

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 1-37816

ALCOA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of
incorporation)

390 Park Avenue, New York, New York
(Address of principal executive offices)

81-1789115
(I.R.S. Employer
Identification No.)

10022-4608
(Zip code)

212-518-5400

(Registrant's telephone number including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes ☐ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 5, 2017, 184,240,172 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.

PART I – FINANCIAL INFORMATION**Item 1. Financial Statements.****Alcoa Corporation and subsidiaries****Statement of Consolidated Operations (unaudited)****(in millions, except per-share amounts)**

	First quarter ended March 31,	
	2017	2016
Sales to unrelated parties	\$ 2,462	\$ 1,892
Sales to related parties (A)	193	237
Total sales (E)	2,655	2,129
Cost of goods sold (exclusive of expenses below)	2,043	1,866
Selling, general administrative, and other expenses (A)	72	85
Research and development expenses	7	11
Provision for depreciation, depletion, and amortization	179	177
Restructuring and other charges (D)	10	84
Interest expense	26	64
Other (income) expenses, net (N)	(100)	39
Total costs and expenses	2,237	2,326
Income (loss) before income taxes	418	(197)
Provision for income taxes (L)	110	18
Net income (loss)	308	(215)
Less: Net income (loss) attributable to noncontrolling interest	83	(5)
NET INCOME (LOSS) ATTRIBUTABLE TO ALCOA CORPORATION	\$ 225	\$ (210)
EARNINGS PER SHARE ATTRIBUTABLE TO ALCOA CORPORATION COMMON SHAREHOLDERS (F):		
Basic	\$ 1.23	\$ (1.15)
Diluted	\$ 1.21	\$ (1.15)

The accompanying notes are an integral part of the consolidated financial statements.

Alcoa Corporation and subsidiaries

Statement of Consolidated Comprehensive Income (Loss) (unaudited)

(in millions)

	Alcoa Corporation		Noncontrolling interest		Total	
	First quarter ended		First quarter ended		First quarter ended	
	March 31,		March 31,		March 31,	
	2017	2016	2017	2016	2017	2016
Net income (loss)	\$ 225	\$ (210)	\$ 83	\$ (5)	\$ 308	\$ (215)
Other comprehensive (loss) income, net of tax (G):						
Change in unrecognized net actuarial loss and prior service cost/benefit related to pension and other postretirement benefits	44	(10)	(1)	1	43	(9)
Foreign currency translation adjustments	239	248	114	107	353	355
Net change in unrecognized gains/losses on cash flow hedges	(308)	(95)	83	(2)	(225)	(97)
Total Other comprehensive (loss) income, net of tax	(25)	143	196	106	171	249
Comprehensive income (loss)	<u>\$ 200</u>	<u>\$ (67)</u>	<u>\$ 279</u>	<u>\$ 101</u>	<u>\$ 479</u>	<u>\$ 34</u>

The accompanying notes are an integral part of the consolidated financial statements.

Alcoa Corporation and subsidiaries
Consolidated Balance Sheet (unaudited)
(in millions)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents (K)	\$ 804	\$ 853
Receivables from customers	708	668
Other receivables	174	166
Inventories (I)	1,294	1,160
Prepaid expenses and other current assets	424	334
Total current assets	3,404	3,181
Properties, plants, and equipment	23,076	22,550
Less: accumulated depreciation, depletion, and amortization	13,642	13,225
Properties, plants, and equipment, net	9,434	9,325
Investments (H & M)	1,393	1,358
Deferred income taxes	814	741
Fair value of derivative contracts (K)	357	468
Other noncurrent assets	1,674	1,668
Total assets	<u>\$ 17,076</u>	<u>\$ 16,741</u>
LIABILITIES		
Current liabilities:		
Accounts payable, trade	\$ 1,434	\$ 1,455
Accrued compensation and retirement costs	425	456
Taxes, including income taxes	176	147
Other current liabilities (C)	568	742
Long-term debt due within one year (K)	20	21
Total current liabilities	2,623	2,821
Long-term debt, less amount due within one year (K)	1,431	1,424
Accrued pension benefits	1,813	1,851
Accrued other postretirement benefits	1,154	1,166
Asset retirement obligations	635	604
Environmental remediation (M)	263	264
Noncurrent income taxes	352	310
Other noncurrent liabilities and deferred credits	642	604
Total liabilities	8,913	9,044
CONTINGENCIES AND COMMITMENTS (M)		
EQUITY		
Alcoa Corporation shareholders' equity:		
Common stock	2	2
Additional capital	9,553	9,531
Retained earnings (deficit)	121	(104)
Accumulated other comprehensive loss (G)	(3,800)	(3,775)
Total Alcoa Corporation shareholders' equity	5,876	5,654
Noncontrolling interest	2,287	2,043
Total equity	8,163	7,697
Total liabilities and equity	<u>\$ 17,076</u>	<u>\$ 16,741</u>

The accompanying notes are an integral part of the consolidated financial statements.

Alcoa Corporation and subsidiaries
Statement of Consolidated Cash Flows (unaudited)
(in millions)

	Three months ended	
	March 31,	
	2017	2016
CASH FROM OPERATIONS		
Net income (loss)	\$ 308	\$ (215)
Adjustments to reconcile net income (loss) to cash from operations:		
Depreciation, depletion, and amortization	179	177
Deferred income taxes	23	—
Equity income, net of dividends	(1)	4
Restructuring and other charges (D)	10	84
Net (gain) loss from investing activities – asset sales (C & N)	(120)	2
Net periodic pension benefit cost (J)	28	11
Stock-based compensation	7	8
Other	9	6
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency translation adjustments:		
Decrease (Increase) in receivables	7	(23)
(Increase) Decrease in inventories	(102)	8
Decrease in prepaid expenses and other current assets	13	—
(Decrease) in accounts payable, trade	(45)	(152)
(Decrease) in accrued expenses	(181)	(205)
(Decrease) in taxes, including income taxes	(17)	(60)
Pension contributions	(21)	(14)
(Increase) Decrease in noncurrent assets	(3)	14
(Decrease) in noncurrent liabilities	(20)	(4)
CASH PROVIDED FROM (USED FOR) OPERATIONS	74	(359)
FINANCING ACTIVITIES		
Net transfers from Parent Company (A)	—	302
Cash paid to Arconic related to separation (A & C)	(238)	—
Net change in short-term borrowings (original maturities of three months or less)	2	(1)
Additions to debt (original maturities greater than three months)	2	—
Payments on debt (original maturities greater than three months)	(5)	(4)
Proceeds from exercise of employee stock options	18	—
Contributions from noncontrolling interest	24	—
Distributions to noncontrolling interest	(57)	(50)
Other	(6)	—
CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	(260)	247
INVESTING ACTIVITIES		
Capital expenditures	(71)	(86)
Proceeds from the sale of assets and businesses (C)	238	(13)
Additions to investments (M)	(25)	(3)
Net change in restricted cash	(11)	(1)
CASH PROVIDED FROM (USED FOR) INVESTING ACTIVITIES	131	(103)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	6	17
Net change in cash and cash equivalents	(49)	(198)
Cash and cash equivalents at beginning of year	853	557
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 804	\$ 359

The accompanying notes are an integral part of the consolidated financial statements.

Alcoa Corporation and subsidiaries
Statement of Changes in Consolidated Equity (unaudited)
(in millions)

	Alcoa Corporation Shareholders						Total equity
	Parent Company net investment	Common stock	Additional capital	Retained (deficit) earnings	Accumulated other comprehensive loss	Non-controlling interest	
Balance at December 31, 2015	\$ 11,042	\$ —	\$ —	\$ —	\$ (1,600)	\$ 2,071	\$11,513
Net loss	(210)	—	—	—	—	(5)	(215)
Other comprehensive income (G)	—	—	—	—	143	106	249
Change in Parent Company net investment	316	—	—	—	—	—	316
Distributions	—	—	—	—	—	(50)	(50)
Balance at March 31, 2016	<u>\$ 11,148</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1,457)</u>	<u>\$ 2,122</u>	<u>\$11,813</u>
Balance at December 31, 2016	\$ —	\$ 2	\$ 9,531	\$ (104)	\$ (3,775)	\$ 2,043	\$ 7,697
Net income	—	—	—	225	—	83	308
Other comprehensive (loss) income (G)	—	—	—	—	(25)	196	171
Stock-based compensation	—	—	7	—	—	—	7
Common stock issued: compensation plans	—	—	15	—	—	—	15
Contributions	—	—	—	—	—	24	24
Distributions	—	—	—	—	—	(57)	(57)
Other	—	—	—	—	—	(2)	(2)
Balance at March 31, 2017	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 9,553</u>	<u>\$ 121</u>	<u>\$ (3,800)</u>	<u>\$ 2,287</u>	<u>\$ 8,163</u>

The accompanying notes are an integral part of the consolidated financial statements.

Alcoa Corporation and subsidiaries
Notes to the Consolidated Financial Statements (unaudited)
(dollars in millions, except per-share amounts)

A. Basis of Presentation – The interim Consolidated Financial Statements of Alcoa Corporation and its subsidiaries (or the “Company”) are unaudited. These Consolidated Financial Statements include all adjustments, consisting only of normal recurring adjustments, considered necessary by management to fairly state the Company’s results of operations, financial position, and cash flows. The results reported in these Consolidated Financial Statements are not necessarily indicative of the results that may be expected for the entire year. The 2016 year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). This Form 10-Q report should be read in conjunction with Alcoa Corporation’s Annual Report on Form 10-K for the year ended December 31, 2016, which includes all disclosures required by GAAP.

References in these Notes to “ParentCo” refer to Alcoa Inc., a Pennsylvania corporation, and its consolidated subsidiaries (through October 31, 2016, at which time was renamed Arconic Inc. (Arconic)).

Separation Transaction. On November 1, 2016 (the “Separation Date”), Alcoa Corporation separated from ParentCo into a standalone, publicly-traded company, effective at 12:01 a.m. Eastern Standard Time, (the “Separation Transaction”). Alcoa Corporation is comprised of the bauxite mining, alumina refining, aluminum smelting and casting, and energy operations of ParentCo’s former Alumina and Primary Metals segments, as well as the Warrick, Indiana rolling operations and the 25.1% equity interest in the rolling mill at the joint venture in Saudi Arabia, both of which were part of ParentCo’s Global Rolled Products segment. ParentCo, later changed its name to Arconic, continues to own the operations within its Global Rolled Products (except for the aforementioned rolling operations that are owned by Alcoa Corporation), Engineered Products and Solutions, and Transportation and Construction Solutions segments.

To effect the Separation Transaction, ParentCo undertook a series of transactions to separate the net assets and certain legal entities of ParentCo, resulting in a cash payment of \$1,072 to ParentCo by Alcoa Corporation (an additional \$238 was paid to Arconic by Alcoa Corporation in the first quarter of 2017 – see Note C) with the net proceeds of a previous debt offering. In conjunction with the Separation Transaction, 146,159,428 shares of Alcoa Corporation common stock were distributed to ParentCo shareholders. Additionally, Arconic retained 36,311,767 shares of Alcoa Corporation common stock representing its 19.9% retained interest (Arconic sold 23,353,000 of these shares on February 14, 2017 and the remaining 12,958,767 shares on May 4, 2017). “Regular-way” trading of Alcoa Corporation’s common stock began with the opening of the New York Stock Exchange on November 1, 2016 under the ticker symbol “AA.” Alcoa Corporation’s common stock has a par value of \$0.01 per share.

In connection with the Separation Transaction, as of October 31, 2016, Alcoa Corporation entered into certain agreements with Arconic to implement the legal and structural separation between the two companies, govern the relationship between Alcoa Corporation and Arconic after the completion of the Separation Transaction, and allocate between Alcoa Corporation and Arconic various assets, liabilities and obligations, including, among other things, employee benefits, environmental liabilities, intellectual property, and tax-related assets and liabilities. These agreements included a Separation and Distribution Agreement, Tax Matters Agreement, Employee Matters Agreement, Transition Services Agreement, certain Patent, Know-How, Trade Secret License and Trademark License Agreements, and Stockholder and Registration Rights Agreement.

ParentCo incurred costs to evaluate, plan, and execute the Separation Transaction, and Alcoa Corporation was allocated a pro rata portion of those costs based on segment revenue (see Cost Allocations below). ParentCo recognized \$152 from January 2016 through October 2016 and \$24 in 2015 for costs related to the Separation Transaction, of which \$68 and \$12, respectively, was allocated to Alcoa Corporation. Accordingly, in the first quarter of 2016, an allocation of \$9 was included in Selling, general administrative, and other expenses on the accompanying Statement of Consolidated Operations.

Principles of Consolidation. The Consolidated Financial Statements of Alcoa Corporation include the accounts of Alcoa Corporation and companies in which Alcoa Corporation has a controlling interest, including those that comprise the Alcoa World Alumina & Chemicals (AWAC) joint venture (see below). Intercompany transactions have been eliminated. The equity method of accounting is used for investments in affiliates and other joint ventures over which Alcoa Corporation has significant influence but does not have effective control. Investments in affiliates in which Alcoa Corporation cannot exercise significant influence are accounted for on the cost method.

AWAC is an unincorporated global joint venture between Alcoa Corporation and Alumina Limited of Australia (Alumina Limited) and consists of a number of affiliated operating entities, which own, or have an interest in, or operate the bauxite mines and alumina refineries within Alcoa Corporation's Bauxite and Alumina segments (except for the Poços de Caldas mine and refinery and a portion of the São Luís refinery, all in Brazil) and the Portland smelter in Australia. Alcoa Corporation owns 60% and Alumina Limited owns 40% of these individual entities, which are consolidated by the Company for financial reporting purposes and include Alcoa of Australia Limited, Alcoa World Alumina LLC (AWA), and Alcoa World Alumina Brasil Ltda. (AWAB). Alumina Limited's interest in the equity of such entities is reflected as Noncontrolling interest on the accompanying Consolidated Balance Sheet.

Prior to the Separation Date, Alcoa Corporation did not operate as a separate, standalone entity. Alcoa Corporation's operations were included in ParentCo's financial results. Accordingly, for all periods prior to the Separation Date, the accompanying Consolidated Financial Statements were prepared from ParentCo's historical accounting records and were presented on a standalone basis as if Alcoa Corporation's operations had been conducted independently from ParentCo. Such Consolidated Financial Statements include the historical operations that were considered to comprise Alcoa Corporation's businesses, as well as certain assets and liabilities that were historically held at ParentCo's corporate level but were specifically identifiable or otherwise attributable to Alcoa Corporation. ParentCo's net investment in these operations is reflected as Parent Company net investment on Alcoa Corporation's Consolidated Balance Sheet. All significant transactions and accounts within Alcoa Corporation have been eliminated. All significant intercompany transactions between ParentCo and Alcoa Corporation were included within Parent Company net investment in the accompanying Consolidated Financial Statements.

Cost Allocations. The description and information on cost allocations is applicable for all periods included in the Consolidated Financial Statements prior to the Separation Date.

The Consolidated Financial Statements of Alcoa Corporation include general corporate expenses of ParentCo that were not historically charged to Alcoa Corporation for certain support functions that were provided on a centralized basis, such as expenses related to finance, audit, legal, information technology, human resources, communications, compliance, facilities, employee benefits and compensation, and research and development activities. These general corporate expenses were included in the accompanying Statement of Consolidated Operations within Cost of goods sold, Selling, general administrative and other expenses, and Research and development expenses. These expenses were allocated to Alcoa Corporation on the basis of direct usage when identifiable, with the remainder allocated based on Alcoa Corporation's segment revenue as a percentage of ParentCo's total segment revenue for both Alcoa Corporation and Arconic.

In preparing the Consolidated Financial Statements for the year ended December 31, 2016, management discovered that the amount for Cost of goods sold previously reported for the three months ended March 31, 2016 included an immaterial error due to an under-allocation of LIFO (last-in, first-out) expense of \$7. The amount for Cost of goods sold in the accompanying Statement of Consolidated Operations and the table below for the three months ended March 31, 2016 was revised to correct this immaterial error.

All external debt not directly attributable to Alcoa Corporation was excluded from Alcoa Corporation's Consolidated Balance Sheet. Financing costs related to these debt obligations were allocated to Alcoa Corporation based on the ratio of capital invested in Alcoa Corporation to the total capital invested by ParentCo in both Alcoa Corporation and Arconic, and were included in the accompanying Statement of Consolidated Operations within Interest expense.

The following table reflects the allocations described above:

<u>First quarter ended March 31,</u>	<u>2016</u>
Cost of goods sold (1)	\$ 13
Selling, general administrative, and other expenses (2)	31
Research and development expenses	2
Provision for depreciation, depletion, and amortization	5
Restructuring and other charges (3)	1
Interest expense	59
Other income, net	7

- (1) Allocation principally relates to expenses for ParentCo's retained pension and other postretirement benefits associated with closed and sold operations.
- (2) Allocation includes costs incurred by ParentCo associated with the Separation Transaction (see Separation Transaction above).
- (3) Allocation primarily relates to layoff programs for ParentCo corporate employees.

Management believes the assumptions regarding the allocation of ParentCo's general corporate expenses and financing costs were reasonable.

Nevertheless, the Consolidated Financial Statements of Alcoa Corporation may not include all of the actual expenses that would have been incurred and may not reflect Alcoa Corporation's consolidated results of operations, financial position, and cash flows had it been a standalone company during the periods prior to the Separation Date. Actual costs that would have been incurred if Alcoa Corporation had been a standalone company would depend on multiple factors, including organizational structure, capital structure, and strategic decisions made in various areas, including information technology and infrastructure. Transactions between Alcoa Corporation and ParentCo, including sales to Arconic, were included as related party transactions in the Consolidated Financial Statements and are considered to be effectively settled for cash at the time the transaction was recorded. The total net effect of the settlement of these transactions is reflected in the accompanying Statement of Consolidated Cash Flows as a financing activity and in Alcoa Corporation's Consolidated Balance Sheet as Parent Company net investment.

Cash Management. The description and information on cash management is applicable for all periods included in the Consolidated Financial Statements prior to the Separation Date.

Cash was managed centrally with certain net earnings reinvested locally and working capital requirements met from existing liquid funds. Accordingly, the cash and cash equivalents held by ParentCo at the corporate level were not attributed to Alcoa Corporation for any of the periods prior to the Separation Date. Only cash amounts specifically attributable to Alcoa Corporation were reflected on the Company's Consolidated Balance Sheet. Transfers of cash, both to and from ParentCo's centralized cash management system, were reflected as a component of Parent Company net investment on Alcoa Corporation's Consolidated Balance Sheet and as a financing activity on the accompanying Consolidated Statement of Cash Flows.

ParentCo had an arrangement with several financial institutions to sell certain customer receivables without recourse on a revolving basis. The sale of such receivables was completed through the use of a bankruptcy-remote special-purpose entity, which was a consolidated subsidiary of ParentCo. In connection with this arrangement, certain of Alcoa Corporation's customer receivables were sold on a revolving basis to this bankruptcy-remote subsidiary of ParentCo; these sales were reflected as a component of Parent Company net investment on Alcoa Corporation's accompanying Consolidated Balance Sheet.

ParentCo participated in several accounts payable settlement arrangements with certain vendors and third-party intermediaries. These arrangements provided that, at the vendor's request, the third-party intermediary advance the amount of the scheduled payment to the vendor, less an appropriate discount, before the scheduled payment date and ParentCo made payment to the third-party intermediary on the date stipulated in accordance with the commercial terms negotiated with its vendors. In connection with these arrangements, certain of Alcoa Corporation's accounts payable were settled, at the vendor's request, before the scheduled payment date; these settlements were reflected as a component of Parent Company net investment on Alcoa Corporation's Consolidated Balance Sheet.

Related Party Transactions. Transactions between Alcoa Corporation and Arconic have been presented as related party transactions in the accompanying Consolidated Financial Statements. Sales to Arconic from Alcoa Corporation were \$193 and \$237 in the first quarter of 2017 and 2016, respectively. As of March 31, 2017 and December 31, 2016, outstanding receivables from Arconic were \$70 and \$67, respectively, and were included in Receivables from customers on the accompanying Consolidated Balance Sheet.

B. Recently Adopted and Recently Issued Accounting Guidance

Adopted

On January 1, 2017, Alcoa Corporation adopted changes issued by the Financial Accounting Standards Board (FASB) to the subsequent measurement of inventory. Prior to these changes, an entity was required to measure its inventory at the lower of cost or market, whereby market can be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The changes require that inventory be measured at the lower of cost and net realizable value, thereby eliminating the use of the other two market methodologies. Net realizable value is defined as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. These changes do not apply to inventories measured using LIFO or the retail inventory method. Prior to these changes, Alcoa Corporation applied the net realizable value market option to measure non-LIFO inventories at the lower of cost or market. The adoption of these changes had no impact on the Consolidated Financial Statements.

On January 1, 2017, Alcoa Corporation adopted changes issued by the FASB to derivative instruments designated as hedging instruments. These changes clarify that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself,

require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The adoption of these changes had no immediate impact on the Consolidated Financial Statements; however, this guidance will need to be considered in the event the existing counterparty to any of Alcoa Corporation's derivative instruments changes to a new counterparty.

On January 1, 2017, Alcoa Corporation adopted changes issued by the FASB to equity method investments. These changes eliminate the requirement for an investor to adjust an equity method investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held as a result of an increase in the level of ownership interest or degree of influence. Additionally, an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting must recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The adoption of these changes had no immediate impact on the Consolidated Financial Statements; however, this guidance will need to be considered in the event any of Alcoa Corporation's investments undergo a change as previously described.

