



2020 Tax Transparency Report

Alcoa of Australia Limited



Contents

About this report	3
Year in review	4
About Alcoa in Australia	5
2020 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 2020 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'.



Year in review



We are immensely proud of our decades long history in mining bauxite, refining alumina and developing aluminium - a vital component of many everyday products and critical to a decarbonised future.

Needless to say, COVID19 presented the world with unprecedented challenges that impacted all businesses in some way. Thanks to a rapid, and comprehensive action plan put in place by our Global Crisis Response team, all locations continued to operate without interruption, with our workforce adapting as required to ensure they could overcome obstacles and, in many cases, attain new records and milestones.

Throughout 2020, Alcoa continued to make significant economic, social and environmental contributions to Australia and, more specifically, to the communities in which we operate. A total of 83 per cent of 2020 revenue stayed in Australia via wages, local purchasing, taxes, royalties and shareholder dividends. That included \$706 million paid in wages and benefits, and \$340 million paid to federal, state and local governments throughout the year.

We grew our support for local businesses, with \$2.2 billion in expenditure across 1,343 Australian businesses, which equated to 85 per cent of total expenditure. We also invested \$4.6 million into the communities in which we operate, supporting more than 250 partner organisations.

Our commitment to transparency across our global and Australian organisation, and to ensuring we maintain the highest levels of corporate governance, are core to the way we operate.

Over the 2020 calendar year, Alcoa Australia and its subsidiaries recorded a net profit after tax of \$616.3 million. Our income tax expense was \$264.8 million, resulting in an Effective Tax Rate of 30.05 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 2020, the current tax expense has been paid in full to the Australian Taxation Office (ATO).

We maintain our focus on continuous improvement, ensuring we continue striving to operate in safe, sustainable and innovative ways to deliver value and benefit to all Australia well into the future.

About Alcoa in Australia

Alcoa Australia has been producing aluminium for almost 60 years and our operations represent the entire value chain from bauxite mining to alumina refining and aluminium smelting.

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 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 about
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

2020 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.

2020 contribution to Australia

83% of revenue stayed in Australia

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

85% local content

\$2.2 billion invested with 1343 Australian suppliers

\$14.5 billion

invested over 58 years

4370 employees,

predominately in regional Australia

\$4.6 million

community investment +250 community partners supported

\$340 million

paid to federal, state and local governments

\$4 billion

in exports

\$706 million

paid in wages and benefits

+2000

apprentices, trainees and graduates developed over 58 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 satisfy all cash payments in an accurate and timely manner. We endeavour to achieve this through the following practices, processes and commitments:

- We strive to adhere to all applicable laws, regulations and disclosure requirements.
- The Alcoa Australia Board of Directors (Board) oversee a sound system of internal controls for tax governance purposes. Alcoa Australia's Chairman (also President Alcoa Australia) reports to the Board 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 so the company's tax management framework is as closely aligned as reasonably practical 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. We work towards this 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 in line with the objectives to satisfy 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. This approach continued for 2020.

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 for doing so.

Alcoa Australia continues to openly engage with the ATO in relation to the pricing of certain historic third-party alumina sales. In July 2020, the ATO issued Notices of Assessment (Notices) 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 Alcoa Australia objected to the Notices. The ATO did not provide an objection decision by February 2022, so Alcoa Australia submitted statutory notices requiring a decision by the ATO within 60 days. The ATO responded disallowing the objections.

In April 2022, Alcoa Australia filed proceedings in the Australian Administrative Appeals Tribunal to contest the Notices.

In September 2020, the ATO issued a position paper with its preliminary view on the imposition of administrative penalties, which proposed penalties of approximately \$128 million should apply. Alcoa Australia submitted a response to the ATO's position paper in November 2020 (on penalties) and December 2020 (on interest). The ATO is yet to issue a formal response to these two submissions.

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 and all court proceedings.

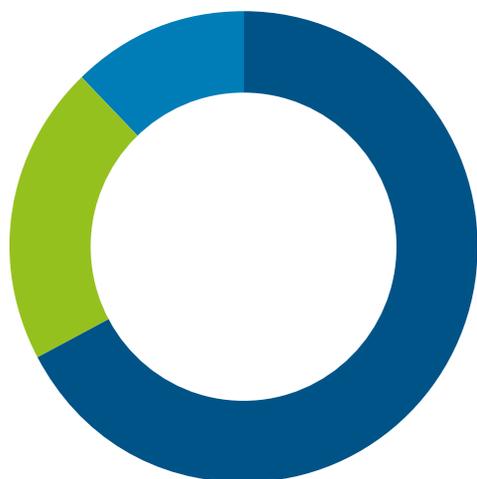
As Alcoa Australia considers it is more likely than not that its tax position will be sustained, no tax expense has been recorded in relation to this matter. A tax deduction has been taken for the interest charged by the ATO in July 2020, as well as interest that has accrued since.

