Alcoa World Alumina and Chemicals

(Majority owned by Alcoa Corporation)

Combined Financial Statements and Supplementary Combining Information As of December 31, 2018 and 2017 and for Each of the Three Years in the Period Ended December 31, 2018

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(Majority owned by Alcoa Corporation)
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Report of Independent Auditors

To the Members of the Strategic Council of
Alcoa World Alumina and Chemicals
(Majority-owned by Alcoa Corporation)

We have audited the accompanying combined financial statements of Alcoa World Alumina and Chemicals ("AWAC" or the "Company"), which comprise the combined balance sheets as of December 31, 2018 and 2017 and the related combined statements of income, comprehensive income (loss), changes in members' equity, and cash flows for each of the three years in the period ended December 31, 2018.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of AWAC as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
March 14, 2019

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Alcoa World Alumina and Chemicals
(Majority owned by Alcoa Corporation)
Combined Balance Sheets
As of December 31, 2018 and 2017

(U.S. dollars in millions)	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 740.3	$ 631.9
Receivables from customers	281.6	290.8
Related party receivables (I)	146.2	204.1
Other receivables	69.7	65.4
Related party notes receivable (I)	-	-
Inventories (D)	565.4	530.8
Fair value of derivative contracts (M)	70.3	103.7
Prepaid expenses and other current assets	65.7	71.9
Total current assets	1,939.2	1,898.6
Properties, plants and equipment, net (E)	3,317.2	3,753.9
Investments (F)	433.6	399.1
Deferred income taxes (L)	242.3	268.6
Fair value of derivative contracts (M)	41.9	127.1
Other noncurrent assets (G)	1,176.6	1,402.5
Total assets	$ 7,150.8	$ 7,849.8
Liabilities		
Current liabilities		
Short-term borrowings and current portion of capital lease obligations (H)	$ 0.4	$ 4.6
Accounts payable, trade	556.3	656.8
Accounts payable, related party (I)	67.6	58.3
Accrued compensation and retirement costs	175.6	204.3
Taxes, including taxes on income	365.7	190.1
Fair value of derivative contracts (M)	15.0	31.4
Payable for Alba settlement (O)	-	74.0
Other current liabilities	165.9	142.3
Total current liabilities	1,346.5	1,361.8
Long term debt and capital lease obligations (H)	84.4	17.5
Accrued pension benefits (K)	71.2	69.4
Accrued other postretirement benefits (K)	54.7	64.2
Deferred alumina sales revenue (A)	60.7	68.4
Fair value of derivative contracts (M)	23.5	82.1
Deferred income taxes (L)	180.6	211.0
Asset retirement obligations (C)	381.4	433.7
Other noncurrent liabilities and deferred credits	80.4	91.2
Total liabilities	2,283.4	2,399.3
Contingencies and commitments (O)		
Members' equity		
Members' equity	7,125.2	7,103.1
Accumulated other comprehensive loss (S)	(2,257.8)	(1,652.6)
Total members' equity	4,867.4	5,450.5
Total liabilities and members' equity	$ 7,150.8	$ 7,849.8

The accompanying notes are an integral part of these combined financial statements.

Alcoa World Alumina and Chemicals
(Majority owned by Alcoa Corporation)
Combined Statements of Income
Years Ended December 31, 2018, 2017 and 2016

(U.S. dollars in millions)	2018	2017	2016
Revenues			
Sales	$ 4,814.7	$ 3,692.3	$ 2,867.1
Sales to related parties (I)	1,934.7	1,581.7	1,190.0
	6,749.4	5,274.0	4,057.1
Costs and expenses			
Cost of goods sold (exclusive of expenses below)	3,991.4	3,523.9	3,222.8
Selling, general administrative, and other expenses	99.5	75.3	82.9
Research and development expenses	13.9	13.2	14.1
Provision for depreciation, depletion and amortization	290.4	274.5	271.8
Restructuring and other charges (Q)	84.8	10.0	322.9
Interest expense	6.5	1.1	2.9
Other (income) expense, net (R)	(78.6)	31.0	18.4
	4,407.9	3,929.0	3,935.8
Income before income taxes	2,341.5	1,345.0	121.3
Provision for taxes on income (L)	701.3	443.7	72.3
Net income	$ 1,640.2	$ 901.3	$ 49.0

The accompanying notes are an integral part of these combined financial statements.

Alcoa World Alumina and Chemicals
(Majority owned by Alcoa Corporation)
Combined Statements of Comprehensive Income (Loss)
Years Ended December 31, 2018, 2017 and 2016

(U.S. dollars in millions)	2018	2017	2016
Net income	$ 1,640.2	$ 901.3	$ 49.0
Other comprehensive (loss) income			
Foreign currency translation adjustments	(587.8)	232.2	266.3
Change in unrecognized gains (losses) and prior service cost related to pension and other postretirement benefit plans, net of tax	3.9	29.7	(9.1)
Unrecognized (losses) gains on cash flow hedges, net of tax	(21.3)	67.6	11.0
Total other comprehensive (loss) income	(605.2)	329.5	268.2
Comprehensive income (loss)	$ 1,035.0	$ 1,230.8	$ 317.2

The accompanying notes are an integral part of these combined financial statements.

Alcoa World Alumina and Chemicals
(Majority owned by Alcoa Corporation)
Combined Statements of Cash Flows
Years Ended December 31, 2018, 2017 and 2016

(U.S. dollars in millions)	2018	2017	2016
Cash from operations			
Net income	$ 1,640.2	$ 901.3	$ 49.0
Adjustments to reconcile net loss to cash from operations			
Depreciation, depletion and amortization	290.4	274.5	271.8
Deferred income taxes	(5.1)	112.8	(72.7)
Equity earnings, net of dividends	(38.3)	7.4	38.1
Restructuring and other charges (Q)	84.8	10.0	322.9
Stock-based compensation	3.9	3.1	3.0
Gain on sale of assets	-	(0.6)	(35.5)
Other	22.5	18.6	13.9
Changes in assets and liabilities, excluding effects of foreign currency translation adjustments:			
Decrease (increase) in receivables	14.4	(129.0)	(75.7)
(Increase) decrease in inventories	(90.2)	(67.6)	9.3
(Increase) decrease in prepaid expenses and other current assets	(0.1)	0.1	(35.9)
(Decrease) increase in accounts payable and accrued expenses	(78.1)	98.3	(105.8)
Increase (decrease) in taxes, including taxes on income	205.7	131.3	(54.4)
Net change in noncurrent assets and liabilities, and other	(80.5)	(257.8)	(354.2)
Cash provided from (used for) operations	1,969.6	1,102.4	(26.2)
Financing activities			
Net change in short-term borrowings (original maturities of three months or less) (H)	(4.2)	2.4	(8.0)
Payments on debt and capital lease obligations (H)	-	(1.1)	(2.9)
Additions to long term debt (H)	67.5	15.0	-
Capital contributions	445.9	274.0	194.0
Dividends paid and return of capital to members	(2,067.9)	(857.1)	(585.6)
Cash used for financing activities	(1,558.7)	(566.8)	(402.5)
Investing activities			
Capital expenditures	(234.1)	(191.6)	(129.9)
Additions to investments	-	-	(3.3)
Proceeds from sale of assets	-	9.0	161.5
Additions to related party notes receivable	-	-	-
Repayments on related party notes receivable	-	-	113.0
Cash (used for) provided from investing activities	(234.1)	(182.6)	141.3
Effect of exchange rate changes on cash and cash equivalents	(68.4)	27.7	6.8
Net change in cash and cash equivalents	108.4	380.7	(280.6)
Cash and cash equivalents			
Beginning of year	631.9	251.2	531.8
End of year	$ 740.3	$ 631.9	$ 251.2

The accompanying notes are an integral part of these combined financial statements.

Alcoa World Alumina and Chemicals

(Majority owned by Alcoa Corporation)

Combined Statements of Changes in Members' Equity

Years Ended December 31, 2018, 2017 and 2016

(U.S. dollars in millions)	Members' Equity	Accumulated Other Comprehensive Loss	Total Members' Equity
Balances at December 31, 2015	$ 7,121.4	$ (2,250.3)	$ 4,871.1
Net income	49.0		49.0
Other comprehensive income		268.2	268.2
Capital contributions from members (I)	194.0		194.0
Dividends paid and return of capital to members	(585.6)		(585.6)
Stock-based compensation	3.0		3.0
Balances at December 31, 2016	6,781.8	(1,982.1)	4,799.7
Net income	901.3		901.3
Other comprehensive income		329.5	329.5
Capital contributions from members (I)	274.0		274.0
Dividends paid and return of capital to members	(857.1)		(857.1)
Stock-based compensation	3.1		3.1
Balances at December 31, 2017	7,103.1	(1,652.6)	5,450.5
Net income	1,640.2		1,640.2
Other comprehensive loss		(605.2)	(605.2)
Capital contributions from members (I)	445.9		445.9
Dividends paid and return of capital to members	(2,067.9)		(2,067.9)
Stock-based compensation	3.9		3.9
Balances at December 31, 2018	$ 7,125.2	$ (2,257.8)	$ 4,867.4

The accompanying notes are an integral part of these combined financial statements.

(U.S. dollars in millions)

A. Summary of Significant Accounting Policies

Principles of Combination and Basis of Presentation

The combined financial statements of Alcoa World Alumina and Chemicals ("AWAC" or the "Company") have been prepared pursuant to a Formation Agreement dated December 21, 1994 between Alcoa Corporation, formerly Alcoa Inc. ("Alcoa"), and WMC Limited of Melbourne, Australia ("WMC"), which was amended on September 1, 2016. Effective December 11, 2002, WMC shareholders voted to create two entities, WMC Resources Limited and Alumina Limited, resulting in existing WMC shareholders receiving shares in a new listed entity 'WMC Resources Limited', which holds non AWAC businesses. AWAC is owned 60% by Alcoa and 40% by Alumina Limited and consists principally of bauxite, alumina and alumina-based chemicals businesses and investments managed and controlled by Alcoa. On November 1, 2016, Alcoa Inc. spun off its Upstream operations, which included all of the AWAC operations, and are now held by the spun off company named Alcoa Corporation. Any references to Alcoa prior to November 1, 2016 refers to Alcoa Inc. and after November 1, 2016 to Alcoa Corporation.

The combined financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and require management to make certain judgments, estimates, and assumptions. These estimates affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. They may also affect the reported amounts of revenues and expenses during the periods. Actual results could differ from those estimates upon subsequent resolution of identified matters.

The following operating entities represent the combined operations of AWAC and form the basis of the combined financial statements:

Entity	Country
Alcoa World Alumina (AWA) LLC*	United States
Alcoa of Australia	Australia
Alumina Espanola	Spain
AWA Brazil	Brazil
Enterprise Partnership**	Australia
AWA Saudi Limited***	Saudi Arabia

* Alcoa World Alumina LLC holds AWAC's mining and refining interests in the United States, Suriname, and Guinea (collectively referred to as the "Combined LLCs").

** Enterprise Partnership was dissolved effective July 31, 2018. The dissolution did not have a material impact to the Combined Financial Statements.

** AWA Saudi Limited holds AWAC's investment in a mining and refining operating joint venture in the Kingdom of Saudi Arabia owned 25.1% by AWAC and 74.9% by Saudi Arabian Mining Company ("Ma'aden").

The combined financial statements have been derived from the books and records of Alcoa. All transactions between entities included in the combined financial statements have been eliminated.

(U.S. dollars in millions)

The Combined Statements of Income include all items of revenue and income generated by AWAC and all items of expense directly incurred by AWAC. These include expenses charged to AWAC by Alcoa in the normal course of business. The amounts have been allocated on a basis considered reasonable by management using either specific identification or proportional allocations based on usage, headcount or other reasonable methods of allocation. As a result of these allocated amounts, the financial statements of AWAC may not be indicative of the results that would be presented if AWAC had operated as an independent stand-alone entity. The combined financial statements reflect amounts necessary in order to depict the combined financial position, results of operations and cash flows of AWAC on a stand-alone basis. For additional information concerning expenses charged to AWAC by Alcoa see Note I.

