
**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 September 30, 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)

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

201 Isabella Street, Suite 500,
Pittsburgh, Pennsylvania
(Address of principal executive offices)

15212-5858
(Zip code)

412-315-2900
(Registrant's telephone number, including area code)

390 Park Avenue, New York, New York 10022-4608
(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 October 20, 2017, 185,022,929 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.

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

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Sales to unrelated parties	\$ 2,725	\$ 2,075	\$ 7,837	\$ 6,028
Sales to related parties (A)	239	254	641	753
Total sales (E)	2,964	2,329	8,478	6,781
Cost of goods sold (exclusive of expenses below)	2,361	1,968	6,713	5,775
Selling, general administrative, and other expenses (A)	70	92	214	267
Research and development expenses	8	8	23	26
Provision for depreciation, depletion, and amortization	194	181	563	536
Restructuring and other charges (D)	(10)	17	12	109
Interest expense	26	67	77	197
Other expenses (income), net (N)	27	(106)	(67)	(90)
Total costs and expenses	2,676	2,227	7,535	6,820
Income (loss) before income taxes	288	102	943	(39)
Provision for income taxes (L)	119	92	328	178
Net income (loss)	169	10	615	(217)
Less: Net income attributable to noncontrolling interest	56	20	202	58
NET INCOME (LOSS) ATTRIBUTABLE TO ALCOA CORPORATION	\$ 113	\$ (10)	\$ 413	\$ (275)
EARNINGS PER SHARE ATTRIBUTABLE TO ALCOA CORPORATION COMMON SHAREHOLDERS				
(F):				
Basic	\$ 0.61	\$ (0.06)	\$ 2.24	\$ (1.51)
Diluted	\$ 0.60	\$ (0.06)	\$ 2.21	\$ (1.51)

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

Alcoa Corporation and subsidiaries
Statement of Consolidated Comprehensive (Loss) Income (unaudited)
(in millions)

	Alcoa Corporation		Noncontrolling interest		Total	
	Third quarter ended September 30,		Third quarter ended September 30,		Third quarter ended September 30,	
	2017	2016	2017	2016	2017	2016
Net income (loss)	\$ 113	\$ (10)	\$ 56	\$ 20	\$ 169	\$ 10
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	20	5	(1)	49	19
Foreign currency translation adjustments	141	32	44	45	185	77
Net change in unrecognized gains/losses on cash flow hedges	(415)	(370)	(5)	(10)	(420)	(380)
Total Other comprehensive (loss) income, net of tax	(230)	(318)	44	34	(186)	(284)
Comprehensive (loss) income	<u>\$ (117)</u>	<u>\$ (328)</u>	<u>\$ 100</u>	<u>\$ 54</u>	<u>\$ (17)</u>	<u>\$ (274)</u>
	Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016	2017	2016
Net income (loss)	\$ 413	\$ (275)	\$ 202	\$ 58	\$ 615	\$ (217)
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	190	19	24	2	214	21
Foreign currency translation adjustments	281	446	121	184	402	630
Net change in unrecognized gains/losses on cash flow hedges	(729)	(639)	57	4	(672)	(635)
Total Other comprehensive (loss) income, net of tax	(258)	(174)	202	190	(56)	16
Comprehensive income (loss)	<u>\$ 155</u>	<u>\$ (449)</u>	<u>\$ 404</u>	<u>\$ 248</u>	<u>\$ 559</u>	<u>\$ (201)</u>

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

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

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents (K)	\$ 1,119	\$ 853
Receivables from customers	840	668
Other receivables	193	166
Inventories (I)	1,323	1,160
Fair value of derivative contracts (K)	112	51
Prepaid expenses and other current assets	217	283
Total current assets	3,804	3,181
Properties, plants, and equipment	23,253	22,550
Less: accumulated depreciation, depletion, and amortization	13,971	13,225
Properties, plants, and equipment, net	9,282	9,325
Investments (H & M)	1,408	1,358
Deferred income taxes	862	741
Fair value of derivative contracts (K)	153	468
Other noncurrent assets	1,745	1,668
Total assets	<u>\$ 17,254</u>	<u>\$ 16,741</u>
LIABILITIES		
Current liabilities:		
Accounts payable, trade	\$ 1,618	\$ 1,455
Accrued compensation and retirement costs	450	456
Taxes, including income taxes	166	147
Fair value of derivative contracts (K)	139	35
Other current liabilities (C)	376	707
Long-term debt due within one year (K)	17	21
Total current liabilities	2,766	2,821
Long-term debt, less amount due within one year (K)	1,384	1,424
Accrued pension benefits	1,703	1,851
Accrued other postretirement benefits	1,076	1,166
Asset retirement obligations	627	604
Environmental remediation (M)	270	264
Fair value of derivative contracts (K)	689	234
Noncurrent income taxes	318	310
Other noncurrent liabilities and deferred credits	303	370
Total liabilities	<u>9,136</u>	<u>9,044</u>
CONTINGENCIES AND COMMITMENTS (M)		
EQUITY		
Alcoa Corporation shareholders' equity:		
Common stock	2	2
Additional capital	9,584	9,531
Retained earnings (deficit)	309	(104)
Accumulated other comprehensive loss (G)	(4,033)	(3,775)
Total Alcoa Corporation shareholders' equity	5,862	5,654
Noncontrolling interest	2,256	2,043
Total equity	8,118	7,697
Total liabilities and equity	<u>\$ 17,254</u>	<u>\$ 16,741</u>

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

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

	Nine months ended September 30,	
	2017	2016
CASH FROM OPERATIONS		
Net income (loss)	\$ 615	\$ (217)
Adjustments to reconcile net income (loss) to cash from operations:		
Depreciation, depletion, and amortization	564	536
Deferred income taxes	64	6
Equity income, net of dividends	1	34
Restructuring and other charges (D)	12	109
Net gain from investing activities – asset sales (C & N)	(115)	(164)
Net periodic pension benefit cost (J)	83	43
Stock-based compensation	21	24
Other	31	12
Changes in assets and liabilities, excluding effects of acquisitions, divestitures, and foreign currency translation adjustments:		
(Increase) in receivables	(112)	(126)
(Increase) Decrease in inventories	(102)	39
Decrease (Increase) in prepaid expenses and other current assets	62	(22)
Increase (Decrease) in accounts payable, trade	109	(175)
(Decrease) in accrued expenses	(320)	(338)
Increase (Decrease) in taxes, including income taxes	15	(103)
Pension contributions	(82)	(45)
(Increase) in noncurrent assets	(88)	(188)
Increase in noncurrent liabilities	11	25
CASH PROVIDED FROM (USED FOR) OPERATIONS	769	(550)
FINANCING ACTIVITIES		
Net transfers from Parent Company (A)	—	407
Cash paid to Arconic related to separation (A & C)	(247)	—
Net change in short-term borrowings (original maturities of three months or less)	2	—
Additions to debt (original maturities greater than three months)	3	—
Payments on debt (original maturities greater than three months)	(55)	(16)
Proceeds from the exercise of employee stock options	38	—
Contributions from noncontrolling interest	56	—
Distributions to noncontrolling interest	(244)	(176)
Other	(6)	—
CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	(453)	215
INVESTING ACTIVITIES		
Capital expenditures	(255)	(258)
Proceeds from the sale of assets and businesses (C)	243	112
Additions to investments (M)	(44)	(3)
Sales of investments	—	146
Net change in restricted cash	—	(2)
CASH USED FOR INVESTING ACTIVITIES	(56)	(5)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	6	24
Net change in cash and cash equivalents	266	(316)
Cash and cash equivalents at beginning of year	853	557
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,119	\$ 241

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 June 30, 2016	\$ 11,127	\$ —	\$ —	\$ —	\$ (1,456)	\$ 2,180	\$ 11,851
Net (loss) income	(10)	—	—	—	—	20	10
Other comprehensive (loss) income (G)	—	—	—	—	(318)	34	(284)
Establishment of defined benefit plans	176	—	—	—	(2,704)	—	(2,528)
Change in Parent Company net investment	151	—	—	—	—	—	151
Distributions	—	—	—	—	—	(92)	(92)
Other	—	—	—	—	—	4	4
Balance at September 30, 2016	<u>\$ 11,444</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (4,478)</u>	<u>\$ 2,146</u>	<u>\$ 9,112</u>
Balance at June 30, 2017	\$ —	\$ 2	\$ 9,559	\$ 196	\$ (3,803)	\$ 2,245	\$ 8,199
Net income	—	—	—	113	—	56	169
Other comprehensive (loss) income (G)	—	—	—	—	(230)	44	(186)
Stock-based compensation	—	—	7	—	—	—	7
Common stock issued: compensation plans	—	—	20	—	—	—	20
Distributions	—	—	—	—	—	(89)	(89)
Other	—	—	(2)	—	—	—	(2)
Balance at September 30, 2017	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 9,584</u>	<u>\$ 309</u>	<u>\$ (4,033)</u>	<u>\$ 2,256</u>	<u>\$ 8,118</u>
Balance at December 31, 2015	\$ 11,042	\$ —	\$ —	\$ —	\$ (1,600)	\$ 2,071	\$ 11,513
Net (loss) income	(275)	—	—	—	—	58	(217)
Other comprehensive (loss) income (G)	—	—	—	—	(174)	190	16
Establishment of defined benefit plans	176	—	—	—	(2,704)	—	(2,528)
Change in Parent Company net investment	501	—	—	—	—	—	501
Distributions	—	—	—	—	—	(176)	(176)
Other	—	—	—	—	—	3	3
Balance at September 30, 2016	<u>\$ 11,444</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (4,478)</u>	<u>\$ 2,146</u>	<u>\$ 9,112</u>
Balance at December 31, 2016	\$ —	\$ 2	\$ 9,531	\$ (104)	\$ (3,775)	\$ 2,043	\$ 7,697
Net income	—	—	—	413	—	202	615
Other comprehensive (loss) income (G)	—	—	—	—	(258)	202	(56)
Stock-based compensation	—	—	21	—	—	—	21
Common stock issued: compensation plans	—	—	37	—	—	—	37
Contributions	—	—	—	—	—	56	56
Distributions	—	—	—	—	—	(244)	(244)
Other	—	—	(5)	—	—	(3)	(8)
Balance at September 30, 2017	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 9,584</u>	<u>\$ 309</u>	<u>\$ (4,033)</u>	<u>\$ 2,256</u>	<u>\$ 8,118</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 (“Alcoa Corporation” 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.

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 and nine months ended September 30, 2016 included an immaterial error due to an under-allocation of LIFO (last-in, first-out) expense of \$4 and \$14, respectively. The amount for Cost of goods sold in the accompanying Statement of Consolidated Operations for the three and nine months ended September 30, 2016 was revised to correct this immaterial error.

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, which 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 \$247 was paid to Arconic by Alcoa Corporation in the 2017 nine-month period, including \$243 associated with the sale of certain of the Company’s energy operations – 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 2016 third quarter and nine-month period, an allocation of \$23 and \$54, respectively, 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 several 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.

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.

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The following table reflects the allocations described above:

	Third quarter ended	Nine months ended
	September 30, 2016	
Cost of goods sold ⁽¹⁾	\$ 13	\$ 39
Selling, general administrative, and other expenses ⁽²⁾	47	124
Research and development expenses	—	2
Provision for depreciation, depletion, and amortization	5	15
Restructuring and other charges ⁽³⁾	1	1
Interest expense	59	178
Other expenses (income), net	1	(8)

- (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 \$239 and \$641 in the 2017 third quarter and nine-month period, respectively, and \$254 and \$753 in the 2016 third quarter and nine-month period, respectively. As of

September 30, 2017 and December 31, 2016, outstanding receivables from Arconic were \$96 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.

