

Alcoa World Alumina and Chemicals

(Majority owned by Alcoa Corporation)

**Combined Financial Statements and
Supplementary Combining Information
December 31, 2021 and 2020 and for Each of the
Three Years in the Period Ended December 31, 2021**

Alcoa World Alumina and Chemicals

(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)

Opinion

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, 2021 and 2020, and the related combined statements of income, comprehensive income (loss), cash flows, and changes in members’ equity for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the “combined financial statements”).

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors’ Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material



if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania

March 10, 2022

Alcoa World Alumina and Chemicals
(Majority owned by Alcoa Corporation)
Combined Balance Sheets
Years Ended December 31, 2021 and 2020

<i>(U.S. dollars in millions)</i>	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 443.8	\$ 440.2
Receivables from customers	320.1	183.5
Related party receivables (I)	180.1	99.5
Other receivables	41.8	24.0
Inventories (D)	682.5	567.1
Fair value of derivative contracts (M)	2.2	5.4
Prepaid expenses and other current assets	142.5	111.5
Total current assets	1,813.0	1,431.2
Properties, plants and equipment, net (E and J)	2,889.5	3,151.7
Investments (F)	466.9	448.4
Deferred income taxes (L)	73.7	190.3
Gas supply prepayment (O)	376.9	439.1
Other noncurrent assets (G)	750.7	749.0
Total assets	<u>\$ 6,370.7</u>	<u>\$ 6,409.7</u>
Liabilities		
Current liabilities		
Short-term borrowings and current portion of long term debt (H)	\$ 75.1	\$ 77.7
Accounts payable, trade	662.2	512.5
Accounts payable, related party (I)	48.9	77.5
Accrued compensation and retirement costs	194.9	201.8
Taxes, including taxes on income	152.6	26.9
Fair value of derivative contracts (M)	-	2.5
Other current liabilities	167.0	211.0
Total current liabilities	1,300.7	1,109.9
Long term debt, less amount due within one year (H)	0.9	0.8
Accrued pension benefits (K)	33.5	69.5
Accrued other postretirement benefits (K)	50.5	58.5
Deferred alumina sales revenue (A)	36.4	44.5
Deferred income taxes (L)	168.3	147.8
Asset retirement obligations (C)	466.8	500.2
Noncurrent accrued tax liability (L)	173.8	169.0
Other noncurrent liabilities and deferred credits	171.2	195.1
Total liabilities	<u>2,402.1</u>	<u>2,295.3</u>
Contingencies and commitments (O)		
Members' equity		
Members' equity	6,549.9	6,588.3
Accumulated other comprehensive loss (S)	(2,581.3)	(2,473.9)
Total members' equity	<u>3,968.6</u>	<u>4,114.4</u>
Total liabilities and members' equity	<u>\$ 6,370.7</u>	<u>\$ 6,409.7</u>

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, 2021, 2020 and 2019

(U.S. dollars in millions)

	2021	2020	2019
Revenues			
Sales	\$ 3,711.4	\$ 3,118.0	\$ 3,771.8
Sales to related parties (I)	1,512.7	1,211.5	1,444.0
	<u>5,224.1</u>	<u>4,329.5</u>	<u>5,215.8</u>
Costs and expenses			
Cost of goods sold (exclusive of expenses below)	3,945.1	3,308.0	3,537.6
Selling, general administrative, and other expenses	78.4	72.9	105.2
Research and development expenses	18.2	17.0	16.6
Provision for depreciation, depletion and amortization	326.7	288.4	306.0
Restructuring and other charges (Q)	63.6	8.1	294.8
Interest expense	1.9	2.1	3.7
Other (income) expense, net (R)	(28.1)	25.8	(8.0)
	<u>4,405.8</u>	<u>3,722.3</u>	<u>4,255.9</u>
Income before income taxes	818.3	607.2	959.9
Provision for taxes on income (L)	374.5	205.6	394.8
Net income	<u>\$ 443.8</u>	<u>\$ 401.6</u>	<u>\$ 565.1</u>

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
Years Ended December 31, 2021, 2020 and 2019

(U.S. dollars in millions)

	2021	2020	2019
Net income	\$ 443.8	\$ 401.6	\$ 565.1
Other comprehensive (loss) income			
Foreign currency translation adjustments	(239.1)	(42.0)	(71.0)
Change in unrecognized gains (losses) and prior service cost related to pension and other postretirement benefit plans, net of tax	133.6	(24.4)	(28.1)
Unrecognized (losses) gains on cash flow hedges, net of tax	(1.9)	(40.8)	(9.8)
Total other comprehensive (loss) income	(107.4)	(107.2)	(108.9)
Comprehensive income	\$ 336.4	\$ 294.4	\$ 456.2

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, 2021, 2020 and 2019

<i>(U.S. dollars in millions)</i>	2021	2020	2019
Cash from operations			
Net income	\$ 443.8	\$ 401.6	\$ 565.1
Adjustments to reconcile net loss to cash from operations			
Depreciation, depletion and amortization	326.7	288.4	306.0
Deferred income taxes	136.4	(0.7)	(4.3)
Equity earnings, net of dividends	(16.9)	1.7	(23.7)
Restructuring and other charges (Q)	63.6	8.1	294.8
Stock-based compensation	2.3	1.9	3.9
Other	(4.7)	7.5	(7.3)
Changes in assets and liabilities, excluding effects of foreign currency translation adjustments			
Decrease (Increase) in receivables	(245.7)	(32.0)	219.2
Decrease (Increase) in inventories	(153.6)	(13.3)	41.8
(Increase) Decrease in prepaid expenses and other current assets	3.7	(3.3)	(42.5)
(Decrease) Increase in accounts payable and accrued expenses	145.7	(11.6)	(84.7)
(Decrease) Increase in taxes, including taxes on income	130.3	(34.6)	(307.1)
Net change in noncurrent assets and liabilities, and other	(113.3)	58.1	(54.9)
Cash provided from operations	<u>718.3</u>	<u>671.8</u>	<u>906.3</u>
Financing activities			
Net change in short-term borrowings (original maturities of three months or less) (H)	1.5	0.2	0.1
Payments on debt (original maturities greater than three months)	-	(0.6)	(6.0)
Capital contributions	65.0	60.1	127.5
Dividends paid and return of capital to members	(549.5)	(517.1)	(1,179.8)
Cash used for financing activities	<u>(483.0)</u>	<u>(457.4)</u>	<u>(1,058.2)</u>
Investing activities			
Capital expenditures	(240.7)	(211.3)	(176.9)
Proceeds from sale of assets	29.9	2.0	3.7
Cash used for investing activities	<u>(210.8)</u>	<u>(209.3)</u>	<u>(173.2)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(20.9)</u>	16.4	3.5
Net change in cash and cash equivalents	3.6	21.5	(321.6)
Cash and cash equivalents			
Beginning of year	440.2	418.7	740.3
End of year	<u>\$ 443.8</u>	<u>\$ 440.2</u>	<u>\$ 418.7</u>

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, 2021, 2020 and 2019

<i>(U.S. dollars in millions)</i>	Members' Equity	Accumulated Other Comprehensive Loss	Total Members' Equity
Balances at December 31, 2018	\$ 7,125.1	\$ (2,257.8)	\$ 4,867.3
Net income	565.1	-	565.1
Other comprehensive loss	-	(108.9)	(108.9)
Capital contributions from members (I)	127.5	-	127.5
Dividends paid and return of capital to members	(1,179.8)	-	(1,179.8)
Stock-based compensation	3.9	-	3.9
Balances at December 31, 2019	<u>6,641.8</u>	<u>(2,366.7)</u>	<u>4,275.1</u>
Net income	401.6	-	401.6
Other comprehensive loss	-	(107.2)	(107.2)
Capital contributions from members (I)	60.1	-	60.1
Dividends paid and return of capital to members	(517.1)	-	(517.1)
Stock-based compensation	1.9	-	1.9
Balances at December 31, 2020	<u>6,588.3</u>	<u>(2,473.9)</u>	<u>4,114.4</u>
Net income	443.8	-	443.8
Other comprehensive loss	-	(107.4)	(107.4)
Capital contributions from members (I)	65.0	-	65.0
Dividends paid and return of capital to members	(549.5)	-	(549.5)
Stock-based compensation	2.3	-	2.3
Balances at December 31, 2021	<u>\$ 6,549.9</u>	<u>\$ (2,581.3)</u>	<u>\$ 3,968.6</u>

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

Alcoa World Alumina and Chemicals
(Majority owned by Alcoa Corporation)
Notes to Combined Financial Statements
December 31, 2021, 2020 and 2019

(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 consists of a number of affiliated entities that own, operate or have an interest in bauxite mines and alumina refineries, as well as certain aluminum smelters, in seven countries. AWAC is owned 60% by Alcoa and 40% by Alumina Limited.