On January 1, 2017, Alcoa Corporation adopted changes issued by the FASB to employee share-based payment accounting. Prior to these changes, an entity must determine for each share-based payment award whether the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes results in either an excess tax benefit or a tax deficiency. Excess tax benefits are recognized in additional paid-in capital; tax deficiencies are recognized either as an offset to accumulated excess tax benefits, if any, or in the income statement. Excess tax benefits are not recognized until the deduction reduces taxes payable. The changes require all excess tax benefits and tax deficiencies related to share-based payment awards to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Additionally, the presentation of excess tax benefits related to share-based payment awards in the statement of cash flows is changed. Prior to these changes, excess tax benefits must be separated from other income tax cash flows and classified as a financing activity. The changes require excess tax benefits to be classified along with other income tax cash flows as an operating activity. Also, the changes require cash paid by an employer when directly withholding shares for tax-withholding purposes to be classified as a financing activity. Prior to these changes, there was no specific guidance on the classification in the statement of cash flows of cash paid by an employer to the tax authorities when directly withholding shares for tax-withholding purposes. Additionally, for a share-based award to qualify for equity classification it cannot partially settle in cash in excess of the employer's minimum statutory withholding requirements. The changes permit equity classification of share-based awards for withholdings up to the maximum statutory tax rates in applicable jurisdictions. The adoption of these changes had an immaterial impact on the Consolidated Financial Statements.

On January 1, 2017, Alcoa Corporation adopted changes issued by the FASB to the accounting for intra-entity transactions, other than inventory. Prior to these changes, no immediate tax impact is recognized in an entity's financial statements as a result of intra-entity transfers of assets. An entity is precluded from reflecting a tax benefit or expense from an intra-entity asset transfer between entities that file separate tax returns, whether or not such entities are in different tax jurisdictions, until the asset has been sold to a third party or otherwise recovered. The buyer of such asset is prohibited from recognizing a deferred tax asset for the temporary difference arising from the excess of the buyer's tax basis over the cost to the seller. The changes require the current and deferred income tax consequences of the intra-entity transfer to be recorded when the transaction occurs. The exception to defer the tax consequences of inventory transactions is maintained. The adoption of these changes had an immaterial impact on the Consolidated Financial Statements.

On January 1, 2017, Alcoa Corporation adopted changes issued by the FASB to consolidation accounting. Prior to these changes, an entity was required to consider indirect economic interests in a variable interest entity held through related parties under common control as direct interests in their entirety in the entity's assessment of whether it is the primary beneficiary of the variable interest entity. The changes result in an entity considering such indirect economic interests only on a proportionate basis as indirect interests instead of as direct interests in their entirety. The adoption of these changes had no impact on the Consolidated Financial Statements; however, this guidance will need to be considered in future assessments of whether Alcoa Corporation is the primary beneficiary of a variable interest entity.

In January 2017, the FASB issued changes to accounting for business combinations. These changes clarify the definition of a business for the purposes of evaluating whether a particular transaction should be accounted for as an acquisition or disposal of a business or an asset. Generally, a business is an integrated set of assets and activities that contain inputs, processes, and outputs, although outputs are not required. These changes provide a “screen” to determine whether an integrated set of assets and activities qualifies as a business. If substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets, the definition of a business has not been met and the transaction should be accounted for as an acquisition or disposal of an asset. Otherwise, an entity is required to evaluate whether the integrated set of assets and activities include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and are no longer to consider whether a market participant could replace any missing elements. These changes also narrow the definition of an output. Currently, an output is defined as the ability to provide a return in the form of dividends, lower costs, or other economic benefits directly to investors, owners, members, or participants. An output would now be defined as the ability to provide goods or services to customers, investment income, or other revenues. These changes become effective for Alcoa Corporation on January 1, 2018. Management has determined that the adoption of these changes will not have an immediate impact on the Consolidated Financial Statements. This guidance will need to be considered in the event Alcoa Corporation acquires or disposes of an integrated set of assets and activities.

In January 2017, the FASB issued changes to the assessment of goodwill for impairment as it relates to the quantitative test. Currently, there are two steps when performing a quantitative impairment test. The first step requires an entity to compare the current fair value of a reporting unit to its carrying value. In the event the reporting unit’s estimated fair value is less than its carrying value, an entity performs the second step, which is to compare the carrying amount of the reporting unit’s goodwill with the implied fair value of that goodwill. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value amounts assigned to all of the assets and liabilities of that unit as if the reporting unit was acquired in a business combination and the fair value of the reporting unit represented the purchase price. If the carrying value of goodwill exceeds its implied fair value, an impairment loss equal to such excess would be recognized. These changes eliminate the second step of the quantitative impairment test. Accordingly, an entity would recognize an impairment of goodwill for a reporting unit, if under what is currently referred to as the first step, the estimated fair value of the reporting unit is less than the carrying value. The impairment would be equal to the excess of the reporting unit’s carrying value over its fair value not to exceed the total amount of goodwill applicable to that reporting unit. These changes become effective for Alcoa Corporation on January 1, 2020. Management has determined that the adoption of these changes will not have an immediate impact on the Consolidated Financial Statements. This guidance will need to be considered each time Alcoa Corporation performs an assessment of goodwill for impairment under the quantitative test.

In March 2017, the FASB issued changes to the presentation of net periodic benefit cost related to pension and other postretirement benefit plans. These changes require that an entity report the service cost component of net periodic benefit cost in the same line item(s) on the statement of operations as other compensation costs arising from services rendered by the pertinent employees during a reporting period. The other components of net periodic benefit cost (see Note J) are required to be presented separately from the service cost component. In other words, these other components may be aggregated and presented as a separate line item or they may be included in existing line items on the statement of operations other than such line items that include the service cost component. Currently, Alcoa Corporation includes all components of net periodic benefit cost in Cost of goods sold (business employees) and Selling, general administrative, and other expenses (corporate employees) consistent with the location of other compensation costs related to the respective employees. Additionally, these changes only allow the service cost component to be capitalized as applicable (e.g., as a cost of internally manufactured inventory). These changes become effective for Alcoa Corporation on January 1, 2018. Management is currently evaluating the potential impact of these changes on the Consolidated Financial Statements.

C. Acquisitions and Divestitures – In February 2017, Alcoa Corporation’s wholly-owned subsidiary, Alcoa Power Generating Inc., completed the sale of its 215-megawatt Yadkin Hydroelectric Project (Yadkin) to Cube Hydro Carolinas, LLC for \$246 in cash, of which \$5 was deferred until a later date in accordance with the purchase and sale agreement. Alcoa Corporation recognized a gain of \$120 (pre- and after-tax) in Other income, net on the accompanying Statement of Consolidated Operations. This transaction is subject to post-closing adjustments. In accordance with the Separation and Distribution Agreement (see Note A), Alcoa Corporation remitted \$238 of the proceeds to Arconic (the \$5 in deferred proceeds will be remitted to Arconic at a later date). At December 31, 2016, Alcoa Corporation had a liability of \$243, which was included in Other current liabilities on the accompanying Consolidated Balance Sheet. Yadkin encompasses four hydroelectric power developments (reservoirs, dams, and powerhouses), known as High Rock, Tuckertown, Narrows, and Falls, situated along a 38-mile stretch of the Yadkin River through the central part of North Carolina. Prior to the divestiture, the power generated by Yadkin was primarily sold into the open market. Yadkin generated sales of \$29 in 2016, and had approximately 30 employees as of December 31, 2016.

D. Restructuring and Other Charges – In the first quarter of 2017, Alcoa Corporation recorded Restructuring and other charges of \$10, which were comprised of the following components: \$13 for additional contract costs related to the curtailed Wenatchee (Washington) smelter; \$2 for miscellaneous items; and a reversal of \$5 associated with layoff reserves related to prior periods.

In the first quarter of 2016, Alcoa Corporation recorded Restructuring and other charges of \$84, which were comprised of the following components: \$78 for additional net costs related to decisions made in late 2015 to permanently close and demolish the Warrick (Indiana) smelter and to curtail the Wenatchee smelter and Point Comfort (Texas) refinery (see below); \$8 for layoff costs related to cost reduction initiatives, including the separation of approximately 30 employees in the Aluminum segment; \$1 related to the allocation of Corporate restructuring to Alcoa Corporation (see Cost Allocations in Note A); and a reversal of \$3 associated with a number of layoff reserves related to prior periods.

In the first quarter of 2016, the additional net costs related to the closure and curtailment actions included accelerated depreciation of \$70 related to the Warrick smelter as it continued to operate through March 2016; a reversal of \$19 associated with severance costs initially recorded in late 2015; and \$27 in other exit costs. Additionally in the first quarter of 2016, remaining inventories, mostly operating supplies and raw materials, were written down to their net realizable value, resulting in a charge of \$3, which was recorded in Cost of goods sold on the accompanying Statement of Consolidated Operations. The other exit costs of \$27 represent \$20 for contract terminations and \$7 in asset retirement obligations for the rehabilitation of a related coal mine in the United States.

Alcoa Corporation does not include Restructuring and other charges in the results of its reportable segments. The impact of allocating such charges to segment results would have been as follows:

	First quarter ended March 31,	
	2017	2016
Bauxite	\$ —	\$ 1
Alumina	—	4
Aluminum	9	78
Segment total	9	83
Corporate	1	1
Total restructuring and other charges	\$ 10	\$ 84

As of March 31, 2017, approximately 70 of the 75 employees associated with 2016 restructuring programs and approximately 3,200 of the 3,300 (previously 3,400) employees associated with 2015 restructuring programs were separated. The total number of employees associated with 2015 restructuring programs was updated to reflect employees, who were initially identified for separation, accepting other positions within Alcoa and natural attrition. The remaining separations for 2016 and 2015 restructuring programs are expected to be completed by mid-2017.

In the 2017 first quarter, cash payments of \$1 and \$8 were made against layoff reserves related to 2016 and 2015 restructuring programs, respectively.

Activity and reserve balances for restructuring charges were as follows:

	Layoff costs	Other exit costs	Total
Reserve balances at December 31, 2015	\$ 137	\$ 15	\$ 152
2016 :			
Cash payments	(74)	(35)	(109)
Restructuring charges	32	168	200
Other*	(57)	(120)	(177)
Reserve balances at December 31, 2016	38	28	66
2017 :			
Cash payments	(10)	(7)	(17)
Restructuring charges	2	13	15
Other*	(5)	1	(4)
Reserve balances at March 31, 2017	\$ 25	\$ 35	\$ 60

- * Other includes reversals of previously recorded restructuring charges and the effects of foreign currency translation. In 2016, Other for layoff costs also included a reclassification of \$16 in pension benefits costs, as these obligations were included in Alcoa Corporation's separate liability for pension benefits obligations. Additionally in 2016, Other for other exit costs also included a reclassification of the following restructuring charges: \$97 in asset retirement and \$26 in environmental obligations, as these liabilities were included in Alcoa Corporation's separate reserves for asset retirement obligations and environmental remediation.

The remaining reserves are expected to be paid in cash during the remainder of 2017, with the exception of approximately \$5, which is expected to be paid by no later than the end of 2019 for contract termination and special layoff benefit payments.

E. Segment Information – Effective in the first quarter of 2017, management elected to change the profit and loss measure of Alcoa Corporation's reportable segments from After-tax operating income (ATOI) to Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) for internal reporting and performance measurement purposes. This change was made to enhance the transparency and visibility of the underlying operating performance of each segment. Alcoa Corporation calculates Adjusted EBITDA as Total sales (third-party and intersegment) minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; and Research and development expenses. Previously, Alcoa Corporation calculated ATOI as Adjusted EBITDA minus (plus) the following items: Provision for depreciation, depletion, and amortization; Equity loss (income); Loss (gain) on certain asset sales; and Income taxes. Alcoa Corporation's Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

Also effective in the first quarter of 2017, management initiated a realignment of the Company's internal business and organizational structure. This realignment consisted of combining Alcoa Corporation's aluminum smelting, casting, and rolling businesses, along with the majority of the energy business, into a new Aluminum business unit, as well as moving the financial results of previously closed operations, such as the Warrick smelter and Suriname refinery, into Corporate. The realignment was executed to align strategic, operational, and commercial activities, as well as to take advantage of synergies and reduce costs. The new Aluminum business unit is managed as a single operating segment. Prior to this change, each of these businesses were managed as individual operating segments and comprised the Aluminum, Cast Products, Energy, and Rolled Products segments. The existing Bauxite and Alumina segments and the new Aluminum segment represent Alcoa Corporation's operating and reportable segments. The chief operating decision maker function regularly reviews the financial information, including Sales and Adjusted EBITDA, of these three operating segments to assess performance and allocate resources.

Segment information for all prior periods presented was revised to reflect the new segment structure, as well as the new measure of profit and loss.

The operating results of Alcoa Corporation's reportable segments were as follows (differences between segment totals and combined totals are in Corporate):

	<u>Bauxite</u>	<u>Alumina</u>	<u>Aluminum</u>	<u>Total</u>
First quarter ended March 31, 2017				
Sales:				
Third-party sales – unrelated party	\$ 70	\$ 734	\$ 1,613	\$2,417
Third-party sales – related party	—	—	193	193
Intersegment sales	219	361	4	584
Total sales	\$ 289	\$ 1,095	\$ 1,810	\$3,194
Adjusted EBITDA	\$ 110	\$ 297	\$ 206	\$ 613
Supplemental information:				
Depreciation, depletion, and amortization	\$ 18	\$ 49	\$ 101	\$ 168
Equity income (loss)	—	1	(7)	(6)
First quarter ended March 31, 2016				
Sales:				
Third-party sales – unrelated party	\$ 44	\$ 496	\$ 1,315	\$1,855
Third-party sales – related party	—	—	237	237
Intersegment sales	175	292	34	501
Total sales	\$ 219	\$ 788	\$ 1,586	\$2,593
Adjusted EBITDA	\$ 77	\$ 15	\$ 165	\$ 257
Supplemental information:				
Depreciation, depletion, and amortization	\$ 17	\$ 45	\$ 103	\$ 165
Equity loss	—	(14)	(7)	(21)

The following table reconciles total segment Adjusted EBITDA to consolidated net income (loss) attributable to Alcoa Corporation:

	First quarter ended March 31,	
	2017	2016
Total segment Adjusted EBITDA	\$ 613	\$ 257
Unallocated amounts:		
Impact of LIFO (1)	(14)	18
Metal price lag (1)	6	2
Corporate expense (2)	(33)	(36)
Provision for depreciation, depletion, and amortization	(179)	(177)
Restructuring and other charges (D)	(10)	(84)
Interest expense	(26)	(64)
Other income (expenses), net (N)	100	(39)
Other (3)	(39)	(74)
Consolidated income (loss) before income taxes	418	(197)
Provision for income taxes	(110)	(18)
Net (income) loss attributable to noncontrolling interest	(83)	5
Consolidated net income (loss) attributable to Alcoa Corporation	\$ 225	\$ (210)

- (1) Metal price lag describes the timing difference created when the average price of metal sold differs from the average cost of the metal when purchased by Alcoa Corporation's rolled aluminum operations. In general, when the price of metal increases, metal price lag is favorable, and when the price of metal decreases, metal price lag is unfavorable.
- (2) Corporate expense is primarily composed of general administrative and other expenses of operating the corporate headquarters and other global administrative facilities.
- (3) Other includes, among other items, the Adjusted EBITDA of previously closed operations as applicable, pension and other postretirement benefit expenses associated with closed and sold operations, and intersegment profit elimination.

F. Earnings Per Share – Basic earnings per share (EPS) amounts are computed by dividing earnings by the average number of common shares outstanding. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive share equivalents outstanding.

The information used to compute basic and diluted EPS attributable to Alcoa Corporation common shareholders was as follows (shares in millions):

	First quarter ended March 31,	
	2017	2016
Net income (loss) attributable to Alcoa Corporation	\$ 225	\$ (210)
Average shares outstanding – basic	184	182
Effect of dilutive securities:		
Stock options	1	—
Stock and performance awards	1	—
Average shares outstanding – diluted	186	182

In the 2016 first quarter, the EPS included on the accompanying Statement of Consolidated Operations was calculated based on the 182,471,195 shares of Alcoa Corporation common stock distributed on the Separation Date in conjunction with the completion of the Separation Transaction and is considered pro forma in nature. Prior to November 1, 2016, Alcoa Corporation did not have any issued and outstanding common stock.

Options to purchase 1 million shares of common stock at a weighted average exercise price of \$36.29 were outstanding as of March 31, 2017, but were not included in the computation of diluted EPS because they were anti-dilutive, as the exercise prices of the options were greater than the average market price of Alcoa Corporation's common stock.

G. Accumulated Other Comprehensive Loss

The following table details the activity of the three components that comprise Accumulated other comprehensive loss for both Alcoa Corporation's shareholders and noncontrolling interest:

	Alcoa Corporation		Noncontrolling interest	
	First quarter ended		First quarter ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Pension and other postretirement benefits (J)				
Balance at beginning of period	\$ (2,330)	\$ (352)	\$ (56)	\$ (56)
Other comprehensive income (loss):				
Unrecognized net actuarial loss and prior service cost/benefit	(5)	(22)	(1)	—
Tax benefit	1	7	—	—
Total Other comprehensive loss before reclassifications, net of tax	(4)	(15)	(1)	—
Amortization of net actuarial loss and prior service cost/benefit (1)	50	8	—	2
Tax expense (2)	(2)	(3)	—	(1)
Total amount reclassified from Accumulated other comprehensive loss, net of tax (6)	48	5	—	1
Total Other comprehensive income (loss)	44	(10)	(1)	1
Balance at end of period	\$ (2,286)	\$ (362)	\$ (57)	\$ (55)
Foreign currency translation				
Balance at beginning of period	\$ (1,655)	\$ (1,851)	\$ (677)	\$ (779)
Other comprehensive income (3)	239	248	114	107
Balance at end of period	\$ (1,416)	\$ (1,603)	\$ (563)	\$ (672)
Cash flow hedges (K)				
Balance at beginning of period	\$ 210	\$ 603	\$ 1	\$ (3)
Other comprehensive (loss) income:				
Net change from periodic revaluations	(380)	(120)	120	(3)
Tax benefit (expense)	58	28	(36)	1
Total Other comprehensive (loss) income before reclassifications, net of tax	(322)	(92)	84	(2)
Net amount reclassified to earnings:				
Aluminum contracts (4)	18	(5)	—	—
Energy contracts (5)	(1)	—	(1)	—
Sub-total	17	(5)	(1)	—
Tax (expense) benefit (2)	(3)	2	—	—
Total amount reclassified from Accumulated other comprehensive income (loss), net of tax (6)	14	(3)	(1)	—
Total Other comprehensive (loss) income	(308)	(95)	83	(2)
Balance at end of period	\$ (98)	\$ 508	\$ 84	\$ (5)

- (1) These amounts were included in the computation of net periodic benefit cost for pension and other postretirement benefits (see Note J).
- (2) These amounts were included in Provision for income taxes on the accompanying Statement of Consolidated Operations.
- (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 Sales on the accompanying Statement of Consolidated Operations.
- (5) These amounts were included in Other income, net on the accompanying Statement of Consolidated Operations.
- (6) 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 Statement of Consolidated Operations in the line items indicated in footnotes 1 through 5.

H. Investments – A summary of unaudited financial information for Alcoa Corporation’s equity investments is as follows (amounts represent 100% of investee financial information):

	First quarter ended March 31,	
	2017	2016
Sales	\$ 916	\$ 892
Cost of goods sold	678	681
Net income	23	15

I. Inventories

	March 31, 2017	December 31, 2016
Finished goods	\$ 252	\$ 226
Work-in-process	283	220
Bauxite and alumina	465	429
Purchased raw materials	381	363
Operating supplies	142	137
LIFO reserve	(229)	(215)
	<u>\$ 1,294</u>	<u>\$ 1,160</u>

At March 31, 2017 and December 31, 2016, the total amount of inventories valued on a LIFO basis was \$489, or 32%, and \$393, or 29%, respectively, of total inventories before LIFO adjustments. The inventory values, prior to the application of LIFO, are generally determined under the average cost method, which approximates current cost.

J. Pension and Other Postretirement Benefits – The components of net periodic benefit cost were as follows:

First quarter ended March 31,	Pension benefits		Other postretirement benefits	
	2017	2016**	2017	2016**
Service cost	\$ 18	\$ 12	\$ 1	\$ —
Interest cost	61	18	10	1
Expected return on plan assets	(99)	(29)	—	—
Recognized net actuarial loss	46	9	3	—
Amortization of prior service cost (benefit)	2	1	(1)	—
Special termination benefits*	—	1	—	—
Net periodic benefit cost	<u>\$ 28</u>	<u>\$ 12</u>	<u>\$ 13</u>	<u>\$ 1</u>

* These amounts were recorded in Restructuring and other charges on the accompanying Statement of Consolidated Operations (see Note D).

** In the first quarter of 2016, Alcoa Corporation also recognized multiemployer expense related to pension and other postretirement benefits of \$22 and \$8, respectively.

K. Derivatives and Other Financial Instruments

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (i) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (ii) an entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

Derivatives

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

Alcoa Corporation's commodity and derivative activities are subject to the management, direction, and control of the Strategic Risk Management Committee (SRMC), which is composed of the chief executive officer, the chief financial officer, and other officers and employees that the chief executive officer selects. The SRMC meets on a periodic basis to review derivative positions and strategy and reports to Alcoa Corporation's Board of Directors on the scope of its activities.

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

A number of Alcoa Corporation's aluminum, energy, and foreign exchange contracts are classified as Level 1 or Level 2 under the fair value hierarchy. The total fair value of these derivative contracts recorded as assets and liabilities was \$12 and \$73, respectively, at March 31, 2017 and \$5 and \$2, respectively, at December 31, 2016. Certain of these contracts are designated as hedging instruments, either fair value or cash flow, and the remaining are not designated as such. Combined, Alcoa Corporation recognized a loss of \$22 in Other income, net on the accompanying Statement of Consolidated Operations in the 2017 first quarter. Additionally, for the contracts designated as cash flow hedges, Alcoa Corporation recognized an unrealized loss of \$50 in Other comprehensive loss in the 2017 first quarter.