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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. Other than providing additional disclosure, management has determined that the adoption of these changes will not have a material impact on the Consolidated Financial Statements.

In May 2017, the FASB issued changes to the accounting for stock-based compensation when there has been a modification to the terms or conditions of a share-based payment award. These changes require an entity to account for the modification only when there has been a substantive change to the terms or conditions of a share-based payment award. A substantive change occurs when the fair value, vesting conditions or balance sheet classification (liability or equity) of a share-based payment award is/are different immediately before and after the modification. Currently, an entity is required to account for any modification in the terms or conditions of a share-based payment award. 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 if Alcoa Corporation initiates a modification that is determined to be a substantive change to an outstanding stock-based award.

In August 2017, the FASB issued changes to the accounting for hedging activities. These changes permit hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk; reduce current limitations on the designation and measurement of a hedged item in a fair value hedge of interest rate risk; remove the requirement to separately measure and report hedge ineffectiveness; provide an election to systematically and rationally recognize in earnings the initial value of any amount excluded from the assessment of hedge effectiveness for all types of hedges; and lighten the requirements of effectiveness testing. Additionally, modifications to existing disclosures, as well as additional disclosures, will be required to reflect these changes regarding the measurement and recording of hedging activities. These changes become effective for Alcoa Corporation on January 1, 2019 (early adoption is permitted). Management is currently evaluating early adopting these changes and the potential impact of these changes on the Consolidated Financial Statements.

In May 2014, the FASB issued changes to the recognition of revenue from contracts with customers. These changes created a comprehensive framework for all entities in all industries to apply in the determination of when to recognize revenue, and, therefore, supersede virtually all existing revenue recognition requirements and guidance. This framework is expected to result in less complex guidance in application while providing a consistent and comparable methodology for revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the entity satisfies a performance obligation. In August 2015, the FASB deferred the effective date by one year, making these changes effective for Alcoa Corporation on January 1, 2018. Through a previously established project team, the Company has completed a detailed review of the terms and provisions of its customer contracts in light of these changes. The project team is in the process of finalizing the evaluation of these contracts under the new guidance, as well as assessing the need for any potential changes to the Company's accounting policies and internal control structure. That said, Alcoa Corporation recognizes revenue when title, ownership, and risk of loss pass to the customer, all of which occurs upon shipment or delivery of the product and is based on the applicable shipping terms. Alcoa Corporation's sales of its products to customers represent single performance obligations, which are not expected to be impacted by these changes. As a result, management does not expect the adoption of these changes to have a material impact 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 (\$241 was received in the 2017 first quarter and \$5 was received in the 2017 second quarter). In the 2017 nine-month period, Alcoa Corporation recognized a gain of \$120 (pre- and after-tax) in Other income, net on the accompanying Statement of Consolidated Operations. In accordance with the Separation and Distribution Agreement (see Note A), Alcoa Corporation remitted \$243 of the proceeds to Arconic. At December 31, 2016, Alcoa Corporation had a liability of \$243, which was included in Other current liabilities on the accompanying Consolidated

Balance Sheet. The sale of Yadkin is subject to post-closing adjustments related to potential earnouts through January 31, 2027, unless the provisions of the earnouts are met earlier. Any such adjustment would result in Alcoa Corporation receiving additional cash (none of which would be remitted to Arconic) and recognizing income. 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 third quarter and nine-month period of 2017, Alcoa Corporation recorded \$10 of income and \$12 of expense, respectively, in Restructuring and other charges, which were comprised of the following components: \$6 and \$24, respectively, for additional contract costs related to the curtailed Wenatchee (Washington) and São Luís (Brazil) smelters; \$4 and \$17, respectively, for layoff costs, including the separation of approximately 10 and 120 (110 in the Aluminum segment) employees, respectively, and related pension costs of \$3 and \$6, respectively (see Note J); \$7 (both periods) for costs related to the relocation of the Company's headquarters and principal executive office from New York, New York to Pittsburgh, Pennsylvania; a charge of \$2 (both periods) for other miscellaneous items; and a reversal of \$29 and \$38, respectively, associated with several reserves related to prior periods (see below).

On July 11, 2017, Alcoa Corporation announced plans to restart three (161,400 metric tons of capacity) of the five potlines (268,800 metric tons of capacity) at the Warrick (Indiana) smelter, which is expected to be complete in the second quarter of 2018. This smelter was previously permanently closed in March 2016 by ParentCo. The capacity identified for restart will directly supply the existing rolling mill at the Warrick location to improve efficiency of the integrated site and provide an additional source of metal to help meet an anticipated increase in production volumes. As a result of the decision to reopen this smelter, in the 2017 third quarter, Alcoa Corporation reversed \$29 in remaining liabilities related to the original closure decision. These liabilities consisted of \$20 in asset retirement obligations and \$4 in environmental remediation obligations, which were necessary due to the previous decision to demolish the smelter, and \$5 in severance and contract termination costs. Additionally, the carrying value of the smelter and related assets was reduced to zero as the smelter ramped down between the permanent closure decision date (end of 2015) and the end of March 2016. Once these assets are placed back into service in conjunction with the restart, their carrying value will remain zero. As such, only newly acquired or constructed assets related to the Warrick smelter will be depreciated.

In the third quarter and nine-month period of 2016, Alcoa Corporation recorded Restructuring and other charges of \$17 and \$109, respectively.

Restructuring and other charges in the 2016 third quarter included \$17 for layoff costs related to cost reduction initiatives, including the separation of approximately 30 employees in the Aluminum segment and related pension settlement costs (see Note J); a net credit of \$1 for other miscellaneous items; and a net charge of \$1 related to corporate actions of ParentCo allocated to Alcoa Corporation.

In the 2016 nine-month period, Restructuring and other charges included \$84 for additional net costs related to decisions made in late 2015 to permanently close and demolish the Warrick smelter (see above) and to curtail the Wenatchee smelter and Point Comfort (Texas) refinery (see below); \$28 for layoff costs related to cost reduction initiatives, including the separation of approximately 60 employees in the Aluminum segment and related pension settlement costs (see Note J); a net charge of \$1 related to corporate actions of ParentCo allocated to Alcoa Corporation (see Cost Allocations in Note A); and a reversal of \$4 associated with several layoff reserves related to prior periods.

In the 2016 nine-month period, 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 \$24 (\$4 in the 2016 third quarter) associated with severance costs initially recorded in late 2015; and \$38 (\$2 in the 2016 third quarter) in other costs. Additionally in the 2016 nine-month period, remaining inventories, mostly operating supplies and raw materials, were written down to their net realizable value, resulting in a charge of \$5, which was recorded in Cost of goods sold on the accompanying Statement of Consolidated Operations. The other costs of \$38 (\$2 in the 2016 third quarter) represent \$30 (\$3 in the 2016 third quarter) for contract terminations, \$4 ((\$3) in the 2016 third quarter) in asset retirement obligations for the rehabilitation of a coal mine related to the Warrick smelter, and \$4 (\$2 in the 2016 third quarter) in other related costs.

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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:

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Bauxite	\$ 1	\$ –	\$ 1	\$ –
Alumina	4	(1)	4	1
Aluminum	(22)	17	(1)	107
Segment total	(17)	16	4	108
Corporate	7	1	8	1
Total restructuring and other charges	\$ (10)	\$ 17	\$ 12	\$ 109

As of September 30, 2017, approximately 70 of the 120 employees associated with 2017 restructuring programs were separated. The remaining separations for 2017 restructuring programs are expected to be completed by the end of 2017. As of June 30, 2017, the separations associated with 2016 and 2015 restructuring programs were essentially complete.

In the 2017 third quarter and nine-month period, cash payments of \$2 and \$7, respectively, were made against layoff reserves related to 2017 restructuring programs, less than \$1 and \$2, respectively, were made against layoff reserves related to 2016 restructuring programs, and \$4 and \$16, respectively, were made against layoff reserves related to 2015 restructuring programs.

Activity and reserve balances for restructuring charges were as follows:

	Layoff costs	Other 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	(25)	(33)	(58)
Restructuring charges	17	30	47
Other*	(17)	(2)	(19)
Reserve balances at September 30, 2017	\$ 13	\$ 23	\$ 36

* Other includes reversals of previously recorded restructuring charges and the effects of foreign currency translation. In the 2017 nine-month period and 2016, Other for layoff costs also included a reclassification of \$6 (see Note J) and \$16, respectively, 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 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 \$15, 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>
Third quarter ended				
September 30, 2017				
Sales:				
Third-party sales – unrelated party	\$ 104	\$ 713	\$ 1,851	\$2,668
Third-party sales – related party	—	—	239	239
Intersegment sales	221	398	9	628
Total sales	<u>\$ 325</u>	<u>\$ 1,111</u>	<u>\$ 2,099</u>	<u>\$3,535</u>
Adjusted EBITDA	\$ 113	\$ 203	\$ 303	\$ 619
Supplemental information:				
Depreciation, depletion, and amortization	\$ 24	\$ 53	\$ 106	\$ 183
Equity loss	—	(5)	(7)	(12)
Third quarter ended				
September 30, 2016				
Sales:				
Third-party sales – unrelated party	\$ 93	\$ 585	\$ 1,346	\$2,024
Third-party sales – related party	—	—	254	254
Intersegment sales	192	317	2	511
Total sales	<u>\$ 285</u>	<u>\$ 902</u>	<u>\$ 1,602</u>	<u>\$2,789</u>
Adjusted EBITDA	\$ 97	\$ 78	\$ 183	\$ 358
Supplemental information:				
Depreciation, depletion, and amortization	\$ 21	\$ 47	\$ 103	\$ 171
Equity loss	—	(9)	(7)	(16)

	<u>Bauxite</u>	<u>Alumina</u>	<u>Aluminum</u>	<u>Total</u>
Nine months ended September 30, 2017				
Sales:				
Third-party sales – unrelated party	\$ 254	\$ 2,196	\$ 5,243	\$ 7,693
Third-party sales – related party	—	—	641	641
Intersegment sales	648	1,143	16	1,807
Total sales	<u>\$ 902</u>	<u>\$ 3,339</u>	<u>\$ 5,900</u>	<u>\$ 10,141</u>
Adjusted EBITDA	\$ 321	\$ 727	\$ 730	\$ 1,778
Supplemental information:				
Depreciation, depletion, and amortization	\$ 61	\$ 155	\$ 315	\$ 531
Equity loss	—	(10)	(11)	(21)
Nine months ended September 30, 2016				
Sales:				
Third-party sales – unrelated party	\$ 224	\$ 1,682	\$ 3,996	\$ 5,902
Third-party sales – related party	—	—	753	753
Intersegment sales	549	930	38	1,517
Total sales	<u>\$ 773</u>	<u>\$ 2,612</u>	<u>\$ 4,787</u>	<u>\$ 8,172</u>
Adjusted EBITDA	\$ 273	\$ 207	\$ 528	\$ 1,008
Supplemental information:				
Depreciation, depletion, and amortization	\$ 57	\$ 139	\$ 310	\$ 506
Equity loss	—	(30)	(24)	(54)

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

	<u>Third quarter ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Total segment Adjusted EBITDA	\$ 619	\$ 358	\$ 1,778	\$ 1,008
Unallocated amounts:				
Impact of LIFO (I)	(14)	1	(36)	18
Metal price lag (1)	5	1	22	5
Corporate expense (2)	(34)	(47)	(104)	(133)
Provision for depreciation, depletion, and amortization	(194)	(181)	(563)	(536)
Restructuring and other charges (D)	10	(17)	(12)	(109)
Interest expense	(26)	(67)	(77)	(197)
Other (expenses) income, net (N)	(27)	106	67	90
Other (3)	(51)	(52)	(132)	(185)
Consolidated income (loss) before income taxes	288	102	943	(39)
Provision for income taxes	(119)	(92)	(328)	(178)
Net income attributable to noncontrolling interest	(56)	(20)	(202)	(58)
Consolidated net income (loss) attributable to Alcoa Corporation	<u>\$ 113</u>	<u>\$ (10)</u>	<u>\$ 413</u>	<u>\$ (275)</u>

- (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):

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income (loss) attributable to Alcoa Corporation	\$ 113	\$ (10)	\$ 413	\$ (275)
Average shares outstanding – basic	185	182	184	182
Effect of dilutive securities:				
Stock options	1	—	1	—
Stock and performance awards	1	—	2	—
Average shares outstanding – diluted	187	182	187	182

In the 2016 third quarter and nine-month period, 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 publicly-traded common stock.