Related Party Transactions
AWAC sells alumina to Alcoa. Additionally, Alcoa provides employee, administrative and other services to AWAC. These amounts have been recorded on a reasonable basis representative of cost. AWAC has amounts due to and from related parties as a result of these transactions. For additional information on related party transactions see Note I.

Cash and Cash Equivalents
Cash equivalents are highly liquid investments purchased with an original maturity of three months or less.

Inventory Valuation
Inventories are carried at the lower of cost or market, with cost for U.S. inventories determined under the last-in, first-out (“LIFO”) method. The cost of other inventories is principally determined under the average-cost method. See Note D for additional information.

Effective January 1, 2019, AWAC will discontinue the use of the LIFO method for the referenced inventories. The cost of these inventories will now be determined on the average-cost method. In accordance with GAAP, all prior periods presented in the Combined Financial Statements will be recast to retroactively apply this inventory costing change. AWAC is still finalizing this change in accounting principle; however, management does not expect the inventory costing change to have a material impact on the Combined Financial Statements.

Properties, Plants and Equipment
Properties, plants and equipment are recorded at cost. Depreciation is recorded principally on the straight-line method at rates based on the estimated useful lives of the assets. For greenfield assets, which refer to the construction of new assets on undeveloped land, the units of production method is used to record depreciation. These assets require a significant period (generally greater than one-year) to ramp-up to full production capacity. As a result, the units of production method is deemed a more systematic and rational method for recognizing depreciation on these assets. Depreciation is recorded on temporarily idled facilities until such time management approves a permanent shutdown. The following table details the weighted-average useful lives of structures and machinery and equipment (numbers in years):

(U.S. dollars in millions)

	Structures	Machinery and Equipment
Bauxite mining	35	16
Alumina refining	30	28

Gains or losses from the sale of assets are generally recorded in Other (income) expense, net. Repairs and maintenance are charged to expense as incurred. See Note E for additional information.

Properties, plants, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets (asset group) may not be recoverable. Recoverability of assets is determined by comparing the estimated undiscounted net cash flows of the operations to which the assets (asset group) relate to their carrying amount. An impairment loss would be recognized when the carrying amount of the assets (asset group) exceeds the estimated undiscounted net cash flows. The amount of the impairment loss to be recorded is calculated as the excess of the carrying value of the assets (asset group) over their fair value, with fair value determined using the best information available, which generally is a discounted cash flow (DCF) model. The determination of what constitutes an asset group, the associated estimated undiscounted cash flows, and the estimated useful lives of assets also require significant judgments.

Equity Investments
AWAC invests in a number of privately-held companies, primarily through joint ventures and consortia, which are accounted for on the equity method. The equity method is applied in situations where AWAC has the ability to exercise significant influence, but not control, over the investee. Management reviews equity investments for impairment whenever certain indicators are present suggesting that the carrying value of an investment is not recoverable. This analysis requires a significant amount of judgment from management to identify events or circumstances indicating that an equity investment is impaired. The following items are examples of impairment indicators: significant, sustained declines in an investee's revenue, earnings, and cash flow trends; adverse market conditions of the investee's industry or geographic area; the investee's ability to continue operations measured by several items, including liquidity; and other factors. Once an impairment indicator is identified, management uses considerable judgment to determine if the impairment is other than temporary, in which case the equity investment is written down to its estimated fair value. An impairment that is other than temporary could significantly and adversely impact reported results of operations.

Revenue Recognition
AWAC recognizes revenue when title, ownership, and risk of loss pass to the customer, all of which occurs upon shipment or delivery of the product and is based on the applicable shipping terms. The shipping terms vary across all businesses and depend on the product, the country of origin, and the type of transportation (truck, train, or vessel).

Deferred Alumina Sales Revenue
AWAC periodically enters into long-term supply contracts with alumina customers and receives advance payments for product to be delivered in future periods. These advance payments are recorded as deferred revenue, and revenue is recognized as shipments are made and title,

(U.S. dollars in millions)

ownership, and risk of loss pass to the customer during the term of the contracts. AWAC recorded a prepayment of $240.0 related to an agreement with a third party customer received in 1997 that is being amortized over the life of the contract based on the tonnage shipped. The amount of the prepayment remaining as deferred revenue at December 31, 2018 and 2017 was $68.7 and $76.3, respectively (of which $8.0 and $8.0 was classified as a current liability). The amount of revenue recognized related to this agreement was $7.6, $7.7 and $8.0, for the years ended December 31, 2018, 2017 and 2016, respectively.

Environmental Matters

Expenditures for current operations are expensed or capitalized, as appropriate. Expenditures relating to existing conditions caused by past operations, and which do not contribute to future revenues, are expensed. Liabilities are recorded when remediation costs are probable and can be reasonably estimated. The liability may include costs such as site investigations, consultant fees, feasibility studies, outside contractors, and monitoring expenses. Estimates are generally not discounted or reduced by potential claims for recovery. Claims for recovery are recognized as agreements are reached with third parties. The estimates also include costs related to other potentially responsible parties to the extent that AWAC has reason to believe such parties will not fully pay their proportional share. The liability is continuously reviewed and adjusted to reflect current remediation progress, prospective estimates of required activity, and other factors that may be relevant, including changes in technology or regulations. See Note P for additional information.

Litigation Matters

For asserted claims and assessments, liabilities are recorded when an unfavorable outcome of a matter is deemed to be probable and the loss is reasonably estimable. Management determines the likelihood of an unfavorable outcome based on many factors such as the nature of the matter, available defenses and case strategy, progress of the matter, views and opinions of legal counsel and other advisors, applicability and success of appeals processes, and the outcome of similar historical matters, among others. Once an unfavorable outcome is deemed probable, management weighs the probability of estimated losses, and the most reasonable loss estimate is recorded. If an unfavorable outcome of a matter is deemed to be reasonably possible, then the matter is disclosed and no liability is recorded. With respect to unasserted claims or assessments, management must first determine that the probability that an assertion will be made is likely, then, a determination as to the likelihood of an unfavorable outcome and the ability to reasonably estimate the potential loss is made. Legal matters are reviewed on a continuous basis to determine if there has been a change in management's judgment regarding the likelihood of an unfavorable outcome or the estimate of a potential loss. See Note O for additional information.

Asset Retirement Obligations

AWAC recognizes asset retirement obligations ("AROs") related to legal obligations associated with the normal operation of AWAC's bauxite mining, alumina refining and aluminum smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure. AWAC also recognizes AROs for any significant lease restoration obligation, if required by a lease agreement. The fair values of these AROs are recorded on a discounted basis, at the time the obligation is incurred, and accreted over time for the change in present value. Additionally, AWAC capitalizes asset retirement costs by increasing the carrying amount of the related long-lived assets and depreciating these assets over the remaining useful life. See Note C for additional information.

Certain conditional asset retirement obligations ("CAROs") related to alumina refineries and aluminum smelters have not been recorded in the combined financial statements due to

(U.S. dollars in millions)

uncertainties surrounding the ultimate settlement date. A CARO is a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within AWAC's control. Such uncertainties exist as a result of the perpetual nature of refineries and smelters, maintenance and upgrade programs, and other factors preventing a reasonable estimation surrounding the ultimate settlement date. At the date a reasonable estimate of the ultimate settlement date can be made, AWAC would record an ARO for the removal, treatment, transportation, storage and/or disposal of various regulated assets and hazardous materials such as asbestos, underground and aboveground storage tanks, polychlorinated biphenyls ("PCBs"), various process residuals, solid wastes, electronic equipment waste and various other materials. Such amounts may be material to the Combined Financial Statements in the period in which they are recorded.

If AWAC was required to demolish all such facilities immediately, the estimated CARO as of December 31, 2018 ranges from $2.5 to $23.7 per facility (7 structures) in today's dollars.

Deferred Mining Costs
AWAC recognizes deferred mining costs during the development stage of a mine life cycle. Such costs include the construction of access and haul roads, detailed drilling and geological analysis to further define the grade and quality of the known bauxite, and overburden removal costs. These costs relate to sections of the related mines where AWAC is either currently extracting bauxite or is preparing for production in the near term. These sections are outlined and planned incrementally and generally are mined over periods ranging from one to five years, depending on mine specifics. The amount of geological drilling and testing necessary to determine the economic viability of the bauxite deposit being mined is such that the reserves are considered to be proven, and the mining costs are amortized based on this level of reserves. Deferred mining costs are included in Other noncurrent assets on the accompanying Combined Balance Sheet.

Income Taxes
The provision for income taxes is based on a separate return methodology using the asset and liability approach of accounting for income taxes. Under this approach, the provision for income taxes represents income taxes paid or payable (or received or receivable) for the current year plus the change in deferred taxes during the year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid, and result from differences between the financial and tax bases of AWAC's assets and liabilities and are adjusted for changes in tax rates and tax laws when enacted.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. In evaluating the need for a valuation allowance, management considers all potential sources of taxable income, including income available in carryback periods, future reversals of taxable temporary differences, projections of taxable income, and income from tax planning strategies, as well as all available positive and negative evidence. Positive evidence includes factors such as a history of profitable operations, projections of future profitability within the carryforward period, including from tax planning strategies, and the Company's experience with similar operations. Existing favorable contracts and the ability to sell product into established markets are additional positive evidence. Negative evidence includes items such as cumulative losses, projections of future losses, or carryforward periods that are not long enough to allow the utilization of the deferred tax asset based on existing projections of income. Deferred tax assets for which no valuation allowance is currently recorded may not be realized upon changes in facts and circumstances, resulting in a future charge to record a valuation allowance. Existing valuation allowances are re-examined under the same standards of positive and negative evidence. If it is

(U.S. dollars in millions)

determined that it is more likely than not that a deferred tax asset will be realized, the appropriate amount of the valuation allowance, if any, is released. Deferred tax assets and liabilities are also re-measured to reflect changes in underlying tax rates due to law changes and the granting and lapse of tax holidays.

Tax benefits related to uncertain tax positions taken or expected to be taken on a tax return are recorded when such benefits meet a more likely than not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that the statute of limitation has expired or the appropriate taxing authority has completed their examination even though the statute of limitations remains open. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized. Uncertain tax positions are not material to the AWAC combined financial statements for all periods presented.

AWAC consists of a variety of different tax-paying legal entities. Income taxes are accrued and recorded on the financial statements of entities within AWAC except for entities that are multiple member limited liability companies ("LLCs"). LLC income is taxable to the members that hold the LLC interest (for U.S. federal and most state income tax purposes). Therefore, current and deferred U.S. and most state tax assets and liabilities of the LLCs are recorded in the financial statements of the members and, thus, are not reflected in AWAC's combined financial statements. See Note L for additional information.

Derivatives and Hedging

Derivatives are held for purposes other than trading and are part of a formally documented risk management program.

AWAC accounts for hedges of foreign currency exposures and certain forecasted transactions as cash flow hedges. The fair values of the derivatives are recorded as assets and liabilities in the Combined Balance Sheet. The changes in the fair values of these derivatives are recorded in Other comprehensive (loss) income and are reclassified to Sales, Cost of goods sold, or Other (income) expense, net in the period in which earnings are impacted by the hedged items or in the period that the transaction no longer qualifies as a cash flow hedge. These contracts cover the same periods as known or expected exposures, generally not exceeding five years.

On April 1, 2018, AWAC adopted new accounting guidance for hedging activities (see Recently Adopted Accounting Guidance below), which included the elimination of the concept of ineffectiveness, effective on January 1, 2018. Accordingly, there is no longer a requirement to separately measure and report ineffectiveness. Therefore, the following policy description of effectiveness was applicable to periods prior to January 1, 2018. For derivatives designated as cash flow hedges, AWAC measures hedge effectiveness by formally assessing, at inception and at least quarterly, the probable high correlation of the expected future cash flows of the hedged item and the derivative hedging instrument. The ineffective portions of cash flow hedges are recorded in Sales or Other (income) expense, net in the current period. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, future gains or losses on the derivative instrument are recorded in Other (income) expense, net.