The combined financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). In accordance with GAAP, certain situations require management to make estimates based on judgments and assumptions, which may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. They also may affect the reported amounts of revenues and expenses during the reporting 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”).

Alcoa World Alumina and Chemicals

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Notes to Combined Financial Statements

December 31, 2021, 2020 and 2019

(U.S. dollars in millions)

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. 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. AWAC purchases bauxite from certain entities in which AWAC retains a 50% or less equity interest. Additionally, Alcoa provides employee, administrative and other services to AWAC. 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 the cost of inventories principally determined under the average-cost method. See Note D for additional information.

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. Depreciation is recorded on temporarily idled facilities until such time management approves a permanent closure. The following table details the weighted-average useful lives of structures and machinery and equipment (numbers in years):

	Structures	Machinery and Equipment
Bauxite mining	33	17
Alumina refining	28	29

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. Properties, plants, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets (asset group) may not be recoverable.

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(U.S. dollars in millions)

Leases

AWAC determines whether an arrangement is a lease at the inception of the arrangement based on the terms and conditions in the contract. A contract contains a lease if there is an identified asset which the Company has the right to control. Both operating and financing lease right-of-use (ROU) assets are included in Properties, plants, and equipment with the corresponding operating lease liabilities included within Other current liabilities and Other noncurrent liabilities and deferred credits, while financing lease liabilities are included in Long-term debt due within one year and Long-term debt, less amount due within one year on the Combined Balance Sheet.

Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses its incremental borrowing rate at the commencement date in determining the present value of lease payments unless a rate is implicit in the lease. Lease terms include options to extend the lease when it is reasonably certain that those options will be exercised. Leases with an initial term of 12 months or less, including anticipated renewals, are not recorded on the balance sheet.

The Company has made a policy election not to record any non-lease components of a lease agreement in the lease liability. Variable lease payments are not presented as part of the initial ROU asset or liability recorded at the inception of a contract. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. For finance leases, interest expense is recognized on the lease liability and the ROU asset is amortized over the lease term.

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.

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.

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Notes to Combined Financial Statements

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(U.S. dollars in millions)

Asset Retirement Obligations

AWAC recognizes asset retirement obligations (AROs) related to legal obligations associated with the standard operation of bauxite mines, alumina refineries, and aluminum smelters. These AROs consist primarily of costs associated with mine reclamation, closure of bauxite residue areas, spent pot lining and regulated waste materials disposal, and landfill closure. Additionally, costs are recorded as AROs upon management's decision to permanently close and demolish certain structures and for any significant lease restoration obligations. 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, the Company capitalizes asset retirement costs by increasing the carrying amount of the related long-lived assets and depreciating these assets over their remaining useful life. Certain conditional asset retirement obligations (CARO) related to alumina refineries and the aluminum smelter have not been recorded in the Combined Financial Statements due to uncertainties surrounding the ultimate settlement date. The fair value of these asset retirement obligations will be recorded when a reasonable estimate of the ultimate settlement date can be made. Subsequent adjustments to estimates of previously established AROs for current operations are capitalized by increasing the carrying amount of the related long-lived assets and depreciating these assets over their remaining useful life. If AWAC was required to demolish all such facilities immediately, the estimated CARO as of December 31, 2021 ranges from \$2.9 to \$17.0 per facility (6 structures) in today's dollars.

Environmental Matters

Environmental related expenditures for current operations are expensed or capitalized, as appropriate. Expenditures relating to existing conditions caused by past operations, generally for closed locations which will not contribute to future revenues, are expensed. Liabilities are recorded when remediation costs are probable and can be reasonably estimated. 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 proportionate share. In instances where the Company has ongoing monitoring and maintenance responsibilities, it is AWAC's policy to maintain a reserve equal to five years of expected costs. 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. The estimates may also include costs related to other potentially responsible parties to the extent that Alcoa has reason to believe such parties will not fully pay their proportionate share.

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. 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. Legal costs, which are primarily for general litigation, environmental compliance, tax disputes, and general corporate matters, are expensed as incurred.

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(U.S. dollars in millions)

Revenue Recognition

AWAC recognizes revenue when it satisfies a performance obligation(s) in accordance with the provisions of a customer order or contract. This is achieved when control of the product has been transferred to the customer, which is generally determined when title, ownership, and risk of loss pass to the customer, all of which occurs upon shipment or delivery of the product. The shipping terms vary across all businesses and depend on the product, the country of origin, and the type of transportation. Accordingly, the sale of AWAC's products to its customers represent single performance obligations for which revenue is recognized at a point in time. Revenue is based on the consideration it expects to receive in exchange for its products. Returns and other adjustments have not been material. Based on the foregoing, no significant judgment is required to determine when control of a product has been transferred to a customer.

AWAC considers shipping and handling activities as costs to fulfill the promise to transfer the related products. As a result, customer payments of shipping and handling costs are recorded as a component of revenue. Taxes collected (e.g., sales, use, value-added, excise) from its customers related to the sale of its products are remitted to governmental authorities and excluded from revenue.

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, 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, 2021 and 2020 was \$44.4 and \$52.6, respectively, (of which \$8.0 and \$8.1 was classified as a current liability). The amount of revenue recognized related to this agreement was \$8.2, \$7.7 and \$8.4, for the years ended December 31, 2021, 2020 and 2019, respectively.

Cost of goods sold

AWAC includes the following in Cost of goods sold: operating costs excluding depreciation, depletion, and amortization, but including all production related costs: raw materials consumed; conversion costs, such as labor, materials, and utilities; equity earnings of certain investments integral to the Company's supply chain; and plant administrative expenses.

Selling, general administrative, and other expenses

AWAC includes the costs of company-wide functional support in Selling, general administrative, and other expenses. Such costs include: executive; sales; marketing; strategy; operations administration; finance; information technology; legal; human resources; and government affairs and communications.

Pension and Other Postretirement Benefits

Liabilities and expenses for pension and other postretirement benefits are determined using actuarial methodologies and incorporate significant assumptions, including the interest rate used to discount the future estimated liability, the expected long-term rate of return on plan assets, and several assumptions relating to the employee workforce (salary increases, health care cost trend rates, retirement age, and mortality). See Note K for additional information.

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(U.S. dollars in millions)

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.

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

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.

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 (greater than 50%) that a tax benefit will not be realized. In evaluating the need for a valuation allowance, management applies judgement in assessing all available positive and negative evidence and 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. 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 Alcoa's experience with similar operations. Existing favorable contracts and the ability to sell products 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 for the utilization of a deferred tax asset based on existing projections of income. Deferred tax assets for which no valuation allowance is recorded may not be realized upon changes in facts and circumstances, resulting in a future charge to establish a valuation allowance. Existing valuation allowances are re-examined under the same standards of positive and negative evidence. If it is 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.

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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.

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.

Foreign Currency

The local currency is the functional currency for AWAC’s significant operations outside the United States, except for certain operations in Suriname where the U.S. dollar is used as the functional currency. The determination of the functional currency for AWAC’s operations is made based on the appropriate economic and management indicators. Where local currency is the functional currency, assets and liabilities are translated into U.S. dollars using year-end exchange rates and income and expenses are translated using the average exchange rates for the reporting period. Unrealized foreign currency translation gains and losses are deferred in Accumulated other comprehensive loss on the Combined Balance Sheet.

Recently Adopted Accounting Guidance

On January 1, 2021, the Company adopted ASU 2019-12, Income Taxes (Topic 740); the adoption did not have a material impact on the Company’s Combined Financial Statements.

Recently Issued Accounting Guidance

In March 2020 and January 2021, the FASB issued ASU No. 2020-04 and ASU No. 2021-01, respectively. Together, the ASUs provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The Company is working to transition from LIBOR to alternative reference rates. Management has identified a total company inventory of affected financial instruments and contracts, has taken action to transition certain legacy contracts linked to LIBOR to alternative reference rates, and intends to rely primarily on alternative reference rates for new contracts after 2021. The transition from LIBOR will not have a material impact on the Company’s 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.

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Product Information

Bauxite—Bauxite is a reddish clay rock that is mined from the surface of the earth's terrain. This ore is the basic raw material used to produce alumina and is the primary source of aluminum.

Alumina—Alumina is an oxide that is extracted from bauxite and is the basic raw material used to produce primary aluminum. This product can also be consumed for non-metallurgical purposes, such as industrial chemical products.

Primary aluminum—Primary aluminum is metal in the form of a common alloy ingot.