As of September 30, 2017, there were 5 million outstanding employee stock options and stock awards (including performance), which resulted in 2 million and 3 million of dilutive securities in the 2017 third quarter and nine-month period, respectively. The following describes, in general, how the dilutive securities are calculated. The calculation of dilutive securities requires a company to assume that it will purchase shares of its own common stock from the stock market to offset the dilution that eventual vested employee stock compensation can create. This assumption is based on a predetermined formula and does not consider whether a company engages in a regular practice of purchasing its own common stock. The number of shares a company is presumed to have purchased of its own common stock is calculated based on the average market price of a company's common stock during the respective period. The calculated number of shares presumed purchased by a company is then subtracted from the total number of shares issuable to the employees to derive the number of dilutive securities. As a result, each stock option or stock award that impacts the number of dilutive securities in a given period is included on a less than full share basis.

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	
	Third quarter ended		Third quarter ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Pension and other postretirement benefits (J)				
Balance at beginning of period	\$ (2,184)	\$ (353)	\$ (37)	\$ (53)
Establishment of defined benefit plans	—	(2,704)	—	—
Other comprehensive income (loss):				
Unrecognized net actuarial loss and prior service cost/benefit	(6)	(22)	6	(1)
Tax benefit (expense)	2	17	(2)	—
Total Other comprehensive (loss) income before reclassifications, net of tax	(4)	(5)	4	(1)
Amortization of net actuarial loss and prior service cost/benefit (1)	50	38	1	1
Tax expense (2)	(2)	(13)	—	(1)
Total amount reclassified from Accumulated other comprehensive loss, net of tax (7)	48	25	1	—
Total Other comprehensive income (loss)	44	20	5	(1)
Balance at end of period	\$ (2,140)	\$ (3,037)	\$ (32)	\$ (54)
Foreign currency translation				
Balance at beginning of period	\$ (1,515)	\$ (1,437)	\$ (600)	\$ (640)
Other comprehensive income (3)	141	32	44	45
Balance at end of period	\$ (1,374)	\$ (1,405)	\$ (556)	\$ (595)
Cash flow hedges (K)				
Balance at beginning of period	\$ (104)	\$ 334	\$ 63	\$ 11
Other comprehensive loss:				
Net change from periodic revaluations	(545)	(434)	(2)	20
Tax benefit (expense)	109	95	1	(6)
Total Other comprehensive (loss) income before reclassifications, net of tax	(436)	(339)	(1)	14
Net amount reclassified to earnings:				
Aluminum contracts (4)	33	4	—	—
Energy contracts (5)	(8)	(50)	(5)	(34)
Interest rate contracts (6)	—	—	—	—
Sub-total	25	(46)	(5)	(34)
Tax (expense) benefit (2)	(4)	15	1	10
Total amount reclassified from Accumulated other comprehensive (loss) income, net of tax (7)	21	(31)	(4)	(24)
Total Other comprehensive loss	(415)	(370)	(5)	(10)
Balance at end of period	\$ (519)	\$ (36)	\$ 58	\$ 1

	Alcoa Corporation		Noncontrolling interest	
	Nine months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Pension and other postretirement benefits (J)				
Balance at beginning of period	\$ (2,330)	\$ (352)	\$ (56)	\$ (56)
Establishment of defined benefit plans	–	(2,704)	–	–
Other comprehensive income:				
Unrecognized net actuarial loss and prior service cost/benefit	42	(44)	24	–
Tax benefit (expense)	5	25	(2)	–
Total Other comprehensive income (loss) before reclassifications, net of tax	47	(19)	22	–
Amortization of net actuarial loss and prior service cost/benefit (1)	149	58	2	3
Tax expense (2)	(6)	(20)	–	(1)
Total amount reclassified from Accumulated other comprehensive loss, net of tax (7)	143	38	2	2
Total Other comprehensive income	190	19	24	2
Balance at end of period	\$ (2,140)	\$ (3,037)	\$ (32)	\$ (54)
Foreign currency translation				
Balance at beginning of period	\$ (1,655)	\$ (1,851)	\$ (677)	\$ (779)
Other comprehensive income (3)	281	446	121	184
Balance at end of period	\$ (1,374)	\$ (1,405)	\$ (556)	\$ (595)
Cash flow hedges (K)				
Balance at beginning of period	\$ 210	\$ 603	\$ 1	\$ (3)
Other comprehensive (loss) income:				
Net change from periodic revaluations	(975)	(779)	88	35
Tax benefit (expense)	186	170	(26)	(10)
Total Other comprehensive (loss) income before reclassifications, net of tax	(789)	(609)	62	25
Net amount reclassified to earnings:				
Aluminum contracts (4)	82	(1)	–	–
Energy contracts (5)	(11)	(50)	(7)	(34)
Interest rate contracts (6)	–	7	–	5
Sub-total	71	(44)	(7)	(29)
Tax (expense) benefit (2)	(11)	14	2	8
Total amount reclassified from Accumulated other comprehensive income (loss), net of tax (7)	60	(30)	(5)	(21)
Total Other comprehensive (loss) income	(729)	(639)	57	4
Balance at end of period	\$ (519)	\$ (36)	\$ 58	\$ 1

- (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) The amounts for the third quarter and nine months ended September 30, 2017 were included in Cost of goods sold on the accompanying Statement of Consolidated Operations. The amounts for the third quarter and nine months ended September 30, 2016 were included in Other income, net on the accompanying Statement of Consolidated Operations.
- (6) These amounts were included in Other expenses (income), net on the accompanying Statement of Consolidated Operations.

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- (7) 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 6.

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

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Sales	\$ 979	\$ 888	\$ 2,853	\$ 2,684
Cost of goods sold	792	840	2,186	2,200
Net income (loss)	55	(6)	97	23

I. Inventories

	September 30, 2017	December 31, 2016
Finished goods	\$ 257	\$ 226
Work-in-process	264	220
Bauxite and alumina	429	429
Purchased raw materials	478	363
Operating supplies	146	137
LIFO reserve	(251)	(215)
	<u>\$ 1,323</u>	<u>\$ 1,160</u>

At September 30, 2017 and December 31, 2016, the total amount of inventories valued on a LIFO basis was \$432, or 27%, 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:

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016**	2017	2016**
Pension benefits				
Service cost	\$ 18	\$ 18	\$ 53	\$ 42
Interest cost	62	44	183	81
Expected return on plan assets	(101)	(80)	(298)	(140)
Recognized net actuarial loss	47	36	139	55
Amortization of prior service cost	2	2	6	5
Settlements*	3	13	3	13
Special termination benefits*	–	–	3	1
Net periodic benefit cost	<u>\$ 31</u>	<u>\$ 33</u>	<u>\$ 89</u>	<u>\$ 57</u>

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

** In the 2016 third quarter and nine-month period, Alcoa Corporation also recognized multiemployer expense related to pension benefits of \$8 and \$53, respectively.

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016*	2017	2016*
Other postretirement benefits				
Service cost	\$ 2	\$ 1	\$ 4	\$ 1
Interest cost	9	6	28	8
Recognized net actuarial loss	3	3	10	3
Amortization of prior service benefit	(1)	(2)	(4)	(2)
Net periodic benefit cost	<u>\$ 13</u>	<u>\$ 8</u>	<u>\$ 38</u>	<u>\$ 10</u>

* In the 2016 third quarter and nine-month period, Alcoa Corporation also recognized multiemployer expense related to other postretirement benefits of \$2 and \$19, 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 consists of at least three members, including the chief executive officer and the chief financial officer. The remaining member(s) are other officers and/or employees of the Company as the chief executive officer may designate from time to time. Currently, the only other member of the SRMC is Alcoa Corporation's treasurer. The SRMC meets on a periodic basis to review derivative positions and strategy and reports to the Audit Committee of 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.

Several 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 \$43 and \$92, respectively, at September 30, 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 gain of \$1 and a loss of \$23 in Other expenses (income), net on the accompanying Statement of Consolidated Operations in the 2017 third quarter and nine-month period, respectively. Additionally, for the contracts designated as cash flow hedges, Alcoa Corporation recognized an unrealized loss of \$39 and \$64 in Other comprehensive loss in the 2017 third quarter and nine-month period, respectively.

In addition to the Level 1 and 2 derivative instruments described above, Alcoa Corporation has several derivative instruments classified as Level 3 under the fair value hierarchy. These instruments are composed of (i) embedded aluminum derivatives and an embedded credit derivative related to energy supply contracts and (ii) freestanding financial contracts related to energy purchases on the spot market, all of which are associated with nine smelters and three refineries. Certain of the embedded aluminum derivatives and financial contracts were designated as cash flow hedging instruments. All of these Level 3 derivative instruments are described below in detail and are enumerated as D1 through D11.

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).

D1 through D5. Alcoa Corporation has two power contracts (D1 and D2), 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 (D3 through D5), 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 (one of the contracts no longer requires the use of prices beyond this 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.

D6. Alcoa Corporation had a power contract (expired in October 2016 – see D10 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 expenses (income), 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. The amortization of this deferred credit was recognized in Other expenses (income), net on the accompanying Statement of Consolidated Operations as power was received over the life of the contract.

D7. 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 expenses (income), 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.

D8. 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 expenses (income), 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. The amortization of this deferred charge is recognized in Other expenses (income), net on the accompanying Statement of Consolidated Operations as power is received over the life of the contract.

D9. Alcoa Corporation has a power contract, which contains an embedded derivative that indexes the difference in the respective credit spread of Alcoa Corporation and the counterparty. 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 expenses (income), 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.

D10 and D11. Alcoa Corporation has a financial contract (D10) 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 D6 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 were recorded in Other expenses (income), net, and realized gains and losses were recorded in Other expenses (income), net as electricity purchases were made from the spot market.

In January 2017, Alcoa Corporation and the counterparty entered into a new financial contract (D11) 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 while realized gains and losses were recorded (began in August 2017) in Cost of goods sold as electricity purchases were made from the spot market.