If no hedging relationship is designated, the derivative is marked to market through Other (income) expense, net.

(U.S. dollars in millions)

Cash flows from derivatives are recognized in the Combined Statement of Cash Flows in a manner consistent with the underlying transactions. See Note M for additional information.

Foreign Currency
The local currency is the functional currency for AWAC's significant operations outside the U.S., except in Suriname, which use the U.S. dollar. The determination of the functional currency in these countries is made based on the appropriate economic and management indicators.

Recently Adopted Accounting Guidance
On January 1, 2018, AWAC adopted guidance issued by the FASB to the accounting and reporting of certain equity investments. This guidance requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. Additionally, the impairment assessment of equity investments without readily determinable fair values has been simplified by requiring a qualitative assessment to identify impairment. The adoption of this guidance had no impact on the Combined Financial Statements, as all of AWAC's equity investments are accounted for under the equity method of accounting.

On January 1, 2018, AWAC adopted guidance issued by the FASB to the presentation of several items in the statement of cash flows. Specifically, the guidance identifies nine cash flow items and the sections where they must be presented within the statement of cash flows. The adoption of this guidance had no impact on the Combined Financial Statements.

On January 1, 2018, AWAC adopted guidance issued by the FASB to the accounting for intra-entity transactions, other than inventory. The guidance requires the current and deferred income tax consequences of an intra-entity transfer to be recorded immediately when the transaction occurs; the exception to defer the tax consequences of inventory transactions is maintained. Prior to this guidance, no immediate tax impact was permitted to be recognized in an entity's financial statements as a result of intra-entity transfers of assets. An entity was precluded from reflecting a tax benefit or expense from an intra-entity asset transfer between entities that file separate tax returns, whether or not such entities are in different tax jurisdictions, until the asset had been sold to a third party or otherwise recovered. The buyer of such asset was prohibited from recognizing a deferred tax asset for the temporary difference arising from the excess of the buyer's tax basis over the cost to the seller. The adoption of this guidance had no impact on the Combined Financial Statements.

On January 1, 2018, AWAC adopted guidance issued by the FASB to accounting for business combinations. This guidance clarifies the definition of a business for the purposes of evaluating whether a particular transaction should be accounted for as an acquisition or disposal of a business or an asset. Generally, a business is an integrated set of assets and activities that contain inputs, processes, and outputs, although outputs are not required. This guidance provides a "screen" to determine whether an integrated set of assets and activities qualifies as a business. If substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets, the definition of a business has not been met and the transaction should be accounted for as an acquisition or disposal of an asset. Otherwise, an entity is required to evaluate whether the integrated set of assets and activities include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and are no longer to consider whether a market participant could replace any missing elements. This guidance also narrows the definition of an output. Previously, an output was defined as the ability to provide

(U.S. dollars in millions)

a return in the form of dividends, lower costs, or other economic benefits directly to investors, owners, members, or participants. An output is now defined as the ability to provide goods or services to customers, investment income, or other revenues. The adoption of this guidance had no immediate impact on the Combined Financial Statements; however, this guidance will need to be considered in the event AWAC acquires or disposes of an integrated set of assets and activities.

On January 1, 2018, AWAC adopted guidance issued by the FASB to the presentation of net periodic benefit cost related to pension and other postretirement benefit plans. This guidance requires that an entity report the service cost component of net periodic benefit cost in the same line item(s) on its income statement as other compensation costs arising from services rendered by the pertinent employees during a reporting period. The other components of net periodic benefit cost are required to be reported separately from the service cost component. In other words, these other components may be aggregated and presented as a separate line item or they may be reported in existing line items on the income statement other than such line items that include the service cost component. Previously, AWAC reported all components of net periodic benefit cost, except for certain settlements, curtailments, and special termination benefits, in Cost of goods sold (business employees) and Selling, general administrative, and other expenses (corporate employees) consistent with the location of other compensation costs related to the respective employees. The non-service cost components noted as exceptions are reported in Restructuring and other charges, as applicable. Additionally, this guidance only permits the service cost component to be capitalized as applicable (e.g., as a cost of internally manufactured inventory). Upon adoption of this guidance, management began reporting the non-service cost components of net periodic benefit cost, except for certain settlements, curtailments, and special termination benefits that will continue to be reported in Restructuring and other charges, in Other (income) expense, net on the accompanying Combined Statement of Income. For the year ended December 31, 2018, the non-service cost components reported in Other (income) expense, net was ($6.1). Additionally, the Combined Statement of Income for the years ended December 31, 2017 and 2016 was recast to reflect the reclassification of the non-service cost components of net periodic benefit cost to Other (income) expense, net from both Cost of goods sold and Selling, general administrative, and other expenses as follows:

	2017			2016		
	As Previously Reported	Change	As Recast	As Previously Reported	Change	As Recast
Cost of goods sold	3,518.2	5.7	3,523.9	3,217.4	5.4	3,222.8
Selling, general administrative, and other expenses	75.2	0.1	75.3	82.8	0.1	82.9
Other (income) expense, net	36.8	(5.8)	31.0	23.9	(5.5)	18.4

Under the practical expedient option provided for in the guidance, the Company used previously disclosed amounts for non-service cost components to recast these line items for the years ended December 31, 2017 and 2016. Furthermore, AWAC no longer capitalizes any non-service cost components as part of the cost of inventory prospectively beginning January 1, 2018.

On April 1, 2018, AWAC early adopted guidance issued by the FASB to the accounting for hedging activities retroactive to January 1, 2018. This guidance permits hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk; reduces current limitations on the designation and measurement of a hedged item in a fair value hedge of

(U.S. dollars in millions)

interest rate risk; removes the requirement to separately measure and report hedge ineffectiveness; provides an election to systematically and rationally recognize in earnings the initial value of any amount excluded from the assessment of hedge effectiveness for all types of hedges; and eases the requirements of effectiveness testing. Additionally, modifications to existing disclosures, as well as additional disclosures, are required, as applicable, to reflect these changes regarding the measurement and recognition of hedging activities. This guidance is to be initially applied only to hedging instruments that exist as of the adoption date using the modified retrospective method. In other words, any financial statement impact from application of these changes to open hedging instruments as of the adoption date related to periods prior to the adoption year is to be recognized through a cumulative effect adjustment in beginning retained earnings of the adoption year. Accordingly, upon adoption of this guidance, AWAC recognized an immaterial cumulative effect adjustment within equity effective January 1, 2018 related to open Level 1 hedging instruments as of the adoption date. The Company had no open Level 2 or 3 hedging instruments as of the adoption. This guidance will also be applied prospectively upon the Company entering into any new hedging instruments. See the Derivatives section of Note M for additional information.

Recently Issued Accounting Guidance
In January 2018, the FASB issued guidance regarding the assessment of land easements (or rights of way) under the pending lease accounting requirements to be adopted on January 1, 2019 (see below). This guidance provides an entity an option to not evaluate existing or expired land easements as leases in preparation for the adoption of the new lease accounting requirements, as long as such land easements were recorded as something other than leases under current accounting requirements. That said, any new land easement acquired or existing land easement modified on January 1, 2019 or later must be assessed for lease accounting under the new requirements. This guidance becomes effective for AWAC on January 1, 2020, however it will be early adopted in conjunction with the new lease accounting standard (see below). Management plans to elect the option to not evaluate existing or expired land easements that are currently accounted for as something other than leases under the new lease accounting requirements. AWAC's land easements are currently accounted for as fixed assets and are immaterial to the Combined Financial Statements. Accordingly, management has determined that the adoption of this guidance will not have an immediate impact on the Combined Financial Statements. The new lease accounting requirements will need to be considered if AWAC acquires a new land easement or modifies an existing land easement on January 1, 2019 or later.

In August 2018, the FASB issued separate guidance regarding the respective disclosure requirements associated with fair value measurements and defined benefit plans. This guidance makes changes to the disclosures of fair value measurements and defined benefit plans through several removals, modifications, additions, and/or clarifications of the existing requirements. The following are the changes that will have an immediate disclosure impact for AWAC upon adoption of the guidance for fair value measurements: (i) disclosure of the valuation processes for Level 3 fair value measurements is no longer required, (ii) changes in unrealized gains and losses for the reporting period included in Other comprehensive (loss) income for recurring Level 3 fair value measurements held at the end of the reporting period is a new disclosure requirement, and (iii) the range and weighted average (or other reasonable and rational method) of significant unobservable inputs used to develop Level 3 fair value measurements is a new disclosure requirement. The following are the changes that will have an immediate disclosure impact for AWAC upon adoption of the guidance for defined benefit plans: (i) disclosure of the amounts in Accumulated other comprehensive loss expected to be recognized as components of net periodic benefit cost over the next fiscal year is no longer required, (ii) disclosure of the effects of a one-percentage-point change in assumed health care cost trend rates on both the aggregate of the service and interest cost

(U.S. dollars in millions)

components of net periodic benefit costs and the benefit obligation for postretirement health care benefits is no longer required, and (iii) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the reporting period is a new disclosure requirement. The guidance for fair value measurements and defined benefit plans becomes effective for AWAC on January 1, 2020 and December 31, 2021, respectively, with early adoption permitted. Other than updating the applicable disclosures, the adoption of this guidance will not have an impact on the Combined Financial Statements.

In August 2018, the FASB issued guidance regarding the accounting for implementation costs incurred in a cloud computing arrangement that is a service contract (in other words, does not contain a software license). This guidance aligns the accounting for cloud computing implementation costs with that of costs to develop or obtain internal-use software, meaning such costs that are part of the application development stage are capitalized as an asset and amortized over the term of the arrangement, otherwise, such costs are expensed as incurred. Additionally, this guidance requires applying existing impairment guidance for long-lived assets to the capitalized implementation costs. Furthermore, this guidance requires the following presentation in an entity's financial statements: (i) payments for the capitalized implementation costs should be classified on the cash flows statement in the same manner as payments for the service fees associated with the arrangement, (ii) the capitalized implementation costs should be presented in the same asset line item on the balance sheet as any prepayment for the service fees associated with the arrangement, and (iii) the amortization of the capitalized implementation costs should be reflected in the same expense line item on the income statement as the service fees associated with the arrangement. This guidance becomes effective for AWAC on December 31, 2020, with early adoption permitted. Management is currently evaluating the potential impact of this guidance on the Combined Financial Statements.

In February 2016, the FASB issued changes to the accounting and presentation of leases. These changes require lessees to recognize a right of use asset and lease liability on the balance sheet for all leases with terms longer than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize a right of use asset and lease liability. Additionally, when measuring assets and liabilities arising from a lease, optional payments should be included only if the lessee is reasonably certain to exercise an option to extend the lease, exercise a purchase option, or not exercise an option to terminate the lease. A right-of-use asset represents an entity's right to use the underlying asset for the lease term, and a lease liability represents an entity's obligation to make lease payments. Currently, an asset and liability only are recorded for leases classified as capital leases (financing leases). These changes become effective for AWAC on January 1, 2020. Through a previously established cross-functional project team, AWAC has completed the accumulation of all leases into a lease management system and has validated the information for accuracy and completeness. Additionally, the project team has finished the system implementation. This system will be the primary source for AWAC's lease information and the related accounting. Upon adoption of the new lease guidance, management expects to record a right-of-use asset and lease liability, each in the range of $110-$120, on AWAC's Combined Balance Sheet for several types of operating leases, including land and buildings, alumina refinery process control technology, plant equipment, vehicles, and computer equipment. This amount is equivalent to the aggregate future minimum lease payments on a discounted basis. Additionally, in July 2018, the FASB issued guidance to provide for an alternative transition method to the new lease guidance, whereby an entity can choose to not reflect the impact of the new lease guidance in the prior periods included in its financial statements. AWAC intends to elect this alternative transition method upon early adoption of this standard starting on the January 1, 2019 adoption date.