The following table represents the general commercial profile of AWAC's Bauxite, Alumina and Primary aluminum sales:

Product Division	Pricing Components	Shipping Terms⁽³⁾	Payment Terms⁽⁴⁾
Bauxite	Negotiated	FOB/CIF	LC Sight
Alumina:			
Smelter-grade	API ⁽¹⁾ /spot/fixed	FOB/CIF	LC Sight/CAD/Net 30 days
Non-metallurgical	Negotiated	FOB/CIF	Net 30 days
Primary aluminum:			
Common alloy ingot	LME + Regional premium ⁽²⁾	DAP/CIF	Net 30 to 45 days/CAD

1. API (Alumina Price Index) is a pricing mechanism that is calculated by the Company based on the weighted average of a prior month's daily spot prices published by the following three indices: CRU Metallurgical Grade Alumina Price; Platts Metals Daily Alumina PAX Price; and Metal Bulletin Non-Ferrous Metals Alumina Index.
2. LME (London Metal Exchange) is a globally recognized exchange for commodity trading, including aluminum. The LME pricing component represents the underlying base metal component, based on quoted prices for aluminum on the exchange. The regional premium represents the incremental price over the base LME component that is associated with the physical delivery of metal to a particular region (e.g., the Midwest premium for metal sold in the United States).
3. CIF (cost, insurance, and freight) means that the Company pays for these items until the product reaches the buyer's designated destination point related to transportation by vessel. DAP (delivered at place) means the same as CIF related to all methods of transportation. FOB (free on board) means that the Company pays for costs, insurance, and freight until the product reaches the seller's designated shipping point.
4. The net number of days means that the customer is required to remit payment to the Company for the invoice amount within the designated number of days. LC Sight is a letter of credit that is payable immediately (usually within five to ten business days) after a seller meets the requirements of the letter of credit (i.e. shipping documents that evidence the seller performed its obligations as agreed to with a buyer). CAD (cash against documents) is a payment arrangement in which a seller instructs a bank to provide shipping and title documents to the buyer at the time the buyer pays in full the accompanying bill of exchange.

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The following table details AWAC's sales by product division:

	2021	2020	2019
Sales			
Alumina	\$ 4,576.8	\$ 3,792.6	\$ 4,607.5
Bauxite	235.2	271.3	303.7
Primary Aluminum	407.3	262.9	241.3
Other	4.8	2.7	63.3
	<u>5,224.1</u>	<u>4,329.5</u>	<u>5,215.8</u>
Total sales	<u>\$ 5,224.1</u>	<u>\$ 4,329.5</u>	<u>\$ 5,215.8</u>

The following table details AWAC's sales by geographic area (based upon the country where the point of sale originated):

	2021	2020	2019
Sales			
Australia	\$ 2,148.2	\$ 1,939.6	\$ 2,606.9
U.S.	2,449.6	1,833.0	1,893.3
Other	626.3	556.9	715.6
	<u>5,224.1</u>	<u>4,329.5</u>	<u>5,215.8</u>
Total sales	<u>\$ 5,224.1</u>	<u>\$ 4,329.5</u>	<u>\$ 5,215.8</u>

The following table details AWAC's net assets by geographic area:

	2021	2020
Members' Equity		
Australia	\$ 2,652.8	\$ 2,628.8
Brazil	1,013.5	1,066.5
U.S.	(56.1)	(177.8)
Other	358.4	596.9
	<u>3,968.6</u>	<u>4,114.4</u>
Total net assets	<u>\$ 3,968.6</u>	<u>\$ 4,114.4</u>

C. Asset Retirement Obligations

AWAC records AROs related to legal obligations associated with the standard operation of bauxite mines, alumina refineries, and aluminum smelters. These AROs consist primarily of costs associated with mine reclamation, closure of bauxite residue areas, spent pot lining disposal, and landfill closure.

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The following table details the changes in the total carrying value of recorded AROs at December 31:

	2021	2020
Balances at beginning of year	\$ 588.8	\$ 525.0
Accretion expense	14.3	15.6
Liabilities incurred	43.0	84.2
Payments	(69.1)	(62.7)
Translation and other	(22.3)	26.7
Balances at end of year	<u>\$ 554.7</u>	<u>\$ 588.8</u>

Liabilities incurred in 2021 include \$30.0 for new mine areas opened during the year and higher estimated mine reclamation costs, partially driven by increased complexity of reclamation areas due to steeper mine pits and grades, and \$5.6 for bauxite residue areas, including new bauxite residue areas as well as changes in engineering designs for both open and closed bauxite residue areas. Liabilities incurred in 2020 includes cost and volume increases at two mines in Australia.

AROs are recorded in Other current liabilities (\$87.9 and \$88.6 as of December 31, 2021 and 2020, respectively) and the noncurrent portion is recorded in Asset retirement obligations (\$466.8 and \$500.2 as of December 31, 2021 and 2020, respectively) on the accompanying Combined Balance Sheet.

D. Inventories

	2021	2020
Finished goods	\$ 26.0	\$ 18.3
Work-in-process	\$ 36.8	28.1
Bauxite and alumina	\$ 250.7	233.7
Purchased raw materials	\$ 251.3	167.4
Operating supplies	\$ 117.7	119.6
	<u>\$ 682.5</u>	<u>\$ 567.1</u>

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E. Properties, Plants, and Equipment, Net

	2021	2020
Land and land rights, including mines	\$ 148.3	\$ 167.5
Structures	3,463.7	3,521.0
Machinery and equipment	<u>4,894.6</u>	<u>5,108.9</u>
	8,506.6	8,797.4
Less: Accumulated depreciation, depletion, and amortization	<u>5,779.8</u>	<u>5,857.3</u>
	2,726.8	2,940.1
Construction work-in-progress	<u>162.7</u>	<u>211.6</u>
	<u>\$ 2,889.5</u>	<u>\$ 3,151.7</u>

F. Investments

The following tables summarize information of AWAC's equity investments as of December 31, 2021 and 2020:

Investee	Country	Nature of Investment	Income Statement	Ownership Interest
			Location of Equity Earnings	
Ma'aden Bauxite and Alumina Company	Saudi Arabia	Bauxite mine and alumina refinery	Other (income) expense, net	25.1 %
Halco Mining, Inc.	Guinea	Bauxite mine	Cost of goods sold	45.0 %
Mineração Rio do Norte S.A.	Brazil	Bauxite mine	Cost of goods sold	18.2 %
			2021	2020
Ma'aden			\$ 238.5	\$ 231.3
Halco Mining, Inc.			184.1	173.1
MRN			<u>44.3</u>	<u>44.0</u>
			<u>\$ 466.9</u>	<u>\$ 448.4</u>

AWAC and Ma'aden, have a 30-year (from December 2009) 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 aluminum complex in Saudi Arabia, including a bauxite mine and alumina refinery.

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G. Other Noncurrent Assets

	2021	2020
Deferred mining costs, net	\$ 148.8	\$ 135.9
Prepaid gas transmission contract	304.4	315.1
Value-added tax receivable	118.3	126.3
Tax assessment deposit (L)	78.0	82.2
Prepaid pension benefit (K)	48.5	-
Related party receivable (I)	41.8	50.3
Computer software	4.2	6.2
Other	6.7	33.0
	<u>\$ 750.7</u>	<u>\$ 749.0</u>

As part of a previous sale transaction of an equity investment, Alcoa maintained access to approximately 30% of the Dampier to Bunbury Natural Gas Pipeline transmission capacity in Western Australia for gas supply to three alumina refineries. At December 31, 2021 and 2020, AofA had an asset of \$304.4 and \$315.1, respectively, representing prepayments made under the agreement for future gas transmission services.

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. The credits generally can be utilized to offset the VAT charged on domestic sales of alumina.

In March 2021, the Brazil Federal Supreme Court provided clarification on an earlier ruling that found the inclusion of state VAT within the federal VAT tax base to be unconstitutional. After receiving further clarification from the court in August 2021, the Company finalized the amount of its recovery claim and submitted the claim to the tax authorities in the fourth quarter and received acknowledgment of the claim in January 2022. As a result, in the fourth quarter of 2021, the Company recorded \$5.9 of additional VAT credits in Other noncurrent assets (all of which was recorded in Sales on the accompanying Combined Statement of Income).