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

	Fair value at September 30, 2017	Unobservable input	Range (\$ in full amounts)
Assets:			
Embedded aluminum derivative (D7)	\$ —	Interrelationship of future aluminum and oil prices	Aluminum: \$2,081 per metric ton in 2017 to \$2,145 per metric ton in 2018 Oil: \$58 per barrel in 2017 to \$56 per barrel in 2018
Financial contract (D11)	222	Interrelationship of forward energy price and the Consumer Price Index and price of electricity beyond forward curve	Electricity: \$76.44 per megawatt hour in 2017 to \$58.78 per megawatt hour in 2021
Liabilities:			
Embedded aluminum derivative (D1)	345	Interrelationship of LME price to the amount of megawatt hours of energy needed to produce the forecasted metric tons of aluminum	Aluminum: \$2,081 per metric ton in 2017 to \$2,496 per metric ton in 2027 Electricity: rate of 4 million megawatt hours per year
Embedded aluminum derivatives (D3 through D5)	311	Price of aluminum beyond forward curve	Aluminum: \$2,512 per metric ton in 2028 to \$2,604 per metric ton in 2029 (two contracts) and \$2,899 per metric ton in 2036 (one contract) Midwest premium: \$0.0925 per pound in 2017 to \$0.1050 per pound in 2029 (two contracts) and 2036 (one contract)
Embedded aluminum derivative (D8)	34	Interrelationship of LME price to the amount of megawatt hours of energy needed to produce the forecasted metric tons of aluminum	Aluminum: \$2,081 per metric ton in 2017 to \$2,159 per metric ton in 2019 Midwest premium: \$0.0925 per pound in 2017 to \$0.1050 per pound in 2019 Electricity: rate of 2 million megawatt hours per year
Embedded aluminum derivative (D2)	18	Interrelationship of LME price to overall energy price	Aluminum: \$2,038 per metric ton in 2017 to \$2,183 per metric ton in 2019
Embedded credit derivative (D9)	28	Estimated credit spread between Alcoa Corporation and counterparty	3.51% (Alcoa Corporation – 8.07% and counterparty – 4.56%)

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

Asset Derivatives	September 30, 2017	December 31, 2016
Derivatives designated as hedging instruments:		
Fair value of derivative contracts – current:		
Embedded aluminum derivatives	\$ —	\$ 29
Financial contract	93	—
Fair value of derivative contracts – noncurrent:		
Embedded aluminum derivatives	—	468
Financial contract	129	—
Total derivatives designated as hedging instruments	<u>\$ 222</u>	<u>\$ 497</u>
Derivatives not designated as hedging instruments:		
Fair value of derivative contracts – current:		
Financial contract	\$ —	\$ 17
Total derivatives not designated as hedging instruments	<u>\$ —</u>	<u>\$ 17</u>
Total Asset Derivatives	<u>\$ 222</u>	<u>\$ 514</u>
Liability Derivatives		
Derivatives designated as hedging instruments:		
Fair value of derivative contracts – current:		
Embedded aluminum derivatives	\$ 81	\$ 17
Fair value of derivative contracts – noncurrent:		
Embedded aluminum derivatives	593	187
Total derivatives designated as hedging instruments	<u>\$ 674</u>	<u>\$ 204</u>
Derivatives not designated as hedging instruments:		
Fair value of derivative contracts – current:		
Embedded aluminum derivative	\$ 23	\$ 10
Embedded credit derivative	4	5
Fair value of derivative contracts – noncurrent:		
Embedded aluminum derivative	11	18
Embedded credit derivative	24	30
Total derivatives not designated as hedging instruments	<u>\$ 62</u>	<u>\$ 63</u>
Total Liability Derivatives	<u>\$ 736</u>	<u>\$ 267</u>

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

	Assets		Liabilities	
	Embedded aluminum derivatives	Financial contracts	Embedded aluminum derivatives	Embedded credit derivative
Third quarter ended September 30, 2017				
Opening balance – July 1, 2017	\$ 94	\$ 254	\$ 326	\$ 33
Total gains or losses (realized and unrealized) included in:				
Sales	20	—	(9)	—
Cost of goods sold	—	(13)	—	(2)
Other expenses, net	1	(17)	7	(3)
Other comprehensive loss	(114)	(7)	388	—
Purchases, sales, issuances, and settlements*	—	—	—	—
Transfers into and/or out of Level 3*	—	—	—	—
Other	(1)	5	(4)	—
Closing balance – September 30, 2017	\$ —	\$ 222	\$ 708	\$ 28
Change in unrealized gains or losses included in earnings for derivative contracts held at September 30, 2017:				
Sales	\$ —	\$ —	\$ —	\$ —
Cost of goods sold	—	—	—	—
Other expenses, net	1	(17)	7	(3)

* In the 2017 third quarter, there were no purchases, sales, issuances or settlements of Level 3 derivative instruments. Additionally, there were no transfers of derivative instruments into or out of Level 3.

	Assets		Liabilities	
	Embedded aluminum derivatives	Financial contracts	Embedded aluminum derivatives	Embedded credit derivative
Nine months ended September 30, 2017				
Opening balance – January 1, 2017	\$ 497	\$ 17	\$ 232	\$ 35
Total gains or losses (realized and unrealized) included in:				
Sales	50	—	(24)	—
Cost of goods sold	—	(18)	—	(4)
Other income, net	1	(9)	15	(3)
Other comprehensive loss	(547)	100	496	—
Purchases, sales, issuances, and settlements*	—	119	—	—
Transfers into and/or out of Level 3*	—	—	—	—
Other	(1)	13	(11)	—
Closing balance – September 30, 2017	\$ —	\$ 222	\$ 708	\$ 28
Change in unrealized gains or losses included in earnings for derivative contracts held at September 30, 2017:				
Sales	\$ —	\$ —	\$ —	\$ —
Cost of goods sold	—	—	—	—
Other income, net	1	(9)	15	(3)

* In January 2017, there was an issuance of a new financial contract (see D11 above). In the 2017 nine-month period, 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. Realized gains or losses on the derivative are reclassified from other comprehensive income 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.

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Alcoa Corporation has five Level 3 embedded aluminum derivatives and one Level 3 financial contract (through November 2016 – see D10 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 D11 above), that replaced the existing financial contract in August 2017.

Embedded aluminum derivatives (D1 through D5). 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 September 30, 2017 and December 31, 2016, these embedded aluminum derivatives hedge forecasted aluminum sales of 2,926 kmt and 3,127 kmt, respectively.

Alcoa Corporation recognized a net unrealized loss of \$502 and \$1,043 in the 2017 third quarter and nine-month period, respectively, and \$462 and \$830 in the 2016 third quarter and nine-month period, respectively, in Other comprehensive loss related to these five derivative instruments. Additionally, Alcoa Corporation reclassified a realized loss of \$29 and \$74 in the 2017 third quarter and nine-month period, respectively, and a realized gain of \$4 and a realized loss of \$1 in the 2016 third quarter and nine-month period, respectively, from Accumulated other comprehensive loss to Sales. Assuming market rates remain constant with the rates at September 30, 2017, a realized loss of \$61 is expected to be recognized in Sales over the next 12 months.

There was no ineffectiveness related to these five derivative instruments in the 2017 third quarter and nine-month period and the 2016 third quarter and nine-month period.

Financial contracts (D10 and D11). 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 D10 above). Additionally, in December 2016, management elected to discontinue hedge accounting for this contract (see D10 above). This financial contract hedged forecasted electricity purchases of 1,969,544 megawatt hours prior to December 2016.

In the 2017 third quarter and nine-month period, Alcoa Corporation reclassified a realized gain of \$1 and \$6, respectively, from Accumulated other comprehensive loss to Cost of goods sold. In the 2016 third quarter and nine-month period, Alcoa Corporation recognized an unrealized gain of \$49 and \$88, respectively, in Other comprehensive loss. Additionally, Alcoa Corporation recognized a gain of \$3 in Other expenses, net related to hedge ineffectiveness in the 2016 nine-month period. There was no ineffectiveness related to the financial contract in the 2016 third quarter.

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 D11 above). At September 30, 2017, this financial contract hedges forecasted electricity purchases of 9,424,800 megawatt hours. In the 2017 third quarter and nine-month period, Alcoa Corporation recognized an unrealized loss of \$7 and an unrealized gain of \$100, respectively, in Other comprehensive loss. Additionally, Alcoa Corporation reclassified a realized gain of \$12 in both the 2017 third quarter and nine-month period from Accumulated other comprehensive loss to Cost of goods sold. Assuming market rates remain consistent with the rates at September 30, 2017, a realized gain of \$65 is expected to be recognized in Cost of goods sold over the next 12 months. Additionally, Alcoa Corporation recognized a loss of \$6 and \$2 in Other expenses (income), net related to hedge ineffectiveness in the 2017 third quarter and nine-month period, respectively.

Derivatives Not Designated As Hedging Instruments

Alcoa Corporation has two (three prior to October 2016) Level 3 embedded aluminum derivatives (D6 through D8) and one Level 3 embedded credit derivative (D9) that do not qualify for hedge accounting treatment and one Level 3 financial contract that management elected to discontinue hedge accounting treatment (see D10 above). As such, gains and losses related to the changes in fair value of these instruments are recorded directly in earnings. In the 2017 and 2016 third quarter, Alcoa Corporation recognized a loss of \$15 and a gain of \$1, respectively, in Other expenses (income), net, of which a loss of \$7 (both periods) related to the embedded aluminum derivatives, a gain of \$3 and \$8, respectively, related to the embedded credit derivative, and a loss of \$11 (2017 third quarter) related to the financial contract. In the 2017 and 2016 nine-month period, Alcoa Corporation recognized a loss of \$19 and \$8, respectively, in Other income, net, of which a loss of \$15 (both periods) related to the embedded aluminum derivatives, a gain of \$3 and \$7, respectively, related to the embedded credit derivative, and a loss of \$7 (2017 nine-month period) related to the financial contract.

Material Limitations

The disclosures with respect to commodity prices, interest rates, and foreign currency exchange risk do not consider 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 several 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:

	September 30, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	\$ 1,119	\$ 1,119	\$ 853	\$ 853
Restricted cash	8	8	6	6
Long-term debt due within one year	17	17	21	21
Long-term debt, less amount due within one year	1,384	1,565	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 was 41.3% (provision on income) and 90.2% (provision on income) for the 2017 and 2016 third quarters, respectively, and 34.8% (provision on income) and 456.4% (provision on a loss) for the 2017 and 2016 nine-month periods, respectively.

Alcoa Corporation's estimated annual effective tax rate for 2017 was 34.2% as of September 30, 2017. This rate differs from the U.S. federal statutory rate of 35% primarily due to foreign income taxed in lower rate jurisdictions, mostly offset by domestic losses not tax benefited. The domestic losses are net of the gain on the sale of Yadkin (see Note C).

For the 2017 nine-month period, 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 34.2% to pretax income of \$943, (ii) a net discrete income tax charge of \$11, including \$10 related to a tax holiday (see below), and (iii) a favorable impact of \$6 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).

For the 2017 third quarter, the Provision for income taxes is composed of three components as follows: (i) the difference between the application of the estimated annual 2017 effective tax rate as of September 30, 2017 of 34.2% to pretax income for the 2017 nine-month period of \$943 and the application of the estimated annual 2017 effective tax rate as of June 30, 2017 of 31.9% to pretax income for the 2017 six-month period of \$655, (ii) a net discrete income tax charge of \$13, including \$10 related to a tax holiday (see below), and (iii) a favorable impact of \$8 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).

In the 2017 third quarter, AWAB received approval for a tax holiday related to the operation of the Juruti (Brazil) bauxite mine. This tax holiday is effective as of January 1, 2017 (retroactively) and decreases AWAB's income tax rate from 34% to 15.25%, which will result in future cash tax savings over a 10-year period.

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As a result of this income tax rate change, AWAB's existing deferred tax assets that are expected to reverse during the holiday period were required to be remeasured at the lower tax rate. This remeasurement resulted in both a decrease to AWAB's deferred tax assets and a noncash charge to earnings of \$10 (\$6 after noncontrolling interest).

The rate for the 2016 third 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, somewhat offset by foreign income taxed in lower rate jurisdictions and tax benefits on interest expense eliminated to Parent Company net investment.