(U.S. dollars in millions)

In June 2016, the FASB added a new impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The CECL model applies to most debt instruments, trade receivables, lease receivables, financial guarantee contracts, and other loan commitments. The CECL model does not have a minimum threshold for recognition of impairment losses and entities will need to measure expected credit losses on assets that have a low risk of loss. These changes become effective for AWAC on December 31, 2021. Management is currently evaluating the potential impact of these changes on the Combined Financial Statements.

In May 2014, the FASB issued changes to the recognition of revenue from contracts with customers. These changes created a comprehensive framework for all entities in all industries to apply in the determination of when to recognize revenue, and, therefore, supersede virtually all existing revenue recognition requirements and guidance. This framework is expected to result in less complex guidance in application while providing a consistent and comparable methodology for revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the entity satisfies a performance obligation. In August 2015, the FASB deferred the effective date by one year, making these changes effective for AWAC on January 1, 2019. Through a previously established project team, AWAC completed a detailed review of the terms and provisions of its customer contracts, as well as evaluated these contracts under the new guidance throughout 2018, and concluded that AWAC's revenue recognition practices are in compliance with this framework. That said, AWAC did make some minor modifications to its internal accounting policies and internal control structure to ensure that any future customer contracts that may have different terms and conditions of those that AWAC has today are properly evaluated under the new guidance. Other than providing additional disclosure, the adoption of this guidance will not have a material impact on the Combined Financial Statements.

B. Nature of Operations

AWAC is owned 60% by Alcoa and 40% by Alumina Limited and consists principally of bauxite, alumina and alumina-based chemicals businesses and investments managed and contributed by Alcoa. Primarily all bauxite mined by AWAC entities is refined into alumina by AWAC through a chemical process. The alumina is then sold to customers to be smelted into primary aluminum.

	2018	2017	2016
Sales			
Australia	$ 3,400.6	$ 2,582.8	$ 2,025.9
U.S.	2,501.6	1,991.0	1,513.3
Other	847.2	700.2	517.9
Total sales	$ 6,749.4	$ 5,274.0	$ 4,057.1

(U.S. dollars in millions)

	2018	2017
Net assets		
Australia	$ 2,539.7	$ 3,089.3
Brazil	1,602.4	1,938.6
U.S.	86.4	(139.3)
Other	638.9	561.9
Total net assets	$ 4,867.4	$ 5,450.5

C. Asset Retirement Obligations

AWAC has recorded AROs related to legal obligations associated with the normal operations of bauxite mining, alumina refining, and aluminum smelting facilities. These AROs consist primarily of costs associated with spent pot lining disposal, closure of bauxite residue areas, mine reclamation, and landfill closure.

The following table details the changes in the carrying amounts of AROs at December 31:

	2018	2017
Balance at beginning of year	$ 507.1	$ 489.0
Accretion expense	13.2	13.4
Liabilities incurred	23.9	20.8
Payments	(50.6)	(51.3)
Translation and other	(35.9)	35.2
Balance at end of year	$ 457.7	$ 507.1

AROs are recorded in Other current liabilities ($76.3 and $73.4 as of December 31, 2018 and 2017, respectively) and the non-current portion is recorded in Asset retirement obligations ($381.4 and $433.7 as of December 31, 2018 and 2017, respectively) on the accompanying Combined Balance Sheet.

D. Inventories

	2018	2017
Finished goods	$ 4.5	$ 4.0
Work-in-process	42.9	22.6
Bauxite and alumina	195.7	178.3
Purchased raw materials	235.5	234.8
Operating supplies	86.8	91.1
	$ 565.4	$ 530.8

(U.S. dollars in millions)

Approximately 2.3% and 3.3% of total inventories at December 31, 2018 and 2017, respectively, were valued on a LIFO basis. If valued on an average cost basis, total inventories would have been $10.8 and $14.7 higher at the end of 2018 and 2017, respectively.

E. Properties, Plants, and Equipment, Net

	2018	2017
Land and land rights, including mines	$ 161.1	$ 182.7
Structures	3,610.0	3,930.9
Machinery and equipment	4,700.4	5,247.0
	8,471.5	9,360.6
Less: Accumulated depreciation and depletion	5,390.4	5,819.2
	3,081.1	3,541.4
Construction work-in-progress	236.1	212.5
	$ 3,317.2	$ 3,753.9

F. Investments

	2018	2017
Ma'aden	$ 253.1	$ 220.7
Halco Mining, Inc.	135.1	128.4
Other	45.4	50.0
	$ 433.6	$ 399.1

As of December 31, 2018 and 2017, equity investments included the Ma’aden project and bauxite mining interests in Guinea (45% of Halco Mining, Inc.). In April 2016, AWAC sold its 20% interest in a consortium that owned and operated the Dampier to Bunbury Natural Gas Pipeline (DBNGP) in Western Australia, to the only other member of the consortium, DUET Group. AofA received $145 (A$192) in cash, which was included in Sales of investments on the accompanying Statement of Combined Cash Flows, and recorded a gain of $27 (A$35) in Other (income) expense, net on the accompanying Combined Statement of Income. Prior to this transaction, AofA’s 20% interest was previously classified as an equity investment on AWAC’s Combined Balance Sheet. As part of the sale transaction, AofA will maintain its current access to approximately 30% of the DBNGP transmission capacity for gas supply to its three alumina refineries in Western Australia under an existing agreement to purchase gas transmission services from the DBNGP. At December 31, 2018 and 2017, AofA has an asset of $275 (A$392) and $300 (A$385), respectively representing prepayments made under the agreement for future gas transmission services.

(U.S. dollars in millions)

AWAC and the Saudi Arabian Mining Company, known as Ma'aden, have a 30-year joint venture shareholders' agreement (automatic extension for an additional 20 years, unless the parties agree otherwise or unless earlier terminated) setting forth the terms for the development, construction, ownership and operation of an integrated bauxite mine and alumina refinery in Saudi Arabia. Specifically, the project to be developed by the joint venture consists of a bauxite mine for the extraction of approximately 4,000 kmt of bauxite from the Al Ba'itha bauxite deposit near Quiba in the northern part of Saudi Arabia, and an alumina refinery with an initial capacity of 1,800 kmt. The refinery was constructed in an industrial area at Ras Al Khair (formerly Ras Az Zawr) on the east coast of Saudi Arabia. First production for the mine and refinery occurred in December 2014. The joint venture is owned 74.9% by Ma'aden and 25.1% by AWAC.

G. Other Noncurrent Assets

	2018	2017
Deferred mining costs, net	$ 120.1	$ 135.1
Gas supply prepayment (O)	458.1	510.5
Prepaid gas transmission contract (F)	275.0	300.0
Value-added tax receivable	194.9	299.5
Prepaid pension benefit (K)	62.7	71.3
Related party receivable (I)	41.7	56.5
Other	24.1	29.6
	$ 1,176.6	$ 1,402.5

The Value-added tax (VAT) credits (federal and state) relate to AWAB and the São Luís refinery. This refinery pays VAT on the purchase of goods and services used in the alumina production process. Instead of expensing the paid VAT, such amounts are capitalized as credits as they, generally, can be utilized to offset the VAT charged on domestic sales of alumina. However, there is not a domestic market in Brazil for the sale of alumina and Alcoa's São Luís smelter has been fully curtailed since April 2015. That said, the federal VAT credits can be used to reduce other types of federal tax obligations; conversely, there is no other available opportunity to monetize the state VAT credits. For a significant portion of time, including 2017 and 2018, since the São Luís smelter curtailment, management has negotiated with multiple electricity providers to obtain an economical power supply to facilitate a potential restart of the São Luís smelter in the event that persistent favorable market conditions develop to no avail.

In the fourth quarter of 2018, management performed an updated assessment of the future realizability of the state VAT credits amid unfavorable market conditions and a perceived inability to obtain a favorable power contract in the near-term for Alcoa's São Luís smelter. As a result of this analysis, management determined it necessary to stop recording additional state VAT credits; instead state VAT will be expensed in Cost of goods sold as incurred by the São Luís refinery. Additionally, the Company recorded a $77.6 charge in Restructuring and other charges (see Note Q) on the accompanying Combined Statement of Income to establish an allowance on the accumulated state VAT balances. No allowance was established on the federal VAT credits as they can continue to be monetized without the restart of Alcoa's São Luís smelter.

(U.S. dollars in millions)

H. Short-Term Borrowings, Long-Term Debt and Capital Lease Obligations

Short-term borrowings consists of a loan recorded in Spain for the funding of working capital. Amounts outstanding under this loan were $0.2 and $0.2 at December 31, 2018 and 2017, respectively.

Long-term debt consists of a loan recorded in Spain of $1.2 and $1.4 at December 31, 2018 and 2017, respectively. During 2012, AofA and Alcoa entered into a long-term loan agreement where AofA may borrow up to $300.0 to assist them with managing their daily cash requirements. There was no balance outstanding under this loan as of December 31, 2018 and 2017, respectively.

On November 5, 2018, AofA entered into an amendment of the existing credit agreement, dated October 26, 2017. The amended agreement provides for a financing commitment of up to $82.5. Principal payments under this amended agreement are not due until 2020 with the ability to extend to a later date. Interest accrues at a rate of Libor plus 85 basis points. Outstanding amounts under this facility at December 31, 2018 and 2017 were $82.5 and $15.0, respectively.

AofA has capital lease obligations recorded, primarily related to mining. Outstanding amounts under these leases classified as short-term are $0.2 and $0.2 at December 31, 2018 and 2017, respectively. Outstanding amounts under these leases classified as long-term are $0.7 and $1.1 at December 31, 2018 and 2017, respectively.

AWAC participates in computerized payable settlement arrangements with certain vendors and third-party intermediaries. As of December 31, 2018 and 2017, short-term borrowings included $0.0 and $4.2, respectively, of amounts that will be paid to the third-party intermediaries. The arrangements provide that, at the vendor’s request, the third-party intermediary advances the amount of the scheduled payment to the vendor, less an appropriate discount, before the scheduled payment date. AWAC makes payment to the third-party intermediary on the date stipulated in accordance with the commercial terms negotiated with its vendors. Imputed interest on the borrowings were immaterial.

I. Related Party Transactions

Sales to related parties included in the Combined Statements of Income consist of sales of alumina and alumina-based chemicals to Alcoa. The terms for all transactions and agreements between related parties and AWAC are established by negotiation between the parties.

Entities within AWAC have entered into contractual agreements with Alcoa for employee services and administrative services. Total costs incurred by AWAC for these agreements were approximately $61.6 in 2018, $51.0 in 2017 and $52.6 in 2016. AWAC also has a long-term bauxite purchase agreement with an equity investee. Total purchases under this agreement were approximately $163.4, $157.6 and $165.5 during 2018, 2017 and 2016, respectively.

Certain employees of AWAC receive stock-based awards under Alcoa’s stock incentive plans, and AWAC records an expense for these plans. In 2018, 2017 and 2016, AWAC was charged and paid $6.8, $7.7 and $3.0, respectively, for stock option exercises and restricted share unit distributions under Alcoa stock incentive plans. As options are exercised, amounts to reimburse for issuance of shares were reflected as a dividend paid to partners, net of $1.6 in 2018, $1.7 in 2017 and $0.7 in 2016.

(U.S. dollars in millions)

AWAC has a noncurrent related party receivable due from Alcoa of $41.7 and $56.5 as of December 31, 2018 and 2017, respectively. This relates to certain environmental remediation and asset retirement obligations that will be reimbursed by Alcoa in accordance with the terms of the Formation Agreement.

During 2018 capital contributions from members of $74.0 were made to AWA, LLC related to the Alba matter (see Note O). In addition, contributions of $371.9 were used to fund AWA, LLC and AWA Saudi Ltd.

During 2017 capital contributions from members of $74.0 were made to AWA, LLC related to the Alba matter (see Note O). In addition, contributions of $200.0 were used to fund AWA, LLC.

During 2016 capital contributions from members of $74.0 were made to AWA, LLC related to the Alba matter (see Note O). In addition, contributions of $100.0 were used to fund the Enterprise Partnership and $20.0 to fund AWA, LLC.