In addition to the Level 1 and 2 derivative instruments described above, Alcoa Corporation has nine (ten prior to October 2016) derivative instruments classified as Level 3 under the fair value hierarchy. These instruments are composed of seven (eight prior to October 2016) embedded aluminum derivatives, a financial contract, and an embedded credit derivative, all of which relate to energy supply contracts associated with nine smelters and three refineries. Five of the embedded aluminum derivatives and the financial contract (through November 2016 – see below) were designated as cash flow hedging instruments and two (three prior to October 2016) of the embedded aluminum derivatives, the embedded credit derivative, and the financial contract (beginning in December 2016 – see below) were not designated as hedging instruments. Additionally, in January 2017, Alcoa Corporation entered into a new financial contract that will replace the existing financial contract in August 2017. This new financial contract was designated as a cash flow hedging instrument and was classified as Level 3 under the fair value hierarchy (see below).

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

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

For periods beyond the term of quoted market prices for aluminum, Alcoa Corporation 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).

Alcoa Corporation has two power contracts, each of which contain an embedded derivative that indexes the price of power to the LME price of aluminum. Additionally, Alcoa Corporation has three power contracts, each of which contain an embedded derivative that indexes the price of power to the LME price of aluminum plus the Midwest premium. The embedded derivatives in these five power contracts are primarily valued using observable market prices; however, due to the length of the contracts, the valuation models also require management to estimate the long-term price of aluminum based upon an extrapolation of the 10-year LME forward curve. Additionally, for three of the contracts, management also estimates the Midwest premium, generally, for the next twelve months based on recent transactions and then holds the premium estimated in that twelfth month constant for the remaining duration of the contract. Significant increases or decreases in the actual LME price beyond 10 years would result in a higher or lower fair value measurement. An increase in actual LME price and/or the Midwest premium over the inputs used in the valuation models will result in a higher cost of power and a corresponding decrease to the derivative asset or increase to the derivative liability. The embedded derivatives have been designated as cash flow hedges of forward sales of aluminum. Unrealized gains and losses were included in Other comprehensive (loss) income on the accompanying Consolidated Balance Sheet while realized gains and losses were included in Sales on the accompanying Statement of Consolidated Operations.

Also, Alcoa Corporation had a power contract (expired in October 2016 – see below) separate from above that contains an LME-linked embedded derivative. Prior to its expiration, the embedded derivative was valued using the probability and interrelationship of future LME prices, Australian dollar to U.S. dollar exchange rates, and the U.S. consumer price index. Significant increases or decreases in the LME price would result in a higher or lower fair value measurement. An increase in actual LME price over the inputs used in the valuation model will result in a higher cost of power and a corresponding decrease to the derivative asset. This embedded derivative did not qualify for hedge accounting treatment. Unrealized gains and losses from the embedded derivative were included in Other (income) expenses, net on the accompanying Statement of Consolidated Operations while realized gains and losses were included in Cost of goods sold on the accompanying Statement of Consolidated Operations as electricity purchases were made under the contract. At the time this derivative asset was recognized, an equivalent amount was recognized as a deferred credit in Other noncurrent liabilities and deferred credits on the accompanying Consolidated Balance Sheet. This deferred credit was recognized in Other (income) expenses, net on the accompanying Statement of Consolidated Operations as power was received over the life of the contract.

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

In the second quarter of 2016, Alcoa Corporation and the related counterparty elected to modify the pricing of an existing power contract for a smelter in the United States. This amendment contains an embedded derivative that indexes the price of power to the LME price of aluminum plus the Midwest premium. The embedded derivative is valued using the interrelationship of future metal prices (LME base plus Midwest premium) and the amount of megawatt hours of energy needed to produce the forecasted metric tons of aluminum at the smelter. Significant increases or decreases in the metal price would result in a higher or lower fair value measurement. An increase in actual metal price over the inputs used in the valuation model will result in a higher cost of power and a corresponding increase to the derivative liability. Management elected not to qualify the embedded derivative for hedge accounting treatment. Unrealized gains and losses from the embedded derivative were included in Other (income) expenses,

net on the accompanying Statement of Consolidated Operations while realized gains and losses were included in Cost of goods sold on the accompanying Statement of Consolidated Operations as electricity purchases were made under the contract. At the time this derivative liability was recognized, an equivalent amount was recognized as a deferred charge in Other noncurrent assets on the accompanying Consolidated Balance Sheet. This deferred charge is recognized in Other (income) expenses, net on the accompanying Statement of Consolidated Operations as power is received over the life of the contract.

Furthermore, Alcoa Corporation has a power contract, which contains an embedded derivative that indexes the difference between the long-term debt ratings of Alcoa Corporation and the counterparty from any of the three major credit rating agencies. Management uses market prices, historical relationships, and forecast services to determine fair value. Significant increases or decreases in any of these inputs would result in a lower or higher fair value measurement. A wider credit spread between Alcoa Corporation and the counterparty would result in a higher cost of power and a corresponding increase in the derivative liability. This embedded derivative did not qualify for hedge accounting treatment. Unrealized gains and losses were included in Other (income) expenses, net on the accompanying Statement of Consolidated Operations while realized gains and losses were included in Cost of goods sold on the accompanying Statement of Consolidated Operations as electricity purchases were made under the contract.

Finally, Alcoa Corporation has a financial contract that hedges the anticipated power requirements at one of its smelters that began in November 2016. At that time, the energy supply contract related to this smelter had expired (see above) and Alcoa Corporation began purchasing electricity directly from the spot market. Beyond the term where market information is available, management developed a forward curve, for valuation purposes, based on independent consultant market research. Significant increases or decreases in the power market may result in a higher or lower fair value measurement of the financial contract. Lower prices in the power market would cause a decrease in the derivative asset. The financial contract had been designated as a cash flow hedge of future purchases of electricity (this designation ceased in December 2016 – see below). Through November 2016, unrealized gains and losses on this contract were recorded in Other comprehensive (loss) income on the accompanying Consolidated Balance Sheet, while realized gains and losses were recorded in Cost of goods sold as electricity purchases were made from the spot market. In August 2016, Alcoa Corporation gave the required notice to terminate this financial contract one year from the date of notification. As a result, Alcoa Corporation decreased both the related derivative asset recorded in Other noncurrent assets and the unrealized gain recorded in Accumulated other comprehensive loss by \$84, which related to the August 2017 through 2036 timeframe, resulting in no impact to Alcoa Corporation's earnings. In December 2016, the smelter experienced an unplanned outage, resulting in a portion of the financial contract no longer qualifying for hedge accounting, at which point management elected to discontinue hedge accounting for all of the remainder of the contract (through August 2017). As a result, Alcoa Corporation reclassified an unrealized gain of \$7 from Accumulated other comprehensive loss to Other income, net related to the portion of the contract that no longer qualified for hedge accounting. The remaining \$6 unrealized gain in Accumulated other comprehensive loss related to the portion management elected to discontinue hedge accounting is reclassified to Cost of goods sold as electricity purchases are made from the spot market through the termination date of the financial contract. Additionally, from December 2016 through August 2017, unrealized gains and losses on this contract are recorded in Other (income) expenses, net, and realized gains and losses are recorded in Other (income) expenses, net as electricity purchases are made from the spot market.

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

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

	Fair value at March 31, 2017	Unobservable input	Range (\$ in full amounts)
Assets:			
Embedded aluminum derivatives*	\$ 114	Price of aluminum beyond forward curve	Aluminum: \$2,347 per metric ton in 2027 to \$2,464 per metric ton in 2029 (two contracts) and \$2,761 per metric ton in 2036 (one contract) Midwest premium: \$0.0985 per pound in 2017 to \$0.1100 per pound in 2029 (two contracts) and 2036 (one contract)
Embedded aluminum derivative	—	Interrelationship of future aluminum and oil prices	Aluminum: \$1,955 per metric ton in 2017 to \$1,993 per metric ton in 2018 Oil: \$51 per barrel in 2017 to \$52 per barrel in 2018
Financial contract	304	Interrelationship of forward energy price and the Consumer Price Index and price of electricity beyond forward curve	Electricity: \$146.75 per megawatt hour in 2017 to \$90.50 per megawatt hour in 2021
Financial contract	42	Interrelationship of forward energy price and the Consumer Price Index	Electricity: \$147.50 per megawatt hour in April 2017 to \$146.75 per megawatt hour in July 2017
Liabilities:			
Embedded aluminum derivative	281	Price of aluminum beyond forward curve	Aluminum: \$2,347 per metric ton in 2027 to \$2,356 per metric ton in 2027
Embedded aluminum derivative	39	Interrelationship of LME price to the amount of megawatt hours of energy needed to produce the forecasted metric tons of aluminum	Aluminum: \$1,955 per metric ton in 2017 to \$2,003 per metric ton in 2019 Midwest premium: \$0.0985 per pound in 2017 to \$0.1100 per pound in 2019 Electricity: rate of 2 million megawatt hours per year
Embedded aluminum derivative	19	Interrelationship of LME price to overall energy price	Aluminum: \$1,948 per metric ton in 2017 to \$2,010 per metric ton in 2019
Embedded credit derivative	29	Estimated credit spread between Alcoa Corporation and counterparty	3.61% (Alcoa Corporation – 6.39% and counterparty – 2.78%)

* The fair value of these embedded aluminum derivatives is lower by \$17 compared to the respective amount reflected in the Level 3 tables presented below. This is due to the fact that these contracts are in a liability position for the current portion and in an asset position for the noncurrent portion, and are reflected as such on the accompanying Consolidated Balance Sheet. However, these derivatives are reflected as a net asset in the above table for purposes of presenting the assumptions utilized to measure the fair value of these derivative instruments in their entirety.

The fair values of Level 3 derivative instruments recorded as assets and liabilities in the accompanying Consolidated Balance Sheet were as follows:

	March 31, 2017	December 31, 2016
Asset Derivatives		
Derivatives designated as hedging instruments:		
Prepaid expenses and other current assets:		
Embedded aluminum derivatives	\$ —	\$ 29
Financial contract	86	—
Other noncurrent assets:		
Embedded aluminum derivatives	131	468
Financial contract	218	—
Total derivatives designated as hedging instruments	<u>\$ 435</u>	<u>\$ 497</u>
Derivatives not designated as hedging instruments:		
Prepaid expenses and other current assets:		
Financial contract	\$ 42	\$ 17
Total derivatives not designated as hedging instruments	<u>\$ 42</u>	<u>\$ 17</u>
Total Asset Derivatives	<u>\$ 477</u>	<u>\$ 514</u>
Liability Derivatives		
Derivatives designated as hedging instruments:		
Other current liabilities:		
Embedded aluminum derivatives	\$ 51	\$ 17
Other noncurrent liabilities and deferred credits:		
Embedded aluminum derivatives	266	187
Total derivatives designated as hedging instruments	<u>\$ 317</u>	<u>\$ 204</u>
Derivatives not designated as hedging instruments:		
Other current liabilities:		
Embedded aluminum derivative	\$ 19	\$ 10
Embedded credit derivative	4	5
Other noncurrent liabilities and deferred credits:		
Embedded aluminum derivative	20	18
Embedded credit derivative	25	30
Total derivatives not designated as hedging instruments	<u>\$ 68</u>	<u>\$ 63</u>
Total Liability Derivatives	<u>\$ 385</u>	<u>\$ 267</u>

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

First quarter ended March 31, 2017	Assets		Liabilities	
	Embedded aluminum derivatives	Financial contracts	Embedded aluminum derivatives	Embedded credit derivative
Opening balance – January 1, 2017	\$ 497	\$ 17	\$ 232	\$ 35
Total gains or losses (realized and unrealized) included in:				
Sales	11	—	(7)	—
Cost of goods sold	—	(2)	—	(1)
Other income, net	—	35	14	(5)
Other comprehensive loss	(377)	169	121	—
Purchases, sales, issuances, and settlements*	—	119	—	—
Transfers into and/or out of Level 3*	—	—	—	—
Other	—	8	(4)	—
Closing balance – March 31, 2017	\$ 131	\$ 346	\$ 356	\$ 29
Change in unrealized gains or losses included in earnings for derivative contracts held at March 31, 2017:				
Sales	\$ —	\$ —	\$ —	\$ —
Cost of goods sold	—	—	—	—
Other income, net	—	35	14	(5)

* In January 2017, there was an issuance of a new financial contract (see above). There were no purchases, sales or settlements of Level 3 derivative instruments. Additionally, there were no transfers of derivative instruments into or out of Level 3.

Derivatives Designated As Hedging Instruments – Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of unrealized gains or losses on the derivative is reported as a component of other comprehensive income (OCI). Realized gains or losses on the derivative are reclassified from OCI into earnings in the same period or periods during which the hedged transaction impacts earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized directly in earnings immediately.

Alcoa Corporation has five Level 3 embedded aluminum derivatives and one Level 3 financial contract (through November 2016 – see above) that have been designated as cash flow hedges as described below. Additionally, in January 2017, Alcoa Corporation entered into a new financial contract, which was designated as a cash flow hedging instrument and was classified as Level 3 under the fair value hierarchy (see above), that will replace the existing financial contract in August 2017.

Embedded aluminum derivatives. Alcoa Corporation has entered into energy supply contracts that contain pricing provisions related to the LME aluminum price. The LME-linked pricing features are considered embedded derivatives. Five of these embedded derivatives have been designated as cash flow hedges of forward sales of aluminum. At March 31, 2017 and December 31, 2016, these embedded aluminum derivatives hedge forecasted aluminum sales of 3,061 kmt and 3,127 kmt, respectively.

In the first quarter of 2017 and 2016, Alcoa Corporation recognized an unrealized loss of \$498 and \$115, respectively, in Other comprehensive (loss) income related to these five derivative instruments. Additionally, Alcoa Corporation reclassified a realized loss of \$18 and \$5 from Accumulated other comprehensive loss to Sales in the first quarter of 2017 and 2016, respectively. Assuming market rates remain constant with the rates at March 31, 2017, a realized loss of \$37 is expected to be recognized in Sales over the next 12 months.

There was no ineffectiveness related to these five derivative instruments in the first quarter of 2017 and 2016.

Financial contracts. Alcoa Corporation has a financial contract that hedges the anticipated power requirements at one of its smelters that became effective when the existing power contract expired in October 2016. In August 2016, Alcoa Corporation elected to terminate most of the remaining term of this financial contract (see above). Additionally, in December 2016, management elected to discontinue hedge accounting for this contract (see above). This financial contract hedged forecasted electricity purchases of 1,969,544 megawatt hours prior to December 2016.

In the first quarter of 2017, Alcoa Corporation reclassified a realized gain of \$2 from Accumulated other comprehensive loss to Cost of goods sold. In the first quarter of 2016, Alcoa Corporation recognized an unrealized gain of \$6 in Other comprehensive income. Additionally, Alcoa Corporation recognized a gain of \$3 in Other expenses, net related to hedge ineffectiveness in the first quarter of 2016.

In addition, in January 2017, Alcoa Corporation entered into a new financial contract that hedges the anticipated power requirements at this smelter for the period from August 2017 through July 2021 (see above). At March 31, 2017, this financial contract hedges forecasted electricity purchases of 9,835,452 megawatt hours. In the first quarter of 2017, Alcoa Corporation recognized an unrealized gain of \$169 in Other comprehensive loss. Assuming market rates remain consistent with the rates at March 31, 2017, a realized gain of \$60 is expected to be recognized in Cost of goods sold over the next 12 months. Additionally, Alcoa Corporation recognized a gain of \$1 in Other income, net related to hedge ineffectiveness in the first quarter of 2017.

Derivatives Not Designated As Hedging Instruments

Alcoa Corporation has two (three prior to October 2016) Level 3 embedded aluminum derivatives and one Level 3 embedded credit derivative that do not qualify for hedge accounting treatment and one Level 3 financial contract that management elected to discontinue hedge accounting treatment (see above). As such, gains and losses related to the changes in fair value of these instruments are recorded directly in earnings. In the first quarter of 2017 and 2016, Alcoa Corporation recognized a gain of \$25 and a loss of \$3, respectively, in Other (income) expenses, net, of which a loss of \$14 and \$4, respectively, related to the embedded aluminum derivatives, a gain of \$5 and \$1, respectively, related to the embedded credit derivative, and a gain of \$34 (first quarter of 2017) related to the financial contract.

Material Limitations

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

Alcoa Corporation 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, Alcoa Corporation 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 Alcoa Corporation's other financial instruments were as follows:

	March 31, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	\$ 804	\$ 804	\$ 853	\$ 853
Restricted cash	18	18	6	6
Long-term debt due within one year	20	20	21	21
Long-term debt, less amount due within one year	1,431	1,568	1,424	1,573

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

Cash and cash equivalents and Restricted cash. The carrying amounts approximate fair value because of the short maturity of the instruments. The fair value amounts for Cash and cash equivalents and Restricted cash were classified in Level 1.

Long-term debt due within one year and Long-term debt, less amount due within one year. The fair value was based on quoted market prices for public debt and on interest rates that are currently available to Alcoa Corporation for issuance of debt with similar terms and maturities for non-public debt. The fair value amounts for all Long-term debt were classified in Level 2 of the fair value hierarchy.

L. Income Taxes – The effective tax rate for the first quarter of 2017 and 2016 was 26.3% (provision on income) and 9.1% (provision on a loss), respectively.

Alcoa Corporation's estimated annual effective tax rate for 2017 was 32.9% as of March 31, 2017. This rate differs from the U.S. federal statutory rate of 35% primarily due to foreign income taxed in lower rate jurisdictions, partially offset by domestic losses not tax benefitted. The domestic losses are net of the gain on the sale of Yadkin (see Note C). For the 2017 first quarter, the Provision for income taxes was composed of three components as follows: (i) the application of the estimated annual effective tax rate for 2017 of 32.9% to pretax income of \$418, (ii) a net discrete income tax benefit of \$2 for a number of small items, and (iii) a favorable impact of \$26 related to the interim period treatment of operational losses in certain jurisdictions for which no tax benefit was recognized (expected to reverse by the end of 2017).

The rate for the 2016 first quarter differs from the U.S. federal statutory rate of 35% primarily due to U.S. losses and tax credits with no tax benefit realizable by Alcoa Corporation and a \$5 discrete income tax charge for valuation allowances of certain deferred tax assets in Australia, somewhat offset by foreign income taxed in lower rate jurisdictions.

M. Contingencies and Commitments

Contingencies

Unless specifically described to the contrary, all matters within Note M are the full responsibility of Alcoa Corporation pursuant to the Separation and Distribution Agreement. Additionally, the Separation and Distribution Agreement provides for cross-indemnities between the Company and Arconic for claims subject to indemnification.

Litigation

On June 5, 2015, AWA and St. Croix Alumina, L.L.C. ("SCA") filed a complaint in Delaware Chancery Court for a declaratory judgment and injunctive relief to resolve a dispute between ParentCo and Glencore Ltd. ("Glencore") with respect to claimed obligations under a 1995 asset purchase agreement between ParentCo and Glencore. The dispute arose from Glencore's demand that ParentCo indemnify it for liabilities it may have to pay to Lockheed Martin ("Lockheed") related to the St. Croix alumina refinery. Lockheed had earlier filed suit against Glencore in federal court in New York seeking indemnity for liabilities it had incurred and would incur to the U.S. Virgin Islands to remediate certain properties at the refinery property and claimed that Glencore was required by an earlier, 1989 purchase agreement to indemnify it. Glencore had demanded that ParentCo indemnify and defend it in the Lockheed case and threatened to claim against ParentCo in the New York action despite exclusive jurisdiction for resolution of disputes under the 1995 purchase agreement being in Delaware. After Glencore conceded that it was not seeking to add ParentCo to the New York action, AWA and SCA dismissed their complaint in the Chancery Court case and on August 6, 2015 filed a complaint for declaratory judgment in Delaware Superior Court. AWA and SCA filed a motion for judgment on the pleadings on September 16, 2015. Glencore answered AWA's and SCA's complaint and asserted counterclaims on August 27, 2015, and on October 2, 2015 filed its own motion for judgment on the pleadings. Argument on the parties' motions was held by the court on December 7, 2015, and by order dated February 8, 2016, the court granted ParentCo's motion and denied Glencore's motion, resulting in ParentCo not being liable to indemnify Glencore for the Lockheed action. The decision also leaves for pretrial discovery and possible summary judgment or trial Glencore's claims for costs and fees it incurred in defending and settling an earlier Superfund action brought against Glencore by the Government of the Virgin Islands. On February 17, 2016, Glencore filed notice of its application for interlocutory appeal of the February 8, 2016 ruling. AWA and SCA filed an opposition to that application on February 29, 2016. On March 10, 2016, the court denied Glencore's motion for interlocutory appeal and on the same day entered judgment on claims other than Glencore's claims for costs and fees it incurred in defending and settling the earlier Superfund action brought against Glencore by the Government of the Virgin Islands. On March 29, 2016, Glencore filed a withdrawal of its notice of interlocutory appeal, and on April 6, 2016, Glencore filed an appeal of the court's March 10, 2016 judgment to the Delaware Supreme Court, which set the appeal for argument for November 2, 2016. On November 4, 2016, the Delaware Supreme Court affirmed the judgment of the Delaware Superior Court granting ParentCo's motion. Remaining in the case were Glencore's claims for costs and fees it incurred related to the previously described Superfund action. On March 7, 2017, Alcoa Corporation and Glencore agreed in principle to settle these claims and on March 17, 2017 requested and were granted an adjournment of the court's scheduled March 21, 2017 conference. On April 5, 2017, Alcoa and Glencore entered into a settlement agreement to resolve these remaining claims. Accordingly, on April 24, 2017, the court dismissed the case at the request of the parties. The amount of the proposed settlement was not material. This matter is now closed.