The rate for the 2016 nine-month period differs (by (491.4) percentage points) 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, slightly offset by foreign income taxed in lower rate jurisdictions and tax benefits on interest expense eliminated to Parent Company net investment.

The composition of Alcoa Corporation's net deferred tax asset by jurisdiction as of December 31, 2016 was as follows:

	Domestic	Foreign	Total
Deferred tax assets	\$ 1,346	\$1,742	\$ 3,088
Valuation allowance	(1,057)	(698)	(1,755)
Deferred tax liabilities	(272)	(612)	(884)
	<u>\$ 17</u>	<u>\$ 432</u>	<u>\$ 449</u>

The Company has several income tax filers in various foreign countries. Of the \$432 million net deferred tax asset included under the "Foreign" column in the table above, approximately 90% relates to four of the Company's income tax filers as follows: a \$259 million net deferred tax asset for Alcoa Alumínio S.A. ("Alumínio") in Brazil; a \$195 million net deferred tax asset for Alcoa World Alumina Brasil Ltda. ("AWAB") in Brazil; a \$108 million deferred tax asset for Alumina Española, S.A. ("Española" and collectively with Alumínio and AWAB, the "Foreign Filers") in Spain; and a \$177 million net deferred tax liability for Alcoa of Australia Limited in Australia.

The future realization of the net deferred tax asset for each of the Foreign Filers was based on projections of the respective future taxable income (defined as the sum of pretax income, other comprehensive income, and permanent tax differences), exclusive of reversing temporary differences and carryforwards. The realization of the net deferred tax assets of the Foreign Filers is not dependent on any tax planning strategies. Historically, the Foreign Filers each generated taxable income in the three-year cumulative period ending December 31, 2016. Management has also forecasted taxable income for each of the Foreign Filers in 2017 and for the foreseeable future. This forecast is based on macroeconomic indicators and involves assumptions related to, among others: commodity prices; volume levels; and key inputs and raw materials, such as bauxite, caustic soda, alumina, calcined petroleum coke, liquid pitch, energy (fuel oil, natural gas, electricity), labor, and transportation costs. These are the same assumptions used by management to develop a financial and operating plan, which is used to run the Company and measure performance against actual results.

The majority of the Foreign Filers' net deferred tax assets relate to tax loss carryforwards. The Foreign Filers do not have a history of tax loss carryforwards expiring unused. Additionally, tax loss carryforwards have an infinite life under the respective income tax codes in Brazil and Spain. That said, utilization of an existing tax loss carryforward is limited to 30% and 25% of taxable income in a particular year in Brazil and Spain, respectively.

Accordingly, management concluded that the net deferred tax assets of the Foreign Filers will more likely than not be realized in future periods, resulting in no need for a partial or full valuation allowance as of December 31, 2016.

As of September 30, 2017, Alcoa Corporation's net deferred tax asset was \$562, of which \$554 relates to the Foreign Filers. There has not been a material change in the facts and circumstances underlying the analysis described above. As such, management concluded that the net deferred tax assets of the Foreign Filers will more likely than not be realized in future periods, resulting in no need for a partial or full valuation allowance as of September 30, 2017.

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; a date for the hearing has been scheduled for May 2018. 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 several locations. These include owned or operating facilities and adjoining properties, previously owned or operating facilities and adjoining properties, and waste sites, including Superfund (Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)) sites.

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 \$306 and \$324 at September 30, 2017 and December 31, 2016 (of which \$36 and \$60 was classified as a current liability), respectively, and reflects the most probable costs to remediate identified environmental conditions for which costs can be reasonably estimated.

In the 2017 third quarter and nine-month period, the remediation reserve was decreased by \$5 and \$2, respectively. The change in both periods was due to a reversal of \$4 related to the restart of the Warrick smelter (see Note D), a reduction of \$2 related to the Mosjøen location (see below), and a charge of \$1 (third quarter) and \$4 (nine months) associated with several sites. Of the changes to the remediation reserve in both periods, the reversal of \$4 was recorded in Restructuring and other charges, while the remainder was recorded in Cost of goods sold on the accompanying Statement of Consolidated Operations.

Payments related to remediation expenses applied against the reserve were \$10 and \$30 in the 2017 third quarter and nine-month period, respectively. These amounts include expenditures currently mandated, as well as those not required by any regulatory authority or third party. The respective change in the reserve also reflects an increase of \$4 due to the effects of foreign currency translation in the 2017 third quarter, and an increase of both \$9 due to the effects of foreign currency translation and \$5 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 in the 2017 nine-month period.

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 (Arconic) under the Separation and Distribution Agreement, Alcoa Corporation (Arconic) has agreed to indemnify Arconic (Alcoa Corporation) in whole or in part for environmental liabilities arising from operations prior to the Separation Date. The following description 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). All ParentCo obligations regarding the Sherwin refinery and Copano facility were transferred from ParentCo to Alcoa Corporation as part of the Separation Transaction on November 1, 2016. In February 2017, the current owner of the Sherwin alumina refinery and Copano facility received court approval for reorganization under Chapter 11 of the U.S. Bankruptcy Code (see Other within Note M). Through the bankruptcy proceedings, the owner of Sherwin exercised its right under the U.S. Bankruptcy Code to reject the agreement from 2000 containing the previously mentioned retained responsibility, which had the effect of terminating all rights and responsibilities of the parties to the agreement. The Company continues to be involved in a legal dispute with the owner of Sherwin related to the allocation of responsibility for the environmental obligations at this site. At this time, it is unclear if the ultimate outcome of this matter will result in a change to Alcoa Corporation’s reserve. At September 30, 2017 and December 31, 2016, the reserve balance associated with Sherwin was \$30.

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 at that time; Alcoa Corporation began construction on the project in April 2017 with an estimated completion in 2018. At September 30, 2017 and December 31, 2016, the reserve balance associated with this matter was \$12 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. On March 30, 2017, the MOE provided authorization to Trasformazioni to dispose of excavated waste into a third-party landfill; this work began on October 25, 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. In the 2017 third quarter, Alcoa Corporation reduced the reserve associated with this matter by \$2 based on a revised cost estimate of the remaining project work. At September 30, 2017 and December 31, 2016, the reserve balance associated with this matter was \$4 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 September 30, 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, 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 \$152 (€129) as of September 30, 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 tax loss carryforwards 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 (see below). 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.

This Spanish consolidated tax group had been under audit (began in September 2015) for the 2010 through 2013 tax years. As Spain's tax authorities neared the end of the audit, they informed both Alcoa Corporation and Arconic of their intent to issue an assessment similarly disallowing certain interest deductions as the two assessments described above. On August 3, 2017, in lieu of receiving a formal assessment, all parties agreed to a settlement related to the 2010 through 2013 tax years. For Alcoa Corporation, this settlement is not material to the Company's Consolidated Financial Statements. Given the stage of the appeal of the assessment for the 2006 through 2009 tax years in Spain's National Court, the settlement of the 2010 through 2013 tax years will not impact the ultimate outcome of that proceeding.

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 \$32 (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.

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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. Separately, in the 2017 second quarter, the State opened a tax amnesty program. At the end of August 2017, Alumínio elected to submit this matter for consideration into the amnesty program, which the State approved. As a result, under the terms of the amnesty program, this matter was settled for \$8 (R\$25). In the 2017 third quarter, a charge for the settlement amount was recorded in Cost of goods sold on the accompanying Statement of Consolidated Operations. Prior to submitting this matter for consideration into the amnesty program, the assessment, including penalties and interest, totaled \$46 (R\$145). This matter is now closed.

Other

On January 11, 2016, Sherwin Alumina Company, LLC (“Sherwin”), the current owner of a refinery previously owned by ParentCo (see below), and one of its affiliate entities, filed bankruptcy petitions in Corpus Christi, Texas for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Sherwin informed the bankruptcy court that it intends to cease operations because it is not able to continue its bauxite supply agreement. 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 (the “Plan”) and on February 17, 2017 the court approved that Plan.

In 2000, ParentCo acquired Reynolds Metals Company (“Reynolds,” a subsidiary of Alcoa Corporation), which included an alumina refinery in Gregory, Texas. As a condition of the Reynolds acquisition, ParentCo was required to divest this alumina refinery. In accordance with the terms of the divestiture in 2000, ParentCo agreed to retain responsibility for certain environmental obligations (see Environmental Matters within Note M) and assigned to the buyer an Energy Services Agreement (“ESA”) with Gregory Power Partners (“Gregory Power”) for purchase of steam and electricity by the refinery.

As a result of Sherwin’s initial bankruptcy filing, separate legal actions were initiated against Reynolds by Gregory Power and Sherwin as follows.

Gregory Power— 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. On September 16, 2016, Gregory Power filed a complaint in the bankruptcy case against Reynolds alleging breach of the ESA. In response to this complaint, on November 10, 2016, Reynolds filed both a motion to dismiss, including a jury demand, and a motion to withdraw the reference to the bankruptcy court based on the jury demand. On July 18, 2017, the district court ordered that any trial would be held to a jury in district court, but that the bankruptcy court would retain jurisdiction on all pre-trial matters. At this time, Alcoa Corporation is unable to reasonably predict the ultimate outcome of this matter.

Sherwin— 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. As provided in the Plan, Sherwin, including certain affiliated companies, and Reynolds are negotiating an allocation among them as to the ownership of and responsibility for certain areas of the refinery and related bauxite residue waste disposal areas. On October 10, 2017, the bankruptcy court entered a stipulation by the parties further extending the time to negotiate and file a settlement through October 27, 2017 (previous date was August 28, 2017). The parties are continuing to discuss a comprehensive settlement and, on October 25, 2017, filed a stipulation for a further extension through January 10, 2018. At this time, Alcoa Corporation is unable to reasonably predict the ultimate outcome of this matter.

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, contract dispute, and tax matters, and other actions and claims arising out of the normal course of business. While the amounts claimed in these other matters may be substantial, the ultimate liability 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 September 30, 2017 and December 31, 2016, the carrying value of Alcoa Corporation's investment in this joint venture was \$871 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 \$8 and \$44 (Ma'aden contributed \$23 and \$131) to the joint venture in the 2017 third quarter and nine-month period, respectively, 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 \$4,012 (reflects principal repayments made through September 30, 2017), of which \$1,007 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) to the lenders in the event that the smelting and rolling mill 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 \$89 in principal and up to a maximum of approximately \$15 in interest per year (based on projected interest rates). At September 30, 2017 and December 31, 2016, the combined fair value of the guarantees was \$2 and \$3, respectively, 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 \$2,181 (reflects principal repayments made through September 30, 2017), of which \$547 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 \$109 in principal and up to a maximum of approximately \$20 in interest per year (based on projected interest rates). At both September 30, 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 Expenses (Income), Net

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Equity loss	\$ 13	\$ 18	\$ 23	\$ 59
Foreign currency losses, net	1	8	6	21
Net loss (gain) from asset sales	1	(132)	(115)	(164)
Net loss (gain) on mark-to-market derivative instruments (K)	6	(4)	22	5
Other, net	6	4	(3)	(11)
	<u>\$ 27</u>	<u>\$ (106)</u>	<u>\$ (67)</u>	<u>\$ (90)</u>

In the 2017 nine-month period, Net gain from asset sales included a \$120 gain related to the sale of Yadkin (see Note C). In the 2016 third quarter and nine-month period, Net gain from asset sales included a \$118 gain related to the sale of wharf property near the Intalco (Washington) smelter. Also in the 2016 nine-month period, Net gain from asset sales included a \$27 gain related to the sale of an equity interest in a natural gas pipeline in Australia.