J. Lease Expense

Certain equipment, including process control hardware and software, as well as warehousing and office space are under operating lease agreements. Total expense from continuing operations for all leases was $60.3 in 2018, $62.5 in 2017 and $60.4 in 2016. Under operating leases, minimum annual rentals are $40.9 for 2019, $34.6 for 2020, $29.5 for 2021, $5.5 for 2022, $2.2 in 2023 and a total of $12.2 million in 2024 and thereafter.

K. Pension Plans and Other Postretirement Benefits

Entities within AWAC maintain pension plans covering certain non U.S. employees. Pension benefits generally depend upon length of service, job grade, and remuneration. Substantially all benefits are paid through pension trusts that are sufficiently funded to ensure that all plans can pay benefits to retirees as they become due.

Entities within AWAC maintain health care and life insurance benefit plans covering certain non U.S. retired employees. Generally, the medical plans pay a percentage of medical expenses, reduced by deductibles and other coverages. Life benefits are generally provided by insurance contracts. The entities retain the right, subject to existing agreements, to change or eliminate these benefits.

(U.S. dollars in millions)

The table below reflects the status of AWAC's pension and postretirement benefit plans.

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Change in benefit obligation				
Benefit obligation at beginning of year	$ 829.9	$ 838.4	$ 67.6	$ 72.9
Service cost	16.9	18.9	0.1	-
Interest cost	25.1	28.7	2.3	2.7
Amendments	-	-	-	-
Actuarial gains	(29.4)	(21.5)	(9.3)	(4.8)
Settlements	(49.6)	(61.9)	-	-
Curtailment	-	-	-	-
Benefits paid	(21.7)	(21.0)	-	(3.2)
Participants' contributions	6.1	6.0	(2.7)	-
Transfers	-	0.8	-	-
Exchange rate	(52.4)	41.5	-	-
Benefit obligation at end of year	$ 724.9	$ 829.9	$ 58.0	$ 67.6
Change in plan assets				
Fair value of plan assets at beginning of year	$ 833.1	$ 803.7	$ -	$ -
Actual return on plan assets	5.3	57.2	-	-
Employer contributions	2.0	9.8	-	-
Participants' contributions	6.1	6.0	-	-
Settlements	(49.6)	(61.9)	-	-
Benefits paid	(21.7)	(21.0)	-	-
Administrative expenses	(2.7)	(4.2)	-	-
Transfers	-	0.7	-	-
Exchange rate	(55.2)	42.8	-	-
Fair value of plan assets at end of year	$ 717.3	$ 833.1	$ -	$ -
Funded status	$ (7.6)	$ 3.2	$ (58.0)	$ (67.6)
Amounts attributed to joint venture partners	(0.9)	(1.3)	-	-
Net funded status	$ (8.5)	$ 1.9	$ (58.0)	$ (67.6)
Amounts recognized in the Combined Balance Sheets consist of				
Noncurrent assets	$ 62.7	$ 71.3	$ -	$ -
Current liabilities	-	-	(3.3)	(3.4)
Noncurrent liabilities	(71.2)	(69.4)	(54.7)	(64.2)
Net amount recognized	$ (8.5)	$ 1.9	$ (58.0)	$ (67.6)
Amounts recognized in Accumulated other comprehensive loss consist of				
Net actuarial losses (gains)	$ 207.5	$ 205.1	$ (10.6)	$ (1.5)
Prior service cost	-	-	-	-
Total, before tax effect	207.5	205.1	(10.6)	(1.5)
Less: Amounts attributed to joint venture partners	1.7	1.8	-	-
Net amount recognized, before tax effect	$ 205.8	$ 203.3	$ (10.6)	$ (1.5)

(U.S. dollars in millions)

Components of net periodic benefit costs				
Service cost	$ 16.2	$ 18.1	$ 0.1	$ -
Interest cost	24.5	27.9	2.3	2.7
Expected return on plan assets	(47.2)	(50.6)	-	-
Amortization of prior service cost (benefit)	-	-	-	-
Recognized actuarial losses (gains)	6.4	4.9	(0.2)	(0.2)
Settlement	2.8	4.8	-	-
Special termination benefits	-	-	-	-
Curtailment	-	-	-	-
	$ 2.7	$ 5.1	$ 2.2	$ 2.5

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Other changes in plan assets and benefit obligations recognized in Other comprehensive (loss) income consist of				
Net loss (gain)	$ 11.6	$ (22.5)	$ (9.3)	$ (4.9)
Amortization of net (loss) gain	(9.2)	(4.9)	0.2	0.2
Prior service cost (credit)	-	-	-	-
Amortization of prior service benefit (cost)	-	-	-	-
Totals before tax effect	2.4	(27.4)	(9.1)	(4.7)
Less: Amounts attributed to joint venture partners	(0.1)	(0.7)	-	-
Net amount recognized before tax effect	$ 2.5	$ (26.7)	$ (9.1)	$ (4.7)

	Pension Benefits	Postretirement Benefits
	2019	2019
Amounts expected to be recognized in net periodic benefit cost		
Prior service cost (credit) recognition	$ -	$ -
Actuarial loss (gain) recognition	$ 6.3	$ (0.3)

Pension Plan Benefit Obligations

	Pension Benefits	
	2018	2017
The projected benefit obligation and accumulated benefit obligation for all defined benefit pension plans was as follows		
Projected benefit obligation	$ 724.9	$ 829.9
Accumulated benefit obligation	639.1	791.1
The aggregate projected benefit obligation and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets was as follows		
Projected benefit obligation	230.9	253.4
Fair value of plan assets	159.7	183.9
The aggregate accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets was as follows		
Accumulated benefit obligation	228.6	251.1
Fair value of plan assets	159.7	183.9

(U.S. dollars in millions)

Assumptions
Weighted average assumptions used to determine benefit obligations at December 31:

	2018	2017
Weighted average assumptions		
Discount rate, at year end	3.90 %	3.93 %
Rate of compensation increase	3.29 %	3.81 %

For a significant portion of the AWAC benefit obligation, the discount rate is based upon a yield available on government bonds plus a corporate bond spread with a term suitable to match the liabilities.

For plans in countries that have a deep corporate bond market, the discount rate is determined using yield curve models (above-median) developed with the assistance of an external actuary. The cash flows of these plans' projected benefit obligations are discounted using a single equivalent rate derived from yields on high quality corporate bonds, which represent a broad diversification of issuers in various sectors. The yield curve model parallels the plans' projected cash flows, which have an average duration of eleven years. The underlying cash flows of the bonds included in the model exceed the cash flows needed to satisfy plans' obligations multiple times.

Weighted average assumptions used to determine the net periodic benefit cost for years ended December 31:

	2018	2017	2016
Weighted average assumptions			
Discount rate, at year end	3.42 %	3.75 %	3.82 %
Expected long-term return on plan assets	6.28 %	6.81 %	6.82 %
Rate of compensation increase	3.81 %	4.25 %	3.65 %

The expected return on plan assets is based on historical performance as well as expected future rates of return on plan assets considering the current investment portfolio mix and the long-term investment strategy.

Assumed health care cost trend rates for other postretirement benefit plans were as follows at December 31:

	2018	2017	2016
Health care cost trend rate assumed for next year	5.5 %	5.5 %	5.5 %
Rate to which the cost trend rate gradually declines	4.5 %	4.5 %	4.5 %
Year that the rate reaches the rate it is assumed to remain	2022	2021	2020

(U.S. dollars in millions)

The assumed health care cost trend rate is used to measure the expected cost of gross eligible charges covered by Alcoa's other postretirement benefit plans. For 2019, a 5.5% trend rate will be used reflecting management's best estimate of the change in future health care costs covered by the plans.

Assumed health care cost trend rates have an effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	1%	
	Increase	**Decrease**
Effect on total of service and interest cost components	$ 0.3	$ (0.3)
Effect on postretirement benefit obligations	7.7	(6.5)

Plan Assets

AWAC's pension plans' investment policy, weighted average asset allocations at December 31, 2018 and 2017, by asset category, are as follows:

	Policy	**Plan Assets**	
	Range	**2018**	**2017**
Asset category			
Equity securities	10-70%	26 %	31 %
Debt securities	25-65%	53 %	42 %
Other	0-60%	21 %	27 %
		100 %	100 %

The basic goal underlying the pension plan investment policy is to ensure that the assets of the plan, along with expected plan sponsor contributions, will be invested in a prudent manner to meet the obligations of the plan as those obligations come due. Investment practices comply with applicable laws and regulations in the respective jurisdictions.

Each of the AWAC pension plans has its own policy range and their assets at year end are within those ranges. The Australia pension plan assets approximate 65% of the total assets and, therefore, their policy range is disclosed.

Numerous asset classes with differing expected rates of return, return volatility and correlations are utilized to reduce risk by providing diversification. Debt securities comprise a significant portion of the portfolio due to their plan-liability-matching characteristics and to address the plans' cash flow requirements. Additionally, diversification of investments within each asset class is utilized to further reduce the impact of losses in single investments. The use of derivative instruments is permitted where appropriate and necessary for achieving overall investment policy objectives.

The following section describes the valuation methodologies used by the trustee to measure the fair value of pension plan assets. For plan assets measured at net asset value, this refers to the net asset value of the investment on a per share basis (or its equivalent) as a practical expedient.

(U.S. dollars in millions)

Otherwise, an indication of the level in the fair value hierarchy in which each type of asset is generally classified is provided.

Equity Securities
These securities consist of: (i) direct investments in the stock of publicly traded U.S. and non-U.S. companies and are valued based on the closing price reported in an active market on which the individual securities are traded (generally classified in Level 1); and (ii) the plans' share of commingled funds that are invested in the stock of publicly traded companies and are valued at net asset value.

Debt Securities
These securities consist of: (i) U.S. government debt and are generally valued using quoted prices (included in Level 1); (ii) cash and cash equivalents invested in publicly-traded funds and are valued based on the closing price reported in an active market on which the individual securities are traded (generally classified in Level 1); (iii) publicly traded U.S. and non-U.S. fixed interest obligations (principally corporate bonds and debentures) and are valued through consultation and evaluation with brokers in the institutional market using quoted prices and other observable market data (included in Level 2); and (iv) cash and cash equivalents invested in institutional funds and are valued at net asset value.

Other Investments
These investments include, among others: (i) real estate investment trusts valued based on the closing price reported in an active market on which the investments are traded (included in Level 1); (ii) the plans' share of commingled funds that are invested in real estate partnerships and are valued at net asset value; and (iii) direct investments of discretionary and systematic macro hedge funds and private real estate (includes limited partnerships) and are valued at net asset value.

The fair value methods described above may not be indicative of net realizable value or reflective of future fair values. Additionally, while AWAC believes the valuation methods used by the plans' trustee are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables present the fair value of pension plan assets classified under the appropriate level of the fair value hierarchy:

	2018				
	Level 1	Level 2	Level 3	Net Asset Value	Total
Equity securities	$ 94.3	$ -	$ -	$ 122.3	$ 216.6
Debt securities	111.8	31.8	-	244.0	387.6
Other investments	11.1	-	-	102.0	113.1
	$ 217.2	$ 31.8	$ -	$ 468.3	$ 717.3

(U.S. dollars in millions)

	2017				
	Level 1	Level 2	Level 3	Net Asset Value	Total
Equity securities	$ 131.1	$ -	$ -	$ 162.0	$ 293.1
Debt securities	90.9	12.5	-	285.7	389.1
Other investments	13.2	-	-	137.7	150.9
	$ 235.2	$ 12.5	$ -	$ 585.4	$ 833.1

Cash Flows
The minimum required cash contribution to the pension plans in 2019 is estimated to be $2.0.

Benefit payments expected to be paid to plan participants are as follows:

	Pension Benefits	Postretirement Benefits
Years Ending		
2019	$ 61.4	$ 3.3
2020	61.3	3.4
2021	61.7	3.5
2022	61.8	3.5
2023	62.9	3.5
2024 through 2028	306.5	18.0
	$ 615.6	$ 35.2

Other Plans
Certain AWAC employees participate in a number of defined contribution plans sponsored by Alcoa. Expenses recognized by AWAC for these plans were $35.9 in 2018, $35.3 in 2017 and $34.2 in 2016.