Before 2002, ParentCo purchased power in Italy in the regulated energy market and received a drawback of a portion of the price of power under a special tariff in an amount calculated in accordance with a published resolution of the Italian Energy Authority, Energy Authority Resolution n. 204/1999 (“204/1999”). In 2001, the Energy Authority published another resolution, which clarified that the drawback would be calculated in the same manner, and in the same amount, in either the regulated or unregulated market. At the beginning of 2002, ParentCo left the regulated energy market to purchase energy in the unregulated market. Subsequently, in 2004, the Energy Authority introduced regulation no. 148/2004, which set forth a different method for calculating the special tariff that would result in a different drawback for the regulated and unregulated markets. ParentCo challenged the new regulation in the Administrative Court of Milan and received a favorable judgment in 2006. Following this ruling, ParentCo continued to receive the power price drawback in accordance with the original calculation method, through 2009, when the European Commission declared all such special tariffs to be impermissible “state aid.” In 2010, the Energy Authority appealed the 2006 ruling to the Consiglio di Stato (final court of appeal). On December 2, 2011, the Consiglio di Stato ruled in favor of the Energy Authority and against ParentCo, thus presenting the opportunity for the energy regulators to seek reimbursement from ParentCo of an amount equal to the difference between the actual drawback amounts received over the relevant time period, and the drawback as it would have been calculated in accordance with regulation 148/2004. On February 23, 2012, ParentCo filed its appeal of the decision of the Consiglio di Stato (this appeal was subsequently withdrawn in March 2013). On March 26, 2012, ParentCo received a letter from the agency (Cassa Conguaglio per il Settore Elettrico (CCSE)) responsible for making and collecting payments on behalf of the Energy Authority demanding payment in the amount of approximately \$110 (€85), including interest. By letter dated April 5, 2012, ParentCo informed CCSE that it disputes the payment demand of CCSE since (i) CCSE was not authorized by the Consiglio di Stato decisions to seek payment of any amount, (ii) the decision of the Consiglio di Stato has been appealed (see above), and (iii) in any event, no interest should be payable. On April 29, 2012, Law No. 44 of 2012 (“44/2012”) came into effect, changing the method to calculate the drawback. On February 21, 2013, ParentCo received a revised request letter from CCSE demanding ParentCo’s subsidiary, Alcoa Trasformazioni S.r.l., make a payment in the amount of \$97 (€76), including interest, which reflects a revised calculation methodology by CCSE and represents the high end of the range of reasonably possible loss associated with this matter of \$0 to \$97 (€76). ParentCo rejected that demand and formally challenged it through an appeal before the Administrative Court on April 5, 2013. The Administrative Court scheduled a hearing for December 19, 2013, which was subsequently postponed until April 17, 2014, and further postponed until June 19, 2014. On that date, the Administrative Court listened to ParentCo’s oral argument, and on September 2, 2014, rendered its decision. The Administrative Court declared the payment request of CCSE and the Energy Authority to ParentCo to be unsubstantiated based on the 148/2004 resolution with respect to the January 19, 2007 through November 19, 2009 timeframe. On December 18, 2014, the CCSE and the Energy Authority appealed the Administrative Court’s September 2, 2014 decision; however, a date for the hearing has not been scheduled. As a result of the conclusion of the European Commission Matter on January 26, 2016 (see Note R in Alcoa Corporation’s Annual Report on Form 10-K for the year ended December 31, 2016), ParentCo’s management modified its outlook with respect to a portion of the pending legal proceedings related to this matter. As such, a charge of \$37 (€34) was recorded in Restructuring and other charges for the year ended December 31, 2015 to establish a partial reserve for this matter. At this time, Alcoa Corporation is unable to reasonably predict the ultimate outcome for this matter.

Environmental Matters

Alcoa Corporation participates in environmental assessments and cleanups at a number of 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.

A liability is recorded for environmental remediation when a cleanup program becomes probable and the costs can be reasonably estimated. As assessments and cleanups proceed, the liability is adjusted based on progress made in determining the extent of remedial actions and related costs. The liability can change substantially due to factors such as, among others, the nature and extent of contamination, changes in remedial requirements, and technological changes.

Alcoa Corporation’s remediation reserve balance was \$324 at both March 31, 2017 and December 31, 2016 (of which \$60 was classified as a current liability) and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated.

In the 2017 first quarter, the remediation reserve was decreased by an immaterial amount. The changes to the remediation reserve were recorded in Cost of goods sold on the accompanying Statement of Consolidated Operations.

Payments related to remediation expenses applied against the reserve were \$9 in the 2017 first quarter. This amount includes expenditures currently mandated, as well as those not required by any regulatory authority or third party. In the 2017 first quarter, the change in the reserve also reflects an increase of both \$6 for the reclassification of an amount previously included in Alcoa Corporation's liability for asset retirement obligations on the Company's Consolidated Balance Sheet as of December 31, 2016 and \$3 due to the effects of foreign currency translation.

Included in annual operating expenses are the recurring costs of managing hazardous substances and environmental programs. These costs are estimated to be approximately 2% of cost of goods sold.

The Separation and Distribution Agreement includes provisions for the assignment or allocation of environmental liabilities between Alcoa Corporation and Arconic, including certain remediation obligations associated with environmental matters. In general, the respective parties are responsible for the environmental matters associated with their operations, and with the properties and other assets assigned to each. Additionally, the Separation and Distribution Agreement lists environmental matters with a shared responsibility between the two companies with an allocation of responsibility and the lead party responsible for management of each matter. For matters assigned to Alcoa Corporation under the Separation and Distribution Agreement, Alcoa Corporation has agreed to indemnify Arconic in whole or in part for environmental liabilities arising from operations prior to the Separation Date. The following discussion provides details regarding the current status of certain significant reserves related to current or former Alcoa Corporation sites. With the exception of the Fusina, Italy matter, Alcoa Corporation assumed full responsibility of the matters described below.

Sherwin, TX— In connection with ParentCo's sale of the Sherwin alumina refinery, which was required to be divested as part of ParentCo's acquisition of Reynolds Metals Company in 2000, ParentCo agreed to retain responsibility for the remediation of the then existing environmental conditions, as well as a pro rata share of the final closure of the active bauxite residue waste disposal areas (known as the Copano facility). This obligation was transferred from ParentCo to Alcoa Corporation as part of the Separation Transaction on November 1, 2016. Alcoa Corporation's share of the closure costs is proportional to the total period of operation of the active waste disposal areas. At March 31, 2017 and December 31, 2016, the reserve balance associated with Sherwin was \$30. Approximately half of the project funding is expected to be spent through 2019 with the balance dependent on the schedule to complete repurposing or closure of the waste disposal areas.

Baie Comeau, Quebec, Canada— In August 2012, ParentCo presented an analysis of remediation alternatives to the Quebec Ministry of Sustainable Development, Environment, Wildlife and Parks (MDDEP), in response to a previous request, related to known polychlorinated biphenyls (PCBs) and polycyclic aromatic hydrocarbons (PAHs) contained in sediments of the Anse du Moulin bay. As such, ParentCo increased the reserve for Baie Comeau by \$25 in 2012 to reflect the estimated cost of ParentCo's recommended alternative, consisting of both dredging and capping of the contaminated sediments. In July 2013, ParentCo submitted the Environmental Impact Assessment for the project to the MDDEP. The MDDEP notified ParentCo that the project as it was submitted was approved and a final ministerial decree was issued in July 2015. As a result, no further adjustment to the reserve was required in 2015. The decree provided final approval for the project and ParentCo began work on the final project design with construction on the project expected to begin in April 2017 with an estimated completion in 2018. At March 31, 2017 and December 31, 2016, the reserve balance associated with this matter was \$21 and \$24, respectively.

Fusina and Portovesme, Italy— In 1996, ParentCo acquired the Fusina smelter and rolling operations and the Portovesme smelter, both of which were owned by ParentCo's former subsidiary Alcoa Trasformazioni S.r.l. ("Trasformazioni") (Trasformazioni is now a subsidiary of Alcoa Corporation and owns the Fusina smelter and Portovesme smelter sites, and Fusina Rolling S.r.l., a new ParentCo subsidiary, owns the Fusina rolling operations), from Alumix, an entity owned by the Italian Government. At the time of the acquisition, Alumix indemnified ParentCo for pre-existing environmental contamination at the sites. In 2004, the Italian Ministry of Environment and Protection of Land and Sea (MOE) issued orders to Trasformazioni and Alumix for the development of a clean-up plan related to soil contamination in excess of allowable limits under legislative decree and to institute emergency actions and pay natural resource damages. Trasformazioni appealed the orders and filed suit against Alumix, among others, seeking indemnification for these liabilities under the provisions of the acquisition agreement. In 2009, Ligestra S.r.l. ("Ligestra"), Alumix's successor, and Trasformazioni agreed to a stay of the court proceedings while investigations were conducted and negotiations advanced towards a possible settlement.

In December 2009, Trasformazioni and Ligestra reached an initial agreement for settlement of the liabilities related to the Fusina operations while negotiations continued related to Portovesme (see below).

The agreement outlined an allocation of payments to the MOE for emergency action and natural resource damages and the scope and costs for a proposed soil remediation project, which was formally presented to the MOE in mid-2010. The agreement was contingent upon final acceptance of the remediation project by the MOE. As a result of entering into this agreement, ParentCo increased the reserve by \$12 in 2009 for Fusina. Based on comments received from the MOE and local and regional environmental authorities, Trasformazioni submitted a revised remediation plan in the first half of 2012; however, such revisions did not require any change to the existing reserve. In October 2013, the MOE approved the project submitted by ParentCo, resulting in no adjustment to the reserve.

In January 2014, in anticipation of ParentCo reaching a final administrative agreement with the MOE, ParentCo and Ligestra entered into a final agreement related to Fusina for allocation of payments to the MOE for emergency action and natural resource damages and the costs for the approved soil remediation project. The agreement resulted in Ligestra assuming 50% to 80% of all payments and remediation costs. On February 27, 2014, ParentCo and the MOE reached a final administrative agreement for conduct of work. The agreement includes both a soil and groundwater remediation project estimated to cost \$33 (€24) and requires payments of \$25 (€18) to the MOE for emergency action and natural resource damages. Based on the final agreement with Ligestra, ParentCo's share of all costs and payments was \$17 (€12), of which \$9 (€6) related to the damages will be paid annually over a 10-year period, which began in April 2014, and was previously fully reserved. The soil remediation project will begin once authorization to dispose of excavated waste into a third-party landfill is received from the MOE, which is expected at some point in the remainder of 2017. The responsibility for the execution of groundwater remediation project/emergency containment has been transferred to the MOE in accordance with the February 2014 settlement agreement and remediation is slated to begin in late 2017 or in 2018.

Effective with the Separation Transaction, Arconic retained the portion of this obligation related to the Fusina rolling operations. Specifically, under the Separation and Distribution Agreement, Trasformazioni, and with it the Fusina properties, were assigned to Alcoa Corporation. Fusina Rolling S.r.l., entered into a lease agreement for the portion of property that included the rolling operation. Pursuant to the Separation and Distribution Agreement, the liabilities at Fusina described above were allocated between Alcoa Corporation (Trasformazioni) and Arconic (Fusina Rolling S.r.l.). Arconic will pay \$7 (€7) for the portion of remediation expenses associated with the section of property that includes the rolling operation as the project is completed.

Separately, in 2009, due to additional information derived from the site investigations conducted at Portovesme, ParentCo increased the reserve by \$3. In November 2011, Trasformazioni and Ligestra reached an agreement for settlement of the liabilities related to Portovesme, similar to the one for Fusina. A proposed soil remediation project for Portovesme was formally presented to the MOE in June 2012. Neither the agreement with Ligestra nor the proposal to the MOE resulted in a change to the reserve for Portovesme. In November 2013, the MOE rejected the proposed soil remediation project and requested a revised project be submitted. In May 2014, Trasformazioni and Ligestra submitted a revised soil remediation project that addressed certain stakeholders' concerns. ParentCo increased the reserve by \$3 in 2014 to reflect the estimated higher costs associated with the revised soil remediation project, as well as current operating and maintenance costs of the Portovesme site.

In October 2014, the MOE required a further revised project be submitted to reflect the removal of a larger volume of contaminated soil than what had been proposed, as well as design changes for the cap related to the remaining contaminated soil left in place and the expansion of an emergency containment groundwater pump and treatment system that was previously installed. Trasformazioni and Ligestra submitted the further revised soil remediation project in February 2015. As a result, ParentCo increased the reserve by \$7 in March 2015 to reflect the increase in the estimated costs of the project. In October 2015, ParentCo received a final ministerial decree approving the February 2015 revised soil remediation project. Work on the soil remediation project commenced in mid-2016 and is expected to be completed in 2019. After further discussions with the MOE regarding the groundwater remediation project, Alcoa Corporation and Ligestra are working to find a common remediation solution. The ultimate outcome of this matter may result in a change to the existing reserve for Portovesme.

Mosjøen, Norway— In September 2012, ParentCo presented an analysis of remediation alternatives to the Norwegian Environmental Agency (NEA) (formerly the Norwegian Climate and Pollution Agency, or "Klif"), in response to a previous request, related to known PAHs in the sediments located in the harbor and extending out into the fjord. As such, ParentCo increased the reserve for Mosjøen by \$20 in 2012 to reflect the estimated cost of the baseline alternative for dredging of the contaminated sediments. A proposed project reflecting this alternative was formally presented to the NEA in June 2014, and was resubmitted in late 2014 to reflect changes by the NEA. The revised proposal did not result in a change to the reserve for Mosjøen.

In April 2015, the NEA notified ParentCo that the revised project was approved and required submission of the final project design before issuing a final order. ParentCo completed and submitted the final project design, which identified a need to stabilize the related wharf structure to allow for the

sediment dredging in the harbor. As a result, ParentCo increased the reserve for Mosjøen by \$11 in June 2015 to reflect the estimated cost of the wharf stabilization. Also in June 2015, the NEA issued a final order approving the project as well as the final project design. In September 2015, ParentCo increased the reserve by \$1 to reflect the potential need (based on prior experience with similar projects) to perform additional dredging if the results of sampling, which is required by the order, don't achieve the required cleanup levels. Project construction commenced in early 2016 and is expected to be completed by the end of 2017. At March 31, 2017 and December 31, 2016, the reserve balance associated with this matter was \$7 and \$8, respectively.

East St. Louis, IL— ParentCo had an ongoing remediation project related to an area used for the disposal of bauxite residue from former alumina refining operations. The project, which was selected by the EPA in a Record of Decision (ROD) issued in July 2012, is aimed at implementing a soil cover over the affected area. On November 1, 2013, the U.S. Department of Justice lodged a consent decree on behalf of the U.S. Environmental Protection Agency (EPA) for ParentCo to conduct the work outlined in the ROD. This consent decree was entered as final in February 2014 by the U.S. Department of Justice. As a result, ParentCo began construction in March 2014; the fieldwork on a majority of this project was completed by the end of June 2016. A completion report was approved by the EPA in September 2016 and this matter, for the completed portion of the project, transitioned into a long-term (approximately 30 years) inspection, maintenance, and monitoring program. Fieldwork for the remaining portion of the project is expected to be completed in 2018, at which time it would also transition into a long-term inspection, maintenance, and monitoring program. This obligation was transferred from ParentCo to Alcoa Corporation as part of the Separation Transaction on November 1, 2016. At March 31, 2017 and December 31, 2016, the reserve balance associated with this matter was \$4.

Tax

In September 2010, following a corporate income tax audit covering the 2003 through 2005 tax years, an assessment was received as a result of Spain's tax authorities disallowing certain interest deductions claimed by a Spanish consolidated tax group owned by ParentCo. An appeal of this assessment in Spain's Central Tax Administrative Court by ParentCo was denied in October 2013. In December 2013, the ParentCo filed an appeal of the assessment in Spain's National Court.

Additionally, following a corporate income tax audit of the same Spanish tax group for the 2006 through 2009 tax years, Spain's tax authorities issued an assessment in July 2013 similarly disallowing certain interest deductions. In August 2013, ParentCo filed an appeal of this second assessment in Spain's Central Tax Administrative Court, which was denied in January 2015. ParentCo filed an appeal of this second assessment in Spain's National Court in March 2015.

On January 16, 2017, Spain's National Court issued a decision in favor of the Company related to the assessment received in September 2010. On March 6, 2017, the Company was notified that Spain's tax authorities did not file an appeal, for which the deadline has passed. As a result, the assessment related to the 2003 through 2005 tax years is null and void. Spain's National Court has not yet rendered a decision related to the assessment received in July 2013 for the 2006 through 2009 tax years. The amount of this assessment on a standalone basis, including interest, was \$140 (€131) as of March 31, 2017.

The Company believes it has meritorious arguments to support its tax position and intends to vigorously litigate the remaining assessment through Spain's court system. However, in the event the Company is unsuccessful, a portion of the remaining assessment may be offset with existing net operating losses available to the Spanish consolidated tax group, which would be shared between the Company and Arconic as provided for in the Tax Matters Agreement related to the Separation Transaction. Additionally, it is possible that the Company may receive similar assessments for tax years subsequent to 2009. Despite the favorable decision received on the first assessment, at this time, the Company is unable to reasonably predict the ultimate outcome for this matter.

In March 2013, AWAB was notified by the Brazilian Federal Revenue Office (RFB) that approximately \$110 (R\$220) of value added tax credits previously claimed are being disallowed and a penalty of 50% assessed. Of this amount, AWAB received \$41 (R\$82) in cash in May 2012. The value added tax credits were claimed by AWAB for both fixed assets and export sales related to the Juruti bauxite mine and São Luís refinery expansion. The RFB has disallowed credits they allege belong to the consortium in which AWAB owns an interest and should not have been claimed by AWAB. Credits have also been disallowed as a result of challenges to apportionment methods used, questions about the use of the credits, and an alleged lack of documented proof. AWAB presented defense of its claim to the RFB on April 8, 2013. If AWAB is successful in this administrative process, the RFB would have no further recourse. If unsuccessful in this process, AWAB has the option to litigate at a judicial level. Separately from AWAB's administrative appeal, in June 2015, new tax law was enacted repealing the provisions in the tax code

that were the basis for the RFB assessing a 50% penalty in this matter. As such, the estimated range of reasonably possible loss is \$0 to \$33 (R\$103), whereby the maximum end of the range represents the portion of the disallowed credits applicable to the export sales and excludes the 50% penalty. Additionally, the estimated range of disallowed credits related to AWAB's fixed assets is \$0 to \$37 (R\$117), which would increase the net carrying value of AWAB's fixed assets if ultimately disallowed. It is management's opinion that the allegations have no basis; however, at this time, the Company is unable to reasonably predict an outcome for this matter.

Between 2000 and 2002, Alcoa Alumínio (Alumínio), an indirect wholly-owned subsidiary of Alcoa Corporation, sold approximately 2,000 metric tons of metal per month from its Poços de Caldas facility, located in the State of Minas Gerais (the "State"), Brazil, to Alfio, a customer also located in the State. Sales in the State were exempted from value-added tax (VAT) requirements. Alfio subsequently sold metal to customers outside of the State, but did not pay the required VAT on those transactions. In July 2002, Alumínio received an assessment from State auditors on the theory that Alumínio should be jointly and severally liable with Alfio for the unpaid VAT. In June 2003, the administrative tribunal found Alumínio liable, and Alumínio filed a judicial case in the State in February 2004 contesting the finding. In May 2005, the Court of First Instance found Alumínio solely liable, and a panel of a State appeals court confirmed this finding in April 2006. Alumínio filed a special appeal to the Superior Tribunal of Justice (STJ) in Brasília (the federal capital of Brazil) later in 2006. In 2011, the STJ (through one of its judges) reversed the judgment of the lower courts, finding that Alumínio should neither be solely nor jointly and severally liable with Alfio for the VAT, which ruling was then appealed by the State. In August 2012, the STJ agreed to have the case reheard before a five-judge panel. On February 21, 2017, the lead judge of the STJ issued a ruling confirming that Alumínio should be held liable in this matter. On March 16, 2017, Alumínio filed an appeal to have its case reheard before the five-judge panel as originally agreed to by the STJ in August 2012. At March 31, 2017, the assessment, including penalties and interest, totaled \$46 (R\$143). While Alcoa Corporation believes it has meritorious defenses, the Company is unable to reasonably predict the ultimate outcome for this matter.

Other

In connection with ParentCo's sale in 2001 of Reynolds Metals Company's ("Reynolds," a subsidiary of Alcoa Corporation), alumina refinery in Gregory, Texas, Reynolds assigned an Energy Services Agreement ("ESA") with Gregory Power Partners ("Gregory Power") for purchase of steam and electricity by the refinery. On January 11, 2016, Sherwin Alumina Company, LLC ("Sherwin"), the current owner of the refinery, and one of its affiliate entities, filed bankruptcy petitions in Corpus Christi, Texas for reorganization under Chapter 11 of the Bankruptcy Code. On January 26, 2016, Gregory Power delivered notice to Reynolds that Sherwin's bankruptcy filing constitutes a breach of the ESA; on January 29, 2016, Reynolds responded that the filing does not constitute a breach. Sherwin informed the bankruptcy court that it intends to cease operations because it is not able to continue its bauxite supply agreement, and, thereafter, Gregory Power filed a complaint in the bankruptcy case against Reynolds alleging breach of the ESA. This matter is neither estimable nor probable; therefore, at this time, Alcoa Corporation is unable to reasonably predict the ultimate outcome.

On October 4, 2016, the state of Texas filed suit against Sherwin in the bankruptcy proceeding seeking to hold Sherwin responsible for remediation of alleged environmental conditions at the facility. On October 11, 2016, Sherwin filed a similar suit against Reynolds in the case. On November 10, 2016, Reynolds filed motions to dismiss the Gregory Power complaint and to withdraw the case from bankruptcy court. On November 23, 2016, the bankruptcy court approved Sherwin's plans for cessation of its operations. On February 16, 2017, Sherwin filed a bankruptcy Chapter 11 Plan and on February 17, 2017 the court approved that Plan. As provided in the Plan, Sherwin, including certain affiliated companies, and Reynolds are negotiating a settlement to allocate among them ownership of and responsibility for certain areas of the refinery. On April 27, 2017, a proposed stipulation was filed with the court extending the deadline for court approval of a settlement until June 27, 2017.

General

In addition to the matters discussed above, various other lawsuits, claims, and proceedings have been or may be instituted or asserted against Alcoa Corporation, including those pertaining to environmental, product liability, safety and health, and tax matters. While the amounts claimed in these other matters may be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, 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.