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, except as described below.

On October 10, 2017, Alcoa Corporation and Luminant Generation Company LLC (Luminant) executed an early termination agreement of a power contract, as well as other related fuel and lease agreements, effective October 1, 2017, related to the Company's Rockdale (Texas) smelter, which has been fully curtailed since the end of 2008. In accordance with the terms of the early termination agreement, Alcoa made a payment of \$238 and transferred approximately 2,200 acres of related land and other assets and liabilities to Luminant. The Company will record a charge of approximately \$250 (pre- and after-tax) in the fourth quarter of 2017 associated with the early termination agreement.

Since the curtailment of the Rockdale smelter, the Company had been selling surplus electricity into the energy market. The power contract was set to expire no earlier than 2038, except for limited circumstances in which one or both parties could elect to early terminate without penalty for which conditions had never been met. In the 2017 nine-month period and full year 2016, Alcoa Corporation recognized \$105 and \$141, respectively, in Sales and \$148 and \$210, respectively, in Cost of goods sold related to the sale of the surplus electricity and the cost of the Luminant power contract.

As a result of the early termination of the power contract, Alcoa has initiated a strategic review of the remaining buildings and equipment associated with the smelter, caphouse, and the aluminum powder plant at the Rockdale location. Management expects to reach a decision on the future of these assets by the end of 2017. Separately, the Company continues to own more than 30,000 acres of land surrounding the Rockdale operations.

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 September 30, 2017, and the related statements of consolidated operations, consolidated comprehensive (loss) income, and changes in consolidated equity for the three-month and nine-month periods ended September 30, 2017 and 2016 and the statement of consolidated cash flows for the nine-month periods ended September 30, 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
October 27, 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 (or the “Company”) 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, which 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 \$247 was paid to Arconic by Alcoa Corporation in the 2017 nine-month period, including \$243 associated with the sale of certain of the Company’s energy operations – 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 2016 third quarter and nine-month period, an allocation of \$23 and \$54, respectively, 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 third quarter and nine-month period, 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 publicly-traded 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.

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:

	Third quarter ended	Nine months ended
	September 30, 2016	
Cost of goods sold (1)	\$ 13	\$ 39
Selling, general administrative, and other expenses (2)	47	124
Research and development expenses	—	2
Provision for depreciation, depletion, and amortization	5	15
Restructuring and other charges (3)	1	1
Interest expense	59	178
Other expenses (income), net	1	(8)

- (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 Company's Consolidated Balance Sheet as Parent Company net investment.

Results of Operations

Selected Financial Data :

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Sales	\$ 2,964	\$ 2,329	\$ 8,478	\$ 6,781
Net income (loss) attributable to Alcoa Corporation	113	(10)	413	(275)
Diluted earnings per share attributable to Alcoa Corporation common shareholders	0.60	(0.06)	2.21	(1.51)
Shipments of alumina (kmt)	2,271	2,361	6,914	6,795
Shipments of aluminum products (kmt)	868	761	2,502	2,295
Alcoa Corporation's average realized price per metric ton of alumina	\$ 314	\$ 248	\$ 318	\$ 247
Alcoa Corporation's average realized price per metric ton of primary aluminum	2,237	1,873	2,175	1,847

Net income attributable to Alcoa Corporation was \$113 in the 2017 third quarter and \$413 in the 2017 nine-month period compared with Net loss attributable to Alcoa Corporation of \$10 in the 2016 third quarter and \$275 in the 2016 nine-month period. The improvement in results of \$123 in the 2017 third quarter and \$688 in the 2017 nine-month period was principally related to a higher average realized price for each of primary aluminum and alumina, the absence of allocated interest expense and costs related to the Separation Transaction, and lower restructuring charges. These positive impacts were partially offset in the 2017 third quarter and somewhat offset in the 2017 nine-month period by increased input and maintenance costs, the absence of a gain on the sale of wharf property, net unfavorable foreign currency movements, a higher income tax provision, and higher net income attributable to a noncontrolling interest partner in certain of Alcoa Corporation's operations. A gain on the sale of certain energy operations also contributed to the improvement in the 2017 nine-month period.

Sales improved \$635, or 27%, and \$1,697, or 25%, in the 2017 third quarter and nine-month period, respectively, compared to the same periods in 2016. The increase in both periods was largely attributable to a higher average realized price for each of primary aluminum and alumina and higher overall volume. In the 2017 third quarter, the improvement in overall volume was primarily due to increased shipments for aluminum products and bauxite, partially offset by decreased shipments for alumina. The improvement in overall volume in the 2017 nine-month period was the result of increased shipments in aluminum products, bauxite, and alumina.

Cost of goods sold (COGS) as a percentage of Sales was 79.7% in the 2017 third quarter and 79.2% in the 2017 nine-month period compared with 84.5% in the 2016 third quarter and 85.2% in the 2016 nine-month period. In both periods, the percentage was positively impacted by a higher average realized price for each of primary aluminum and alumina, somewhat offset by several factors as follows: increased costs for energy (including \$8 (third quarter) and \$21 (nine months) related to a financial contract – see below), maintenance, and caustic soda; net unfavorable foreign currency movements due to a weaker U.S. dollar; an unfavorable LIFO (last in, first out) inventory adjustment (difference of \$15 (third quarter) and \$54 (nine months) – see Reconciliation of Total Segment Adjusted EBITDA to Consolidated Net Income (Loss) Attributable to Alcoa Corporation in Segment Information below); costs related to the restart of the Warrick smelter (\$17 – see Restructuring and other charges below); and a charge for the settlement of legacy tax matters in Brazil (\$9). Higher costs for carbon (coke and pitch) also contributed to the referenced offset in the 2017 third quarter.

Selling, general administrative, and other expenses (SG&A) decreased \$22 and \$53 in the 2017 third quarter and nine-month period, respectively, compared to the corresponding periods in 2016. The decline in both periods was due to the absence of costs (\$23-third quarter and \$54-nine months) related to the Separation Transaction (see above). SG&A as a percentage of Sales decreased from 4.0% in the 2016 third quarter to 2.4% in the 2017 third quarter, and from 3.9% in the 2016 nine-month period to 2.5% in the 2017 nine-month period.

Restructuring and other charges in the 2017 third quarter and nine-month period were \$10 of income and \$12 of expense, respectively, which were comprised of the following components: \$6 and \$24, respectively, for additional contract costs related to the curtailed Wenatchee (Washington) and São Luís

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(Brazil) smelters; \$4 and \$17, respectively, for layoff costs, including the separation of approximately 10 and 120 (110 in the Aluminum segment) employees, respectively, and related pension costs of \$3 and \$6, respectively; \$7 (both periods) for costs related to the relocation of the Company's headquarters and principal executive office from New York, New York to Pittsburgh, Pennsylvania; a charge of \$2 (both periods) for other miscellaneous items; and a reversal of \$29 and \$38, respectively, associated with several reserves related to prior periods (see below).

On July 11, 2017, Alcoa Corporation announced plans to restart three (161 kmt of capacity) of the five potlines (269 kmt of capacity) at the Warrick (Indiana) smelter, which is expected to be complete in the second quarter of 2018. This smelter was previously permanently closed in March 2016 by ParentCo. The capacity identified for restart will directly supply the existing rolling mill at the Warrick location to improve efficiency of the integrated site and provide an additional source of metal to help meet an anticipated increase in production volumes. As a result of the decision to reopen this smelter, in the 2017 third quarter, Alcoa Corporation reversed \$29 in remaining liabilities related to the original closure decision. These liabilities consisted of \$20 in asset retirement obligations and \$4 in environmental remediation obligations, which were necessary due to the previous decision to demolish the smelter, and \$5 in severance and contract termination costs. Additionally, the carrying value of the smelter and related assets was reduced to zero as the smelter ramped down between the permanent closure decision date (end of 2015) and the end of March 2016. Once these assets are placed back into service in conjunction with the restart, their carrying value will remain zero. As such, only newly acquired or constructed assets related to the Warrick smelter will be depreciated.

Restructuring and other charges were \$17 and \$109 in the 2016 third quarter and nine-month period, respectively.

In the 2016 third quarter, Restructuring and other charges included \$17 for layoff costs related to cost reduction initiatives, including the separation of approximately 30 employees in the Aluminum segment and related pension settlement costs; a net credit of \$1 for other miscellaneous items; and a net charge of \$1 related to corporate actions of ParentCo allocated to Alcoa Corporation.

In the 2016 nine-month period, Restructuring and other charges included \$84 for additional net costs related to decisions made in late 2015 to permanently close and demolish the Warrick smelter (see above) and to curtail the Wenatchee smelter and Point Comfort (Texas) refinery (see below); \$28 for layoff costs related to cost reduction initiatives, including the separation of approximately 60 employees in the Aluminum segment and related pension settlement costs; a net charge of \$1 related to corporate actions of ParentCo allocated to Alcoa Corporation (see Cost Allocations in Separation Transaction above); and a reversal of \$4 associated with several layoff reserves related to prior periods.

In the 2016 nine-month period, 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 \$24 (\$4 in the 2016 third quarter) associated with severance costs initially recorded in late 2015; and \$38 (\$2 in the 2016 third quarter) in other costs. Additionally in the 2016 nine-month period, remaining inventories, mostly operating supplies and raw materials, were written down to their net realizable value, resulting in a charge of \$5, which was recorded in COGS. The other costs of \$38 (\$2 in the 2016 third quarter) represent \$30 (\$3 in the 2016 third quarter) for contract terminations, \$4 ((\$3) in the 2016 third quarter) in asset retirement obligations for the rehabilitation of a coal mine related to the Warrick smelter, and \$4 (\$2 in the 2016 third quarter) in other related costs.

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:

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Bauxite	\$ 1	\$ —	\$ 1	\$ —
Alumina	4	(1)	4	1
Aluminum	(22)	17	(1)	107
Segment total	(17)	16	4	108
Corporate	7	1	8	1
Total restructuring and other charges	\$ (10)	\$ 17	\$ 12	\$ 109

As of September 30, 2017, approximately 70 of the 120 employees associated with 2017 restructuring programs were separated. The remaining separations for 2017 restructuring programs are expected to be completed by the end of 2017. As of June 30, 2017, the separations associated with 2016 and 2015 restructuring programs were essentially complete.

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In the 2017 third quarter and nine-month period, cash payments of \$2 and \$7, respectively, were made against layoff reserves related to 2017 restructuring programs, less than \$1 and \$2, respectively, were made against layoff reserves related to 2016 restructuring programs, and \$4 and \$16, respectively, were made against layoff reserves related to 2015 restructuring programs.

Interest expense declined \$41, or 61%, in the 2017 third quarter and \$120, or 61%, in the 2017 nine-month period compared to the corresponding periods in 2016. In both periods, the decrease was due to the absence of an allocation (\$59-third quarter and \$178-nine months) to Alcoa Corporation of ParentCo's interest expense related to the Separation Transaction (see above), somewhat offset by interest expense (\$20-third quarter and \$63-nine months) associated with \$1,250 of debt issued by Alcoa Corporation in September 2016.

Other expenses, net was \$27 in the 2017 third quarter compared with Other income, net of \$106 in the 2016 third quarter, and Other income, net was \$67 in the 2017 nine-month period compared to Other income, net of \$90 in the 2016 nine-month period.

The change of \$133 in the 2017 third quarter was mostly related to the absence of both a gain on the sale of wharf property near the Intalco (Washington) smelter (\$118) and gains on the sales of several parcels of land (\$13).

