

Alcoa of Australia Ltd Taxation Assessments

In its 2019 Annual Report, Alumina Limited (**Alumina**) noted that the Australian Taxation Office (**ATO**) has undertaken a transfer pricing examination in respect of certain historical third-party alumina sales made by Alcoa of Australia Limited (**AoA**) over a 20 year period. Alumina also noted that, as a result of that examination, the ATO had issued a statement of audit position (**SOAP**) to AoA. The SOAP proposed adjustments that would result in additional income tax payable by AoA of approximately A\$212 million, exclusive of interest and penalties.

The following update is provided today by Alumina on this matter:

- The SOAP was the subject of an internal review process within the ATO. The ATO has completed that process, and has now issued AoA with Notices of Assessment (the **Notices**) in respect of this matter. The Notices assert claims for additional income tax payable by AoA of approximately A\$214 million, which is approximately A\$2 million higher than the amount previously reported by Alumina.
- The Notices also include claims for compounded interest on the primary tax amount totalling approximately A\$707 million. The ATO said that it will invite AoA to provide grounds to support a remission of the interest charges and Alumina understands AoA intends to make submissions to the ATO that the interest amount should be remitted (i.e. should not be fully payable).
- The ATO is also expected to assess administrative penalties and has informed AoA that its proposed position will be communicated in August 2020. AoA expects to have an opportunity to respond to the ATO's proposed position prior to receiving a formal penalty assessment. The ATO has not indicated the amount of administrative penalties it proposes to apply in this matter, and AoA is not in a position to estimate the amount, if any, at this time.
- In accordance with the ATO's dispute resolution practices, AoA expects to pay 50% of the assessed primary income tax amount (exclusive of interest and any penalties), being approximately A\$107 million, out of cash flows in the third quarter of 2020. In exchange, the ATO is not expected to seek further payment prior to final resolution of the matter. This will reduce Alumina's share of AWAC distributions in August 2020 by approximately USD28m.
- AoA's obligation to make any further payment of this primary tax amount, or payment of any penalty or interest amount advised by the ATO, will be determined through the objection and court processes available to AoA. If AoA is ultimately fully successful, the 50% part-payment to the ATO would be refunded. Further interest on the unpaid amounts will continue to accrue during the dispute.
- Alumina (as the owner of 40% of the capital of AoA) considers that the relevant historical alumina sales (which are the subject of the transfer pricing review and Notices, and were ultimately to Aluminium Bahrain B.S.C.) were the result of arm's length dealings by AoA, and made at arm's length prices to an unrelated third party that were consistent with the sales prices paid by other third party alumina customers at the relevant time. Alumina notes that the ATO is seeking to assess tax on sales revenue which it contends that AoA should have received, rather than the amounts actually received by AoA. Neither AoA nor any related entity received any benefit other than the sales revenue received over the relevant period from an unrelated party.
- AoA will defend its position in respect of the ATO's Notices (and the associated interest claim and any penalty assessed), and pursue all available dispute resolution methods, up to and including the filing of court proceedings. No tax expense has been recognised by AoA in relation to this matter, and the payment will be recorded as a prepaid tax asset on its balance sheet.
- Alumina also notes that, over the last decade, AoA has paid approximately A\$3.1 billion in income taxes in Australia, with an effective income tax rate of approximately 30% over this period.

This ASX announcement was approved and authorised for release by Mike Ferraro, Chief Executive Officer.

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