In the fourth quarter of 2018, as a result of an assessment on the future realizability of the state VAT credits, management established an allowance on the accumulated state VAT credit balances and recorded a \$77.6 charge in Restructuring and other charges (Note Q) on the accompanying Combined Statement of Income. While the Company retains the ability to utilize the state credits in the future, a restart of Alcoa's São Luís smelter provided the only practical opportunity to monetize these credits. In 2021, Alcoa announced its plan to restart its 268 kmt per year share of capacity at the São Luís smelter. The smelter restart began in late 2021 and is expected to be operational at full capacity in the fourth quarter of 2022. Once smelter domestic sales start in mid-2022 and VAT credits are realized, the Company expects to reverse the initial valuation allowance with a credit to Restructuring and other charges, net and reverse the subsequent additions to the valuation allowance with a credit to Cost of goods sold (same account as when incurred).

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

Alumina Espanola has a loan for the funding of working capital that is scheduled to mature in October 2024. Outstanding amounts under this loan classified as short-term were \$0.2 and \$0.2 at December 31, 2021 and 2020, respectively. Outstanding amounts under this loan classified as long-term were \$0.5 and \$0.8 at December 31, 2021 and 2020, respectively.

AofA has finance lease obligations recorded, primarily related to mining. Outstanding amounts under these leases classified as short-term were \$0.0 and \$0.5 at December 31, 2021 and 2020, respectively. There were no long-term amounts outstanding as of December 31, 2021 and 2020.

In January 2021, as a result of a bargain purchase option within a renewed power contract for Alcoa's Juruti facility, the AWA Brazil recorded a long-term finance lease obligation in the amount of \$0.4. The finance lease will end with the expiration of the power contract in December 2023.

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 have been extended to November 1, 2022, 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 classified as short-term at December 31, 2021 and 2020 were \$75.0 and \$77.0, respectively.

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 \$83.5 in 2021, \$72.7 in 2020 and \$60.5 in 2019. Starting in 2020, with the implementation of the new operating model, certain costs that were previously within the location results are now centrally managed and charged back to each location. AWAC also has a long-term bauxite purchase agreement with an equity investee. Total purchases under this agreement were approximately \$178.0, \$179.8 and \$164.1 during 2021, 2020 and 2019, respectively.

Certain employees of AWAC receive stock-based awards under Alcoa's stock incentive plans, and AWAC records an expense for these plans. In 2021 2020 and 2019, AWAC was charged and paid \$2.3, \$1.1 and \$4.6, 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 \$0.6 in 2021, \$0.3 in 2020 and \$1.2 in 2019.

AWAC has a noncurrent related party receivable due from Alcoa of \$41.8 and \$50.3 as of December 31, 2021 and 2020, 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.

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During 2021, capital contributions from members of \$65.0 were used to fund AWA, LLC.

During 2020, capital contributions from members of \$60.1 were used to fund AWA, LLC and Alumina Espanola.

During 2019, capital contributions from members of \$127.5 were used to fund AWA, LLC and AWA Saudi Ltd.

J. Leasing

AWAC records a right-of-use asset and lease liability for several types of operating leases, including land and buildings, alumina refinery process control technology, plant equipment, vehicles, and computer equipment. These amounts are equivalent to the aggregate future lease payments on a discounted basis. The leases have remaining terms of one to 24 years. The discount rate applied to these leases is the Company's incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments, unless there is a rate implicit in the lease agreement. The Company does not have material financing leases.

Lease expense and operating cash flows include:

	2021	2020
Costs from operating leases	\$ 42.9	\$ 40.9
Variable lease payments	5.7	6.6
Short-term rental expense	3.0	0.6

The weighted average lease term and weighted average discount rate were as follows:

December 31,	2021	2020
Weighted average lease term for operating leases (years)	4.9	4.4
Weighted average discount rate for operating leases	5.2 %	5.3 %

The following represents the aggregate right-of use assets and related lease obligations recognized in the Combined Balance Sheet:

December 31,	2021	2020
Properties, plants and equipment, net	<u>\$ 45.1</u>	<u>\$ 73.2</u>
Other current liabilities	15.6	39.2
Other noncurrent liabilities and deferred credits	<u>30.9</u>	<u>37.9</u>
Total operating lease liabilities	<u>\$ 46.5</u>	<u>\$ 77.1</u>

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New leases of \$10.0 and \$35.2 were added during the years ended December 31, 2021 and 2020, respectively.

The future cash flows related to the operating lease obligations as of December 31, 2021 were as follows:

	Operating Leases
Year Ending December 31,	
2022	\$ 16.6
2023	11.0
2024	8.3
2025	5.3
2026	4.1
Thereafter	5.3
Total lease payments (undiscounted)	50.6
Less: Discount to net present value	(4.1)
Total	\$ 46.5

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 also maintain health care and life insurance postretirement benefit plans covering certain non-U.S. retired employees. Generally, the medical plans are unfunded and 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.

In 2021, management initiated the following actions to certain pension and other postretirement benefit plans:

Action #1 – In the third quarter of 2021, settlement accounting and a related plan remeasurement was triggered within the Australian pension plan as a result of participants electing lump sum payments. The Company recorded a \$38.0 decrease to Accrued pension benefits related to this remeasurement and recognized a settlement charge of \$0.5.

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Action #2 – In the fourth quarter of 2021, the Company purchased a group annuity contract to transfer the obligation to pay the remaining retirement benefits of approximately 800 retirees and deferred vested participants from one of its Suriname pension plans to an insurance company. The transfer of \$55.0 in both plan obligations and plan assets were completed on October 19, 2021. As a result, the Company recorded a settlement loss of \$63.2 in Restructuring and other charges, net on the Combined Statement of Income.

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

	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 800.1	\$ 764.6	\$ 61.5	\$ 57.0
Service cost	14.6	13.5	-	-
Interest cost	10.9	16.1	1.2	1.6
Actuarial losses (gains)	(65.7)	35.0	(6.9)	6.2
Settlements	(121.1)	(55.0)	-	-
Benefits paid	(17.3)	(20.5)	(2.4)	(3.3)
Participants' contributions	4.6	4.7	-	-
Exchange rate	(22.4)	41.7	-	-
Benefit obligation at end of year	\$ 603.7	\$ 800.1	\$ 53.4	\$ 61.5
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 730.4	\$ 723.1	\$ -	\$ -
Actual return on plan assets	37.9	29.1	-	-
Employer contributions	12.5	11.4	-	-
Participants' contributions	4.6	4.7	-	-
Settlements	(121.1)	(55.0)	-	-
Benefits paid	(17.3)	(20.5)	-	-
Administrative expenses	(3.2)	(3.6)	-	-
Exchange rate	(23.7)	41.2	-	-
Fair value of plan assets at end of year	\$ 620.1	\$ 730.4	\$ -	\$ -
Funded status	\$ 16.4	\$ (69.7)	\$ (53.4)	\$ (61.5)
Amounts attributed to joint venture partners	(1.3)	0.2	-	-
Net funded status	\$ 15.1	\$ (69.5)	\$ (53.4)	\$ (61.5)

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	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Amounts recognized in the combined balance sheets consist of				
Noncurrent assets	\$ 48.5	\$ -	\$ -	\$ -
Current liabilities	-	-	(2.9)	(3.0)
Noncurrent liabilities	(33.4)	(69.5)	(50.5)	(58.5)
Net amount recognized	\$ 15.1	\$ (69.5)	\$ (53.4)	\$ (61.5)
Amounts recognized in accumulated other comprehensive loss consist of				
Net actuarial losses (gains)	\$ 112.4	\$ 260.6	\$ (10.9)	\$ (3.9)
Less: Amounts attributed to joint venture partners	(0.3)	2.2	-	-
Net amount recognized, before tax effect	\$ 112.7	\$ 258.4	\$ (10.9)	\$ (3.9)
Components of net periodic benefit costs				
Service cost	\$ 14.0	\$ 12.9	\$ -	\$ -
Interest cost	10.6	15.7	1.2	1.6
Expected return on plan assets	(27.4)	(28.8)	-	-
Recognized actuarial losses (gains)	10.8	9.5	-	(0.4)
Settlement	63.7	6.4	-	-
	\$ 71.7	\$ 15.7	\$ 1.2	\$ 1.2
	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Other changes in plan assets and benefit obligations recognized in Other comprehensive (loss) income consist of				
Net loss (gain)	\$ (73.6)	\$ 44.0	\$ (7.0)	\$ 6.2
Amortization of net (loss) gain	(74.6)	(15.8)	-	0.4
Totals before tax effect	(148.2)	28.2	(7.0)	6.6
Less: Amounts attributed to joint venture partners	(2.5)	0.9	-	-
Net amount recognized before tax effect	\$ (145.7)	\$ 27.3	\$ (7.0)	\$ 6.6

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Pension Plan Benefit Obligations

	Pension Benefits	
	2021	2020
The projected benefit obligation and accumulated benefit obligation for all defined benefit pension plans was as follows		
Projected benefit obligation	\$ 603.7	\$ 800.1
Accumulated benefit obligation	561.0	737.9
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	225.7	710.4
Fair value of plan assets	192.3	640.7
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	225.7	246.5
Fair value of plan assets	192.3	178.9

Assumptions

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

	2021	2020
Weighted average assumptions		
Discount rate - pension plans	2.64 %	1.86 %
Discount rate - other postretirement benefit plans	2.96	2.60
Rate of compensation increase - pension plans	2.50	2.75

The yield curve model used to develop the discount rate parallels the plans' projected cash flows and has a weighted average duration of eight years. The underlying cash flows of the high-quality corporate bonds included in the model exceed the cash flows needed to satisfy the plans' obligations multiple times. If a deep market of high-quality corporate bonds does not exist in a country, then the yield on government bonds plus a corporate bond yield spread is used.