In the 2017 nine-month period, the change of \$23 was largely attributable to the absence of gains on the sales of several assets as follows: wharf property near the Intalco smelter (\$118), an equity interest in a natural gas pipeline in Australia (\$27), and several parcels of land (\$19); a net unfavorable change in mark-to-market derivative instruments (\$17); and the absence of a benefit for an arbitration recovery related to a 2010 fire at the Iceland smelter (\$14). These items were mostly offset by a gain (\$120) on the sale of the Yadkin Hydroelectric Project (Yadkin – see Aluminum in Segment Information below), a smaller equity loss related to Alcoa Corporation's share of the aluminum complex joint venture in Saudi Arabia (\$36), and net favorable foreign currency movements (\$15).

The effective tax rate was 41.3% (provision on income) and 90.2% (provision on income) for the 2017 and 2016 third quarters, respectively, and 34.8% (provision on income) and 456.4% (provision on a loss) for the 2017 and 2016 nine-month periods, respectively.

Alcoa Corporation's estimated annual effective tax rate for 2017 was 34.2% as of September 30, 2017. This rate differs from the U.S. federal statutory rate of 35% primarily due to foreign income taxed in lower rate jurisdictions, mostly 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 nine-month period, 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 34.2% to pretax income of \$943, (ii) a net discrete income tax charge of \$11, including \$10 related to a tax holiday (see below), and (iii) a favorable impact of \$6 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).

For the 2017 third quarter, the Provision for income taxes is composed of three components as follows: (i) the difference between the application of the estimated annual 2017 effective tax rate as of September 30, 2017 of 34.2% to pretax income for the 2017 nine-month period of \$943 and the application of the estimated annual 2017 effective tax rate as of June 30, 2017 of 31.9% to pretax income for the 2017 six-month period of \$655, (ii) a net discrete income tax charge of \$13, including \$10 related to a tax holiday (see below), and (iii) a favorable impact of \$8 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).

In the 2017 third quarter, AWAB received approval for a tax holiday related to the operation of the Juruti (Brazil) bauxite mine. This tax holiday is effective as of January 1, 2017 (retroactively) and decreases AWAB's income tax rate from 34% to 15.25%, which will result in future cash tax savings over a 10-year period. As a result of this income tax rate change, AWAB's existing deferred tax assets that are expected to reverse during the holiday period were required to be remeasured at the lower tax rate. This remeasurement resulted in both a decrease to AWAB's deferred tax assets and a noncash charge to earnings of \$10 (\$6 after noncontrolling interest).

The rate for the 2016 third 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, somewhat offset by foreign income taxed in lower rate jurisdictions and tax benefits on interest expense eliminated to Parent Company net investment.

The rate for the 2016 nine-month period differs (by (491.4) percentage points) 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, slightly offset by foreign income taxed in lower rate jurisdictions and tax benefits on interest expense eliminated to Parent Company net investment.

Net income attributable to noncontrolling interest was \$56 in the 2017 third quarter and \$202 in the 2017 nine-month period compared with \$20 in the 2016 third quarter and \$58 in the 2016 nine-month period. These amounts are entirely related to Alumina Limited of Australia's (Alumina Limited) 40% ownership interest in several 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.

In the 2017 third quarter and nine-month period, these combined entities generated higher net income compared to the same periods in 2016. The favorable change in earnings in both periods was mainly driven by an improvement in operating results, due mostly to a higher average realized price for alumina, somewhat offset by higher costs for caustic soda and maintenance and net unfavorable foreign currency movements (see Bauxite and Alumina in Segment Information below). In the 2017 nine-month period, the improvement in operating results was slightly offset by the absence of a \$27 (\$8 was noncontrolling interest's share) gain on the sale of an equity interest in a natural gas pipeline in Australia and \$34 (\$10 was noncontrolling interest's share) in combined higher energy costs and mark-to-market losses (see 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 was significantly higher than the fixed power price previously secured by the existing financial contract described above. Accordingly, Alcoa Corporation realized higher energy costs (included in COGS) of \$8 and \$21 in the 2017 third quarter and nine-month period, respectively, and mark-to-market losses (included in Other income, net) related to the financial contracts of \$13 in the 2017 nine-month period.

On October 10, 2017, Alcoa Corporation and Luminant Generation Company LLC (Luminant) executed an early termination agreement of a power contract, as well as other related fuel and lease agreements, effective October 1, 2017, related to the Company's Rockdale (Texas) smelter, which has been fully curtailed since the end of 2008. In accordance with the terms of the early termination agreement, Alcoa made a payment of \$238 and transferred approximately 2,200 acres of related land and other assets and liabilities to Luminant. The Company will record a charge of approximately \$250 (pre- and after-tax) in the fourth quarter of 2017 associated with the early termination agreement.

Since the curtailment of the Rockdale smelter, the Company had been selling surplus electricity into the energy market. The power contract was set to expire no earlier than 2038, except for limited circumstances in which one or both parties could elect to early terminate without penalty for which conditions had never been met. In the 2017 nine-month period and full year 2016, Alcoa Corporation recognized \$105 and \$141, respectively, in Sales and \$148 and \$210, respectively, in Cost of goods sold related to the sale of the surplus electricity and the cost of the Luminant power contract.

As a result of the early termination of the power contract, Alcoa has initiated a strategic review of the remaining buildings and equipment associated with the smelter, casthouse, and the aluminum powder plant at the Rockdale location. Management expects to reach a decision on the future of these assets by the end of 2017. Separately, the Company continues to own more than 30,000 acres of land surrounding the Rockdale operations.

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

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Production (1),(2) (mdmt)	11.6	11.4	33.7	33.2
Third-party shipments (mdmt)	2.1	1.8	5.1	4.7
Alcoa Corporation's average cost per dry metric ton of bauxite (3)	\$ 19	\$ 18	\$ 18	\$ 16
Third-party sales	\$ 104	\$ 93	\$ 254	\$ 224
Intersegment sales	221	192	648	549
Total sales	\$ 325	\$ 285	\$ 902	\$ 773
Adjusted EBITDA	\$ 113	\$ 97	\$ 321	\$ 273

- (1) The production amounts do not include additional bauxite (approximately 3 million metric tons per annum) 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.
- (2) In the second quarter of 2017, Alcoa Corporation revised the respective production amount for the 2016 first, second, and third quarters to reflect refinements to individual mine data. As a result, the production reflected in this table for the 2016 third quarter was revised from prior period reports. Total bauxite production for annual 2016 remains unchanged at 45.0 mdmt.
- (3) Includes all production-related costs, including conversion costs, such as labor, materials, and utilities; depreciation, depletion, and amortization; and plant administrative expenses.

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Bauxite production increased 2% in both the 2017 third quarter and nine-month period compared with the corresponding periods in 2016. In both periods, the improvement was primarily the result of a planned increase in production at the Juruti (Brazil) mine and higher production at the Huntly (Australia) mine, somewhat offset by lower production at both the Boké (Guinea) mine and the Trombetas (Brazil) mine. The Boké mine has experienced disruption to its normal operations as a result of separate force majeure events (civil unrest) in the 2017 second and third quarters. The Trombetas mine has experienced disruption to its normal operations due to separate weather events that have impacted the tailing ponds (bauxite waste storage areas) and the washing plant in the 2017 first (heavy rain) and third (drought conditions) quarters, respectively.

Third-party sales for the Bauxite segment improved 12% in the 2017 third quarter and 13% in the 2017 nine-month period compared to the same periods in 2016. The increase in both periods was primarily due to higher volume as this segment continues to expand its third-party bauxite portfolio.

Intersegment sales increased 15% and 18% in the 2017 third quarter and nine-month period, respectively, compared with the corresponding periods in 2016 virtually all due to a higher average realized price.

Adjusted EBITDA for this segment increased \$16 in the 2017 third quarter and \$48 in the 2017 nine-month period compared to the same periods in 2016.

In the 2017 third quarter, the improvement was mostly driven by the previously mentioned higher average realized price for intersegment sales, somewhat offset by higher costs for maintenance, transportation (exports from Western Australia to third-party customers), and royalties (higher third-party sales).

The increase in the 2017 nine-month period was principally the result of the previously mentioned higher average realized price for intersegment sales and increased third-party shipments. These positive impacts were partially offset by unfavorable impacts from the previously mentioned disruptions in Guinea and Brazil; higher costs for maintenance (including planned overhauls in Western Australia), transportation (exports from Western Australia to third-party customers), and royalties (higher third-party sales); and net unfavorable foreign currency movements due to a weaker U.S. dollar against the Australian dollar and Brazilian real.

In the 2017 fourth quarter (comparison with the 2016 fourth quarter), higher production at the Huntly and Juruti mines and increased total shipments are anticipated.

Alumina

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Production (kmt)	3,305	3,310	9,765	9,956
Third-party shipments (kmt)	2,271	2,361	6,914	6,795
Alcoa Corporation's average realized third-party price per metric ton of alumina	\$ 314	\$ 248	\$ 318	\$ 247
Alcoa Corporation's average cost per metric ton of alumina*	\$ 261	\$ 230	\$ 253	\$ 230
Third-party sales	\$ 713	\$ 585	\$ 2,196	\$ 1,682
Intersegment sales	398	317	1,143	930
Total sales	\$ 1,111	\$ 902	\$ 3,339	\$ 2,612
Adjusted EBITDA	\$ 203	\$ 78	\$ 727	\$ 207

* 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 September 30, 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 June 30, 2017.

Alumina production was flat in the 2017 third quarter and decreased 2% in the 2017 nine-month period, respectively, compared with the corresponding periods in 2016. In the 2017 nine-month period, the decline was largely attributable to the absence of production from the remaining operating capacity at the Point Comfort (Texas) refinery (2,305 kmt-per-year), which was fully curtailed by the end of June 2016 (670 kmt was curtailed at the end of 2015).

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Third-party sales for the Alumina segment improved 22% in the 2017 third quarter and 31% in the 2017 nine-month period compared to the same periods in 2016. The increase in both periods was mostly related to a 27% (third quarter) and 29% (nine months) rise in average realized price. This positive impact in the 2017 third quarter was slightly offset by a 4% decrease in volume. In both periods, the change in average realized price was principally driven by a 30% (third quarter) and 37% (nine months) higher average alumina index price (on 30-day lag). In the 2017 third quarter and nine-month period, 85% and 86%, respectively, of smelter-grade third-party shipments were based on the alumina index price, compared with 87% and 86% in the 2016 third quarter and nine-month period, respectively.

Intersegment sales increased 26% and 23% in the 2017 third quarter and nine-month period, respectively, compared with the corresponding periods in 2016 primarily due to a higher average realized price. This positive impact in the 2017 nine-month period was somewhat offset by lower demand from the Aluminum segment, including as a result of a power outage at a smelter in Australia (see Aluminum below).

Adjusted EBITDA for this segment climbed \$125 in the 2017 third quarter and \$520 in the 2017 nine-month period compared to the same periods in 2016. The improvement in both periods was mainly related to the previously mentioned higher average realized price, somewhat offset by higher costs for bauxite and caustic soda, net unfavorable foreign currency movements due to a weaker U.S. dollar, especially against the Australian dollar, and an increase in maintenance expense (including outages in Western Australia).

In the 2017 fourth quarter (comparison with the 2016 fourth quarter), higher costs for both caustic soda and bauxite are expected.