Certain AWAC employees participate in pension and other postretirement benefit plans sponsored by Alcoa. Expenses recognized by AWAC for these plans were $7.6 and $3.5 in 2018, $8.1 and $4.2 in 2017, and $8.1 and $3.8 in 2016, respectively.

L. Income Taxes

The components of income before taxes were:

	2018	2017	2016
U.S.	$ (173.5)	$ (118.8)	$ (75.3)
Foreign	2,515.0	1,463.8	196.6
	$ 2,341.5	$ 1,345.0	$ 121.3

(U.S. dollars in millions)

The provision for taxes on income consisted of:

	2018	2017	2016
Current			
U.S. federal	$ 8.0	$ (0.7)	$ 5.6
Foreign	687.3	364.4	152.4
	695.3	363.7	158.0
Deferred			
U.S. federal	(3.7)	6.3	(4.5)
Foreign	9.7	73.7	(81.2)
	6.0	80.0	(85.7)
Total	$ 701.3	$ 443.7	$ 72.3

Reconciliation of the U.S. federal statutory rate to AWAC's effective tax rate follows:

	2018	2017	2016
U.S. federal statutory rate	21.0 %	35.0 %	35.0 %
Losses not taxed to AWAC (pass-through entities)	1.7	4.2	7.7
Taxes on foreign income	9.6	(5.8)	(7.0)
Tax holidays [1]	(1.8)	0.3	(13.1)
Changes in valuation allowance	(0.3)	(1.0)	33.6
Other	(0.2)	0.3	3.4
Effective tax rate	30.0 %	33.0 %	59.6 %

[1] In 2018 and 2017, the income of certain operations of AWAB was taxed at a lower rate as a result of approved tax holidays. The difference between the respective holiday rates and the statutory rates resulted in a benefit of $37 and $20 in 2018 and 2017, respectively. The majority of these tax holidays expire at the end of 2022 and one tax holiday expires at the end of 2026 (see below). In 2018 and 2017, this line item also includes a benefit of $5 and a charge of $26, respectively, for the remeasurement of certain deferred tax assets related to these tax holidays in Brazil see below).

In mid-2017, AWAB received approval for a tax holiday related to the operation of the Juruti (Brazil) bauxite mine. This tax holiday was made effective as of January 1, 2017 (retroactively) and decreases AWAB's tax rate on income generated by the Juruti mine from 34% to 15.25%, which will result in future cash tax savings over a 10-year period. As a result of this income tax rate change, AWAB's existing deferred tax assets that are expected to reverse during the holiday period were remeasured at the lower tax rate. In 2017, this remeasurement resulted in both a decrease to AWAB's deferred tax assets and a discrete income tax charge of $26. An updated analysis of the deferred tax assets expected to reverse during the holiday period resulted in both an increase to AWAB's deferred tax assets and a discrete income tax benefit of $5 in 2018.

(U.S. dollars in millions)

The components of net deferred tax assets and liabilities at December 31 follows:

	2018		2017	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Depreciation	$ 67.7	$ 197.7	$ 79.7	$ 191.5
Derivatives and Hedging Activities	-	31.7	-	46.0
Employee benefits	128.6	-	118.4	-
Loss provisions	109.0	-	111.1	-
Tax loss carryforwards	374.7	-	442.7	-
Tax credit carryforwards	-	-	-	-
Deferred income/expense	-	102.1	-	107.7
Other	21.1	0.8	13.5	14.6
	701.1	332.3	765.4	359.8
Valuation allowance	(307.1)	-	(348.0)	-
	$ 394.0	$ 332.3	$ 417.4	$ 359.8

The following table details the expiration periods of the deferred tax assets presented above:

	Expires within 10 Years	Expires within 11-20 Years	No Expiration	Other	Total
Tax loss carryforwards	$ 185.5	$ 1.6	$ 187.6	$ -	$ 374.7
Other	-	-	197.7	128.7	326.4
Valuation allowances	(185.5)	(1.6)	(20.3)	(99.7)	(307.1)
	$ -	$ -	$ 365.0	$ 29.0	$ 394.0

Deferred tax assets with no expiration may still have annual limitations on utilization. Other represents deferred tax assets whose expiration is dependent upon the reversal of the underlying temporary difference. The total deferred tax asset (net of valuation allowance) is supported by projections of future taxable income exclusive of reversing temporary differences and taxable temporary differences that reverse within the carryforward period.

The following table details the changes in the valuation allowance at December 31:

	2018	2017	2016
Balances at beginning of year	$ 348.0	$ 333.7	$ 284.8
Establishment of new allowances	1.6	-	-
Net change to existing allowances	(39.9)	11.9	49.2
Foreign currency translation	(2.6)	2.4	(0.3)
Balances at end of year	$ 307.1	$ 348.0	$ 333.7

(U.S. dollars in millions)

On December 22, 2017, U.S. tax legislation known as the U.S. Tax Cuts and Jobs Act of 2017 (the "TCJA") was enacted. For corporations, the TCJA amends the U.S. Internal Revenue Code by reducing the corporate income tax rate to 21% from 35% and modifying several business deduction and international tax provisions. The Company's preliminary analysis of the provisions of the TCJA resulted in a charge of $3.7, which was reflected in the Provision for income taxes on the accompanying Combined Statements of Income for 2017. The $3.7 charge relates specifically to management's reasonable estimate of the corporate income tax rate change, which resulted in the remeasurement of AWAC's deferred income tax accounts. The Company determined the remaining provisions of the TCJA have no impact on the Company's 2017 Combined Financial Statements. The Company's preliminary analysis and provisional estimates of the financial statement impacts of the TCJA were completed in accordance with guidance issued by the SEC under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act.

Throughout the majority of 2018, management continued to gather information and perform additional analysis of the TCJA provisions related to AWAC's 2017 Combined Financial Statements. Upon completion of this analysis, management concluded that there was no material impact to the Company's 2017 Combined Financial Statements related to both the reduced corporate income tax rate and other applicable provisions of the TCJA.

Also in 2018, management completed its analysis of the impact of the tax law changes. None of the remaining provisions of the TCJA had a material impact to AWAC's 2018 Combined Financial Statements.

M. Derivatives and Other Financial Instruments

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (i) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (ii) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs that are both significant to the fair value measurement and unobservable.

(U.S. dollars in millions)

Derivatives

AWAC is exposed to certain risks relating to its ongoing business operations, including financial, market, political, and economic risks. The following discussion provides information regarding AWAC's exposure to the risks of changing commodity prices and foreign currency exchange rates.

AWAC's commodity and derivative activities are subject to the management, direction, and control of Alcoa's Strategic Risk Management Committee (SRMC), which consists of at least three members, including the chief executive officer and the chief financial officer. The remaining member of the SRMC is the treasurer. The SRMC meets on a periodic basis to review derivative positions and strategy and reports.

The aluminum, energy and foreign exchange contracts are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility, and to cover underlying exposures. AWAC is not involved in trading activities for energy, weather derivatives, or other nonexchange commodity trading activities.

Several of AWAC's aluminum and foreign exchange contracts are classified as Level 1 or Level 2 under the fair value hierarchy. The total fair value of these derivative contracts recorded as liabilities was $38.5 at December 31, 2018. The total fair value of these derivative contracts recorded as assets and liabilities was $33.4 and $113.5, respectively, at December 31, 2017. In 2017 and 2016, AWAC recognized a loss of $27.2 and $0.2, respectively, in Other (income) expense, net on the accompanying Combined Statements of Income related to these contracts. For the contracts designated as cash flow hedges, AWAC recognized an unrealized gain of $27.5, unrealized loss of $78.5, and an unrealized gain of $1.5 in Other comprehensive (loss) income in 2018, 2017, and 2016, respectively. Additionally, AWAC reclassified a realized loss of $14.2 and a realized gain of $0.3 in 2018 and 2017, respectively, from Accumulated other comprehensive loss to Sales.

In addition to the derivative instruments described above, AWAC has two derivative instruments classified as Level 3 under the fair value hierarchy. These instruments are composed of one embedded aluminum derivative and a freestanding financial contract related to energy purchases in the spot market associated with a smelter and three refineries. The financial contract was designated as a cash flow hedging instrument and the embedded aluminum derivative was not designated as a hedging instrument.

The following section describes the valuation methodologies used by AWAC to measure its Level 3 derivative instruments at fair value. Derivative instruments classified as Level 3 in the fair value hierarchy represent those in which management has used at least one significant unobservable input in the valuation model. AWAC uses a discounted cash flow model to fair value all Level 3 derivative instruments. Where appropriate, the description below includes the key inputs to those models and any significant assumptions. These valuation models are reviewed and tested at least on an annual basis.

Inputs in the valuation models for Level 3 derivative instruments are composed of the following: (i) quoted market prices (e.g., aluminum prices on the 10-year London Metal Exchange (LME) forward curve and energy prices), (ii) significant other observable inputs (e.g., information concerning time premiums and volatilities for certain option type embedded derivatives, and (iii) unobservable inputs (e.g., aluminum and energy prices beyond quoted in the market). For periods beyond the term of quoted market prices for aluminum, AWAC estimates the price of

(U.S. dollars in millions)

aluminum by extrapolating the 10-year LME forward curve. Additionally, for periods beyond the term of quoted market prices for energy, management has developed a forward curve based on independent consultant market research. Where appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads, and credit considerations. Such adjustments are generally based on available market evidence (Level 2). In the absence of such evidence, management's best estimate is used (Level 3). If a significant input that is unobservable in one period becomes observable in a subsequent period, the related asset or liability would be transferred to the appropriate classification (Level 1 or 2) in the period of such change (there were no such transfers in the periods presented).

AWAC had a power contract (which expired in 2016) that contains an LME-linked embedded derivative. Prior to its expiration, the embedded derivative was valued using the probability and interrelationship of future LME prices, Australian dollar to U.S. dollar exchange rates, and the U.S. consumer price index. Significant increases or decreases in the LME price would result in a higher or lower fair value measurement. An increase in actual LME price over the inputs used in the valuation model will result in a higher cost of power and a corresponding decrease to the derivative asset. This embedded derivative did not qualify for hedge accounting treatment. Unrealized gains and losses from the embedded derivative were included in Other (income) expense, net on the accompanying Combined Statement of Income while realized gains and losses were included in Cost of goods sold on the accompanying Combined Statement of Income as electricity purchases were made under the contract. At the time this derivative asset was recognized, an equivalent amount was recognized in Deferred credit related to derivative contracts. The amortization of this deferred credit was recognized in Other (income) expense, net on the accompanying Combined Statement of Income as power was received over the life of the contract.

Additionally, AWAC had a natural gas supply contract (expired in October 2018), which has an LME-linked ceiling. Prior to its expiration, this embedded derivative was valued using probabilities of future LME aluminum prices and the price of Brent crude oil (priced on Platts), including the interrelationships between the two commodities subject to the ceiling. Any change in the interrelationship would result in a higher or lower fair value measurement. An LME ceiling was embedded into the contract price to protect against an increase in the price of oil without a corresponding increase in the price of LME. An increase in oil prices with no similar increase in the LME price would limit the increase of the price paid for natural gas. This embedded derivative did not qualify for hedge accounting treatment. Unrealized gains and losses from the embedded derivative were included in Other (income) expense, net on the accompanying Combined Statement of Income while realized gains and losses were included in Cost of goods sold on the accompanying Combined Statement of Income as gas purchases were made under the contract.

