

# Alcoa of Australia Limited

## 2017 Tax Transparency Report



**Alcoa**



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## Message from the Chairman and Managing Director

For 55 years, Alcoa of Australia Limited (Alcoa of Australia) has been an important contributor to Australia's economy. Our operations across the aluminium value chain provide stable employment for some 4,275 people, predominately in regional Western Australia and Victoria. Our commitment to supporting domestic employment and economic prosperity is further evidenced by our strong local procurement practices.

We're proud that 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.

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 strong history of cooperation with the Australian Tax Office (ATO). In 2012, Alcoa of Australia became the first company in the nation to enter into an Annual Compliance Agreement with the ATO on four separate taxes and last year we published our inaugural Tax Transparency Report.

In addition to providing insights to our tax governance procedures, this report details valuable financial and tax contribution information. During the 2017 calendar year, Alcoa of Australia and its subsidiaries recorded a net profit after tax of \$1,090 million. Income tax expense was \$456.6 million, resulting in an Effective Tax Rate of 29.5 per cent (referenced Table 4).

At Alcoa of Australia, we are committed to the continued sustainable operation of our business so that we remain internationally competitive and a valued contributor to the economic vibrancy of the communities where we operate and beyond.

**Michael Parker**  
**Chairman and Managing Director**  
**Alcoa of Australia Limited**

## 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.

Alcoa of Australia's activities add value to the nation's local, state and national economies including approximately 4,275 direct jobs, predominantly in regional Australia.

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 of Australia mines approximately 36 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 13 per cent of Australia's aluminium. Our alumina production in Western Australia accounts for approximately seven per cent of total world production.

\* 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 is responsible for ensuring that a sound system of internal controls exists for tax governance purposes. The board receives assurances from the Managing Director and the Finance Director regarding the operation and effectiveness of the company's internal controls in relation to tax, including its tax management framework.

The company's tax management framework is aligned with the ATO's Tax Risk Management and Governance Review Guide and includes the following key attributes:

- 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 Annual Compliance Arrangement (discussed below)

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

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

## Approach to engagement with the ATO

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

An ACA is premised on sound governance of tax risks and full disclosure when dealing with the ATO. It involves negotiating a joint 'terms of arrangement' which details the obligations of both the taxpayer and the ATO regarding tax compliance.

Under the ACA, Alcoa of Australia commits to disclose material tax matters and uncertain tax positions to the ATO. Alcoa's Finance Director has provided the ATO with a declaration stating the company has strong corporate governance processes supporting tax compliance and confirms its tax management framework is aligned with the better practices set out in the ATO's Tax Risk Management and Governance Review Guide.

## Tax contribution

During the 2017 income year, Alcoa of Australia paid \$392.9 million in Australian federal and state taxes.

**Table 1. Australian federal and state taxes paid during the income year ended 31 December 2017**

Corporate income tax	\$283.7 million
Employer taxes*	\$36.9 million
Royalties	\$72.3 million
<b>Total</b>	<b>\$392.9 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 includes 11 instalments paid on 2017 profits, one final instalment paid on 2016 profits and remaining taxes due in respect of the lodged 2016 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 the income year ended 31 December 2016 will be made in December 2018. The expected 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 2016 tax payable was paid partly in 2016 and partly in 2017 under normal payment rules.

**Table 2. Expected ATO disclosure for the income year ended 31 December 2016**

Gross income	\$3,416.2 million
Taxable income	\$659.8 million
Tax payable	\$192.5 million
ABN	93 004 879 298

## International related party dealings

Alcoa of Australia's total revenue from the sale of goods was \$4,541.8 million and included alumina sales of \$1580.5 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 2017 as reported in the Statutory Accounts**

	\$ million	Nature of main product/service
Purchase of product	101.3	Raw materials
Purchase of services	35.2	Insurances, technical and management services, IT / transactional services, stock option recharges relating to shares issued to Alcoa of Australia employees
Services provided	34.5	Logistics, technical services

These purchases and sales were made on an arm's length basis.

During the year there were no loans from related parties.

Both purchases and sales with related parties are reviewed by the ATO as part of the ACA arrangement. 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

<b>Table 4. Reconciliations</b>	<b>2017 \$ million</b>
Operating profit / (loss) before tax	1546.6
Prima facie tax expense (at 30%)	464.0
<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	0.7
- Amortisation of Government Grant	(5.0)
- Other	(0.9)
- Consumables, stores and spares inventory movement	(14.3)
- Difference between book and tax depreciation deductions for property, plant and equipment	6.4
- Provision for rehabilitation and closure cost movements	(5.5)
- Accounting for embedded derivatives	6.6
- Provision for employee benefit movements	(3.4)
- Utilisation of carried forward capital losses	0.0
- Gas transportation costs - difference in book and tax accounting values	(3.0)
Current tax expense (income taxes payable for the current year)	444.6
Deferred tax expense	19.1
Write back Deferred Tax Asset/Overprovision	(7.1)
Income tax expense (as per income statement)	456.6
<b>Income taxes payable</b>	
Income taxes payable at beginning of financial year	44.1
Tax return adjustments and other	(8.7)
Less: income tax paid during the year	(283.7)
Income taxes payable for the current year	444.6
Income taxes payable as at 31 December 2017	196.3
<b>Accounting and Tax Transparency Code effective tax rate</b>	
Income tax expense	456.6
Accounting profit before tax	1546.6
Tax rate	29.52%