Aluminum

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Primary aluminum production (kmt)	596	586	1,730	1,781
Third-party aluminum shipments (kmt)	868	761	2,502	2,295
Alcoa Corporation's average realized third-party price per metric ton of primary aluminum*	\$ 2,237	\$ 1,873	\$ 2,175	\$ 1,847
Alcoa Corporation's average cost per metric ton of primary aluminum**	\$ 1,987	\$ 1,759	\$ 1,964	\$ 1,748
Third-party sales	\$ 2,090	\$ 1,600	\$ 5,884	\$ 4,749
Intersegment sales	9	2	16	38
Total sales	\$ 2,099	\$ 1,602	\$ 5,900	\$ 4,787
Adjusted EBITDA	\$ 303	\$ 183	\$ 730	\$ 528

* 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.

In February 2017, Alcoa Corporation's wholly-owned subsidiary, Alcoa Power Generating Inc., completed the sale of a 215-megawatt hydroelectric project, Yadkin, to Cube Hydro Carolinas, LLC (see Other expenses (income), net in Results of Operations above). 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.

On July 11, 2017, Alcoa Corporation announced plans to restart three (161 kmt of capacity) of the five potlines (269 kmt of capacity) at the Warrick (Indiana) smelter, which is expected to be complete in the second quarter of 2018. This smelter was previously permanently closed in March 2016. The capacity identified for restart will directly supply the existing rolling mill at the Warrick location, to improve efficiency of the integrated site and provide an additional source of metal to help meet an anticipated increase in production volumes. See COGS and Restructuring and other charges in Results of Operations above.

At September 30, 2017, Alcoa Corporation had 1,047 kmt of idle capacity on a base capacity of 3,402 kmt. In the 2017 third quarter, both idle capacity and base capacity increased by 269 kmt compared to June 30, 2017 due to the previously mentioned decision to reopen the Warrick smelter. Once the partial restart of the Warrick smelter occurs, idle capacity will decrease by 161 kmt.

Primary aluminum production increased 2% in the 2017 third quarter and decreased 3% in the 2017 nine-month period, respectively, compared with the corresponding periods in 2016.

In the 2017 third quarter, the improvement was primarily due to higher production at the Iceland smelter due to the absence of process instability that prevented full operation of the potlines in the 2016 third quarter.

The decline in the 2017 nine-month period 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 at that time; ramp up to full production was completed in the 2017 third quarter.

Third-party sales for the Aluminum segment improved 31% in the 2017 third quarter and 24% in the 2017 nine-month period compared to the same periods in 2016. In both periods, the increase was mainly attributable to a 19% (third quarter) and 18% (nine months) rise in average realized price of primary aluminum and a 14% (third quarter) and 9% (nine months) improvement in overall aluminum volume. Higher energy sales in Brazil also contributed to the improvement in the 2017 third quarter.

The change in average realized price of primary aluminum was largely driven by a 22% (third quarter and nine months) higher average LME price (on 15-day lag). The higher overall aluminum volume was related to this segment's rolling operations, primarily due to a tolling arrangement with Arconic (began on November 1, 2016). In the 2017 nine-month period, the increased shipments in the rolling operations were slightly offset by lower demand for primary aluminum, including from Arconic.

Intersegment sales declined 58% in the 2017 nine-month period compared with the corresponding period in 2016 due to the absence of energy sales to the Warrick smelter (included in Corporate – see description of segment realignment above), which was permanently closed at the end of March 2016 (see above).

Adjusted EBITDA for this segment rose \$120 in the 2017 third quarter and \$202 in the 2017 nine-month period compared to the same periods in 2016. The improvement in both periods was mostly related to the previously mentioned higher average realized price of primary aluminum, somewhat offset by higher costs for both alumina and energy. Additionally, in the 2017 third quarter, higher energy sales in Brazil contributed to the referenced improvement and both higher costs for carbon (coke and pitch) and net unfavorable foreign currency movements, especially against the Australian dollar, contributed to the referenced offset.

In the 2017 fourth quarter (comparison with the 2016 fourth quarter), higher costs for both alumina and carbon materials are expected.

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

	Third quarter ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Total segment Adjusted EBITDA	\$ 619	\$ 358	\$ 1,778	\$ 1,008
Unallocated amounts:				
Impact of LIFO	(14)	1	(36)	18
Metal price lag (1)	5	1	22	5
Corporate expense (2)	(34)	(47)	(104)	(133)
Provision for depreciation, depletion, and amortization	(194)	(181)	(563)	(536)
Restructuring and other charges	10	(17)	(12)	(109)
Interest expense	(26)	(67)	(77)	(197)
Other (expenses) income, net	(27)	106	67	90
Other (3)	(51)	(52)	(132)	(185)
Consolidated income (loss) before income taxes	288	102	943	(39)
Provision for income taxes	(119)	(92)	(328)	(178)
Net income attributable to noncontrolling interest	(56)	(20)	(202)	(58)
Consolidated net income (loss) attributable to Alcoa Corporation	\$ 113	\$ (10)	\$ 413	\$ (275)

- (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 third quarter and nine-month period compared with the corresponding periods in 2016 (unless otherwise noted) consisted of:

- a change in the Impact of LIFO, mostly due to an increase in the price of alumina at September 30, 2017 indexed to December 31, 2016 compared to a decrease in the price of alumina at September 30, 2016 indexed to December 31, 2015;
- a change in Metal price lag, the result of a higher increase in the price of aluminum at September 30, 2017 indexed to December 31, 2016 compared to the price of aluminum at September 30, 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 (\$23-third quarter and \$54-nine months); and
- a change in Other, principally the result of the permanent closure of the Warrick smelter (March 2016 – see Restructuring and other charges in Results of Operations above) and the Suriname refinery (December 2016) and a smaller negative impact from a long-term power contract related to the Rockdale smelter (see Results of Operations above), virtually offset in the 2017 third quarter and partially offset in the 2017 nine-month period by costs related to the restart of the Warrick smelter (\$17-both periods – see Restructuring and other charges in Results of Operations above), a charge for the settlement of legacy tax matters in Brazil (\$9-both periods), and an unfavorable impact due to the near-term power market exposure as a result of renegotiating a hedging contract related to forecasted future spot market power purchases for the Portland smelter (\$8-third quarter and \$21-nine months – see Results of Operations above).

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 \$769 in the 2017 nine-month period compared with cash used for operations of \$550 in the same period of 2016. The improvement in cash from operations of \$1,319 was mostly due to higher operating results (net income (loss) plus net add-back for noncash transactions in earnings); a positive change associated with working capital of \$377; and a favorable change in noncurrent assets of \$100, which was mainly the result of the absence of a \$200 prepayment made in April 2016 under a natural gas supply agreement in Australia. These items were slightly offset by higher pension contributions of \$37, as the U.S. defined benefit plans were sponsored by ParentCo through July 31, 2016, and an unfavorable change in noncurrent liabilities of \$14.

On October 10, 2017, Alcoa Corporation paid \$238 to early terminate a power contract related to the Company's Rockdale smelter (see Results of Operations above).

Financing Activities

Cash used for financing activities was \$453 in the 2017 nine-month period, an increase of \$668 compared with cash provided from financing activities of \$215 in the corresponding period of 2016.

The use of cash in the 2017 nine-month period was principally driven by a cash payment of \$247 (see Investing Activities below) to Arconic related to the Separation Transaction, mostly representing the net proceeds from the sale of Yadkin (see Aluminum in Segment Information above) in accordance with the Separation and Distribution Agreement; \$188 in net cash paid to Alumina Limited (see Noncontrolling interest in Results of Operations above); and \$55 in payments on debt, most related to the early repayment of the remaining outstanding balance (\$41) of a loan from Brazil's National Bank for Economic and Social Development (BNDES) associated with the construction of the Estreito hydroelectric power project. These items were slightly offset by \$38 in proceeds from employee exercises of 1.5 million legacy stock options at a weighted average exercise price of \$25.79 per share.

In the 2016 nine-month period, the source of cash was primarily the result of \$407 in net transfers from Parent Company, partially offset by \$176 in cash paid to Alumina Limited (see Noncontrolling interest in Results of Operations above).

In August 2017, Alcoa Corporation entered into a one-year standby letter of credit agreement with three financial institutions. The agreement provides for a \$150 facility, which will be used by Alcoa Corporation for matters in the ordinary course of business. Alcoa Corporation's obligations under this facility will be secured in the same manner as obligations under the Company's Revolving Credit Agreement (see Financing Activities in Liquidity and Capital Resources included in Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of Alcoa Corporation's Annual Report on Form 10-K for the year ended December 31, 2016). Additionally, this facility contains similar representations and warranties and affirmative, negative, and financial covenants as the Company's Revolving Credit Agreement. As of September 30, 2017, letters of credit aggregating \$43 were issued under this facility. These letters of credit were previously issued in March 2017 on a standalone basis.

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.

On June 20, 2017, Standard and Poor's Global Ratings (S&P) affirmed a BB- rating for Alcoa Corporation's long-term debt. Additionally, S&P raised the current outlook to positive from stable.

On September 5, 2017, Moody's Investor Service (Moody's) upgraded its ratings for Alcoa Corporation's long-term debt to Ba2 from Ba3 and short-term debt to Speculative Grade Liquidity Rating-1 from Speculative Grade Liquidity Rating-2. Additionally, Moody's affirmed the current outlook as stable.

Investing Activities

Cash used for investing activities was \$56 in the 2017 nine-month period compared with \$5 in the 2016 nine-month period, resulting in an increase in cash used of \$51.

In the 2017 nine-month period, the use of cash was largely attributable to \$255 in capital expenditures and \$44 in equity contributions related to the aluminum complex joint venture in Saudi Arabia, mostly offset by \$243 in net proceeds received (see Financing Activities above) from the sale of Yadkin (see Aluminum in Segment Information above).

The use of cash in the 2016 nine-month period was mainly due to \$258 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. These items were virtually offset by \$265 in proceeds from the sale of an equity interest in a natural gas pipeline in Australia (\$145) and the sale of wharf property next to the Intalco, WA smelter (\$120).

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 not guarantees of future performance and are subject to known and unknown risks, uncertainties, and changes in circumstances that are difficult to predict. 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) declines in the discount rates used to measure pension liabilities or lower-than-expected investment returns on pension assets, or unfavorable changes in laws or regulations that govern pension plan funding; (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, 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: Note K (Derivatives section) and Note M to the Consolidated Financial Statements and the discussion included above under Segment Information. Alcoa Corporation disclaims any 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 third 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 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.

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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
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

October 27, 2017
Date

By /s/ WILLIAM F. OPLINGER
William F. Oplinger
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

October 27, 2017
Date

By /s/ MOLLY S. BEERMAN
Molly S. Beerman
Vice President and Controller
(Principal Accounting Officer)

October 27, 2017

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

RE: Alcoa Corporation

Commissioners:

We are aware that our report dated October 27, 2017 on our review of interim financial information of Alcoa Corporation and its subsidiaries (Alcoa Corporation) for the three- and nine-month periods ended September 30, 2017 and 2016 and included in Alcoa Corporation's quarterly report on Form 10-Q for the quarter ended September 30, 2017 is incorporated by reference in its Registration Statements on Form S-8 (Nos. 333-214420, 333-214423, and 333-218038).

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: October 27, 2017

/s/ ROY C. HARVEY

Name: Roy C. Harvey

Title: President and
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: October 27, 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 September 30, 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: October 27, 2017

/s/ ROY C. HARVEY

Name: Roy C. Harvey

Title: President and Chief Executive Officer

Date: October 27, 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 September 30, 2017, as reflected in the MSHA system on September 30, 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 Pro- posed (8) (\$)	Total Number of Mining Related Fatalities (#)	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)	—	—	—	—	—	\$ 1,673	—	no	no	4	—	2

- (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 September 30, 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 September 30, 2017, Alcoa Corporation had a total of four matters pending before the Commission. Three 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 2015 (three) or 2014 (one).