Commitments

Investments

Alcoa Corporation has an investment in a joint venture related to the ownership and operation of an integrated aluminum complex (bauxite mine, alumina refinery, aluminum smelter, and rolling mill) in Saudi Arabia. The joint venture is owned 74.9% by the Saudi Arabian Mining Company (known as “Ma’aden”) and 25.1% by Alcoa Corporation and consists of three separate companies as follows: one each for the mine and refinery, the smelter, and the rolling mill. Alcoa Corporation accounts for its investment in the joint venture under the equity method. As of March 31, 2017 and December 31, 2016, the carrying value of Alcoa Corporation’s investment in this joint venture was \$870 and \$853, respectively.

Capital investment in the project is expected to total approximately \$10,800 (SAR 40.5 billion) and has been funded through a combination of equity contributions by the joint venture partners and project financing obtained by the joint venture companies, which has been partially guaranteed by both partners (see below). Both the equity contributions and the guarantees of the project financing are based on the joint venture’s partners’ ownership interests. Originally, it was estimated that Alcoa Corporation’s total equity contribution in the joint venture related to the capital investment in the project would be approximately \$1,100, of which Alcoa Corporation has contributed \$982. Based on changes to both the project’s capital investment and equity and debt structure from the initial plans, the estimated \$1,100 equity contribution may be reduced. Separate from the capital investment in the project, Alcoa Corporation contributed \$25 (Ma’aden contributed \$75) to the joint venture in the 2017 first quarter for short-term funding purposes in accordance with the terms of the joint venture companies’ financing arrangements. Both partners may be required to make such additional contributions in future periods.

The smelting and rolling mill companies have project financing totaling \$4,133 (reflects principal repayments made through March 31, 2017), of which \$1,037 represents Alcoa Corporation’s share (the equivalent of Alcoa Corporation’s 25.1% interest in the smelting and rolling mill companies). Alcoa Corporation has issued guarantees (see below) on behalf of the smelting and rolling mill companies to the lenders in the event that such companies default on their debt service requirements through 2017 and 2020 for the smelting company and 2018 and 2021 for the rolling mill company (Ma’aden issued similar guarantees for its 74.9% interest). Alcoa Corporation’s guarantees for the smelting and rolling mill companies cover total debt service requirements of \$100 in principal and up to a maximum of approximately \$30 in interest per year (based on projected interest rates). At both March 31, 2017 and December 31, 2016, the combined fair value of the guarantees was \$3, which was included in Other noncurrent liabilities and deferred credits on the accompanying Consolidated Balance Sheet.

The mining and refining company has project financing totaling \$2,232, of which \$560 represents AWAC’s 25.1% interest in the mining and refining company. Alcoa Corporation, on behalf of AWAC, has issued guarantees (see below) to the lenders in the event that the mining and refining company defaults on its debt service requirements through 2019 and 2024 (Ma’aden issued similar guarantees for its 74.9% interest). Alcoa Corporation’s guarantees for the mining and refining company cover total debt service requirements of \$120 in principal and up to a maximum of approximately \$20 in interest per year (based on projected interest rates). At both March 31, 2017 and December 31, 2016, the combined fair value of the guarantees was \$3, which was included in Other noncurrent liabilities and deferred credits on the accompanying Consolidated Balance Sheet. In the event Alcoa Corporation would be required to make payments under the guarantees, 40% of such amount would be contributed to Alcoa Corporation by Alumina Limited, consistent with its ownership interest in AWAC.

As a result of the Separation Transaction, the various lenders to the joint venture companies required Arconic to maintain joint and several guarantees with Alcoa Corporation. In the event of default by any of the joint venture companies, the lenders would make a claim against both Alcoa Corporation and Arconic. Accordingly, Alcoa Corporation would perform under its guarantee; however, if the Company failed to perform, Arconic would be required to perform under its own guarantee. Arconic would then subsequently seek indemnification from Alcoa Corporation under the terms of the Separation and Distribution Agreement.

N. Other (Income) Expenses, Net

	First quarter ended	
	March 31,	
	2017	2016
Equity loss	\$ 7	\$ 22
Foreign currency losses, net	16	12
Net (gain) loss from asset sales	(120)	2
Net (gain) loss on mark-to-market derivative contracts (K)	(3)	3
Other, net	—	—
	<u>\$ (100)</u>	<u>\$ 39</u>

In the 2017 first quarter, Net gain from asset sales included a \$120 gain related to the sale of Yadkin (see Note C).

O. Subsequent Events – Management evaluated all activity of Alcoa and concluded that no subsequent events have occurred that would require recognition in the Consolidated Financial Statements or disclosure in the Notes to the Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm*

To the Shareholders and Board of Directors of Alcoa Corporation:

We have reviewed the accompanying consolidated balance sheet of Alcoa Corporation and its subsidiaries (Alcoa Corporation) as of March 31, 2017, and the related statements of consolidated operations, consolidated comprehensive income (loss), changes in consolidated equity, and consolidated cash flows for each of the three-month periods ended March 31, 2017 and 2016. These consolidated interim financial statements are the responsibility of Alcoa Corporation's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2016, and the related statements of consolidated operations, consolidated comprehensive (loss) income, changes in consolidated equity, and consolidated cash flows for the year then ended (not presented herein), and in our report dated March 15, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2016, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania

May 10, 2017

* This report should not be considered a "report" within the meanings of Sections 7 and 11 of the Securities Act of 1933, and the independent registered public accounting firm's liability under Section 11 does not extend to it.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

(dollars in millions, except per-share amounts, average realized prices, and average cost amounts; bauxite production and shipments in millions of dry metric tons (mdmt); alumina and aluminum production and shipments in thousands of metric tons [kmt])

References in this Management’s Discussion and Analysis of Financial Condition and Results of Operations to “ParentCo” refer to Alcoa Inc., a Pennsylvania corporation, and its consolidated subsidiaries (through October 31, 2016, at which time was renamed Arconic Inc. (Arconic)).

Separation Transaction

On November 1, 2016 (the “Separation Date”), Alcoa Corporation separated from ParentCo into a standalone, publicly-traded company, effective at 12:01 a.m. Eastern Standard Time, (the “Separation Transaction”). Alcoa Corporation is comprised of the bauxite mining, alumina refining, aluminum smelting and casting, and energy operations of ParentCo’s former Alumina and Primary Metals segments, as well as the Warrick, Indiana rolling operations and the 25.1% equity interest in the rolling mill at the joint venture in Saudi Arabia, both of which were part of ParentCo’s Global Rolled Products segment. ParentCo, later changed its name to Arconic, continues to own the operations within its Global Rolled Products (except for the aforementioned rolling operations that are owned by Alcoa Corporation), Engineered Products and Solutions, and Transportation and Construction Solutions segments.

To effect the Separation Transaction, ParentCo undertook a series of transactions to separate the net assets and certain legal entities of ParentCo, resulting in a cash payment of \$1,072 to ParentCo by Alcoa Corporation (an additional \$238 was paid to Arconic by Alcoa Corporation in the first quarter of 2017 – see Financing Activities in Liquidity and Capital Resources below) with the net proceeds of a previous debt offering. In conjunction with the Separation Transaction, 146,159,428 shares of Alcoa Corporation common stock were distributed to ParentCo shareholders. Additionally, Arconic retained 36,311,767 shares of Alcoa Corporation common stock representing its 19.9% retained interest (Arconic sold 23,353,000 of these shares on February 14, 2017 and the remaining 12,958,767 shares on May 4, 2017). “Regular-way” trading of Alcoa Corporation’s common stock began with the opening of the New York Stock Exchange on November 1, 2016 under the ticker symbol “AA.” Alcoa Corporation’s common stock has a par value of \$0.01 per share.

In connection with the Separation Transaction, as of October 31, 2016, Alcoa Corporation entered into certain agreements with Arconic to implement the legal and structural separation between the two companies, govern the relationship between Alcoa Corporation and Arconic after the completion of the Separation Transaction, and allocate between Alcoa Corporation and Arconic various assets, liabilities and obligations, including, among other things, employee benefits, environmental liabilities, intellectual property, and tax-related assets and liabilities. These agreements included a Separation and Distribution Agreement, Tax Matters Agreement, Employee Matters Agreement, Transition Services Agreement, certain Patent, Know-How, Trade Secret License and Trademark License Agreements, and Stockholder and Registration Rights Agreement.

ParentCo incurred costs to evaluate, plan, and execute the Separation Transaction, and Alcoa Corporation was allocated a pro rata portion of those costs based on segment revenue (see Cost Allocations below). ParentCo recognized \$152 from January 2016 through October 2016 and \$24 in 2015 for costs related to the Separation Transaction, of which \$68 and \$12, respectively, was allocated to Alcoa Corporation. Accordingly, in the first quarter of 2016, an allocation of \$9 was included in Selling, general administrative, and other expenses on Alcoa Corporation’s Statement of Consolidated Operations.

Basis of Presentation

Prior to the Separation Date, Alcoa Corporation did not operate as a separate, standalone entity. Alcoa Corporation’s operations were included in ParentCo’s financial results. Accordingly, for all periods prior to the Separation Date, Alcoa Corporation’s Consolidated Financial Statements were prepared from ParentCo’s historical accounting records and were presented on a standalone basis as if Alcoa Corporation’s operations had been conducted independently from ParentCo. Such Consolidated Financial Statements include the historical operations that were considered to comprise Alcoa Corporation’s businesses, as well as certain assets and liabilities that were historically held at ParentCo’s corporate level but were specifically identifiable or otherwise attributable to Alcoa Corporation.

In the 2016 first quarter, the earnings per share included on Alcoa Corporation’s Statement of Consolidated Operations was calculated based on the 182,471,195 shares of Alcoa Corporation common stock distributed on the Separation Date in conjunction with the completion of the Separation Transaction and is considered pro forma in nature. Prior to November 1, 2016, Alcoa Corporation did not have any issued and outstanding common stock.

Cost Allocations

The description and information on cost allocations is applicable for all periods included in Alcoa Corporation's Consolidated Financial Statements prior to the Separation Date.

The Consolidated Financial Statements of Alcoa Corporation include general corporate expenses of ParentCo that were not historically charged to Alcoa Corporation for certain support functions that were provided on a centralized basis, such as expenses related to finance, audit, legal, information technology, human resources, communications, compliance, facilities, employee benefits and compensation, and research and development activities. These general corporate expenses were included in Alcoa Corporation's Statement of Consolidated Operations within Cost of goods sold, Selling, general administrative and other expenses, and Research and development expenses. These expenses were allocated to Alcoa Corporation on the basis of direct usage when identifiable, with the remainder allocated based on Alcoa Corporation's segment revenue as a percentage of ParentCo's total segment revenue for both Alcoa Corporation and Arconic.

In preparing the Consolidated Financial Statements for the year ended December 31, 2016, management discovered that the amount for Cost of goods sold previously reported for the three months ended March 31, 2016 included an immaterial error due to an under-allocation of LIFO (last-in, first-out) expense of \$7. The amount for Cost of goods sold in Alcoa Corporation's Statement of Consolidated Operations and the table below for the three months ended March 31, 2016 was revised to correct this immaterial error.

All external debt not directly attributable to Alcoa Corporation was excluded from Alcoa Corporation's Consolidated Balance Sheet. Financing costs related to these debt obligations were allocated to Alcoa Corporation based on the ratio of capital invested in Alcoa Corporation to the total capital invested by ParentCo in both Alcoa Corporation and Arconic, and were included in Alcoa Corporation's Statement of Consolidated Operations within Interest expense.

The following table reflects the allocations described above:

First quarter ended March 31,	2016
Cost of goods sold (1)	\$ 13
Selling, general administrative, and other expenses (2)	31
Research and development expenses	2
Provision for depreciation, depletion, and amortization	5
Restructuring and other charges (3)	1
Interest expense	59
Other income, net	7

- (1) Allocation principally relates to expenses for ParentCo's retained pension and other postretirement benefits associated with closed and sold operations.
- (2) Allocation includes costs incurred by ParentCo associated with the Separation Transaction (see above).
- (3) Allocation primarily relates to layoff programs for ParentCo corporate employees.

Management believes the assumptions regarding the allocation of ParentCo's general corporate expenses and financing costs were reasonable.

Nevertheless, the Consolidated Financial Statements of Alcoa Corporation may not include all of the actual expenses that would have been incurred and may not reflect Alcoa Corporation's consolidated results of operations, financial position, and cash flows had it been a standalone company during the periods prior to the Separation Date. Actual costs that would have been incurred if Alcoa Corporation had been a standalone company would depend on multiple factors, including organizational structure, capital structure, and strategic decisions made in various areas, including information technology and infrastructure. Transactions between Alcoa Corporation and ParentCo, including sales to Arconic, were included as related party transactions in Alcoa Corporation's Consolidated Financial Statements and are considered to be effectively settled for cash at the time the transaction was recorded. The total net effect of the settlement of these transactions is reflected in Alcoa Corporation's Statement of Consolidated Cash Flows as a financing activity and in the Alcoa Corporation's Consolidated Balance Sheet as Parent Company net investment.

Results of Operations

Selected Financial Data :

	First quarter ended March 31,	
	2017	2016
Sales	\$2,655	\$2,129
Net income (loss) attributable to Alcoa Corporation	225	(210)
Diluted earnings per share attributable to Alcoa Corporation common shareholders	1.21	(1.15)
Shipments of alumina (kmt)	2,255	2,168
Shipments of aluminum products (kmt)	801	764
Alcoa Corporation's average realized price per metric ton of primary aluminum	\$2,080	\$1,815

Net income attributable to Alcoa Corporation was \$225 in the 2017 first quarter compared with Net loss attributable to Alcoa Corporation of \$210 in the 2016 first quarter. The improvement in results of \$435 was principally related to a higher average realized price for each of alumina and primary aluminum, a gain on the sale of hydroelectric operations, lower restructuring-related charges, and the absence of allocated interest expense and costs related to the Separation Transaction. These positive impacts were somewhat offset by a higher income tax provision and higher net income attributable to a noncontrolling interest partner in certain of Alcoa Corporation's operations.

Sales improved \$526, or 25%, in the 2017 first quarter compared to the same period in 2016. The increase was largely attributable to a higher average realized price for each of alumina and primary aluminum and higher volume for bauxite, alumina, and aluminum.

Cost of goods sold (COGS) as a percentage of Sales was 76.9% in the 2017 first quarter compared with 87.6% in the 2016 first quarter. The percentage was positively impacted by a higher average realized price for each of alumina and primary aluminum.

Selling, general administrative, and other expenses (SG&A) decreased \$13 in the 2017 first quarter compared to the corresponding period in 2016. The decline was principally due to the absence of costs (\$9) related to the Separation Transaction (see above). SG&A as a percentage of Sales decreased from 4.0% in the 2016 first quarter to 2.7% in the 2017 first quarter.

Restructuring and other charges in the 2017 first quarter were \$10, which were comprised of the following components: \$13 for additional contract costs related to the curtailed Wenatchee (Washington) smelter; \$2 for miscellaneous items; and a reversal of \$5 associated with a layoff reserves related to prior periods.

Restructuring and other charges in the 2016 first quarter were \$84, which were comprised of the following components: \$78 for additional net costs related to decisions made in late 2015 to permanently close and demolish the Warrick (Indiana) smelter and to curtail the Wenatchee smelter and Point Comfort (Texas) refinery (see below); \$8 for layoff costs related to cost reduction initiatives, including the separation of approximately 30 employees in the Aluminum segment; \$1 related to the allocation of Corporate restructuring to Alcoa Corporation (see Cost Allocations in Separation Transaction above); and a reversal of \$3 associated with a number of layoff reserves related to prior periods.

In the first quarter of 2016, the additional net costs related to the closure and curtailment actions included accelerated depreciation of \$70 related to the Warrick smelter as it continued to operate through March 2016; a reversal of \$19 associated with severance costs initially recorded in late 2015; and \$27 in other exit costs. Additionally in the first quarter of 2016, remaining inventories, mostly operating supplies and raw materials, were written down to their net realizable value, resulting in a charge of \$3, which was recorded in COGS. The other exit costs of \$27 represent \$20 for contract terminations and \$7 in asset retirement obligations for the rehabilitation of a related coal mine in the United States.

Alcoa Corporation does not include Restructuring and other charges in the results of its reportable segments. The impact of allocating such charges to segment results would have been as follows:

	First quarter ended March 31,	
	2017	2016
Bauxite	\$ —	\$ 1
Alumina	—	4
Aluminum	9	78
Segment total	9	83
Corporate	1	1
Total restructuring and other charges	\$ 10	\$ 84

As of March 31, 2017, approximately 70 of the 75 employees associated with 2016 restructuring programs and approximately 3,200 of the 3,300 (previously 3,400) employees associated with 2015 restructuring programs were separated. The total number of employees associated with 2015 restructuring programs was updated to reflect employees, who were initially identified for separation, accepting other positions within Alcoa and natural attrition. The remaining separations for 2016 and 2015 restructuring programs are expected to be completed by mid-2017.

In the 2017 first quarter, cash payments of \$1 and \$8 were made against layoff reserves related to 2016 and 2015 restructuring programs, respectively.

Interest expense declined \$38, or 59%, in the 2017 first quarter compared to the corresponding period in 2016. The decrease was due to the absence of an allocation (\$59) to Alcoa Corporation of ParentCo's interest expense as a result of the Separation Transaction (see above), somewhat offset by interest expense (\$21) associated with \$1,250 of debt issued by Alcoa Corporation in September 2016.

Other income, net was \$100 in the 2017 first quarter compared with Other expenses, net of \$39 in the 2016 first quarter. The change of \$139 was largely attributable to a gain (\$120) on the sale of the Yadkin Hydroelectric Project (see Aluminum in Segment Information below) and a smaller equity loss related to Alcoa's share of the aluminum complex joint venture in Saudi Arabia (\$17).

The effective tax rate for the first quarter of 2017 and 2016 was 26.3% (provision on income) and 9.1% (provision on a loss), respectively.

Alcoa Corporation's estimated annual effective tax rate for 2017 was 32.9% as of March 31, 2017. This rate differs from the U.S. federal statutory rate of 35% primarily due to foreign income taxed in lower rate jurisdictions, partially offset by domestic losses not tax benefitted. The domestic losses are net of the gain on the sale of Yadkin (see Aluminum in Segment Information below). For the 2017 first quarter, the Provision for income taxes was composed of three components as follows: (i) the application of the estimated annual effective tax rate for 2017 of 32.9% to pretax income of \$418, (ii) a net discrete income tax benefit of \$2 for a number of small items, and (iii) a favorable impact of \$26 related to the interim period treatment of operational losses in certain jurisdictions for which no tax benefit was recognized (expected to reverse by the end of 2017).

The rate for the 2016 first quarter differs from the U.S. federal statutory rate of 35% primarily due to U.S. losses and tax credits with no tax benefit realizable by Alcoa Corporation and a \$5 discrete income tax charge for valuation allowances of certain deferred tax assets in Australia, somewhat offset by foreign income taxed in lower rate jurisdictions.

Net income attributable to noncontrolling interest was \$83 in the 2017 first quarter compared with Net loss attributable to noncontrolling interest of \$5 in the 2016 first quarter. These amounts are entirely related to Alumina Limited of Australia's (Alumina Limited) 40% ownership interest in a number of affiliated operating entities, which own, or have an interest in, or operate the bauxite mines and alumina refineries within Alcoa Corporation's Bauxite and Alumina segments (except for the Poços de Caldas mine and refinery and a portion of the São Luís refinery, all in Brazil) and the Portland smelter (Aluminum segment) in Australia. These individual entities comprise an unincorporated global joint venture between Alcoa Corporation and Alumina Limited known as Alcoa World Alumina and Chemicals (AWAC). Alcoa Corporation owns 60% of these individual entities, which are consolidated by the Company for financial reporting purposes and include Alcoa of Australia Limited, Alcoa World Alumina LLC, and Alcoa World Alumina Brasil Ltda. Alumina Limited's 40% interest in the earnings of such entities is reflected as Noncontrolling interest on Alcoa Corporation's Statement of Consolidated Operations. These combined entities generated net income in the 2017 first quarter and a net loss in the 2016 first quarter.

The change in AWAC's results was mainly driven by an improvement in operating results, mostly due to a higher average realized alumina price (see Alumina in Segment Information below).

Alcoa Corporation has purchased electricity in the spot market for one of its smelters since the Company's contract with a local energy provider expired in October 2016, as a new energy contract was not able to be negotiated. In order to manage the Company's exposure against the variable energy rates that occur in the spot market, Alcoa Corporation had previously entered into a financial contract with a counterparty to effectively convert the Company's variable power price to a fixed power price. At the beginning of 2017, Alcoa Corporation held a favorable position in the financial contract, which was scheduled to early terminate in August 2017, as a result of a decision made by management in August 2016.

In January 2017, Alcoa Corporation began the process of restarting capacity at this smelter, which was halted due to an unexpected power outage that occurred in December 2016. As a result, Alcoa Corporation and the same counterparty to the existing financial contract entered into a new financial contract to effectively convert the Company's variable power price to a fixed power price from August 2017 through July 2021. Additionally, the effective termination of the existing financial contract was moved up to July 31, 2017. In order to obtain the most favorable terms under the new financial contract that could be negotiated, Alcoa Corporation conceded a portion of the existing financial contract that was favorable to the Company for the April through July 2017 period.

As a result of this concession, Alcoa Corporation sought an additional financial contract to cover the exposure to variable power rates for the April through July 2017 period. In March 2017, Alcoa Corporation secured such a contract with a different counterparty; however, the price of power in the spot market rose significantly between January and March 2017. Consequently, the fixed power price secured by this additional financial contract is significantly higher than the fixed power price previously secured by the existing financial contract described above. Accordingly, in the April through July 2017 period, Alcoa Corporation expects to realize approximately \$30 (pretax) in higher energy costs and/or mark-to-market losses related to the financial contracts.