The rate of compensation increase is based upon anticipated compensation increases and estimated inflation. For 2022, the rate of compensation increase will be 2.5%.

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

	2021	2020	2019
Weighted average assumptions			
Discount rate - pension plans	1.43 %	2.92 %	3.59 %
Discount rate - other postretirement benefit plans	1.99	2.96	4.40
Expected long-term return on plan assets - pension plans	4.16	4.39	5.44
Rate of compensation increase - pension plans	2.75	3.10	3.29

The expected long-term rate of return used by management was based on the prevailing and planned strategic asset allocations, as well as estimates of future returns by asset class. For 2022, management anticipates that 4.29% will be the weighted-average expected long-term rate of return.

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

	2021	2020	2019
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	2026	2026	2023

The assumed health care cost trend rate is used to measure the expected cost of gross eligible charges covered by AWAC's other postretirement benefit plans. For 2022, 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.

Plan Assets

AWAC's pension plan target asset allocation and weighted average actual asset allocations at December 31, 2021 and 2020, by asset category, were as follows:

Asset category	Policy Range	Plan Assets	
		2021	2020
Equities	0-60 %	22 %	24 %
Fixed income	45-85 %	67	63
Other investments	0-60 %	11	13
		<u>100 %</u>	<u>100 %</u>

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The principal objectives underlying the investment of the pension plan assets are to ensure that the Company can properly fund benefit obligations as they become due under a broad range of potential economic and financial scenarios, maximize the long-term investment return with an acceptable level of risk based on such obligations, and broadly diversify investments across and within various asset classes to protect asset values against adverse movements. Investment risk is controlled by rebalancing to target allocations on a periodic basis and ongoing monitoring of investment manager performance. Investment practices comply with the requirement of applicable laws and regulations in the respective jurisdictions.

Each of the AWAC pension plans has its own target asset allocation, however, the Australia pension plan assets approximate 70% of the total assets and, therefore, their target asset allocation is disclosed.

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

Equities

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); (ii) the plans' share of commingled funds that are invested in the stock of publicly traded companies and are valued at net asset value; and (iii) direct investments in long/short equity hedge funds and private equity (limited partnerships and venture capital partnerships) and are valued at net asset value.

Fixed Income

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 in private real estate (includes limited partnerships) and are valued at net asset value.

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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:

	2021			
	Level 1	Level 1	Net Asset Value	Total
Equities	\$ 54.6	\$ -	\$ 101.0	\$ 155.6
Fixed income	58.3	64.2	296.0	418.5
Other investments	4.3		41.7	46.0
	<u>\$ 117.2</u>	<u>\$ 64.2</u>	<u>\$ 438.7</u>	<u>\$ 620.1</u>

	2020			
	Level 1	Level 1	Net Asset Value	Total
Equities	\$ 63.4	\$ -	\$ 135.8	\$ 199.2
Fixed income	118.1	34.2	310.1	462.4
Other investments	13.2	-	55.6	68.8
	<u>\$ 194.7</u>	<u>\$ 34.2</u>	<u>\$ 501.5</u>	<u>\$ 730.4</u>

Funding and Cash Flows

It is AWAC's policy to fund amounts for defined benefit pension plans sufficient to meet the minimum requirements set forth in applicable country benefits laws and tax laws. From time to time, the Company contributes additional amounts as deemed appropriate. In 2021, 2020, and 2019, cash contributions to AWAC's defined benefit pension plans were \$12.4, \$11.2, and \$4.9.

The minimum required contribution to the defined benefit pension plans in 2022 is estimated to be \$1.6.

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

	Pension Benefits	Postretirement Benefits
Years Ending		
2022	\$ 55.0	\$ 2.8
2023	51.1	2.9
2024	51.6	2.9
2025	51.7	3.0
2026	51.9	3.0
2027 through 2031	<u>236.8</u>	<u>14.8</u>
	<u>\$ 498.1</u>	<u>\$ 29.4</u>

Other Plans

Certain AWAC employees participate in a number of defined contribution plans sponsored by Alcoa. Expenses recognized by AWAC for these plans were \$42.8 in 2021, \$42.9 in 2020 and \$35.8 in 2019.

Certain AWAC employees participate in pension and other postretirement benefit plans sponsored by Alcoa. Expenses recognized by AWAC for these plans were \$0.5 and \$0.0 in 2021, \$0.9 and \$0.0 in 2020, and \$5.5 and \$3.0 in 2019, respectively.

L. Income Taxes

The components of income before income taxes were as follows:

	2021	2020	2019
U.S.	\$ (49.8)	\$ (33.5)	\$ (394.3)
Foreign	<u>868.1</u>	<u>640.7</u>	<u>1,354.2</u>
	<u>\$ 818.3</u>	<u>\$ 607.2</u>	<u>\$ 959.9</u>

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The provision for income taxes on income consisted of the following:

	2021	2020	2019
Current			
U.S. federal	\$ 4.7	\$ 1.4	\$ (1.7)
Foreign	246.5	204.9	400.1
	<u>251.2</u>	<u>206.3</u>	<u>398.4</u>
Deferred			
U.S. federal	6.6	(1.5)	2.3
Foreign	116.7	0.8	(5.9)
	<u>123.3</u>	<u>(0.7)</u>	<u>(3.6)</u>
	<u>\$ 374.5</u>	<u>\$ 205.6</u>	<u>\$ 394.8</u>

A reconciliation of the U.S. federal statutory rate to AWAC's effective tax rate was as follows:

	2021	2020	2019
U.S. federal statutory rate	21.0 %	21.0 %	21.0 %
Losses not taxed to AWAC (pass-through entities)	2.1	1.2	8.6
Taxes on foreign income	9.6	11.2	12.5
Tax holidays ⁽¹⁾	(2.3)	0.1	(0.1)
Changes in valuation allowance	16.0	0.5	(0.6)
Other	(0.7)	(0.3)	(0.3)
	<u>45.7 %</u>	<u>33.7 %</u>	<u>41.1 %</u>
Effective tax rate			

- (1) Certain income earned by AWAB is eligible for a tax holiday, which decreases the tax rate on this income from 34% to 15.25%, which will result in future cash tax savings. The holiday related to production at the Alumar refinery will end on December 31, 2027, and the holiday related to the operation of the Juruti (Brazil) bauxite mine will end on December 31, 2026. In addition, deferred tax assets expected to reverse in the holiday period are revalued at the holiday rate. This resulted in a discrete income tax charge of \$15.2 and \$6.6 in 2020 and 2019, respectively. In 2021, it was determined that the deferred taxes associated with the tax holiday would be fully exhausted within the holiday period. These amounts were therefore maintained on the balance sheet at the holiday tax rate.

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The components of deferred tax assets and liabilities based on the underlying attributes without regard to jurisdiction at December 31 were as follows:

	2021		2020	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Depreciation	\$ 29.4	\$ 224.1	\$ 30.9	\$ 223.9
Derivatives and hedging activities	0.7	-	2.7	-
Employee benefits	117.1	-	147.6	-
Loss provisions	130.4	-	99.9	-
Tax loss carryforwards	273.7	-	285.8	-
Deferred income/expense	1.3	110.8	2.0	89.1
Lease assets and liabilities	13.9	13.6	22.9	22.0
Other	25.3	0.4	28.5	0.6
	<u>591.8</u>	<u>348.9</u>	<u>620.3</u>	<u>335.6</u>
Valuation allowance	<u>(337.5)</u>	<u>-</u>	<u>(242.2)</u>	<u>-</u>
	<u>\$ 254.3</u>	<u>\$ 348.9</u>	<u>\$ 378.1</u>	<u>\$ 335.6</u>

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	\$ 151.8	\$ 2.4	\$ 119.5	\$ -	\$ 273.7
Other	-	-	51.4	266.7	318.1
Valuation allowances	<u>(151.8)</u>	<u>(2.4)</u>	<u>(102.2)</u>	<u>(81.1)</u>	<u>(337.5)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68.7</u>	<u>\$ 185.6</u>	<u>\$ 254.3</u>

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.