Finally, AWAC had a financial contract that hedged the anticipated power requirements at one of its smelters that began in November 2016. At that time, the energy supply contract related to this smelter had expired and AWAC began purchasing electricity directly from the spot market. Beyond the term where market information is available, management developed a forward curve, for valuation purposes, based on independent consultant market research. Significant increases or decreases in the power market may result in a higher or lower fair value measurement. Lower prices in the power market would cause a decrease in the derivative asset. The financial contract had been designated as a cash flow hedge of future purchases of electricity (this designation ceased in December 2016 – see below). Through November 2016, unrealized gains and losses on this contract were recorded in Other comprehensive (loss) income on the accompanying Combined Balance Sheet while realized gains and losses were recorded in Cost of goods sold as electricity purchases are made under the power contract. In August 2016, AWAC gave the required notice to terminate this financial contract one year from the date of notification. As a result, AWAC

(U.S. dollars in millions)

decreased both the related derivative asset recorded in Other non-current assets and the unrealized gain recorded in Accumulated other comprehensive loss by $84, which related to the August 2017 through 2036 timeframe, resulting in no impact to AWAC's earnings. In December 2016, a portion of this contract no longer qualified for hedge accounting treatment due to an outage at the smelter, at which point management elected to discontinue hedge accounting for the entire contract. As a result, AWAC reclassified an unrealized gain of $7.5 from Accumulated other comprehensive loss to Other (income) expense, net related to the portion of the contract that no longer qualified for hedge accounting. The remaining unrealized gain in Accumulated other comprehensive loss will be reclassified to Other (income) expense, net as electricity purchases are made under the power contract through the termination date. Additionally, from December 2016 through August 2017, unrealized gains and losses on this contract were recorded in Other (income) expense, net, and realized gains and losses were recorded in Other (income) expense, net as electricity purchases were made from the spot market.

In January 2017, AWAC and the counterparty entered into a new financial contract to hedge the anticipated power requirements at the smelter for the period from August 2017 through July 2021 and amended the existing financial contract to both reduce the hedged amount of anticipated power requirements and to move up the effective termination date to July 31, 2017. The new financial contract has been designated as a cash flow hedge of future purchases of electricity. Unrealized gains and losses on the new financial contract were recorded in Other comprehensive (loss) income on the accompanying Combined Balance Sheet while realized gains and losses were recorded (began in August 2017) in Cost of goods sold as electricity purchases were made from the spot market.

The following table presents quantitative information related to the significant unobservable inputs described above for Level 3 derivative instruments:

	Fair Value at December 31, 2018	Unobservable Input	Range ($ in Full Amounts)
Assets			
Financial contract	$ 112.2	Interrelationship of forward energy price and the Consumer Price Index and the price of electricity beyond forward curve	Electricity: $68.60 per megawatt hour in 2019 to $44.91 per megawatt hour in 2021

(U.S. dollars in millions)

The fair value of the Level 3 derivative instrument recorded as an asset in the accompanying Combined Balance Sheet was as follows:

	December 31, 2018	December 31, 2017
Asset derivatives		
Derivatives designated as hedging instruments		
Fair value of derivative contracts–current		
Financial contract	$ 70.3	$ 95.7
Fair value of derivative contracts–noncurrent		
Financial contract	41.9	101.7
Total asset derivatives	$ 112.2	$ 197.4

The following table shows the fair value of the Level 3 derivative instruments at December 31, 2018 and the effect on these amounts of a hypothetical change (increase or decrease of 10%) in the market prices or rates that existed as of December 31, 2018:

	Fair Value Asset	Index Change of +/- 10%
Financial contract	$ 112.2	$ 35.7

The following tables present a reconciliation of activity for Level 3 derivative contracts:

	Assets	
2018	**Embedded Aluminum Derivatives**	**Financial Contract**
Opening balance—January 1, 2018	$ -	$ 197.4
Total gains or losses (realized and unrealized) included in		
Sales	-	-
Cost of goods sold	-	(62.3)
Other (income) expense, net	(0.7)	-
Other comprehensive (loss) income	-	(11.1)
Purchases, sales, issuances, and settlements	-	-
Transfers into and/or out of Level 3	-	-
Other	0.7	(11.8)
Closing balance—December 31, 2018	$ -	$ 112.2
Change in unrealized gains or losses included in earnings for derivative contracts held at December 31, 2018		
Sales	$ -	$ -
Cost of goods sold	-	-
Other (income) expense, net	(0.7)	-

(U.S. dollars in millions)

2017	Assets: Embedded Aluminum Derivatives	Assets: Financial Contract
Opening balance—January 1, 2017	$ -	$ 17.4
Total gains or losses (realized and unrealized) included in		
Sales	-	-
Cost of goods sold	-	(31.2)
Other (income) expense, net	(0.8)	(7.2)
Other comprehensive (loss) income	-	87.8
Purchases, sales, issuances, and settlements	-	118.9
Transfers into and/or out of Level 3	-	-
Other	0.8	11.7
Closing balance—December 31, 2017	$ -	$ 197.4
Change in unrealized gains or losses included in earnings for derivative contracts held at December 31, 2017		
Sales	$ -	$ -
Cost of goods sold	-	-
Other (income) expense, net	(0.8)	(7.2)

Derivatives Designated As Hedging Instruments – Cash Flow Hedges
For derivative instruments that are designated and qualify as cash flow hedges, effective on January 1, 2018, the entire amount of unrealized gains or losses on the derivative is reported as a component of Other comprehensive (loss) income. Prior to January 1, 2018, only the effective portion of unrealized gains or losses on the derivative is reported as a component of Other comprehensive (loss) income while the ineffective portion of unrealized gains or losses is recognized directly in earnings immediately. On April 1, 2018, AWAC adopted guidance issued by the FASB to the accounting for hedging activities (see Recently Adopted Accounting Guidance in Note A), which included the elimination of the concept of ineffectiveness. Accordingly, there is no longer a requirement to separately measure and report ineffectiveness. In all periods presented, realized gains or losses on the derivative are reclassified from Other comprehensive (loss) income into earnings in the same period or periods during which the hedged transaction impacts earnings. Additionally, gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized directly in earnings immediately.

AWAC had a financial contract that hedges the anticipated power requirements at its smelter that became effective when the existing power contract expired in October 2016. In August 2016, AWAC elected to terminate most of the remaining term of this financial contract (see above). Additionally, in December 2016, AWAC elected to discontinue hedge accounting for this contract (see above). This financial contract hedged forecasted electricity purchases of 1,969,544 megawatt hours prior to December 2016. In 2017, AWAC reclassified a realized gain of $6.0 from Accumulated other comprehensive loss to Cost of goods sold. In 2016, AWAC recognized an unrealized gain of $96.5 in Other comprehensive (loss) income. Additionally, AWAC recognized a gain of $3.0 in Other (income) expense, net related to hedge ineffectiveness in 2016.

In addition, in January 2017, AWAC entered into a new financial contract that hedges the anticipated power requirements at the smelter for the period from August 2017 through July 2021

(U.S. dollars in millions)

(see above). At December 31, 2018 and 2017, this financial contract hedges forecasted electricity purchases of 6,348,276 and 8,805,456, respectively, megawatt hours. In 2018 and 2017, AWAC recognized an unrealized loss of $11.1 and an unrealized gain of $87.8, respectively, in Other comprehensive (loss) income. Additionally, AWAC reclassified a realized gain of $62.3 and $25.2 in 2018 and 2017, respectively, from Accumulated other comprehensive loss to Cost of goods sold. Assuming market rates remain consistent with the rates at December 31, 2018, a realized gain of $70.3 is expected to be recognized in Cost of goods sold over the next 12 months. Additionally, AWAC recognized a loss of $0.3 in Other income, net related to hedge ineffectiveness in 2017.

Derivatives Not Designated As Hedging Instruments
AWAC had one Level 3 embedded aluminum derivative (expired in October 2018) that does not qualify for hedge accounting treatment and one Level 3 financial contract that elected to discontinue hedge accounting treatment (see above). As such, gains and losses related to the changes in fair value of these instruments are recorded directly in earnings. In 2018, 2017, and 2016, AWAC recognized a loss of $0.7, $0.8, and $12.7, respectively, in Other (income) expense, net related to the embedded aluminum derivatives. In 2017 and 2016, AWAC recognized a loss of $7.0 and a gain of $3.0, respectively in Other (income) expense, net related to the financial contract.

Material Limitations
The disclosures with respect to commodity prices, interest rates, and foreign currency exchange risk do not take into account the underlying commitments or anticipated transactions. If the underlying items were included in the analysis, the gains or losses on the futures contracts may be offset. Actual results will be determined by a number of factors that are not under AWAC's control and could vary significantly from those factors disclosed.

AWAC is exposed to credit loss in the event of nonperformance by counterparties on the above instruments, as well as credit or performance risk with respect to its hedged customers' commitments. Although nonperformance is possible, AWAC does not anticipate nonperformance by any of these parties. Contracts are with creditworthy counterparties and are further supported by cash, treasury bills, or irrevocable letters of credit issued by carefully chosen banks. In addition, various master netting arrangements are in place with counterparties to facilitate settlement of gains and losses on these contracts.

Other Financial Instruments
The carrying values and fair values of AWAC's financial instruments at December 31 were as follows:

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 740.3	$ 740.3	$ 631.9	$ 631.9
Short-term borrowings	0.4	0.4	4.6	4.6
Long-term debt	84.4	84.4	17.5	17.5

The following methods were used to estimate the fair value of other financial instruments:

(U.S. dollars in millions)

Cash and Cash Equivalents and Short-Term Borrowings
The carrying amounts approximate fair value because of the short maturity of the instruments. The fair value amounts for Cash and cash equivalents were classified in Level 1 and Short-term borrowings were classified in Level 2.

Long-Term Debt
The fair value of long-term debt is based on anticipated cash flows which approximates carrying value and was classified in Level 2 of the fair value hierarchy.

N. Cash Flow Information

Cash payments for interest and taxes follow:

	2018	2017	2016
Interest, net of amount capitalized	$ 6.1	$ 1.1	$ 2.9
Income taxes, net of amount refunded	451.3	254.6	226.0

O. Contingencies and Commitments

Contingencies
Litigation
In early 2014, Alcoa and one of its subsidiaries, AWA, resolved violations of certain provisions of the Foreign Corrupt Practices Act of 1977 with the U.S. Department of Justice and U.S. Securities and Exchange Commission. Under the resolution, AWA agreed to pay a combined $384 over a four-year timeframe. The amount of the remaining obligation at December 31, 2018 and 2017 was $0.0 and $74.0, respectively. The final $74.0 installment was paid in January 2018.

On December 16, 2016, Boskalis International B.V. (Boskalis) initiated a binding arbitration proceeding against Suriname Aluminum Company, LLC (Suralco), seeking $47 plus prejudgment interest and associated taxes in connection with a dispute arising under a contract for mining services in Suriname between Boskalis and Suralco. Boskalis asserted four separate claims under the contract.

In February 2018, the arbitration hearing was held before a three-person panel under the rules of the International Chamber of Commerce. The panel issued its decision on May 29, 2018, finding in favor of Boskalis on two claims and against Boskalis on two claims. For the two claims on which Boskalis prevailed, the panel awarded Boskalis $29, including prejudgment interest of $3. The award is final and cannot be appealed. Accordingly, AWAC recorded a charge of $29, including $26 in Cost of goods sold and $3 in Interest expense on the accompanying Combined Statement of Income. On June 6, 2018, AWAC made the $29 cash payment to Boskalis closing this matter.

The claim that represented the majority of the arbitration award centered around a contract provision requiring Suralco to make a “true up” payment at the end of the contract in the event that Suralco was unable to receive delivery of the full contract quantity, thus allowing Boskalis to recover its fixed production costs and a suitable return on its investment. While Suralco argued that all required deliveries had been made during the amended contract term and that no “true up” payment was required because a “true up” would amount to a double payment for bauxite deliveries after the initial contract term, Boskalis argued that the deliveries were not made within the original contract term and thus, a “true up” payment was required. On the basis of its analysis

(U.S. dollars in millions)

of the facts and applicable law, management concluded that the likelihood of an unfavorable decision on Boskalis' claims was remote (25% or less). Throughout the course of the proceeding, and even after the conclusion of the hearing, management's judgment of the likelihood of an unfavorable outcome remained the same.

