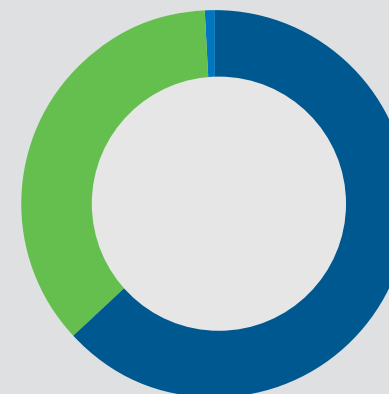
Transactions between Alcoa Australia and its shareholders are also governed by the **Amended and Restated Charter of the Strategic Council**, which requires that such business be conducted on an arm's length basis.

Chart 2 summarises revenue generated by Alcoa Australia from sales and services to international related parties and sales to third party customers. Alcoa Australia's total revenue from the sale of goods and services was \$5,082.4 million and included sales and services of \$1,890.7 million to international related parties.

Chart 3 summarises Alcoa Australia's international related party expenditure totalling \$119.7 million relative to total expenditure of \$3,345.9 million.

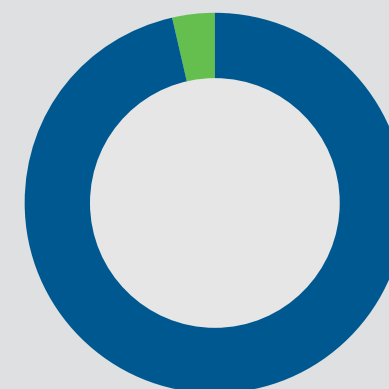
Alcoa Australia has a related party lending facility within the Alcoa World Alumina and Chemicals group. The facility has been established at commercial terms and an arm's length interest rate has been applied to all lending. At 31 December 2019 there were no outstanding loan balances.

CHART 2. ALCOA AUSTRALIA'S INTERNATIONAL RELATED PARTY SALES AND SERVICES REVENUE IN 2019



- Third Party Revenue Sales
- Services to International Parties
- Sales to International Related Parties

CHART 3. ALCOA AUSTRALIA'S INTERNATIONAL RELATED PARTY EXPENDITURE IN 2019



- Total Expenditure
- International Related Party Expenditure

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

Table 2 provides key reconciliations including Alcoa Australia's accounting profit to current income tax expense, tax paid/payable and effective income tax rate.

TABLE 2. RECONCILIATIONS

Reconciliations	2019 \$ Million
Income Tax Expense	
Current tax on profits for the year	544.0
Deferred tax (refer deferred tax expense below)	(15.9)
	528.1
Income tax expense is attributable to:	
– Profit from continuing operations	528.1
– Deferred income tax (revenue) expense included in income tax expense comprises: (Decrease)/increase in deferred tax liabilities	(15.9)
Income Tax Expense to Prima Facie Tax Payable	
Profit from continuing operations before income tax expense	1,759.3
Tax at the Australian tax rate of 30%	527.8
Tax effect of amounts which are not deductible (taxable) in calculating current taxable income	
– Depreciation and amortisation	0.3
– Research and development deductions	(0.7)
– Non-deductible expenditure	0.4
– Book to tax adjustments (temporary)	15.9
Current tax expense (income tax payable for 2019)	543.7
Deferred tax expense	(15.9)
Over / (under) provision in previous years	0.3
Income Tax Expense	528.1
Tax Expense Relating to Items of Other Comprehensive Income	
Cash Flow Hedges	3.9
Actuarial gains on retirement benefit obligation	5.0
	8.9

Reconciliations of Australian accounting profit to tax expense and income tax payable (continued)

(TABLE 2 CONTINUED)

Deferred Tax Expense

Movements in temporary differences were attributable to:

- Consumables	(7.9)
- Inventories	(1.1)
- Gas transportation agreement	3.0
- Projects	1.1
- PPE	(8.6)
- Employee benefits	(10.0)
- Provisions	12.3
- Embedded derivatives	1.2
- Other	(5.9)
	(15.9)

Income Tax Payable

Income taxes payable / (refundable) at the beginning of the financial year	490.7
Tax return adjustments and other payable / (refundable)	(10.0)
Net income tax (paid) / refunded during the year	(975.7)
Income taxes payable / (refundable) for the current year	554.0
Income taxes payable / (refundable) as at 31 December 2019	59.0

Australian Effective Tax Rate

Income tax expense	528.1
Accounting profit before tax	1,759.3
Effective tax rate	30.02%

Basis of preparation

Term	Description
Collective expressions	The use of collective expressions such as “we”, “us”, “our”, “the company”, are used where reference is made, in general, to Alcoa Australia and its subsidiaries. The use of any of those terms is for convenience only and used where no useful purpose is served by identifying any particular company or companies.
Currency	All the amounts included in this Report are disclosed in Australian dollars.
Income tax paid	Income tax paid is the cash tax paid to the ATO during 2019.
Information sources	Where possible, the amounts included in this Report are sourced from Alcoa Australia’s 31 December 2019 audited financial information.
Portland Aluminium Smelter	Alcoa Australia has a 55 per cent ownership investment in the Portland Aluminium Smelter, located in Victoria, Australia. All amounts referenced in the Report are at the 55 per cent ownership level, unless otherwise stated.
Reference to year end	All period references in this Report are to the year ended 31 December 2019, unless otherwise stated.

Glossary of terms

Term	Description
Annual Compliance Arrangement (ACA)	An administrative arrangement developed by the ATO to manage the compliance relationship with a taxpayer in an open and transparent environment to identify tax issues early and to avoid costly audits and tax disputes.
Australian Voluntary Tax Transparency Code (TTC)	A set of voluntary principles and minimum standards developed by the Board of Taxation to guide large businesses on public disclosure of tax information.
Comprehensive Risk Review (CRR)	This is an ATO review product which has a broad scope and involves ongoing dialogue and information gathering to assess and treat identified tax risks.
Corporate income taxes paid / (refunded)	Payments to (and refunds from) the ATO based on taxable profits per legislated income tax rules.
Current tax	The corporate income tax due in respect of taxable profits of an accounting period.
Deferred tax	The corporate income tax due in respect of temporary differences between accounting values and tax bases.
Effective tax rate	Income tax expense / (benefit) divided by profit / (loss) before income tax.
Employer taxes	This includes FBT remitted to the ATO and payroll tax remitted to the Western Australian and Victorian State Revenue Offices.
Income tax expense / (benefit)	The income tax expense (or benefit) for the period is the tax payable on the current period's taxable income based on the Australian income tax rate adjusted for changes in deferred tax assets and liabilities attributable to temporary differences.

Glossary of terms

Term	Description
Non-temporary differences	Differences between taxable income / (loss) and profit / (loss) before tax in a given period which will never reverse in that or a later period.
Payment	An amount paid in money to the ATO.
Pre-lodgement Compliance Review (PCR)	This is an ATO review product used mainly for large taxpayers. It aims to assure the right tax outcomes, and identify and manage material tax risks through early, tailored and transparent engagement between the taxpayer and the ATO.
Profit / (loss) before income tax	Accounting profit / (loss) for a period before deducting a charge for corporate income taxes.
Report	The Report has been prepared for Alcoa Australia's 2019 financial year, being 1 January 2019 to 31 December 2019.
Temporary differences	Difference between the carrying amount of an asset or liability in the statement of financial position and its tax base.

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