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

	2021	2020	2019
Balances at beginning of year	\$ 242.2	\$ 264.2	\$ 307.1
Establishment of new allowances	103.4	-	-
Net change to existing allowances	(7.0)	(24.0)	(42.9)
Foreign currency translation	(1.1)	2.0	-
Balances at end of year	<u>\$ 337.5</u>	<u>\$ 242.2</u>	<u>\$ 264.2</u>

In December 2021, AWAC recorded a valuation allowance of \$103.4 against the net deferred tax assets of Alumina Espanola. Management concluded that it is more likely than not that Alumina Espanola's net deferred tax assets, which consist primarily of tax loss carryforwards, will not be realized as the entity's sole operating asset, the San Ciprian refinery, is in a three-year cumulative loss position for the period ended December 31, 2021. This cumulative loss position is the result of recent operating losses due to the high energy costs in Spain and the impact of the refinery workers' strike on the fourth quarter of 2021. Despite recent favorable increases in the sales price of alumina, management has forecasted operating losses for Espanola for the foreseeable future due to the high energy costs in Spain and increases in raw materials costs, resulting in a need for a full valuation allowance as of December 31, 2021.

Unrecognized Tax Benefits

AWAC consists of a variety of different tax-paying legal entities, including entities that are multiple member limited liability companies (AWA LLC in the U.S.). AWAC entities outside of the U.S. file income tax returns in the various foreign jurisdictions. Foreign jurisdiction tax authorities are in the process of examining income tax returns of certain of the AWAC entities for various tax years. Excluding the Australia tax matter discussed below, the Company is no longer subject to examinations by tax authorities in any major tax jurisdiction for years before 2014. Unrecognized tax benefits recorded on the Combined Balance Sheet as of December 31, 2021 and 2020 is not material.

In December 2019, AofA received a statement of audit position (SOAP) from the Australian Taxation Office (ATO) related to the pricing of certain historic third-party alumina sales. The SOAP proposed adjustments that would result in additional income tax payable by AofA. During 2020, the SOAP was the subject of an independent review process within the ATO. At the conclusion of this process, the ATO determined to continue with the proposed adjustments and issued Notices of Assessment (the Notices) that were received by AofA on July 7, 2020. The Notices asserted claims for income tax payable by AofA of approximately \$155.9 (A\$213.6). The Notices also included claims for compounded interest on the tax amount totaling approximately \$516.1 (A\$707.0). On September 17, 2020, the ATO issued a position paper with its preliminary view on the imposition of administrative penalties related to the tax assessment issued to AofA. This paper proposed penalties of approximately \$93.6 (A\$128.2).

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AofA disagreed with the Notices and with the ATO's proposed position on penalties. In September 2020, AofA lodged formal objections to the Notices. In the fourth quarter of 2020, AofA provided a submission on the ATO's imposition of interest and also submitted a response to the ATO's position paper on penalties. After the ATO completes its review of AofA's response to the penalties position paper, the ATO could issue a penalty assessment.

To date, AofA has not received a determination from the objections team on the Notices, nor has it received a response to its submission on the ATO's imposition of interest or its response to the ATO's position paper on penalties.

On February 1, 2022, AofA submitted statutory notices to the ATO requiring the ATO to make decisions on AofA's objections within a 60-day period.

The Company does not agree with the ATO's positions, and AofA will continue to defend this matter and pursue all available dispute resolution methods, up to and including the filing of proceedings in the Australian Courts, a process which could last several years and could involve significant expenses. The Company maintains that the sales subject to the ATO's review, which were ultimately sold to Aluminum Bahrain B.S.C., were the result of arm's length transactions by AofA over two decades and were made at arm's length prices consistent with the prices paid by other third-party alumina customers.

In accordance with the ATO's dispute resolution practices, AofA paid 50% of the assessed income tax amount exclusive of interest and any penalties, or approximately \$73.9 (A\$106.8), during the third quarter 2020, and the ATO is not expected to seek further payment prior to final resolution of the matter. If AofA is ultimately successful, any amounts paid to the ATO as part of the 50% payment would be refunded. AofA funded the payment with cash on hand and recorded the payment within Other noncurrent assets as a noncurrent prepaid tax asset; the related December 31, 2021 balance is \$78.0 (A\$106.8).

Further interest on the unpaid tax and interest amounts will continue to accrue during the dispute. The initial interest assessment and the additional interest accrued are deductible against taxable income by AofA but would be taxable as income in the year the dispute is resolved if AofA is ultimately successful. AofA applied this deduction beginning in the third quarter of 2020 which reduced cash tax payments by approximately \$169.0 (A\$219.4) in 2020 and \$13.5 (A\$18.4) in 2021. This amount has been reflected as a Noncurrent accrued tax liability on the Combined Balance Sheet as of December 31, 2021.

The Company continues to believe it is more likely than not that AofA's tax position will be sustained and therefore is not recognizing any tax expense in relation to this matter. However, because the ultimate resolution of this matter is uncertain at this time, the Company cannot predict the potential loss or range of loss associated with the outcome, which may materially affect its results of operations and financial condition. References to any assessed U.S. dollar amounts presented in connection with this matter have been converted into U.S. dollars from Australian dollars based on the exchange rate in the respective period.

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M. Derivatives and Other Financial Instruments

Fair Value

The Company follows a fair value hierarchy to measure its assets and liabilities. 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.

Derivatives

AWAC is exposed to certain risks relating to its ongoing business operations, including changing commodity prices, foreign currency exchange rates and interest rates. AWAC's commodity and derivative activities include aluminum, energy, foreign exchange and interest rate contracts which are held for purposes other than trading. While AWAC does not generally enter into derivative contracts to mitigate the risk associated with changes in aluminum price, the Company may do so in isolated cases to address discrete commercial or operational conditions. AWAC is not involved in trading activities for energy, weather derivatives, or other nonexchange commodity trading activities.

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, the chief financial officer, and the chief commercial officer. The remaining member(s) are other officers and/or employees of the Company as the chief executive officer may designate from time to time. As of December 31, 2021, the other member of the SRMC is Alcoa's treasurer. The SRMC meets on a periodic basis to review derivative positions and strategy.

Several of AWAC's aluminum, energy, foreign exchange contracts, and interest rate contracts are classified as Level 1 under the fair value hierarchy. All of these Level 1 contracts are designated as either fair value or cash flow hedging instruments. AWAC also has a derivative instrument classified as Level 3 under the fair value hierarchy, which is undesignated.

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The following tables present the detail for Level 1, 2 and 3 derivatives (see additional Level 3 information in further tables below):

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Balance at December 31,				
Level 1 and 2 derivative instruments	\$ -	\$ -	\$ 5.4	\$ 1.3
Level 3 derivative instruments	2.2	-	-	1.2
Total	2.2	-	5.4	2.5
Less: Current	2.2	-	5.4	2.5
Noncurrent	\$ -	\$ -	\$ -	\$ -
	Unrealized Gain (loss) Recognized in Other Comprehensive (loss) Income		Realized Gain (loss) Reclassed from Other Comprehensive (loss) Income to Earnings	
	2021	2020	2021	2020
Year ended December 31,				
Level 1 and 2 derivative instruments	\$ (9.8)	\$ 9.9	\$ (6.0)	\$ (7.3)
Level 3 derivative instruments	(6.0)	(84.7)	(2.7)	(14.4)
Equity interest	1.3	(4.6)	(1.7)	(0.9)
Total	\$ (14.5)	\$ (79.4)	\$ (10.4)	\$ (22.6)

The 2021 and 2020 realized loss of \$6.0, and \$7.3, respectively, on Level 1 and 2 cash flow hedges were recognized in Sales.

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. 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 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 regional premiums for aluminum contracts, 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 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). There were no purchases, sales or settlements of Level 3 derivative instruments in the periods presented.