Segment Information

Effective in the first quarter of 2017, management elected to change the profit and loss measure of Alcoa Corporation's reportable segments from After-tax operating income (ATOI) to Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) for internal reporting and performance measurement purposes. This change was made to enhance the transparency and visibility of the underlying operating performance of each segment. Alcoa Corporation calculates Adjusted EBITDA as Total sales (third-party and intersegment) minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; and Research and development expenses. Previously, Alcoa Corporation calculated ATOI as Adjusted EBITDA minus (plus) the following items: Provision for depreciation, depletion, and amortization; Equity loss (income); Loss (gain) on certain asset sales; and Income taxes. Alcoa Corporation's Adjusted EBITDA may not be comparable to similarly titled measures of other companies.

Also effective in the first quarter of 2017, management initiated a realignment of the Company's internal business and organizational structure. This realignment consisted of combining Alcoa Corporation's aluminum smelting, casting, and rolling businesses, along with the majority of the energy business, into a new Aluminum business unit, as well as moving the financial results of previously closed operations, such as the Warrick smelter and Suriname refinery, into Corporate. The realignment was executed to align strategic, operational, and commercial activities, as well as to take advantage of synergies and reduce costs. The new Aluminum business unit is managed as a single operating segment. Prior to this change, each of these businesses were managed as individual operating segments and comprised the Aluminum, Cast Products, Energy, and Rolled Products segments. The existing Bauxite and Alumina segments and the new Aluminum segment represent Alcoa Corporation's operating and reportable segments. The chief operating decision maker function regularly reviews the financial information, including Sales and Adjusted EBITDA, of these three operating segments to assess performance and allocate resources.

Segment information for all prior periods presented was revised to reflect the new segment structure, as well as the new measure of profit and loss.

Bauxite

	First quarter ended March 31,	
	2017	2016
Production* (mdmt)	11.1	11.3
Third-party shipments (mdmt)	1.4	1.2
Alcoa Corporation's average cost per dry metric ton of bauxite**	\$ 16	\$ 13
Third-party sales	\$ 70	\$ 44
Intersegment sales	219	175
Total sales	\$ 289	\$ 219
Adjusted EBITDA	\$ 110	\$ 77

* The production amounts do not include additional bauxite that Alcoa Corporation is entitled to receive (i.e. an amount in excess of its equity ownership interest) from certain other partners at the mine in Guinea.

** Includes all production-related costs, including conversion costs, such as labor, materials, and utilities; depreciation, depletion, and amortization; and plant administrative expenses.

Bauxite production decreased 2% in the 2017 first quarter compared with the corresponding period in 2016. The decline was mainly caused by lower production at the Trombetas (Brazil) mine due to a 20-day work stoppage in January caused by periods of heavy rain that resulted in unsafe working conditions, mostly offset by higher production at the Juruti (Brazil) mine from a planned increase in production.

Third-party sales for the Bauxite segment improved 59% in the 2017 first quarter compared to the same period in 2016. The increase was largely attributable to higher volume as this segment continues to expand its third-party bauxite portfolio.

Intersegment sales increased 25% in the 2017 first quarter compared with the corresponding period in 2016 mostly due to a higher average realized price.

Adjusted EBITDA for this segment rose \$33 in the 2017 first quarter compared to the same period in 2016. The improvement was principally driven by both of the previously mentioned higher average realized price for intersegment sales and higher third-party volume.

In the 2017 second quarter (comparison with the 2016 second quarter), higher costs for energy (fuel oil) and an increase in maintenance expense for planned overhauls in Western Australia are expected.

Alumina

	First quarter ended March 31,	
	2017	2016
Production (kmt)	3,211	3,330
Third-party shipments (kmt)	2,255	2,168
Alcoa Corporation's average realized price per metric ton of alumina	\$ 325	\$ 229
Alcoa Corporation's average cost per metric ton of alumina*	\$ 243	\$ 227
Third-party sales	\$ 734	\$ 496
Intersegment sales	361	292
Total sales	\$ 1,095	\$ 788
Adjusted EBITDA	\$ 297	\$ 15

* Includes all production-related costs, including raw materials consumed; conversion costs, such as labor, materials, and utilities; depreciation and amortization; and plant administrative expenses.

At March 31, 2017, Alcoa Corporation had 2,305 kmt of idle capacity on a base capacity of 15,064 kmt. Both idle capacity and base capacity were unchanged compared to December 31, 2016.

Alumina production decreased 4% in the 2017 first quarter compared with the corresponding period in 2016, largely attributable to the absence of production from the remaining operating capacity (see below) at the Point Comfort (Texas) refinery (2,305 kmt-per-year), which was fully curtailed by the end of June 2016. At the beginning of the 2016 first quarter, the curtailed capacity of this refinery was 670 kmt and increased to 1,848 kmt by the end of the same period.

Third-party sales for the Alumina segment improved 48% in the 2017 first quarter compared to the same period in 2016. The increase was mostly related to a 42% increase in average realized price, which was principally driven by a 65% higher average alumina index price (86% of smelter-grade third-party shipments were based on the alumina index price in both the first quarter of 2017 and 2016).

Intersegment sales increased 24% in the 2017 first quarter compared with the corresponding period in 2016 due to a higher average realized price, somewhat offset by lower demand from the Aluminum segment.

Adjusted EBITDA for this segment rose \$282 in the 2017 first quarter compared to the same period in 2016. The improvement was principally related to the previously mentioned higher average realized price, somewhat offset by a higher cost for bauxite and net unfavorable foreign currency movements due to a weaker U.S. dollar, especially against the Australian dollar and Brazilian real.

In the 2017 second quarter (comparison with the 2016 second quarter), higher costs for both bauxite and caustic and an increase in maintenance expense for planned outages in Western Australia are expected.

Aluminum

	First quarter ended March 31,	
	2017	2016
Primary aluminum production (kmt)	559	600
Third-party aluminum shipments (kmt)	801	764
Alcoa Corporation's average realized price per metric ton of primary aluminum*	\$ 2,080	\$ 1,815
Alcoa Corporation's average cost per metric ton of primary aluminum**	\$ 1,901	\$ 1,753
Third-party sales	\$ 1,806	\$ 1,552
Intersegment sales	4	34
Total sales	\$ 1,810	\$ 1,586
Adjusted EBITDA	\$ 206	\$ 165

* Average realized price per metric ton of primary aluminum includes three elements: a) the underlying base metal component, based on quoted prices from the LME; b) the regional premium, which 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); and c) the product premium, which represents the incremental price for receiving physical metal in a particular shape (e.g., billet, slab, rod, etc.) or alloy.

** Includes all production-related costs, including raw materials consumed; conversion costs, such as labor, materials, and utilities; depreciation and amortization; and plant administrative expenses.

At March 31, 2017, Alcoa Corporation had 778 kmt of idle capacity on a base capacity of 3,133 kmt. Both idle capacity and base capacity were unchanged compared to December 31, 2016.

Primary aluminum production decreased 7% in the 2017 first quarter compared with the corresponding period in 2016. The decline was principally the result of lower production at the Portland (Australia) smelter due to an unexpected power outage that occurred in December 2016 as a result of a fault in the Victorian transmission network. This event resulted in management halting production of one of the potlines, which is currently in the process of being restarted.

Third-party sales for the Primary Metals segment improved 16% in the 2017 first quarter compared to the same period in 2016. The increase was mainly attributable to a 15% rise in average realized price of primary aluminum and overall higher aluminum volume.

The change in average realized price of primary aluminum was largely driven by a 19% higher average LME price (on 15-day lag). The overall higher aluminum volume was primarily due to a tolling arrangement with Arconic (began on November 1, 2016) related to this segment's rolling operations, partially offset by lower demand for primary aluminum from Arconic.

Intersegment sales declined 88% in the 2017 first quarter compared with the corresponding period in 2016 due to the absence of energy sales to the Warrick smelter (included in Corporate-see above), which was permanently closed at the end of March 2016.

Adjusted EBITDA for this segment rose \$41 in the 2017 first quarter compared to the same period in 2016. The improvement was mostly related to the previously mentioned higher realized price of primary aluminum and net productivity improvements, partially offset by higher costs for alumina and energy and lower sales of energy in Brazil.

In the 2017 second quarter (comparison with the 2016 second quarter), higher costs for alumina (global) and energy (mostly in Spain) are expected. Conversely, net productivity improvements are anticipated.

Reconciliation of Total Segment Adjusted EBITDA to Consolidated Net Income (Loss) Attributable to Alcoa Corporation

	First quarter ended March 31,	
	2017	2016
Total segment Adjusted EBITDA	\$ 613	\$ 257
Unallocated amounts:		
Impact of LIFO	(14)	18
Metal price lag (1)	6	2
Corporate expense (2)	(33)	(36)
Provision for depreciation, depletion, and amortization	(179)	(177)
Restructuring and other charges	(10)	(84)
Interest expense	(26)	(64)
Other income (expenses), net	100	(39)
Other (3)	(39)	(74)
Consolidated income (loss) before income taxes	418	(197)
Provision for income taxes	(110)	(18)
Net (income) loss attributable to noncontrolling interest	(83)	5
Consolidated net income (loss) attributable to Alcoa Corporation	\$ 225	\$ (210)

- (1) Metal price lag describes the timing difference created when the average price of metal sold differs from the average cost of the metal when purchased by Alcoa Corporation's rolled aluminum operations. In general, when the price of metal increases, metal price lag is favorable, and when the price of metal decreases, metal price lag is unfavorable.
- (2) Corporate expense is primarily composed of general administrative and other expenses of operating the corporate headquarters and other global administrative facilities.
- (3) Other includes, among other items, the Adjusted EBITDA of previously closed operations as applicable, pension and other postretirement benefit expenses associated with closed and sold operations, and intersegment profit elimination.

The changes in the Impact of LIFO, Metal price lag, Corporate expense, and Other reconciling items (see Results of Operations above for significant changes in the remaining reconciling items) for the 2017 first quarter compared with the corresponding period in 2016 consisted of:

- a change in the Impact of LIFO, mostly due to an increase in the price of alumina at March 31, 2017 indexed to December 31, 2016 compared to a decrease in the price of alumina at March 31, 2016 indexed to December 31, 2015;
- a change in Metal price lag, the result of a higher increase in the price of aluminum at March 31, 2017 indexed to December 31, 2016 compared to the price of aluminum at March 31, 2016 indexed to December 31, 2015 (the increase in the price of aluminum in both periods was mostly driven by higher base metal prices (LME));
- a decline in Corporate expense, largely attributable to the absence of expenses related to the Separation Transaction (\$9); and
- a change in Other, principally the result of the permanent closure of the Warrick smelter.

Environmental Matters

See the Environmental Matters section of Note M to the Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

Liquidity and Capital Resources

Cash From Operations

Cash provided from operations was \$74 in the 2017 three-month period compared with cash used for operations of \$359 in the same period of 2016. The improvement in cash from operations of \$433 was mostly due to higher operating results (net income (loss) plus net add-back for noncash transactions in earnings) and a positive change associated with working capital of \$107.

Financing Activities

Cash used for financing activities was \$260 in the 2017 three-month period, an increase of \$507 compared with cash provided from financing activities of \$247 in the corresponding period of 2016.

The use of cash in the 2017 three-month period was principally driven by a cash payment of \$238 (see Investing Activities below) to Arconic, representing the net proceeds from the sale of the Yadkin Hydroelectric Project (see Aluminum in Segment Information above) in accordance with the Separation and Distribution Agreement, and \$33 in net cash paid to Alumina Limited (see Noncontrolling interest in Results of Operations above). These items were slightly offset by \$18 in cash received from employee exercises of 0.7 million stock options at a weighted average exercise price of \$24.40 per share.

In the 2016 three-month period, the source of cash was primarily the result of \$302 in net transfers from Parent Company, slightly offset by \$50 in cash paid to Alumina Limited (see Noncontrolling interest in Results of Operations above).

Alcoa Corporation's cost of borrowing and ability to access the capital markets are affected not only by market conditions but also by the short- and long-term debt ratings assigned to Alcoa Corporation's debt by the major credit rating agencies.

On April 24, 2017, Fitch Ratings (Fitch) assigned a BB+ rating for Alcoa Corporation's long-term debt. Additionally, Fitch assigned the current outlook as stable.

Investing Activities

Cash provided from investing activities was \$131 in the 2017 three-month period compared with cash used for investing activities of \$103 in the 2016 three-month period, resulting in an increase in cash provided of \$234.

In the 2017 three-month period, the source of cash was largely attributable to \$238 in net proceeds received (see Financing Activities above) from the sale of the Yadkin Hydroelectric Project (see Aluminum in Segment Information above), somewhat offset by \$71 in capital expenditures and a \$25 equity contribution related to the aluminum complex joint venture in Saudi Arabia.

The use of cash in the 2016 three-month period was mainly due to \$86 in capital expenditures and a \$13 payment as a result of a post-closing adjustment associated with the December 2014 divestiture of an ownership stake in a smelter in the United States.

Recently Adopted and Recently Issued Accounting Guidance

See Note B to the Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

Forward-Looking Statements

This report contains statements that relate to future events and expectations and, as such, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those containing such words as “anticipates,” “believes,” “could,” “estimates,” “expects,” “forecasts,” “goal,” “intends,” “may,” “outlook,” “plans,” “projects,” “seeks,” “sees,” “should,” “targets,” “will,” “would,” or other words of similar meaning. All statements by Alcoa Corporation that reflect expectations, assumptions or projections about the future, other than statements of historical fact, are forward-looking statements, including, without limitation, forecasts concerning global demand growth for bauxite, alumina, and aluminum, and supply/demand balances; statements, projections or forecasts of future financial results or operating performance; and statements about strategies, outlook, business and financial prospects. These statements reflect beliefs and assumptions that are based on Alcoa Corporation’s perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate in the circumstances. Forward-looking statements are subject to known and unknown risks, uncertainties, and changes in circumstances that are difficult to predict and are not guarantees of future performance. Although Alcoa Corporation believes that the expectations reflected in any forward-looking statements are based on reasonable assumptions, it can give no assurance that these expectations will be attained and it is possible that actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks and uncertainties. Such risks and uncertainties include, but are not limited to: (a) material adverse changes in aluminum industry conditions, including global supply and demand conditions and fluctuations in London Metal Exchange-based prices and premiums, as applicable, for primary aluminum, alumina, and other products, and fluctuations in indexed-based and spot prices for alumina; (b) deterioration in global economic and financial market conditions generally; (c) unfavorable changes in the markets served by Alcoa Corporation; (d) the impact of changes in foreign currency exchange rates on costs and results; (e) increases in energy costs; (f) changes in discount rates or investment returns on pension assets; (g) the inability to achieve the level of revenue growth, cash generation, cost savings, improvement in profitability and margins, fiscal discipline, or strengthening of competitiveness and operations anticipated from restructuring programs and productivity improvement, cash sustainability, technology advancements, and other initiatives; (h) the inability to realize expected benefits, in each case as planned and by targeted completion dates, from acquisitions, divestitures, facility closures, curtailments, restarts or expansions, or joint ventures; (i) political, economic, and regulatory risks in the countries in which Alcoa Corporation operates or sells products; (j) the outcome of contingencies, including legal proceedings, government or regulatory investigations, and environmental remediation; (k) the impact of cyberattacks and potential information technology or data security breaches; and (l) the other risk factors described in Alcoa Corporation’s Form 10-K for the year ended December 31, 2016, including under Part I, Item 1A thereof, and in other reports filed by Alcoa Corporation with the United States Securities and Exchange Commission, including in the following sections of this report: the Derivatives section of Note K and Note M to the Consolidated Financial Statements; and the discussion included above under Segment Information. Alcoa Corporation disclaims any intention or obligation to update publicly any forward-looking statements, whether in response to new information, future events or otherwise, except as required by applicable law. Market projections are subject to the risks discussed above and other risks in the market.

Dissemination of Company Information

Alcoa Corporation intends to make future announcements regarding company developments and financial performance through its website at www.alcoa.com.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

See the Derivatives section of Note K to the Consolidated Financial Statements in Part I Item 1 of this Form 10-Q.

Item 4. Controls and Procedures.**(a) Evaluation of Disclosure Controls and Procedures**

Alcoa Corporation's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report, and they have concluded that these controls and procedures are effective.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the first quarter of 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

The following represent developments on matters previously reported in Alcoa Corporation's Annual Report on Form 10-K for the year ended December 31, 2016. Please reference said Form 10-K for a full description of each of the matters presented below.

Environmental Matters

As previously reported, in October 2006, in *Barnett, et al. v. Alcoa and Alcoa Fuels, Inc.*, Warrick Circuit Court, County of Warrick, Indiana (87-C01-0601-PL-499), forty-one plaintiffs sued ParentCo and one of its subsidiaries, asserting claims of harm from alleged exposure to waste that had been disposed in designated pits at the Squaw Creek Mine in the 1970s. In October 2008, the Warrick Circuit Court dismissed plaintiffs' claims related to occupational exposure. Remaining in this matter were plaintiff's personal injury claims based on "recreational" or non-occupational exposure. A non-prosecution hearing for this matter was set for March 23, 2017. Prior to this date, the parties filed a joint motion to dismiss these remaining claims. On April 3, 2017, the Warrick Circuit Court formally dismissed the case. This matter is now closed.

Other Matters

St. Croix Proceedings

Glencore Contractual Indemnity Claim. As previously reported, remaining in this case were Glencore's claims for costs and fees it incurred related to the previously described Superfund action. On March 7, 2017, Alcoa Corporation and Glencore agreed in principle to settle these claims and, on March 17, 2017, requested and were granted an adjournment of the court's scheduled March 21, 2017 conference. On April 5, 2017, Alcoa and Glencore entered into a settlement agreement to resolve these remaining claims. Accordingly, on April 24, 2017, the court dismissed the case at the request of the parties. The amount of the proposed settlement was not material. This matter is now closed.

Item 4. Mine Safety Disclosures.

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Securities and Exchange Commission Regulation S-K (17 CFR 229.104) is included in Exhibit 95 of this report, which is incorporated herein by reference.

Item 6. Exhibits.

15.	Letter regarding unaudited interim financial information
31.	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
95.	Mine Safety Disclosure
99.	Grantor Trust Agreement by and between Alcoa Corporation and Wells Fargo Bank, National Association, effective November 1, 2016
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Alcoa Corporation

May 10, 2017

Date

By /s/ WILLIAM F. OPLINGER

William F. Oplinger
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

May 10, 2017

Date

By /s/ MOLLY S. BEERMAN

Molly S. Beerman
Vice President and Controller
(Principal Accounting Officer)

EXHIBIT INDEX

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

May 10, 2017

Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

RE: Alcoa Corporation

Commissioners:

We are aware that our report dated May 10, 2017 on our review of interim financial information of Alcoa Corporation and its subsidiaries (Alcoa Corporation) for the three-month periods ended March 31, 2017 and 2016 and included in Alcoa Corporation's quarterly report on Form 10-Q for the quarter ended March 31, 2017 is incorporated by reference in its Registration Statements on Form S-8 (Nos. 333-214420 and 333-214423).

Very truly yours,

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania

Certifications

I, Roy C. Harvey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alcoa Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2017

/s/ ROY C. HARVEY

Name: Roy C. Harvey

Title: Chief Executive Officer

I, William F. Oplinger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alcoa Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2017

/s/ WILLIAM F. OPLINGER

Name: William F. Oplinger

Title: Executive Vice President and
Chief Financial Officer

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Alcoa Corporation, a Delaware corporation (the “Company”), does hereby certify that:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (the “Form 10-Q”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2017

/s/ ROY C. HARVEY

Name: Roy C. Harvey

Title: Chief Executive Officer

Date: May 10, 2017

/s/ WILLIAM F. OPLINGER

Name: William F. Oplinger

Title: Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.

MINE SAFETY DISCLOSURE

At Alcoa Corporation, management strives to work safely in a manner that protects and promotes the health and well-being of the Company's employees, contractors, and the communities in which Alcoa Corporation operates because it is fundamentally the right thing to do. Despite uncertainties and economic challenges, Alcoa Corporation remains committed to living its values and managing risks accordingly.

Alcoa Corporation's health and safety systems are anchored by committed people who are actively engaged and effectively support a safe work environment, safe work methods, and overall production system stability. Each day, people at all levels proactively monitor and intervene to defend against weaknesses that develop in Alcoa Corporation's safety systems by identifying potential hazards and error-likely situations and responding to eliminate or control them.

In the table below, there are disclosures involving the Point Comfort, TX alumina refinery. All citations have been or are being addressed. None constituted an imminent danger.

Dodd-Frank Act Disclosure of Mine Safety and Health Administration Safety Data

Certain of Alcoa Corporation's U.S. facilities are subject to regulation by the Mine Safety and Health Administration (MSHA) under the U.S. Federal Mine Safety and Health Act of 1977 (the "Mine Act"). The MSHA inspects these facilities on a regular basis and issues various citations and orders when it believes a violation has occurred under the Mine Act. Whenever the MSHA issues a citation or order, it also generally proposes a civil penalty, or fine, related to the alleged violation. Citations or orders can be contested and appealed, and as part of that process, are often reduced in severity and amount, and are sometimes dismissed.