Other

In March 2013, AWAB was notified by the Brazilian Federal Revenue Office (RFB) that approximately $110 (R$220) of value added tax credits previously claimed are being disallowed and a penalty of 50% assessed. Of this amount, AWAB received $41 (R$82) in cash in May 2012. The value-added tax credits were claimed by AWAB for both fixed assets and export sales related to the Juruti bauxite mine and São Luís refinery expansion. The RFB has disallowed credits they allege belong to the consortium in which AWAB owns an interest and should not have been claimed by AWAB. Credits have also been disallowed as a result of challenges to apportionment methods used, questions about the use of the credits, and an alleged lack of documented proof. AWAB presented defense of its claim to the RFB on April 8, 2013. If AWAB is successful in this administrative process, the RFB would have no further recourse. If unsuccessful in this process, AWAB has the option to litigate at a judicial level. Separately from AWAB's administrative appeal, in June 2015, new tax law was enacted repealing the provisions in the tax code that were the basis for the RFB assessing a 50% penalty in this matter. As such, the estimated range of reasonably possible loss is $0 to $27 (R$103), whereby the maximum end of the range represents the portion of the disallowed credits applicable to the export sales and excludes the 50% penalty. Additionally, the estimated range of disallowed credits related to AWAB's fixed assets is $0 to $30 (R$117), which would increase the net carrying value of AWAB's fixed assets if ultimately disallowed. It is management's opinion that the allegations have no basis; however, at this time, the Company is unable to reasonably predict an outcome for this matter.

In addition to the matters discussed above, various other lawsuits, claims, and proceedings have been or may be instituted or asserted against AWAC, including those pertaining to environmental, product liability, and safety and health and tax matters. While the amounts claimed may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that AWAC's liquidity or results of operations in a particular period could be materially affected by one or more of these other matters. However, based on facts currently available, management believes that the disposition of these other matters that are pending or asserted will not have a material adverse effect, individually or in the aggregate, on the combined financial position of AWAC.

Pursuant to the terms of the Formation Agreement, Alcoa and Alumina Limited have agreed to remain liable for Extraordinary Liabilities (as defined in the agreement) as well as for certain other preformation liabilities, such as existing environmental conditions, to the extent of their preformation ownership of the company or asset with which the liability is associated.

(U.S. dollars in millions)

Commitments

On April 8, 2015, Alcoa of Australia Limited (AofA) secured a new 12-year gas supply agreement to power its three alumina refineries in Western Australia beginning in July 2020. This agreement was conditional on the completion of a third-party acquisition of the related energy assets from the then-current owner, which occurred in June 2015. The terms of the gas supply agreement required AofA to make a prepayment of $500.0 in two installments. The first installment of $300.0 was made at the time of the completion of the third-party acquisition in June 2015 and the second installment of $200.0 was made in April 2016. At December 31, 2018 and 2017, AofA has an asset of $458 and $511, respectively, representing the respective prepayments made under this agreement, which was included in Other noncurrent assets on the accompanying Combined Balance Sheet.

In connection with the sale of Alcoa Specialty Chemicals ("ASC"), in 2004 AWAC entered into a 20 year agreement to supply ASC with approximately 488,000 tons of alumina feedstock annually. The first five years of the contract provide for a fixed price with adjustments in pricing to the extent certain AWAC costs fluctuate outside of agreed upon thresholds. In years six through ten pricing is tied to an industry-accepted index, and in the final ten years the pricing is to be negotiated.

AWAC has entered into other purchase commitments for energy, raw materials, freight and other goods and services which total $1,295.8 in 2019, $932.8 in 2020, $877.4 in 2021, $928.6 in 2022, $937.5 in 2023, and $6,445.1 thereafter.

AWAC has outstanding bank guarantees and letters of credit primarily related to environmental and leasing obligations, legal matters, and customs duties, among others. The total amount committed under these instruments, which automatically renew or expire at various dates, mostly in 2019, was $153.0 at December 31, 2018. AWAC has outstanding surety bonds primarily related to customs duties. The total amount committed under these bonds, which automatically renew or expire at various dates, between 2019 and 2021, was $6.5 at December 31, 2018.

P. Environmental Matters

AWAC participates in environmental assessments and cleanups at a number of locations. A liability is recorded for environmental remediation when a cleanup program becomes probable and the costs can be reasonably estimated. See Note A for additional information. As assessments and cleanups proceed, the liability is adjusted based on progress in determining the extent of remedial actions and related costs. The liability can change substantially due to factors such as the nature and extent of contamination, changes in remedial requirements and technological changes. Therefore, it is not possible to determine the outcomes or estimate with any degree of accuracy the potential costs for certain of these matters.

AWAC's remediation reserve balance was $48.1 and $44.2 as of December 31, 2018 and 2017 (of which $13.8 and $16.9 was classified as a current liability), respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated.

(U.S. dollars in millions)

Q. Restructuring and Other Charges

Restructuring and other charges were $84.8, $10.0 and $322.9 during each of the periods ending December 31, 2018, 2017 and 2016, respectively. Additionally, remaining inventories, mostly operating supplies and raw materials, related to restructuring actions were written down to their net realizable value, resulting in charges of $0.7, $0.0, and $3.6, which were recorded in Cost of goods sold on the accompanying Combined Statement of Income.

	2018	2017	2016
Asset impairment	$ 78.1	$ 1.0	$ 198.1
Environmental liabilities and asset retirement obligations	7.4	4.0	91.0
Severance and other exit costs	(0.7)	5.0	33.8
	$ 84.8	$ 10.0	$ 322.9

During 2018, AWAC incurred $7.4 for environmental liabilities and asset retirement obligations primarily related to the Australia and St. Croix locations. Additionally, AWAC incurred $77.6 to establish an allowance on certain value-added tax credits related to AWA Brazil (see Note G).

During 2017, AWAC incurred $4.0 for environmental liabilities and asset retirement obligations primarily related to the Jamaica refinery and the Suriname refinery. Additionally, AWAC incurred $5.0 of severance and other exit costs primarily related to a pension settlement in Australia.

During 2016, AWAC announced the closure of the Suriname mine and refinery and incurred charges of $65.3 in asset retirement obligations and $25.7 in environmental remediation. In addition, AWAC concluded that its interest in a gas exploration project was impaired and recorded a $72.3 asset impairment associated with the gas wells. Finally, AWAC incurred $33.8 of severance and other exit costs primarily related to the aforementioned Suriname closure and a pension settlement in Australia.

AWAC conducts impairment tests on long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable based on estimated future cash flows. In late 2016, the Portland smelter suffered a power outage causing significant disruption to its operations. This event was determined to be an impairment indicator and the Portland smelter long-lived assets were evaluated for impairment. As a result of the impairment evaluation in 2016, an impairment charge of $125.8 was recorded.

(U.S. dollars in millions)

Activity and reserve balances for restructuring charges were as follows:

Reserve balance at December 31, 2015	$ 60.7
Cash payments	(43.6)
Restructuring charges	322.9
Asset impairment	(198.1)
Environmental liabilities and asset retirement obligations	(91.0)
Pension adjustments	(15.7)
Suriname receivable write-off	(13.3)
Other exit costs	(4.8)
Reserve balance at December 31, 2016	17.1
Cash payments	(12.2)
Restructuring charges	10.0
Asset impairment	(1.0)
Environmental liabilities and asset retirement obligations	(4.0)
Pension adjustments	(4.8)
Other exit costs	(0.2)
Reserve balance at December 31, 2017	4.9
Cash payments	(0.6)
Restructuring charges	84.8
Asset impairment	(78.1)
Environmental liabilities and asset retirement obligations	(7.4)
Pension adjustments	(2.8)
Other exit costs	3.5
Reserve balance at December 31, 2018	$ 4.3

R. Other (Income) Expense, Net

	2018	2017	2016
Interest income	$ (8.3)	$ (3.8)	$ (2.2)
Equity (earnings) loss	(32.5)	5.0	39.5
Gain from asset sales	-	(0.6)	(35.5)
Foreign currency (gains)/losses, net	(29.6)	21.4	11.4
Loss on derivatives activity	-	10.9	0.8
Other, net	(8.2)	(1.9)	4.4
	$ (78.6)	$ 31.0	$ 18.4

In 2016, Gain from asset sales included a $27.2 gain related to the sale of an equity interest in a natural gas pipeline in Australia (see Note F).

S. Accumulated Other Comprehensive Loss

The following table details the activity of the three components that comprise Accumulated other comprehensive loss for AWAC:

(U.S. dollars in millions)

	2018	2017	2016
Pension and other postretirement benefits			
Balance at beginning of period	$ (120.0)	$ (149.7)	$ (140.6)
Other comprehensive (loss) income			
Unrecognized net actuarial (loss) income and prior service cost/benefit	(5.9)	31.4	(7.1)
Tax (expense) benefit	(1.5)	(5.6)	22.9
Total other comprehensive (loss) income before reclassifications, net of tax	(7.4)	25.8	15.8
Amortization of net actuarial loss and prior service cost/benefit [1]	9.0	4.7	11.2
Tax benefit (expense) [2]	2.3	(0.8)	(36.1)
Total amount reclassified from Accumulated other comprehensive loss, net of tax [5]	11.3	3.9	(24.9)
Total other comprehensive (loss) income	3.9	29.7	(9.1)
Balance at end of period	(116.1)	(120.0)	(149.7)
Foreign currency translation			
Balance at beginning of period	(1,602.6)	(1,834.8)	(2,101.1)
Other comprehensive (loss) income [3]	(587.8)	232.2	266.3
Balance at end of period	(2,190.4)	(1,602.6)	(1,834.8)
Cash flow hedges			
Balance at beginning of period	70.0	2.4	(8.6)
Other comprehensive (loss) income			
Net change from periodic revaluations	16.4	128.2	95.0
Tax expense	(4.9)	(38.5)	(28.4)
Total other comprehensive (loss) income before reclassifications, net of tax	11.5	89.7	66.6
Net amount reclassified to earnings:			
Energy contracts [4]	-	-	0.7
Aluminum contracts [6]	8.4	2.0	-
Foreign exchange contracts [6]	5.8	(2.4)	-
Financial contracts [7]	(61.1)	(31.2)	(91.7)
Interest rate contracts [4]	-	-	11.6
Tax benefit	14.1	9.5	23.8
Total amount reclassified from Accumulated other comprehensive loss, net of tax	(32.8)	(22.1)	(55.6)
Total other comprehensive (loss) income, net of tax	(21.3)	67.6	11.0
Balance at end of period	$ 48.7	$ 70.0	$ 2.4

(1) These amounts were included in the computation of net periodic benefit cost for pension and other postretirement benefits (Note K).

(2) These amounts were included in Provision for income taxes on the accompanying Combined Statement of Income.

(3) In all periods presented, there were no tax impacts related to rate changes and no amounts were reclassified to earnings.

(4) These amounts were included in Other (income) expense, net on the accompanying Combined Statement of Income.

(5) A positive amount indicates a corresponding charge to earnings and a negative amount indicates a corresponding benefit to earnings. These amounts were reflected on the accompanying Combined Statement of Income in the line items indicated in footnotes 1 through 4.

(6) These amounts were included in Sales on the accompanying Combined Statement of Income.

(7) These amounts were included in Cost of goods sold on the accompanying Combined Statement of Income.

(U.S. dollars in millions)

T. Subsequent Events

The combined financial statements of AWAC are derived from the financial statements of Alcoa, which were issued on February 25, 2019. Accordingly, AWAC management has evaluated transactions for consideration as recognized subsequent events in the annual financial statements through the date of February 25, 2019. Additionally, AWAC has evaluated transactions that occurred as of the issuance of these combined financial statements, March 14, 2019, for purposes of disclosure of unrecognized subsequent events.

Supplementary Combining Information

Report of Independent Auditors

To the Members of the Strategic Council of
Alcoa World Alumina and Chemicals
(Majority-owned by Alcoa Corporation)

We have audited the combined financial statements of Alcoa World Alumina and Chemicals ("AWAC") as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the combined financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
March 14, 2019

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