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AWAC's Level 3 derivative instruments are described in the table below:

Description	Designation	Contract Termination	Unobservable Inputs Impacting Valuation	Sensitivity to Inputs
Financial contract				
Hedge power prices	Not designated	June 2026	LME price and power price	Lower prices in the power market or higher LME prices result in an increase in the derivative liability

In addition to the instruments presented above, AWAC had a financial contract that expired in July 2021 that hedged the anticipated power requirements at one of its smelters and was designated as a cash flow hedge of future purchases of electricity. In March 2021, AWAC entered into four new financial contracts (Financial contracts (undesignated), below) with three counterparties to hedge the anticipated power requirements at this smelter for the period from August 1, 2021 through June 30, 2026. A fifth financial contract (undesignated) was entered into in November 2021; its effective date is dependent on power consumption associated with the restart of capacity at the smelter, will be effective during the period from July 1, 2022 through November 1, 2022, and expires June 30, 2026. Two of these financial contracts include LME-linked pricing components and do not qualify for hedge accounting treatment. Management elected not to apply hedge accounting treatment for the other three financial contracts as the value of these contracts is not significant. Unrealized and realized gains and losses on these financial contracts are included in Other (income) expenses, net on the accompanying Statement of Consolidated Operations.

The following table presents quantitative information related to the significant unobservable inputs described above for Level 3 derivative instruments (megawatt hours in MWh):

	December 31, 2021	Unobservable Input	Unobservable Input Range
Asset Derivatives			
Financial contract	\$ 2.2	Interrelationship of forward energy price and the Consumer Price Index	Electricity (per MWh) 2022: \$41.30 LME (per mt) 2022: \$47.44 2022: \$2,803 2022: \$2,803
Total asset derivatives	<u>\$ 2.2</u>		

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

	December 31, 2021	December 31, 2020
Asset derivatives		
Derivatives designated as hedging instruments:		
Current—financial contract	\$ 2.2	\$ -
Noncurrent—financial contract	-	-
Total asset derivatives	<u>\$ 2.2</u>	<u>\$ -</u>
Liability derivatives		
Derivatives designated as hedging instruments:		
Current—financial contract	\$ -	\$ 1.2
Total liability derivatives	<u>\$ -</u>	<u>\$ 1.2</u>

The following table shows the fair value of the Level 3 derivative instruments at December 31, 2021 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, 2021:

	Fair Value Asset/(liability)	Index Change of + / -10%
Financial contract	\$ 2.2	\$ 7.3

The following table presents a reconciliation of activity for Level 3 derivative contract assets:

	Asset Financial Contract		Liability Financial Contract	
	2021	2020	2021	2020
January 1	\$ -	\$ 73.5	\$ 1.2	\$ -
Total gains or losses included in:				
Cost of goods sold (realized)	(5.7)	14.4	(8.4)	-
Other (income) expenses, net (unrealized/realized)	6.7	-	-	-
Other comprehensive (loss) income (unrealized)	(0.3)	(83.5)	5.7	1.2
Other	1.5	(4.4)	1.5	-
December 31	<u>\$ 2.2</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1.2</u>
Change in unrealized gains or losses included in earnings for derivative instruments held at December 31:				
Other (income) expenses, net	\$ 4.5	\$ -	\$ (1.0)	\$ -

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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:

	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 443.8	\$ 443.8	\$ 440.2	\$ 440.2
Short-term borrowings	75.1	75.1	77.7	77.7
Long-term debt	0.9	0.9	0.8	0.8

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

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 of the fair value hierarchy 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 paid for interest and income taxes was as follows:

	2021	2020	2019
Interest, net of amount capitalized	\$ 1.8	\$ 2.1	\$ 3.9
Income taxes, net of amount refunded	98.3	170.4	707.9

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O. Contingencies and Commitments

Contingencies

Tax Matters

Brazil (AWAB) — In March 2013, AWAB was notified by the Brazilian Federal Revenue Office (RFB) that approximately \$110.0 (R\$220.0) of value added tax credits previously claimed are being disallowed and a penalty of 50% assessed. Of this amount, AWAB received \$41.0 (R\$82.0) 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 for these matters is \$0.0 to \$38.9 (R\$220.0). 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.

Australia (AofA) — In December 2019, AofA received a statement of audit position (SOAP) from the Australian Taxation Office (ATO) related to the pricing of certain historic third-party alumina sales. The SOAP proposed adjustments that would result in additional income tax payable by AofA. During 2020, the SOAP was the subject of an independent review process within the ATO. At the conclusion of this process, the ATO determined to continue with the proposed adjustments and issued Notices of Assessment (the Notices) that were received by AofA on July 7, 2020. The Notices asserted claims for income tax payable by AofA of approximately \$155.9 (A\$213.6). The Notices also included claims for compounded interest on the tax amount totaling approximately \$516.1 (A\$707.0). On September 17, 2020, the ATO issued a position paper with its preliminary view on the imposition of administrative penalties related to the tax assessment issued to AofA. This paper proposed penalties of approximately \$93.6 (A\$128.2).

AofA disagreed with the Notices and with the ATO's proposed position on penalties. In September 2020, AofA lodged formal objections to the Notices. In the fourth quarter of 2020, AofA provided a submission on the ATO's imposition of interest and also submitted a response to the ATO's position paper on penalties. After the ATO completes its review of AofA's response to the penalties position paper, the ATO could issue a penalty assessment.

To date, AofA has not received a determination from the objections team on the Notices, nor has it received a response to its submission on the ATO's imposition of interest or its response to the ATO's position paper on penalties.

On February 1, 2022, AofA submitted statutory notices to the ATO requiring the ATO to make decisions on AofA's objections within a 60-day period.

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The Company does not agree with the ATO's positions, and AofA will continue to defend this matter and pursue all available dispute resolution methods, up to and including the filing of proceedings in the Australian Courts, a process which could last several years and could involve significant expenses. The Company maintains that the sales subject to the ATO's review, which were ultimately sold to Aluminum Bahrain B.S.C., were the result of arm's length transactions by AofA over two decades and were made at arm's length prices consistent with the prices paid by other third-party alumina customers.

In accordance with the ATO's dispute resolution practices, AofA paid 50% of the assessed income tax amount exclusive of interest and any penalties, or approximately \$73.9 (A\$106.8), during the third quarter 2020, and the ATO is not expected to seek further payment prior to final resolution of the matter. If AofA is ultimately successful, any amounts paid to the ATO as part of the 50% payment would be refunded. AofA funded the payment with cash on hand and recorded the payment within Other noncurrent assets as a noncurrent prepaid tax asset; the related December 31, 2021 balance is \$78.0 (A\$106.8).

Further interest on the unpaid tax and interest amounts will continue to accrue during the dispute. The initial interest assessment and the additional interest accrued are deductible against taxable income by AofA but would be taxable as income in the year the dispute is resolved if AofA is ultimately successful. AofA applied this deduction beginning in the third quarter of 2020 which reduced cash tax payments by approximately \$169.0 (A\$219.4) in 2020 and \$13.5 (A\$18.4) in 2021. This amount has been reflected as a Noncurrent accrued tax liability on the Combined Balance Sheet as of December 31, 2021.

The Company continues to believe it is more likely than not that AofA's tax position will be sustained and therefore is not recognizing any tax expense in relation to this matter. However, because the ultimate resolution of this matter is uncertain at this time, the Company cannot predict the potential loss or range of loss associated with the outcome, which may materially affect its results of operations and financial condition. References to any assessed U.S. dollar amounts presented in connection with this matter have been converted into U.S. dollars from Australian dollars based on the exchange rate in the respective period.

General

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, safety and health, commercial, tax, product liability, intellectual property infringement, employment, and employee and retiree benefit matters, and other actions and claims arising out of the normal course of business. While the amounts claimed in these other matters may be substantial, the ultimate liability is not readily determinable because of the considerable uncertainties that exist. Accordingly, it is possible that the Company'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 financial position of the Company.

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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.

Commitments

AofA has a gas supply agreement to power its three alumina refineries in Western Australia which began in July 2020 for a 12-year period. The terms of this agreement required AofA to make a prepayment of \$500.0 in two installments, the first of which was made in June 2015 for \$300.0. The second installment of \$200.0 was made in April 2016. At December 31, 2021 AWAC had a total asset of \$416.7 (A\$570.9) which was included in Prepaid expenses and other current assets \$39.8 and Gas supply prepayment \$376.9 on the accompanying Combined Balance Sheet related to these prepayments. At December 31, 2020 AWAC had a total asset of \$481.1 (A\$624.8) which was included in Prepaid expenses and other current assets (\$42.0) and Gas supply prepayment (\$439.1) on the accompanying Combined Balance Sheet related to these prepayments.

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, and other goods and services which total \$1,756.0 in 2022, \$1,117.5 in 2023, \$1,008.0 in 2024, \$1,074.0 in 2025, \$1,086.3 in 2026 and \$5,944.5 thereafter.

AWAC has outstanding bank guarantees and letters of credit primarily related to environmental obligations, leasing obligations, legal matters, and customs duties, among others. The total amount committed under these instruments, which automatically renew or expire at various dates, before 2023, was \$113.3 at December 31, 2021. 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 2023 and 2026, was \$4.8 at December 31, 2021.