Management believes the following mine safety disclosures meet the requirements of section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

Mine Safety Data. The table and other data below present mine safety information related to Alcoa Corporation's U.S. facilities subject to MSHA regulation, as required by section 1503(a)(1) of the Dodd-Frank Act. The following data reflects citations and orders received from the MSHA during the quarter ended March 31, 2017, as reflected in the MSHA system on March 31, 2017, and the proposed penalties received from the MSHA during such period. (\$ in full amounts)

Mine or Operating Name/MSHA Identification Number (1)	Section 104 S&S Citations (3) (#)	Section 104(b) Orders (4) (#)	Section 104(d) Citations and Orders (5) (#)	Section 110(b)(2) Violations (6) (#)	Section 107(a) Orders (7) (#)	Total Dollar Value of MSHA Assessments Proposed (8) (\$)	Total Number of Mining Related Fatalities (9) (#)	Received Notice of Pattern of Violations Under Section 104(e) (yes/no)	Received Notice of Potential to Have Pattern Under Section 104(e) (yes/no)	Legal Actions Pending as of Last Day of Period (#)	Legal Actions Initiated During Period (#)	Legal Actions Resolved During Period (#)
Point Comfort, TX Alumina Refinery (2)	—	—	—	—	—	\$1,607	—	no	no	11	—	1

- (1) The MSHA assigns an identification number to each mine or operation and may or may not assign separate identification numbers to related facilities. The information provided in this table is presented by mine or operation rather than the MSHA identification number because that is how Alcoa Corporation manages and operates its business, and management believes that this presentation is more useful to investors.
- (2) Under the Interagency Agreement dated March 29, 1979 between the MSHA, the U.S. Department of Labor, and The Occupational Safety and Health Administration, alumina refineries (such as Alcoa Corporation's Point Comfort facility) are subject to MSHA jurisdiction.
- (3) Represents the total number of citations issued under section 104 of the Mine Act, for violations of mandatory health or safety standards that could significantly and substantially contribute to a serious injury if left unabated. This includes the citations listed under the column headed §104(d).
- (4) Represents the total number of orders issued under section 104(b) of the Mine Act, which represents a failure to abate a citation under section 104(a) within the period prescribed by the MSHA. This results in an order of immediate withdrawal from the area of the mine affected by the condition until the MSHA determines that the violation has been abated.
- (5) Represents the total number of citations and orders issued under section 104(d) of the Mine Act for unwarrantable failure to comply with mandatory health or safety standards.
- (6) Represents the total number of flagrant violations identified under section 110(b)(2) of the Mine Act.
- (7) Represents the total number of imminent danger orders issued under section 107(a) of the Mine Act.
- (8) Amounts represent the total dollar value of proposed assessments received.

During the quarter ended March 31, 2017, Alcoa Corporation had no mining-related fatalities, and none of the Company's mining operations received written notice from the MSHA of a pattern of, or the potential to have a pattern of, violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of mine health or safety hazards under section 104(e) of the Mine Act.

The Federal Mine Safety and Health Review Commission (the "Commission") is an independent adjudicative agency that provides administrative trial and appellate review of legal disputes arising under the Mine Act. As of March 31, 2017, Alcoa Corporation had a total of 11 matters pending before the Commission. Ten of these matters concern contests of citations or orders issued under section 104 of the Mine Act, along with the contests of the proposed penalties for each of these. The other matter was a retaliation complaint filed by an employee, which was dismissed by an Administrative Law Judge on September 28, 2016. The employee has appealed the dismissal to the Commission, where the matter is pending. All of these matters concern citations, orders or proposed assessments issued by MSHA during 2016 (six), 2015 (four) or 2014 (one).

ALCOA CORPORATION GRANTOR TRUST AGREEMENT

This Grantor Trust Agreement (the “Trust Agreement”) is made effective November 1, 2016, by and between **ALCOA CORPORATION** (“the Company”) and **WELLS FARGO BANK, NATIONAL ASSOCIATION** (“the Trustee”).

Recitals

- (a) **WHEREAS**, the Company and its subsidiaries have adopted the nonqualified deferred compensation Plans and Agreements (the “Arrangements”) listed in Attachment A to this Trust Agreement;
- (b) **WHEREAS**, prior to the effective date of this Trust Agreement, the Arrangements were subject to the Amendment and Restatement of the Trust Agreement between Wells Fargo Bank, N.A. (as successor trustee) and Alcoa Inc. originally established December 17, 1993;
- (c) **WHEREAS**, effective November 1, 2016, Alcoa Inc. changed its name to Arconic Inc. and spun off the Company as a separate publicly traded company outside of the controlled group of Alcoa Inc.;
- (d) **WHEREAS**, the Company has incurred or expects to incur liability under the terms of such Arrangements with respect to the individuals participating in such Arrangements (the “Participants and Beneficiaries”);
- (e) **WHEREAS**, the Company hereby establishes a Trust (the “Trust”) and shall contribute to the Trust assets that shall be held therein, subject to the claims of the Company’s creditors in the event of the Company’s Insolvency, as herein defined, until paid to Participants and their Beneficiaries in such manner and at such times as specified in the Arrangements and in this Trust Agreement;
- (f) **WHEREAS**, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Arrangements as an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”); and
- (g) **WHEREAS**, it is the intention of the Company to make contributions to the Trust to provide itself with a source of funds (the “Fund”) to assist it in satisfying its liabilities under the Arrangements.

NOW, THEREFORE , the parties do hereby establish the Trust and agree that the Trust shall be comprised, held and disposed of as follows:

Section 1. Establishment of the Trust

- (a) The Trust is intended to be a Grantor Trust, of which the Company is the Grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended (the “Code”), and shall be construed accordingly.
- (b) The Company shall be considered a Grantor for the purposes of the Trust.
- (c) Revocability. Prior to a Potential Change in Control, the Trust shall be revocable by the Company, and the participants shall have no right to any part of the Trust. Subject to Section 1(i), upon a Potential Change in Control, no part of the income or corpus of the Trust shall be recoverable by or for the benefit of the Company and the Trust shall not be amended or modified while a Potential Change in Control continues to exist, as determined pursuant to Section 1(i). Upon a Change in Control the Trust shall become irrevocable, and shall, except as provided in Sections 3 and 14, be held for the exclusive purpose of providing benefits to Participants and defraying expenses of the Trust in accordance with the provisions of this Trust Agreement. Except as provided in Section 5(b) and Section 3, once the Trust has become irrevocable, no part of the income or corpus of the Trust shall be recoverable by or for the benefit of the Company until all benefits owed to Participants under the Covered Plans have been fully paid.
- (d) Administrative Guidelines. Prior to a Potential Change in Control or a Change in Control, the Trust shall be invested by the Trustee as directed by the Company. The Trustee shall act solely as a directed trustee. The Company shall provide the Trustee with a copy of its administrative guidelines, which, among other subjects, describe the applicable plans; identifies potential administrative tasks applicable to periods of time before and after either a Potential Change in Control or a Change in Control; and define actuarial tables and discount factors applicable to trust liability calculations (“Administrative Guidelines”) annually.
- (e) The Company hereby deposits with the Trustee in the Trust one-thousand dollars and zero cents (\$1,000.00) (“Initial Contribution”) which shall become the principal of the Trust to be held, administered and disposed of by the Trustee as provided in this Trust Agreement.
- (f) The principal of the Trust and any earnings thereon shall be held separate and apart from other funds of the Company and shall be used exclusively for the uses and purposes of Participants and general creditors as herein set forth. Participants and their Beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Arrangements and this Trust Agreement shall be unsecured contractual rights of Participants and their Beneficiaries against the Company. Any assets held by the Trust will be subject to the claims of the general creditors of the Company under federal and state law in the event the Company is Insolvent, as defined in Section 3(a) herein.

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- (g) The Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property acceptable to the Trustee in the Trust to augment the principal to be held, administered and disposed of by the Trustee as provided in this Trust Agreement. Prior to a Change in Control, neither the Trustee nor any Participant or Beneficiary shall have any right to compel additional deposits.
- (h) In addition to the Initial Contribution, the Company shall make such other contributions as shall from time to time be authorized by due corporate action. Any such contributions made by the Company may be in cash, by letter of credit or, prior to the date as of which a Change in Control occurs, in such property (including, without limitation, securities issued by the Company) as the Company may determine. The Company shall keep accurate books and records with respect to the interest of each Participant in any Arrangement and shall provide copies of such books and records to the Trustee at any time as the Trustee shall request. Upon a Potential Change in Control, as defined herein, the Company shall, as soon as possible, but in no event longer than thirty (30) days following the occurrence of a Potential Change in Control, make a contribution to the Trust in an amount that is sufficient (taking into account the Trust assets, if any, resulting from prior contributions) to fund the Trust in an amount equal to 110% of the Required Funding and Expense Reserve. The Required Funding shall be equal to the amount necessary to pay each Participant or Beneficiary the benefits to which Participants or their Beneficiaries would be entitled pursuant to the terms of the Arrangements as of the date on which the Potential Change in Control occurred. The Expense Reserve shall be equal to the lesser of: 1) the estimated trustee and record-keeper expenses and fees for one year or 2) seventy-five thousand dollars (\$75,000). Annually, the Company shall recalculate the Required Funding and Expense Reserve as of December 31 of the preceding year and, if the assets of the trust are less than the sum of the Required Funding and Expense Reserve, the Company shall make a contribution to the Trust in an amount equal to 110% of the Required Funding and Expense Reserve.
- (i) In the event a Change in Control, as defined herein, does not occur within twelve (12) months of a Potential Change in Control, the Company shall have the right to recover any amounts contributed to and remaining on hand in the Trust pursuant to a payment made upon the occurrence of a Potential Change in Control in accordance with Section 1(g). The Secretary of the Company shall notify the Trustee of the determination of the Incumbent Board as to whether the Potential Change in Control exists or not.
- (j) Upon a Change in Control, the Company shall, as soon as possible, but in no event longer than thirty (30) days following the occurrence of a Change in Control, make an irrevocable contribution to the Trust in an amount that is sufficient (taking into account the Trust assets, if any, resulting from prior contributions) to fund the Trust in an amount equal to 110% of the

amount necessary to pay each Participant or Beneficiary the benefits to which Participants or their Beneficiaries would be entitled pursuant to the terms of the Arrangements as of the date on which the Change in Control occurred. The Company shall also fund an Expense Reserve for the Trustee, which shall be equal to the lesser of: 1) the estimated trustee and record-keeper expenses and fees for one year or 2) seventy-five thousand dollars (\$75,000).

Section 2. Payments to Participants and Their Beneficiaries

- (a) Prior to a Change in Control, distributions from the Trust shall be made by the Trustee to Participants and Beneficiaries at the direction of the Company. Prior to a Change in Control, the entitlement of a Participant or his or her Beneficiaries to benefits under the Arrangements shall be determined by the Company under the Arrangements, and any claim for such benefits shall be considered and reviewed under the procedures set out in the Arrangements.
- (b) The Company may make payment of benefits directly to Participants or their Beneficiaries as they become due under the terms of the Arrangements. The Company shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to Participants or their Beneficiaries. Before a Potential Change in Control or Change in Control, the Company may direct the Trustee in writing to reimburse the Company from the Trust assets for amounts paid directly to the Participants or their Beneficiaries by the Company. The Trustee shall reimburse the Company for such payments promptly after receipt by the Trustee of satisfactory evidence that the Company has made the direct payments. No such reimbursement shall be allowed upon or during a Potential Change in Control or after Change in Control that would result in Trust assets equaling less than 100% of the Required Funding and Expense Reserve.

In addition, if the principal of the Trust and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Arrangements, the Company shall make the balance of each such payment as it falls due in accordance with the Arrangements. The Trustee shall notify the Company where principal and earnings are not sufficient. Nothing in this Trust Agreement shall relieve the Company of its liabilities to pay benefits due under the Arrangements except to the extent such liabilities are met by application of assets of the Trust.

- (c) The Company shall deliver to the Trustee a schedule of benefits, to include state and federal tax withholding guidelines, due under the Arrangements on an annual basis. Immediately after a Potential Change in Control and before a Change in Control, the Company shall deliver to the Trustee an updated schedule of benefits due under the Arrangements. After a Change in Control, the Trustee shall pay benefits due in accordance with such schedule. After a Change in Control, the Company shall continue to make the determination of benefits due to Participants or their Beneficiaries and shall provide the Trustee with an updated schedule, to include state and federal tax withholding guidelines, of benefits due; provided however, a Participant or their Beneficiaries may make application to the Trustee for an independent decision as to the amount

or form of their benefits due under the Arrangements. In making any determination required or permitted to be made by the Trustee under this Section, the Trustee shall, in each such case, reach its own independent determination, in its absolute and sole discretion, as to the amount or form of the Participant's or Beneficiary's payment hereunder. In making its determination, the Trustee may consult with and make such inquiries of such persons, including the Participant or Beneficiary, the Company, legal counsel, actuaries or other persons, as the Trustee may reasonably deem necessary. Any reasonable costs incurred by the Trustee in arriving at its determination shall be reimbursed by the Company and, to the extent not paid by the Company within a reasonable time, shall be charged to the Trust. The Company waives any right to contest any amount paid over by the Trustee hereunder pursuant to a good faith determination made by the Trustee notwithstanding any claim by or on behalf of the Company (absent a manifest abuse of discretion by the Trustee) that such payments should not be made.

- (d) The Trustee agrees that it will not itself institute any action at law or at equity, whether in the nature of an accounting, interpleading action, request for a declaratory judgment or otherwise, requesting a court or administrative or quasi-judicial body to make the determination required to be made by the Trustee under this Section 2 in the place and stead of the Trustee. The Trustee may (and, if necessary or appropriate, shall) institute an action to collect a contribution due the Trust following a Change in Control or in the event that the Trust should ever experience a short-fall in the amount of assets necessary to make payments pursuant to the terms of the Arrangements.

**Section 3. Trustee Responsibility Regarding Payments
To The Trust Beneficiary When the Company Is Insolvent**

- (a) The Trustee shall cease payment of benefits to Participants and their Beneficiaries if the Company is Insolvent. The Company shall be considered "Insolvent" for purposes of this Trust Agreement if (i) the Company is unable to pay its debts as they become due, or (ii) the Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.
- (b) At all times during the continuance of this Trust, the principal and income of the Trust shall be subject to claims of general creditors of the Company under federal and state law as set forth below.
 - (1) The Chief Executive Officer of the Company and its General Counsel shall have the duty to inform the Trustee in writing that the Company is Insolvent. If a person claiming to be a creditor of the Company alleges in writing to the Trustee that the Company has become Insolvent, the Trustee shall determine whether the Company is Insolvent and, pending such determination, the Trustee shall discontinue payment of benefits to Participants or their Beneficiaries.

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- (2) Unless the Trustee has actual knowledge that the Company is Insolvent, or has received notice from the Company or a person claiming to be a creditor alleging that the Company is Insolvent, the Trustee shall have no duty to inquire whether the Company is Insolvent. The Trustee may in all events rely on such evidence concerning the Company's solvency as may be furnished to the Trustee and that provides the Trustee with a reasonable basis for making a determination concerning the Company's solvency.
 - (3) If at any time the Trustee has determined that the Company is Insolvent, the Trustee shall discontinue payments to Participants or their Beneficiaries and shall hold the assets of the Trust for the benefit of the Company's general creditors. Nothing in this Trust Agreement shall in any way diminish any rights of Participants or their Beneficiaries to pursue their rights as general creditors of the Company with respect to benefits due under the Arrangements or otherwise.
 - (4) The Trustee shall resume the payment of benefits to Participants or their Beneficiaries in accordance with Section 2 of this Trust Agreement within sixty (60) days only after the Trustee has determined that the Company is not Insolvent (or is no longer Insolvent).
- (c) Provided that there are sufficient assets, if the Trustee discontinues the payment of benefits from the Trust pursuant to Section 3(b) hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Participants or their Beneficiaries under the terms of the Arrangements for the period of such discontinuance, less the aggregate amount of any payments made to Participants or their Beneficiaries by the Company in lieu of the payments provided for hereunder during any such period of discontinuance.

Section 4. Payments When a Short-Fall of the Trust Assets Occurs

- (a) If there are not sufficient assets for the payment of current and expected future benefits pursuant to Section 2 or Section 3(c) hereof and the Company does not otherwise make such payments within a reasonable time after demand from the Trustee, the Trustee shall allocate the Trust assets among the Participants or their Beneficiaries in the following order of priority:
- (1) vested Participants (regardless of whether they are actively employed) and their Beneficiaries; and
 - (2) non-vested Participants (regardless of whether they are actively employed) and their Beneficiaries

- (b) Within each category, assets shall be allocated pro-rata with respect to the total present value of benefits expected for each Participant or Beneficiary within the category, and payments to each Participant or Beneficiary shall be made to the extent of the assets allocated to each Participant or Beneficiary.
- (c) Upon receipt of a contribution from the Company necessary to make up for a short-fall in the payments due, the Trustee shall resume payments to all the Participants and Beneficiaries under the Arrangements. Following a Change in Control, the Trustee shall have the right and duty to compel a contribution to the Trust from the Company to make-up for any short-fall.

Section 5. Payments to the Company

- (a) Except as provided in Section 1(h), Section 2(b), Section 3, Section 5(b), and Section 8(a) hereof, the Company shall have no right or power to direct the Trustee to return to the Company or to divert to others any of the Trust assets before all payment of benefits have been made to Participants and their Beneficiaries pursuant to the terms of the Arrangements.
- (b) In the event that the Company, prior to a Change in Control, or the Trustee in its sole and absolute discretion, after a Change in Control, determines that the Trust assets exceed one-hundred twenty-five percent (125%) of the anticipated benefit obligations and administrative expenses that are to be paid under the Arrangements, the Trustee, at the written direction of the Company, prior to a Change in Control, or the Trustee in its sole and absolute discretion, after a Change in Control, shall distribute to the Company such excess portion of Trust assets.

Section 6. Investment Authority

- (a) Prior to a Change in Control, the Company shall have the right, subject to this Section, to direct the Trustee with respect to investments.
- (1) The Company may direct the Trustee to segregate all or a portion of the Fund in a separate investment account or accounts and may appoint one or more investment managers and/or an investment committee established by the Company to direct the investment and reinvestment of each such investment account or accounts. In such event, the Company shall notify the Trustee of the appointment of each such investment manager and/or investment committee. No such investment manager shall be related, directly or indirectly, to the Company, but members of the investment committee may be employees of the Company.
- (2) Thereafter, until a Change in Control, the Trustee shall make every sale or investment with respect to such investment account as directed in writing by the investment manager or investment committee. It shall be the duty of the Trustee to act strictly in accordance with each direction. The Trustee shall be under no duty to question any

such direction of the investment manager or investment committee, to review any securities or other property held in such investment account or accounts acquired by it pursuant to such directions or to make any recommendations to the investment managers or investment committee with respect to such securities or other property.

- (3) Notwithstanding the foregoing, the Trustee, without obtaining prior approval or direction from an investment manager or investment committee, shall invest cash balances held by it from time to time in short term cash equivalents including, but not limited to, through the medium of any short term fund established and maintained by the Trustee subject to the instrument establishing such Fund, U.S. Treasury Bills, commercial paper (including such forms of commercial paper as may be available through the Trustee's Trust Department), certificates of deposit (including certificates issued by the Trustee in its separate corporate capacity), and similar type securities, with a maturity not to exceed one year; and, furthermore, sell such short term investments as may be necessary to carry out the instructions of an investment manager or investment committee regarding more permanent type investment and directed distributions.
- (4) The Trustee shall neither be liable nor responsible for any loss resulting to the Fund by reason of any sale or purchase of an investment directed by an investment manager or investment committee nor by reason of the failure to take any action with respect to any investment which was acquired pursuant to any such direction in the absence of further directions of such investment manager or investment committee.
 - a. Notwithstanding anything in this Trust Agreement to the contrary, the Trustee shall be indemnified and saved harmless by the Company from and against any and all personal liability to which the Trustee may be subjected by carrying out any directions of an investment manager or investment committee issued pursuant hereto or for failure to act in the absence of directions of the investment manager or investment committee including all expenses reasonably incurred in its defense in the event the Company fails to provide such defense; provided, however, the Trustee shall not be so indemnified if it participates knowingly in, or knowingly undertakes to conceal, an act or omission of an investment manager or investment committee, having actual knowledge that such act or omission is a breach of a fiduciary duty; provided further, however, that the Trustee shall not be deemed to have knowingly participated in or knowingly undertaken to conceal an act or omission of an investment manager or investment committee with knowledge that such act or omission was a breach of fiduciary duty by merely complying with directions of an investment manager or investment committee or for failure to act in the absence of directions of an investment manager or investment committee. The Trustee may rely upon any order, certificate, notice, direction or other documentary confirmation purporting to have been issued by the investment manager or investment

committee which the Trustee believes to be genuine and to have been issued by the investment manager or investment committee. The Trustee shall not be charged with knowledge of the termination of the appointment of any investment manager or investment committee until it receives written notice thereof from the Company.

- b. The Company, prior to a Change in Control, may direct the Trustee to invest in securities (including stock and the rights to acquire stock) or obligations issued by the Company.
- c. All rights associated with respect to any investment held by the Trust, including but not limited to, exercising or voting of proxies, in person or by general or limited proxy, shall be in accordance with and as directed in writing by the Company or its authorized representative.