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 \$328 million in taxes borne (Chart 1).

CHART 1. AUSTRALIAN FEDERAL AND STATE TAXES BORNE BY ALCOA AUSTRALIA IN 2020



- 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 the last Report was published, the ATO has disclosed the information for the 2019 and 2020 years. This has been provided in Table 1 and Table 2 respectively.

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 2019

Disclosure items	\$ Million
Gross income	\$5,119.39
Taxable income	\$1,846.02
Tax payable	\$553.80
Alcoa Australia's ABN	93 004 879 298

TABLE 2. ATO DISCLOSURE FOR THE YEAR ENDED 31 DECEMBER 2020

Disclosure items	\$ Million
Gross income	\$4,225.11
Taxable income	\$226.34
Tax payable	\$67.86
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.

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 \$4,161.6 million and included sales and services of \$1,451.2 million to international related parties.

Chart 3 summarises Alcoa Australia's international related party expenditure totalling \$88.6 million relative to total expenditure of \$3,286.6 million.

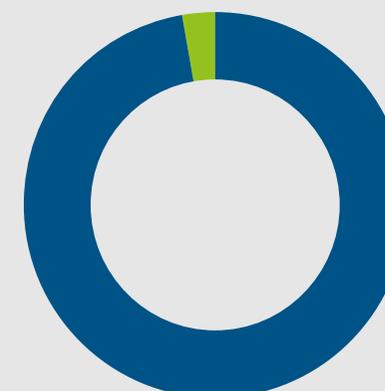
Alcoa Australia has a related party lending facility within the Alcoa World Alumina and Chemicals group. The facility has been established at commercial terms and an arm's length interest rate has been applied to all lending. At 31 December 2020 there were no outstanding loan balances.

CHART 2. ALCOA AUSTRALIA'S INTERNATIONAL RELATED PARTY SALES AND SERVICES REVENUE IN 2020



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

CHART 3. ALCOA AUSTRALIA'S INTERNATIONAL RELATED PARTY EXPENDITURE IN 2020



- 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	2020 \$ Million
Income Tax Expense	
Current tax on profits for the year	285.5
Deferred tax (refer deferred tax expense below)	(20.7)
	264.8
Income tax expense is attributable to:	
– Profit from continuing operations	264.8
– Deferred income tax (revenue) expense included in income tax expense comprises: (Decrease)/increase in deferred tax liabilities	(20.7)
Income Tax Expense to Prima Facie Tax Payable	
Profit from continuing operations before income tax expense	881.1
Tax at the Australian tax rate of 30%	264.3
Tax effect of amounts which are not deductible (taxable) in calculating current taxable income	
– Depreciation and amortisation	0.3
– Research and development deductions	(1.2)
– Non-deductible expenditure	0.2
– Book to tax adjustments (temporary)	20.7
Current tax expense (income tax payable for 2020)	284.3
Deferred tax expense	(20.7)
Over / (under) provision in previous years	1.2
Income Tax Expense	264.8
Tax Expense Relating to Items of Other Comprehensive Income	
Cash Flow Hedges	(14.9)
Actuarial gains on retirement benefit obligation	(8.3)
	(23.2)

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	(9.8)
– Inventories	0.4
– Gas transportation agreement	3.9
– Projects	3.0
– PPE	(0.9)
– Employee benefits	(3.2)
– Provisions	9.5
– Embedded derivatives	0.9
– Other	(5.5)
	(20.7)

Income Tax Payable

Income taxes payable / (refundable) at the beginning of the financial year	59.6
Tax return adjustments and other payable / (refundable)	0.3
Net income tax (paid) / refunded during the year	(114.4)
Income taxes payable / (refundable) for the current year	285.1
Tax effect of ATO penalty interest	(219.6)
Income taxes payable / (refundable) as at 31 December 2020	11.0

Australian Effective Tax Rate

Income tax expense	264.8
Accounting profit before tax	881.1
Effective tax rate	30.05%

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 2020.
Information sources	Where possible, the amounts included in this Report are sourced from Alcoa Australia’s 31 December 2020 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 2020, 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 2020 financial year, being 1 January 2020 to 31 December 2020.
Temporary differences	Difference between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Alcoa of Australia Limited

Corporate Office

PO Box 252

Applecross,

Western Australia, 6953

alcoaofaustralia@alcoa.com.au

www.alcoa.com/australia