P. Environmental Matters

AWAC participates in environmental assessments and cleanups at several locations. These include owned or operating facilities and adjoining properties, previously owned or operating facilities and adjoining properties, and waste sites, including Superfund (Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)) sites.

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The following table details the changes in the total carrying value of recorded environmental remediation liabilities at December 31:

	2021	2020
Balances at beginning of year	\$ 114.3	\$ 115.4
Liabilities incurred	2.7	1.2
Payments	(2.6)	(4.8)
Reversals of previously recorded liabilities	(4.8)	-
Translation and other	(0.2)	2.5
Balances at end of year	<u>\$ 109.4</u>	<u>\$ 114.3</u>

Environmental remediation liabilities are recorded in Other current liabilities (\$13.8 and \$11.1 as of December 31, 2021 and 2020, respectively) and the noncurrent portion is recorded in Other noncurrent liabilities and deferred credits (\$95.6 and \$103.2 as of December 31, 2021 and 2020, respectively) on the accompanying Combined Balance Sheet.

In 2019, the Company incurred liabilities of \$68.9 related to the closure of the Point Comfort alumina refinery, of which \$60.5 was recorded in Restructuring and other charges, on the accompanying Combined Statement of Income (\$8.4 was recorded as a receivable due from Alcoa Corporation in accordance with the Formation Agreement). The reserve is for disposal of industrial wastes contained at the site, subsurface remediation, and post-closure monitoring and maintenance. The final remediation plan is currently under review; such review could require the reserve balance to be adjusted.

Q. Restructuring and Other Charges

Restructuring and other charges for each of the periods ending December 31, 2021, 2020 and 2019 were comprised of the following:

	2021	2020	2019
Asset impairment	\$ -	\$ (0.8)	\$ 140.5
Environmental liabilities and asset retirement obligations	(1.3)	(0.9)	122.6
Severance and other costs	64.9	(6.4)	31.7
	<u>\$ 63.6</u>	<u>\$ (8.1)</u>	<u>\$ 294.8</u>

During 2021, AWAC recorded a non-cash pension settlement charge of \$63.2 related to the purchase of a group annuity contract to transfer approximately \$55.0 of pension obligations and assets associated with a Suriname pension plan for approximately 800 retirees and beneficiaries (see Note K).

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During 2020, AWAC incurred \$2.5 of severance costs, \$2.0 of which associated with the implementation of a new operating model, and \$6.4 of pension settlement charges in Australia and \$1.7 of other charges slightly offset by a reversal of \$2.5 for reserves no longer needed.

In December 2019, AWAC announced the permanent closure of the Point Comfort (Texas) alumina refinery. Restructuring charges recorded in 2019 related to the closure included asset impairments of \$127.7, asset retirement obligations of \$61.7, environmental remediation costs of \$60.5, and severance costs of \$3.6 for the layoff of approximately 40 employees. Additionally, a charge of \$2.0 for the write down of remaining inventories to their net realizable value was recorded in Cost of goods sold on the accompanying Combined Statement of Income.

On December 31, 2019, AWAC completed the transfer of the Afobaka hydroelectric dam to the Government of the Republic of Suriname, according to definitive agreements approved by its parliament. After curtailment of AWAC's operations in Suriname in 2015 and permanent closure early 2017, AWAC continued to operate the dam, selling electricity to the government for its subsequent sale to customers in Suriname. At the time of the transfer, \$12.8 of fixed assets related to the dam were fully depreciated and all outstanding amounts due to Alcoa for electricity sales were settled.

During 2019, AWAC also incurred \$17.7 of severance costs associated with the implementation of a new operating model and \$6.5 of pension settlement charges in Australia.

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Activity and reserve balances for restructuring charges were as follows:

Reserve balance at December 31, 2018	\$	4.3
Cash payments		(10.4)
Restructuring charges		294.8
Asset impairment		(140.5)
Environmental liabilities and asset retirement obligations		(122.6)
Pension adjustments		(6.5)
Other exit costs		(6.6)
		<hr/>
Reserve balance at December 31, 2019		12.5
Cash payments		(14.2)
Restructuring charges		8.1
Asset impairment		-
Environmental liabilities and asset retirement obligations		(0.9)
Pension adjustments		(6.4)
Other exit costs		1.2
		<hr/>
Reserve balance at December 31, 2020		0.3
Cash payments		(1.4)
Restructuring charges		63.6
Asset impairment		-
Environmental liabilities and asset retirement obligations		1.3
Pension adjustments		(63.7)
Other exit costs		-
		<hr/>
Reserve balance at December 31, 2021	\$	<u>0.1</u>

R. Other (Income) Expense, Net

	2021	2020	2019
Interest income	\$ (0.6)	\$ (1.8)	\$ (8.9)
Equity (earnings) loss	(4.1)	22.7	(5.5)
Gain from asset sales	(14.5)	0.4	(0.3)
Foreign currency (gains)/losses, net	1.7	6.6	2.1
Gain on derivative instruments	(5.5)	-	-
Other, net	(5.1)	(2.1)	4.6
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	\$ (28.1)	\$ 25.8	\$ (8.0)

S. Accumulated Other Comprehensive Loss

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

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	2021	2020	2019
Pension and other postretirement benefits			
Balance at beginning of period	\$ (168.6)	\$ (144.2)	\$ (116.1)
Other comprehensive (loss) income			
Unrecognized net actuarial (loss) income and prior service cost/benefit	75.2	(45.1)	(38.1)
Tax (expense) benefit	(8.1)	7.9	(5.1)
Total other comprehensive (loss) income before reclassifications, net of tax	67.1	(37.2)	(43.2)
Amortization of net actuarial loss and prior service cost/benefit ⁽¹⁾	74.5	15.5	13.3
Tax benefit (expense) ⁽²⁾	(8.0)	(2.7)	1.8
Total amount reclassified from Accumulated other comprehensive loss, net of tax ⁽⁵⁾	66.5	12.8	15.1
Total other comprehensive (loss) income	133.6	(24.4)	(28.1)
Balance at end of period	(35.0)	(168.6)	(144.2)
Foreign currency translation			
Balance at beginning of period	(2,303.4)	(2,261.4)	(2,190.40)
Other comprehensive (loss) income ⁽³⁾	(239.1)	(42.0)	(71)
Balance at end of period	\$ (2,542.5)	\$ (2,303.4)	\$ (2,261.4)
Cash flow hedges			
Balance at beginning of period	\$ (1.9)	\$ 38.9	\$ 48.7
Other comprehensive (loss) income			
Net change from periodic revaluations	(14.5)	(79.4)	56.4
Tax expense	4.8	22.6	(17.5)
Total other comprehensive (loss) income before reclassifications, net of tax	(9.7)	(56.8)	38.9
Net amount reclassified to earnings			
Aluminum contracts ⁽⁶⁾	10.5	(7.6)	-
Foreign exchange contracts ⁽⁶⁾	(4.5)	14.9	17.1
Financial contracts ⁽⁷⁾	2.7	14.4	(86.7)
Interest rate contracts ⁽⁴⁾	1.7	0.9	-
Tax benefit	(2.6)	(6.6)	20.9
Total amount reclassified from Accumulated other comprehensive loss, net of tax	7.8	16.0	(48.7)
Total other comprehensive (loss) income, net of tax	(1.9)	(40.8)	(9.8)
Balance at end of period	\$ (3.8)	\$ (1.9)	\$ 38.9

⁽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.

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- ⁽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.

T. Subsequent Events

On February 15, 2022, Alcoa signed an agreement to sell its share of its investment in Mineracao Rio do Norte S.A in Brazil for \$5.3 to South32 Limited. Related to this transaction, AWAC (AWA LLC and AWA Brazil) recorded an asset impairment of approximately \$40.0 in the first quarter of 2022 in Restructuring and other charges, net on the Combined Statement of Income. The transaction is expected to close in 2022. Further, additional cash of approximately \$16.0 could be paid to AWAC if certain post-closing conditions are satisfied.

The combined financial statements of AWAC are derived from the financial statements of Alcoa, which were issued on February 24, 2022. Accordingly, AWAC management has evaluated transactions for consideration as recognized subsequent events in the annual financial statements through the date of February 24, 2022. Additionally, AWAC has evaluated transactions that occurred as of the issuance of these combined financial statements, March 10, 2022, 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, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 and our report thereon appears on page 1 of this document which included an unmodified opinion on those combined financial statements. That audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis and is not a required part of the combined financial statements. The 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 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 information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania
March 10, 2022