(b) Subsequent to a Change in Control, the Trustee shall have the power in investing and reinvesting the Fund in its sole discretion:

- (1) To invest and reinvest in any readily marketable common and preferred stocks (including any stock or security of the Company), bonds, notes, debentures (including convertible stocks and securities but not including any stock or security of the Trustee other than a de minimus amount held in a mutual fund), certificates of deposit or demand or time deposits (including any such deposits with the Trustee), limited partnerships or limited liability companies, private placements and shares of investment companies, and mutual funds, without being limited to the classes or property in which the Trustee is authorized to invest by any law or any rule of court of any state and without regard to the proportion any such property may bear to the entire amount of the Fund. Without limitation, the Trustee may invest the Trust in any investment company (including any investment company or companies for which Wells Fargo Bank, National Association or an affiliated company acts as the investment advisor) or, any insurance contract or contracts issued by an insurance company or companies in each case as the Trustee may determine provided that the Trustee may in its sole discretion keep such portion of the Trust in cash or cash balances for such reasonable periods as may from time to time be deemed advisable pending investment or in order to meet contemplated payments of benefits;
- (2) To invest and reinvest all or any portion of the Fund collectively through the medium of any proprietary mutual fund that may be established and maintained by the Trustee;
- (3) To commingle for investment purposes all or any portion of the Fund with assets of any other similar trust or trusts established by the Company with the Trustee for the purpose of safeguarding deferred compensation or retirement income benefits of its employees and/or directors;

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- (4) To retain any property at any time received by the Trustee;
 - (5) To sell or exchange any property held by it at public or private sale, for cash or on credit, to grant and exercise options for the purchase or exchange thereof, to exercise all conversion or subscription rights pertaining to any such property and to enter into any covenant or agreement to purchase any property in the future;
 - (6) To participate in any plan of reorganization, consolidation, merger, combination, liquidation or other similar plan relating to property held by it and to consent to or oppose any such plan or any action thereunder or any contract, lease, mortgage, purchase, sale or other action by any person;
 - (7) To deposit any property held by it with any protective, reorganization or similar committee, to delegate discretionary power thereto, and to pay part of the expenses and compensation thereof for any assessments levied with respect to any such property to be deposited;
 - (8) To extend the time of payment of any obligation held by it;
 - (9) To hold uninvested any moneys received by it, without liability for interest thereon, but only in anticipation of payments due for investments, reinvestments, expenses or disbursements;
 - (10) To exercise all voting or other rights with respect to any property held by it and to grant proxies, discretionary or otherwise;
 - (11) For the purposes of the Trust, to borrow money from others, to issue its promissory note or notes therefor, and to secure the repayment thereof by pledging any property held by it;
 - (12) To employ suitable contractors and counsel, who may be counsel to the Company or to the Trustee, and to pay their reasonable expenses and compensation from the Fund to the extent not paid by the Company;
 - (13) To register investments in its own name or in the name of a nominee; and to combine certificates representing securities with certificates of the same issue held by it in other fiduciary capacities or to deposit or to arrange for the deposit of such securities with any depository, even though, when so deposited, such securities may be held in the name of the nominee of such depository with other securities deposited therewith by other

persons, or to deposit or to arrange for the deposit of any securities issued or guaranteed by the United States government, or any agency or instrumentality thereof, including securities evidenced by book entries rather than by certificates, with the United States Department of the Treasury or a Federal Reserve Bank, even though, when so deposited, such securities may not be held separate from securities deposited therein by other persons; provided, however, that no securities held in the Fund shall be deposited with the United States Department of the Treasury or a Federal Reserve Bank or other depository in the same account as any individual property of the Trustee, and provided, further, that the books and records of the Trustee shall at all times show that all such securities are part of the Fund;

- (14) To settle, compromise or submit to arbitration any claims, debts or damages due or owing to or from the Trust, respectively, to commence or defend suits or legal proceedings to protect any interest of the Trust, and to represent the Trust in all suits or legal proceedings in any court or before any other body or tribunal; provided, however, that the Trustee shall not be required to take any such action unless it shall have been indemnified by the Company to its reasonable satisfaction against liability or expenses it might incur therefrom;
 - (15) Subject to Section 7, to hold and retain policies of life insurance, annuity contracts, and other property of any kind which policies are contributed to the Trust by the Company or any subsidiary of the Company or are purchased by the Trustee;
 - (16) To hold any other class of assets which may be contributed by the Company and that is deemed reasonable by the Trustee, unless expressly prohibited herein;
 - (17) To loan any securities at any time held by it to brokers or dealers upon such security as may be deemed advisable, and during the terms of any such loan to permit the loaned securities to be transferred into the name of and voted by the borrower or others; and
 - (18) Generally, to do all acts, whether or not expressly authorized, that the Trustee may deem necessary or desirable for the protection of the Fund.
- (c) Following a Change in Control, the Trustee shall have the sole and absolute discretion in the management of the Trust assets and shall have all the powers set forth under Section 6(b). In investing the Trust assets, the Trustee shall consider:
- (1) the needs of the Arrangements;
 - (2) the need for matching of the Trust assets with the liabilities of the Arrangements; and

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- (3) the duty of the Trustee to act solely in the best interests of the Participants and their Beneficiaries.
- (d) The Trustee shall have the right, in its sole discretion, to delegate its investment responsibility to an investment manager who may be an affiliate of the Trustee. In the event the Trustee shall exercise this right, the Trustee shall remain, at all times responsible for the acts of an investment manager. The Trustee shall have the right to purchase an insurance policy or an annuity to fund the benefits of the Arrangements.
- (e) The Company shall have the right at any time, and from time to time in its sole discretion, to substitute assets (other than securities issued by the Trustee or the Company) of equal fair market value for any asset held by the Trust. This right is exercisable by the Company in a nonfiduciary capacity without the approval or consent of any person in a fiduciary capacity; provided, however, that, following a Potential Change in Control or Change in Control, no such substitution shall be permitted unless the Trustee determines that the fair market values of the substituted assets are equal.

Section 7. Insurance Contracts

- (a) To the extent that the Trustee is directed by the Company prior to a Change in Control to invest part or all of the Fund in insurance contracts, the type and amount thereof shall be specified by the Company. The Trustee shall be under no duty to make inquiry as to the propriety of the type or amount so specified.
- (b) Each insurance contract issued shall provide that the Trustee shall be the owner thereof with the power to exercise all rights, privileges, options and elections granted by or permitted under such contract or under the rules of the insurer. The exercise by the Trustee of any incidents of ownership under any contract shall, prior to a Change in Control, be subject to the direction of the Company. After a Change in Control, the Trustee shall have all such rights.
- (c) The Trustee shall have no power to name a beneficiary of the policy other than the Trust, to assign the policy (as distinct from conversion of the policy to a different form) other than to a successor Trustee, or to loan to any person the proceeds of any borrowing against an insurance policy held in the Fund.
- (d) No insurer shall be deemed to be a party to the Trust and an insurer's obligations shall be measured and determined solely by the terms of contracts and other agreements executed by the insurer.

Section 8. Disposition of Income

- (a) Prior to a Change in Control, all income received by the Trust, net of expenses and taxes, may be returned to the Company or accumulated and reinvested within the Trust at the direction of the Company.
- (b) Following a Change in Control, all income received by the Trust, net of expenses and taxes payable by the Trust, shall be accumulated and reinvested within the Trust.

Section 9. Accounting by the Trustee

The following provisions shall apply to the records and accounting for the Trust:

- (a) The Trustee shall keep accurate records and accounts of all investments, receipts, and disbursements, and other transactions hereunder. As soon as reasonably practicable following the close of each annual accounting period of the Trust, and as soon as reasonably practicable after the resignation or removal of a Trustee has become effective, the Trustee shall file with the Company a written or electronic account setting forth all investments, receipts, disbursements, and other transactions effected by it during such year, or during the part of the year to the date the resignation or removal is effective, as the case may be, and containing a description of all securities purchased and sold, the cost or net proceeds of sale, the securities and investments held at the end of such period, and the cost of each item thereof as carried on the books of the Trustee. If the fair market value of an asset in the Fund is not available when necessary for accounting or reporting purposes, the fair value of the asset shall be determined in good faith by the Company, assuming an orderly liquidation at the time of such determination. If there is a disagreement between the Trustee and anyone as to any act or transaction reported in an accounting, the Trustee shall have the right to have its account settled by a court of competent jurisdiction. The Trustee shall be entitled to hold and to commingle the assets of the Trust in one Fund for investment purposes but at the direction of the Company prior to a Change in Control; the Trustee may create one or more sub-accounts.
- (b) Upon the expiration of ninety (90) days from the date of filing such annual or other account, the Trustee shall be forever released and discharged from any liability or accountability to anyone with respect to the propriety of its acts or transactions shown in such account except with respect to any acts or transactions as to which the Company shall within such ninety-day period file with the Trustee a written statement claiming negligence, willful misconduct or lack of good faith on the part of the Trustee.
- (c) The Trustee shall retain its records relating to the Trust as long as necessary for the proper administration thereof and at least for any period required by applicable law.

Section 10. Responsibility of the Trustee

- (a) The Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that

the Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by the Company which is contemplated by, and in conformity with, the terms of the Arrangements and this Trust and is given in writing by the Company. In the event of a dispute between the Company and a party, the Trustee may apply to a court of competent jurisdiction to resolve the dispute, subject, however to Section 2(d) hereof.

- (b) The Company hereby indemnifies the Trustee against losses, liabilities, claims, costs and expenses in connection with the administration of the Trust, unless resulting from the gross negligence or willful misconduct of Trustee. To the extent the Company fails to make any payment on account of an indemnity provided in this paragraph 10(b), in a reasonably timely manner, the Trustee may obtain payment from the Trust. If the Trustee undertakes or defends any litigation arising in connection with this Trust or to protect a Participant's or Beneficiary's rights under the Arrangements, the Company agrees to indemnify the Trustee against the Trustee's costs, reasonable expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If the Company does not pay such costs, expenses and liabilities in a reasonably timely manner, the Trustee may obtain payment from the Trust. This indemnification and any other hold harmless provisions in this Trust Agreement shall survive the termination of this Trust Agreement.
- (c) Prior to a Change in Control, the Trustee may consult with legal counsel (who may also be counsel for the Company generally) with respect to any of its duties or obligations hereunder. Following a Change in Control the Trustee shall select independent legal counsel and may consult with counsel or other persons with respect to its duties and with respect to the rights of Participants or their Beneficiaries under the Arrangements.
- (d) The Trustee may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder and may rely on any determinations made by such agents and information provided to it by the Company.
- (e) The Trustee shall have, without exclusion, all powers conferred on the Trustee by applicable law, unless expressly provided otherwise herein.
- (f) Notwithstanding any powers granted to the Trustee pursuant to this Trust Agreement or to applicable law, the Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administration Regulations promulgated pursuant to the Internal Revenue Code.
- (g) The Trustee is not a party to, and has no duties or responsibilities under, the Arrangements other than those that may be expressly contained in this Trust Agreement. In any case in which a provision of this Trust Agreement conflicts with any provision in the Arrangements, this Trust Agreement shall control.

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- (h) The Trustee shall have no duties, responsibilities or liability with respect to the acts or omissions of any prior or successor Trustee.
 - (i) Upon a Change in Control or a Potential Change in Control, the Company shall either (i) notify the Trustee that there have been no changes in the Administrative Guidelines from the Administrative Guidelines that the Trustee has most recently received, or (ii) if there have been changes in the Administrative Guidelines, provide the Trustee with Administrative Guidelines updated to the date of the Change in Control. If the Company fails to provide the Administrative Guidelines after thirty (30) days' written notice from the Trustee to the Company, then the Trustee may employ such professionals as are necessary to prepare the Administrative Guidelines, at the expense of the Trust and in accordance with this Trust Agreement.

Section 11. Compensation and Expenses of the Trustee

The Trustee's compensation shall be as agreed in writing from time to time by the Company and the Trustee. The Company shall pay all administrative expenses and the Trustee's fees and shall reimburse the Trustee for any fees and expenses of its agents within thirty (30) days of receipt of written invoice from the Trustee. If not so paid within thirty (30) days of being invoiced, the fees and expenses shall be paid from the Trust.

Section 12. Resignation and Removal of the Trustee

- (a) Prior to a Change in Control, the Trustee may resign at any time by written notice to the Company, which shall be effective one hundred eighty (180) days after receipt of such notice unless the Company and the Trustee agree otherwise. Following a Change in Control, the Trustee may resign only after the appointment of a successor Trustee.
- (b) The Trustee may be removed by the Company on sixty (60) days' notice or upon shorter notice accepted by the Trustee prior to a Potential Change in Control. Subsequent to a Potential Change in Control, the Trustee may only be removed by the Company with the consent of a Majority of the Participants.
- (c) If the Trustee resigns within two (2) years after a Change in Control, as defined herein, the Company, or if the Company fails to act within a reasonable period of time following such resignation, the Trustee, may apply to a court of competent jurisdiction for the appointment of a successor Trustee which satisfies the requirements of Section 13 or for instructions.

- (d) Upon resignation or removal of the Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed within ninety (90) days after receipt of notice of resignation, removal or transfer, unless the Company extends the time limit.
- (e) If the Trustee resigns or is removed, a successor shall be appointed by the Company, in accordance with Section 13 hereof, by the effective date of resignation or removal under paragraph(s) (a) or (b) of this section. If no such appointment has been made, the Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of the Trustee in connection with the proceeding shall be allowed as administrative expenses of the Trust.

Section 13. Appointment of Successor

- (a) If the Trustee resigns or is removed in accordance with Section 12 hereof, the Company may appoint, subject to Section 12, any third party, such as a bank trust department or other third party that may be granted corporate trustee powers under state law, as a successor to replace the Trustee upon resignation or removal. The appointment shall be effective when accepted in writing by the successor trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in the Trust assets. The former Trustee shall execute any instrument necessary or reasonably requested by the Company or the successor Trustee to evidence the transfer.
- (b) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Section 9 and 10 hereof. The successor Trustee shall not be responsible for and the Company shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

Section 14. Amendment or Termination

- (a) This Trust Agreement may be amended by a written instrument executed by the Trustee and the Company, except as otherwise provided in this Section 14. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Arrangements or shall make the Trust revocable after a Change in Control.
- (b) Following a Change in Control, the Trust shall not terminate until the date on which Participants and their Beneficiaries have received all of the benefits due to them under the terms and conditions of the Arrangements.

- (c) Following a Change in Control, upon written approval of all Participants or Beneficiaries entitled to payment of benefits pursuant to the terms of the Arrangements, the Company may terminate this Trust prior to the time all benefit payments under the Arrangements have been made. All assets in the Trust at termination shall be returned to the Company.
- (d) This Trust Agreement may not be amended by the Company following a Potential Change in Control or Change in Control without the written consent of a Majority of the Participants. In the event a Change in Control, as defined herein, does not occur within two (2) years of a Potential Change in Control, the Company's right to amend the Trust without the consent of a Majority of Participants shall be restored pursuant to Section 14(a).

Section 15. Change in Control

- (a) For purposes of this Trust, the following terms shall be defined as set forth below:

- (1) Potential Change in Control of the Company. A "Potential Change in Control" of the Company shall be deemed to have occurred upon the board of directors of the Company adopting a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred and providing notice to the Trustee, or the Trustee having received notice from the Company's Chief Executive Officer or its General Counsel that any of the following events have occurred:
 - (a) the Company is negotiating an agreement, the consummation of which may result in the occurrence of a Change in Control;
 - (b) the Company or any Entity states an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control;
 - (c) any Entity becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 5% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities with the purpose or with the effect of changing or influencing the control of the Company. Notwithstanding the foregoing, the Company acknowledges that it is contemplated that following the legal separation of Alcoa Inc. into two separate publicly traded companies, Alcoa Inc. (to be renamed Arconic Inc.) shall own no greater than 19.9% of Alcoa Corporation common stock, and such ownership, or disposition thereof, or the disposition of any other ownership interests in the Company as of the effective date of this Trust Agreement, shall not constitute a Potential Change in Control of the Company.

- (2) Change in Control of the Company. A “Change in Control” of the Company shall be deemed to have occurred upon the Trustee having received notice from the Company’s Chief Executive Officer or its General Counsel that any of the following events have occurred:
- (a) any “person,” as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of securities of the Company) (an “Entity”) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act) (a “Beneficial Owner”), directly or indirectly, of securities of the Company representing 20% or more of the total voting power of the Company’s then outstanding securities eligible to vote; or
 - (b) individuals who, as of the date hereof, constitute the board of directors of the Company cease for any reason to constitute a majority of the board; provided however, that any individual becoming a director whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least 75% of the directors then comprising the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened solicitation of proxies by or on behalf of an Entity other than the board of directors (the “Incumbent Board”);
 - (c) there is consummated a merger, consolidation or other corporate transaction, other than (i) a merger, consolidation or transaction that would result in the voting securities of the Company outstanding immediately prior to such merger, consolidation or transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving Entity or any parent thereof) at least 55% of the combined voting power of the securities of the Company or such surviving Entity or any parent thereof outstanding immediately after such merger, consolidation or transaction, or (ii) a merger, consolidation or transaction effected to implement a recapitalization of the Company (or similar transaction) in which no Entity is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing more than 20% of the combined voting power of the Company’s then outstanding securities;
 - (d) the sale or disposition by the Company of all or substantially all of the Company’s assets, other than a sale or disposition by the Company of all

or substantially all of its assets to an Entity at least 55% of the combined voting power of which is held in the same proportions as the ownership of the Company's securities immediately prior to such sale; or

- (e) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company; or
- (f) the board of directors of the Company adopts a resolution to the effect that, for purposes of this Agreement, a Change in Control has occurred.

Section 16. Confidentiality

This Trust Agreement and certain information relating to the Trust is "Confidential Information" pursuant to applicable federal and state law, and as such it shall be maintained in confidence and not disclosed, used or duplicated, except as described in this Section. If it is necessary for the Trustee to disclose Confidential Information to a third party in order to perform the Trustee's duties hereunder and the Company has authorized the Trustee to do so, the Trustee shall disclose only such Confidential Information as is necessary for such third party to perform its obligations to the Trustee and shall, before such disclosure is made, ensure that said third party understands and agrees to the confidentiality obligations set forth herein. The Trustee and the Company shall maintain appropriate information security programs and adequate administrative and physical safeguards to prevent the unauthorized disclosure, misuse, alteration or destruction of Confidential Information, and shall inform the other party as soon as possible of any security breach or other incident involving possible unauthorized disclosure of or access to Confidential Information. Confidential Information shall be returned to the disclosing party upon request. Confidential Information does not include information that is generally known or available to the public or that is not treated as confidential by the disclosing party, provided, however, that this exception shall not apply to any publicly available information to the extent that the disclosure or sharing of the information by one or both parties is subject to any limitation, restriction, consent, or notification requirement under any applicable federal or state information privacy law or regulation. If the receiving party is required by law, according to the advice of competent counsel, to disclose Confidential Information, the receiving party may do so without breaching this Section, but shall first, if feasible and legally permissible, provide the disclosing party with prompt notice of such pending disclosure so that the disclosing party may seek a protective order or other appropriate remedy or waive compliance with the provisions of this Section.

Section 17. Force Majeure

Notwithstanding anything to the contrary contained herein, the Trustee shall not be responsible or liable for any losses to the Fund resulting from any event beyond the reasonable control of the Trustee, including but not limited to nationalization, strikes, expropriation, devaluation, seizure, eminent domain or similar action by any governmental authority; or enactment, promulgation, imposition or enforcement by

any such governmental authority of currency restrictions, exchange controls, levies or other charges affecting the Trust's property; or the breakdown, failure or malfunction of any utility, telecommunication, or computer systems; or any order or regulation of any banking or securities industry including changes in market rules and market conditions affecting the execution or settlement of transactions; or poor or incomplete data provided by the Company; or acts of war, terrorism, insurrection or revolution; or acts of God; or any other similar event.

Section 18. Miscellaneous

- (a) Any provision of this Trust Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.
- (b) The Company hereby represents and warrants that all of the Arrangements have been established, maintained and administered in accordance with all applicable laws, including without limitation, ERISA. The Company hereby indemnifies and agrees to hold the Trustee harmless from all liabilities, including attorneys' fees, relating to or arising out of the establishment, maintenance and administration of the Arrangements. To the extent the Company does not pay any of such liabilities in a reasonably timely manner, the Trustee may obtain payment from the Trust.
- (c) Benefits payable to Participants and their Beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process. Notwithstanding the foregoing, in the event a Participant enters in, or becomes subject to a Domestic Relations Order or Qualified Domestic Relations Order as defined in Section 206(d) (3) of ERISA, benefits payable from the Trust shall be paid in accordance with said order if administratively practical.
- (d) This Trust Agreement shall be governed by and construed in accordance with the laws of North Carolina.
- (e) If a provision of this Trust Agreement requires that a communication or document be provided to the Trustee in writing or written form, that requirement may also be satisfied by a facsimile transmission, electronic mail or other electronic transmission of text (including electronic records attached thereto), if the Trustee reasonably believes such communication or document has been signed, sent or presented (as applicable) by any person or entity authorized to act on behalf of the Company. If this Trust Agreement requires that a communication or document be signed, an electronic signature satisfies that requirement. Any electronic mail or other electronic transmission of text will be deemed signed by the sender if the sender's name or electronic address appears as part of, or is transmitted with, the electronic record. The Trustee will not incur any liability to anyone resulting from actions taken in good faith reliance on such communication or document. Nor shall the Trustee incur any liability in executing instructions from any person or entity authorized to act on behalf of the Company prior to receipt by it of notice of the revocation of the written authority of such person or entity.

[EXECUTION PAGE FOLLOWS]

IN WITNESS WHEREOF , this Grantor Trust Agreement has been executed on behalf of the parties hereto on the day and year first above written.

ALCOA CORPORATION

By: /s/ Renato de C.A. Bacchi

Its: Treasurer

ATTEST:

By: /s/ Jesse M. Dove

Its: Counsel – Benefits

WELLS FARGO BANK, NATIONAL ASSOCIATION as
TRUSTEE

By: /s/ Alan C. Frazier

Its: Senior Vice President

ATTEST:

By: /s/ Tonya M. Inscore

Its: Senior Vice President

Attachment A

The following Arrangements are covered by this Trust:

Deferral Plans

- Alcoa USA Corp. Deferred Compensation Plan
- Alcoa Corporation 2016 Deferred Fee Plan for Directors

Nonqualified Pension Plans

- Alcoa Closure Systems Management Retirement and Excess Pension Plans
- Alcoa Fujikura Excess Pension Plan
- Alcoa Home Exteriors Excess Benefit Plan
- Alcoa USA Corp. Excess Benefit Plan
- Alcoa USA Corp. Nonqualified Supplemental Retirement Plan B
- Alcoa USA Corp. Nonqualified Supplemental Retirement Plan C
- Alcoa USA Corp. Supplemental Pension Plan for Senior Executives
- Alcoa USA Corp. Alumax Excess Benefit Plan
- Alcoa USA Corp. Global Pension Plan

[Legacy immaterial agreements with former employees - names omitted]

Death Benefits

- Alcoa USA Corp. Executive Death Benefit Program (Death Benefit only)
- Alcoa USA Corp. Executive Life Insurance (Group Life Insurance)
- Alcoa USA Corp. Executive Permanent Life Insurance Plan and Split Dollar Agreements (Split Dollar)
- Alcoa Fujikura Split Dollar Life Insurance (Split Dollar)
- Alumax of Alcoa USA Corp. Split Dollar Life Insurance (Split Dollar)
- Reynolds Metals Company Death Benefit Plan for Outside Directors (Death Benefit only)
- Reynolds Metals Company Split Dollar Life Insurance (Split Dollar)